



Michigan Steam Supply Cost Recovery Report

In compliance with MCL 460.6r

April 20, 2021

Dan Scripps, Chair
Tremaine Phillips, Commissioner
Katherine Peretick, Commissioner

Contents

- Executive Summary i
- Introduction..... 1
 - Michigan Steam Utilities..... 2
- Steam Supply Cost Recovery Clause Implementation 3
 - Detroit Thermal: An Overview..... 5
 - April 2019 – December 2020: A Period of Transition and SSCR Suspension 5
 - Case No. U-20794..... 5
- Legislative Recommendations..... 6
- Conclusion 6
- Acronyms 6

Executive Summary

Public Act 132 of 2008 ([PA 132](#)), MCL 460.6r, extended to steam utilities the opportunity to recover qualifying expenses through a cost recovery clause approved by the Michigan Public Service Commission (MPSC or Commission). The steam cost recovery clause provides a mechanism whereby the utility can recover qualifying variable costs on an ongoing basis without the need to file a new rate case each year. Of the four steam utilities in Michigan, only two, Detroit Thermal, LLC (Detroit Thermal) and DTE Electric Company, are regulated by the MPSC. At this time, Detroit Thermal is the only regulated steam utility that has utilized the steam supply cost recovery (SSCR) clause provided for in PA 132.

Since the enactment of PA 132, the MPSC has issued orders in thirteen SSCR plan cases and eleven SSCR reconciliation cases.¹ In the period that PA 132 has been in effect, this mechanism has enabled regulated steam providers to recover more than \$100 million of incurred costs after Commission approval of the corresponding reconciliation cases. Regulated steam customers have received reimbursements of approximately \$141,000 through the reconciliation process as compared to what was originally requested in these SSCR reconciliation cases.

PA 132 has proven to be a useful tool for addressing rapidly changing costs incurred by the steam utility. While changing business models may suggest a future need for legislative revisions, the MPSC does not recommend changes in the statute at this time.

¹ The disparity in the number of SSCR plan to SSCR reconciliation cases reflect the negotiated suspension of the annual SSCR plan and reconciliation filings while Detroit Thermal prepared a rate case application which reflected a fundamental business operation change. The 2021-2022 SSCR plan case was filed on December 30, 2020. The 2021-2022 SSCR reconciliation case will be filed no later than June 30, 2022.

Introduction

On May 21, 2008, Public Act 132 of 2008, MCL 460.6r ([PA 132](#)), extended to steam utilities the opportunity to recover qualifying expenses through a cost recovery clause approved by the MPSC. Like investor-owned electric and natural gas utilities, regulated steam utilities may recover their costs to serve customers primarily through three types of proceedings at the MPSC: a rate case, a cost recovery plan case, and a cost recovery reconciliation case.

The **rate case** is a contested administrative process during which the utility and other parties to the case present testimony and evidence regarding the cost of the utility's operations. These costs include items such as new/replacement infrastructure, operations and maintenance, the utility's authorized return on investment, payroll, and other items related to the costs the utility incurs to serve customers. The final decision by the Commission in a rate case results in what are called "base rates." Utilities must file a rate case and receive MPSC approval prior to charging customers a new rate.

When the Commission approves a regulated utility's request to include a cost recovery clause in its tariffs, the utility must file an annual **cost recovery plan case**. The purpose of this case is to recover costs that are variable in nature. For an electric utility, the plan case typically addresses the cost of fuel used to produce electricity. For a natural gas utility, the plan case typically addresses the cost of natural gas purchases. For a steam utility, the cost recovery plan case contains information related to the cost of the fuel used to produce the steam and can also consider steam contracts where the utility purchases steam from another producer to resell to its customers. Importantly, the utility is not allowed to earn a return on the purchase of the commodities recoverable through a cost recovery plan case. Therefore, these cases look only at the anticipated costs of these commodities necessary to provide utility service.

Included in the plan case is the utility's sales forecast, which is the backbone of the plan. The sales forecast must be reasonable and is based on the utility's most recent historical sales and customer count data to develop a unit sales projection by month for at least twelve-months and then continues for the following two-to-four years into the future. The number of years into the future depends on the regulated utility. Regulated electric and natural gas utilities project four years into the future whereas regulated steam utilities project two years into the future. The plan case is also conducted via a contested administrative law process and may include several parties to the case. In the final order in a cost recovery plan case, the MPSC will approve a cost recovery plan that includes an annualized cost recovery factor.

