ELECTRICITY REGULATION IN MICHIGAN – A HISTORY
Part II – 1970s to 2016

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Review – Industry Inception to 1970s

- Consolidation and growth – vertical integration
- Increasing plant efficiency/technology changes
- Stable or declining prices
- Traditional regulatory model: regulatory commission + COS regulation

Review – Impact of Social and Economic Changes

- 1970s Energy Crisis
- Efficiency gains slowed
- Nuclear industry problems
- Rise of environmental movement and activism
- Energy prices start to increase

Michigan Regulatory Law Responds

- Administrative Procedures Act – 1969
- Freedom of Information + Open Meetings Act
- 1982 PA 304 – Adjustment Clauses
- 1980s – low-income assistance, shutoff protection, weatherization, conservation
- MPSC level: base load plant costs litigated (prudent investment, used and useful); residential conservation programs

Industry Transformation - PURPA

- Public Utility Regulatory Policies Act – 1978
  - Access to utilities for alternative generation
  - "qualifying facilities" (QFs) – independent cogenerators and small power plants (≤80 MW, today at 20 MW)
  - Utility "must buy" obligation
  - Payment at "full avoided cost"
- Implemented by the states under FERC rules via law or regulations
- MPSC – 1980s settlement for about 45 QF contracts, including MCV (1370 MW) gas combined cycle cogeneration – abandoned Midland nuclear)

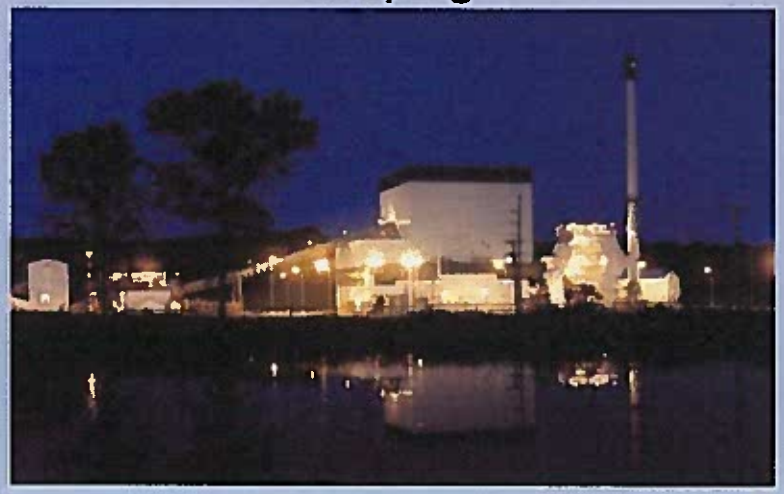
PURPA Avoided Cost Concept – Federal Requirements

- PURPA Section 210(b) – FERC avoided cost rates to be just and reasonable to electric consumers of the utility; shall not discriminate against QFs; shall not exceed the incremental cost to the utility of alternative electric energy
- FERC Rule 18CFR 292.304(6): utility's full avoided cost = cost of electric energy which, but for the purchase from the QF, the utility would generate or purchase from another source
- "proxy plant" approach in Michigan

MCV

Boyce Hydro

Grayling

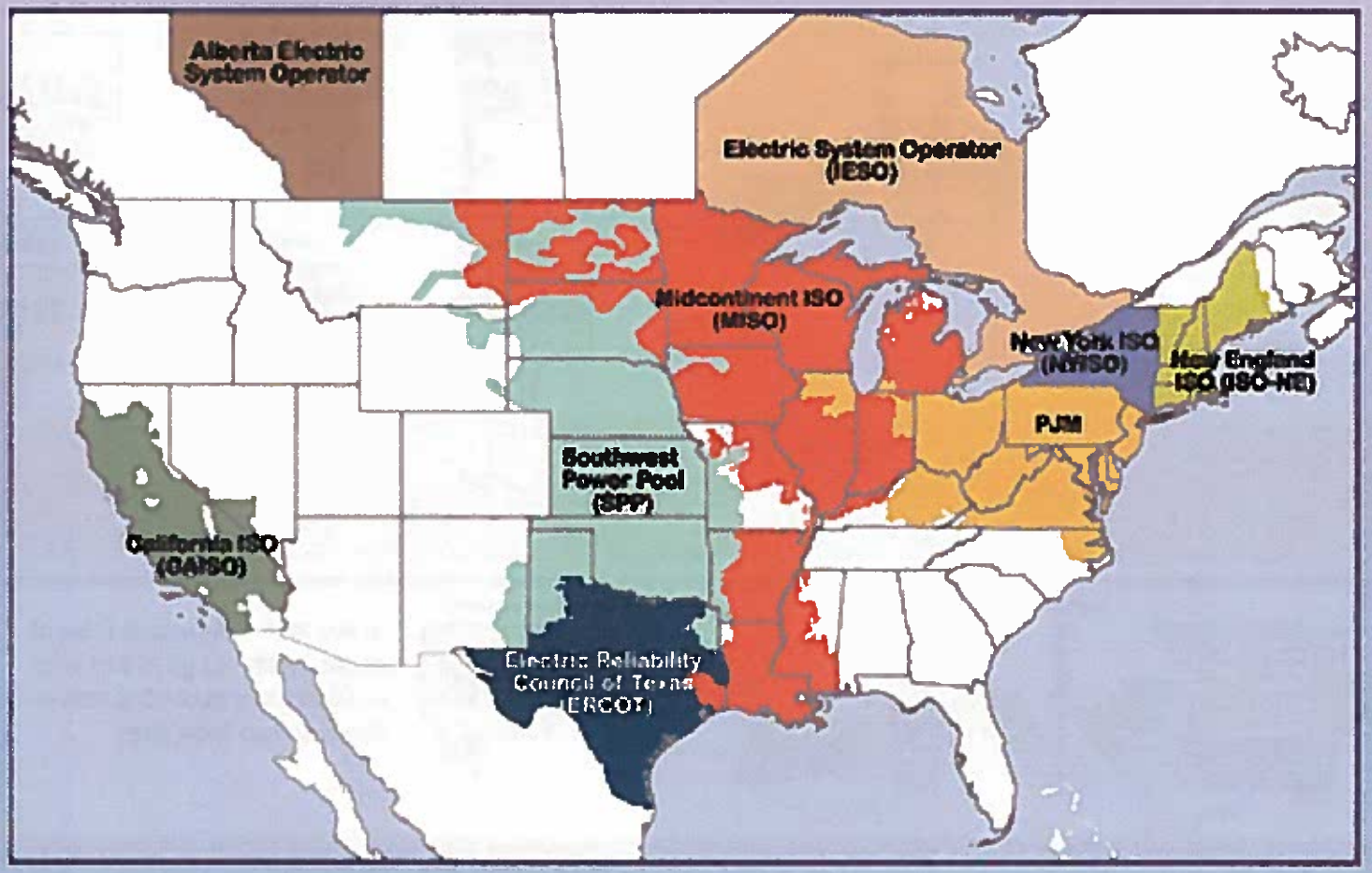


Viking Energy

Federal Actions – Industry Transformation

- EPAct 1992: wholesale "wheeling" and exempt whole generators (access to high voltage transmission grid)
- FERC Orders 888 and 889 (1996): open access, non-discriminatory transmission; "unbundling" of transmission; OASIS information sharing
- FERC Order 2000 (1999): to advance formation of independent regional transmission organizations (RTOs) to control the grid and promote regional coordination
- EPAct 2005: FERC preemptive authority on transmission siting; FERC enforcement authority on reliability; states to consider net metering; utilities encouraged to adopt time-based pricing; repeal 1935 PURPA