For electric utilities, this factor represents the maximum surcharge per unit of commodity used to produce electricity that can be included on a customer's bill. For natural gas and steam utilities, the approved factor may be increased due to the utility's ability to incorporate a contingency adjustment to their surcharge if there is an increase in the price of natural gas over what was projected when the plan was filed. A contingent adjustment matrix must have been part of the utility's plan case request for it to have the ability to increase its factor above the requested base factor. The utility has the discretion to lower the cost recovery factor relative to the approved cost recovery factor if it believes it is warranted to avoid over-collection balance and the associated interest penalty on the over-collection balance as discussed more fully below.

As originally conceived, this cost recovery mechanism provides an option for the utility to recover qualifying variable costs on an ongoing basis without the need to file a new rate case each year. This was especially useful in the decades where utilities did not file frequent rate cases before the Commission. Two things should be noted about the cost recovery clause. First, utilities are not required to utilize this mechanism and utilities without a cost recovery clause must recover costs through a base rate case. Second, the cost recovery factor set in the plan case is valid only for the period specified in the case and at its conclusion it must be reconciled. This is done in a cost recovery reconciliation case.

The **cost recovery reconciliation case** is a mandatory case filed by utility companies that utilize the cost recovery factor determined in the plan case mentioned previously. In this contested administrative process, the actual costs prudently incurred by the utility, which are recoverable via the cost recovery factor, are compared to the actual amounts charged to customers over the course of the plan period. After a contested administrative hearing process, the costs incurred over the year and collected revenues are reconciled with the customers receiving some form of over-collection or under-collection balance. If the utility incurred an under-collection balance, the cost recovery mechanism statutes allow the opportunity to collect from customers any reasonable and prudent costs not recovered through the cost recovery factor. In the event of under-collection, the utility can collect these expenditures through MPSC approved surcharges, with interest, or a roll-in to next year's cost recovery factor applicable to its customers. For an under-collection balance, the interest charged to customers is calculated at the utility's cost of short-term debt during the twelve-month period of review. In the event of over-collection balance, the utility can refund these expenditures through Commission approved credits, with interest, or a roll-in to the next year's cost recovery factor applicable to its customers. For an over-collection balance, the interest is calculated at the utility's authorized return on common equity during the twelve-month period of review. The higher interest charged for an over-collection balance incentivizes the utility to manage and optimize the monthly factor charged to customers.

Michigan Steam Utilities

Steam utilities serve their customers utilizing an underground infrastructure of pipes that deliver steam typically used to heat buildings. District steam heating systems are common in dense urban areas with large buildings because a central steam station can be more efficient than boilers located at each individual building. Notably, these systems are not reliable over long distances due to rapid heat loss as the steam passes through the system of pipes. There are four steam utilities in Michigan that provide steam service to customers: Detroit Thermal, Lansing Board of Water and Light, Vicinity Energy Grand Rapids, LLC, and DTE Electric Company.

Table 1 shows the miles of steam lines and the number of customers that each of these utilities serve. Of the four steam utilities in Michigan, only two, Detroit Thermal and DTE Electric Company, are regulated by the MPSC.²

Table 1
Utilities that provide steam supply to customers

Utility Name	Miles of Steam Lines	Number of Customers
Detroit Thermal, LLC	25.00	66
Lansing Board of Water and Light	9.70	Nearly 200
Vicinity Energy Grand Rapids, LLC	Less than 5.00	Greater than 50
DTE Electric Company	0.32	1

PA 132 directs the Commission to submit a report to the Governor and the Legislature regarding the implementation of the Act and to include any recommendations for statutory modifications in the report. This report is submitted in accordance with that directive. *Detroit Thermal is the only regulated steam utility that qualifies to implement the cost recovery mechanism provided for under PA 132.* Therefore, this report focuses on the SSCR plan and SSCR reconciliation cases filed by Detroit Thermal from 2008 to 2020 and will outline some of the challenges facing the steam utility.

Steam Supply Cost Recovery Clause Implementation

Steam utilities implementing a PA 132 SSCR clause must select a period, not to exceed twelve-months, during which the clause will be in effect. In addition, a steam utility must apply to the MPSC for approval of a SSCR plan to implement the clause. At the conclusion of the plan period, the utility must file a SSCR reconciliation case to reconcile the actual costs incurred throughout the year with the revenues generated from the SSCR factor billed to customers and to determine if an over/under-collection balance, including interest, had occurred. While an SSCR clause is in effect, the utility must file a report within forty-five days of the end of each billing month providing a statement of revenues (45-day report) collected from the SSCR factor. Detroit Thermal has elected April 1 – March 31 as the period for their SSCR clause.

Since the enactment of PA 132, thirteen SSCR plan cases, eleven SSCR reconciliation cases, and two steam rate cases have been filed at the Commission. As envisioned by the Act, the ability of the utility to recover variable costs through proceedings other than general rate cases has allowed the utility to fully recover incurred costs without the necessity of frequent rate cases.

² Although the Lansing Board of Water and Light and Vicinity Energy Grand Rapids, LLC, are not regulated by the MPSC, they are governed by municipalities. The Lansing Board of Water and Light is governed by a Board of Commissioners. This board consists of eight voting members who represent the City of Lansing and three non-voting members who represent the outlying cities and townships the utility serves. Vicinity Energy Grand Rapids, LLC, is regulated by the City of Grand Rapids. Since DTE Electric Company is providing steam service to itself and not the public, it currently does not qualify for an SSCR clause under PA 132.

Table 2 provides the Commission approved SSCR factors, SSCR revenues, and over/under-collection balances after PA 132 was implemented.

Table 2
MPSC approved SSCR factors, SSCR revenues, reconciliation adjustments, and steam general rate cases after PA 132 was implemented

Year	SSCR Plan Case	Approved SSCR Factor ³	SSCR Reconciliation Case	SSCR Revenues	Reconciliation Adjustment
2008-09	U-15456	\$16.26/Mlbs ⁴	U-15456-R	\$14,990,255	(\$781,404)
2009-10	U-15706	\$12.73/Mlbs	U-15706-R	\$12,428,768	\$316,507
2010-11	U-16152	\$15.11/Mlbs	U-16152-R	\$9,866,503	\$242,089
2011-12	U-16448	\$13.01/Mlbs	U-16448-R	\$8,166,114	(\$309,281)
2012-13	U-16927	\$12.24/Mlbs	U-16927-R	\$8,330,564	(\$750,256)
2013-14	U-17136	\$12.04/Mlbs	U-17136-R	\$9,636,962	(\$2,072,561)
2014-15	U-17337	\$16.04/Mlbs	U-17337-R	\$11,646,280	\$587,782
2015-16	U-17696	\$13.91/Mlbs	U-17696-R	\$7,862,341	\$604,770
2016-17	U-17946	\$13.91/Mlbs	U-17946-R	\$8,456,240	\$873,554
Case No. U-18131 , a steam rate case application, was filed on July 15, 2016.					
2017-18	U-18153	\$13.66/Mlbs	U-20077	\$7,168,337	\$1,342,599
2018-19	U-18413	\$13.44/Mlbs	U-20211	\$5,246,765	\$1,093,451
2019-20	U-20237	\$14.05/Mlbs ⁵	U-20238 ⁶	SSCR Clause Suspended	
2020-21	U-20553 ⁶	SSCR Clause Suspended	U-20554 ⁶	SSCR Clause Suspended	
Case No. U-20794 , a steam rate case application, was filed on August 13, 2020.					
2021-22	U-20824 ⁷	Case Is Pending	U-20825 ⁸	Case Not Filed Yet	
Note: In Table 2, links are only provided to final case orders setting the factor and reconciliation.					

³ The Approved SSCR factor represents the maximum rate adjustment the utility can implement over the course of the plan year to recover allowed costs under PA 132 unless increased by a contingent adjustment amount from an approved contingent adjustment matrix.

⁴ Mlbs is the unit of measurement for steam service and represents 1,000 pounds of steam. For example, during the 2008-2009 SSCR period, the Commission approved that the utility may charge a maximum of \$16.26 per 1,000 pounds of steam used by the customer over the utility's base rates. The utility may adjust the actual amount charged under the approved factor, on a quarterly basis if necessitated by the natural gas market factors. This "contingent" adjustment is based upon the costs the utility projects it will incur for the remaining expenditures allowed under PA 132. Following the MPSC's January 21, 2021, order in Case No. U-20794, Detroit Thermal's rate case, a contingent adjustment will be requested on a monthly instead of on a quarterly basis.

⁵ While the SSCR clause was suspended, Detroit Thermal was authorized to establish a supply cost recovery charge to be frozen at the rate of \$14.05 per Mlbs of steam effective with the billing cycle applicable to the month of April 1, 2019, for up to twenty-four-months as provided in the order.

⁶ The disparity in the number of SSCR plan versus reconciliation cases reflect the Commission's case management software which automatically assigned docket numbers, even during a negotiated suspension in the annual plan and reconciliation filings while Detroit Thermal developed a new rate case application which reflected a fundamental business operation change.

⁷ This case is pending.

⁸ This case will be filed no later than June 30, 2022.

Detroit Thermal: An Overview

As mentioned previously, Detroit Thermal is the only steam utility in Michigan to utilize the Act. With that in mind, understanding the utility's history and operations may provide further insight into the usefulness of this tool. Detroit Thermal was originally founded in 1903 by Detroit Edison Electric Company (Detroit Edison) and has seen significant changes over the course of its 118 years of operation. Until 1970, the primary fuel source used to produce steam was coal. In the 1970s, the steam production system was converted to natural gas. In 1986, Detroit Edison ceased most of its steam production and contracted with the Detroit Renewable Power (DRP) facility, which utilized refuse-derived fuel to generate electricity and steam. Under this contract, Detroit Edison purchased steam from DRP to supply its customers. On January 24, 2003, Detroit Thermal purchased Detroit Edison's steam system and continued steam purchases under a contract with DRP. With the April 2019 closure of the DRP facility, Detroit Thermal is now responsible for the production of the steam sold to its customers, utilizing natural gas in its production process.

April 2019 – December 2020: A Period of Transition and SSCR Suspension

Prior to the closure of DRP, Detroit Thermal purchased seventy-five percent of the steam necessary to serve its customers from the DRP facility and self-generated only twenty-five percent. Following DRP's closure, Detroit Thermal began self-generating all the steam necessary to meet the needs of its customers resulting in a significant increase in fuel and other costs related to steam production. To manage Detroit Thermal's escalating cost to generate steam, there was discussion if some of these increased costs could be included in the SSCR factor. In the meantime, Detroit Thermal requested to suspend its SSCR clause from April 1, 2019, until March 31, 2021. The MPSC granted this request in a Commission order by approving the amended settlement agreement in Case No. U-20237 on December 19, 2019. As shown on Table 2, during the pendency of the SSCR suspension, Detroit Thermal did not file a SSCR plan case, two SSCR reconciliation cases, or the monthly statements of revenues (45-day report) collected pursuant to the SSCR factor.

Case No. U-20794

On January 21, 2021, the MPSC approved Detroit Thermal's rate case settlement agreement in Case No. U-20794. The Commission authorized Detroit Thermal to implement new rates beginning on April 1, 2021, per the terms of the settlement agreement. In addition to an agreement to implement new rates, the settlement agreement imposed three requirements on Detroit Thermal. First, Detroit Thermal was required to file an application for the approval of a SSCR plan for the period of April 1, 2021, through March 31, 2022, by December 31, 2020. Second, Detroit Thermal was directed to request that the MPSC consider whether costs related to the purchase of water, sewer charges, chemicals used to treat the water, and the electricity used in connection with the production of steam could be considered as "other fuel costs" recoverable through the SSCR clause under MCL 406.6r(1)(f). Finally, the settlement agreement directed that the SSCR contingency adjustment matrix be developed for possible use monthly rather than quarterly as was previously done by the utility.

Detroit Thermal filed its SSCR plan application on December 30, 2020, in Case No. U-20824 as required by the Commission's order in the rate case. This case is pending before the MPSC. By June 30, 2022, Detroit Thermal will file its SSCR reconciliation application in Case No. U-20825.

Legislative Recommendations

PA 132 directs the Commission to file a report with the Legislature and the Governor detailing the implementation of PA 132 and to include any recommendations for legislative modifications to the Act. The MPSC does not currently have any such recommendations.

Conclusion

The Commission has successfully implemented PA 132 since its enactment in 2008 and looks forward to continued work on this issue with the steam utilities, the Legislature, and the Governor. The next report will be submitted by May 21, 2023.

Acronyms

DRP – Detroit Renewable Power

MIbs – 1,000 pounds of steam

MPSC – Michigan Public Service Commission or the Commission

SSCR – steam supply cost recovery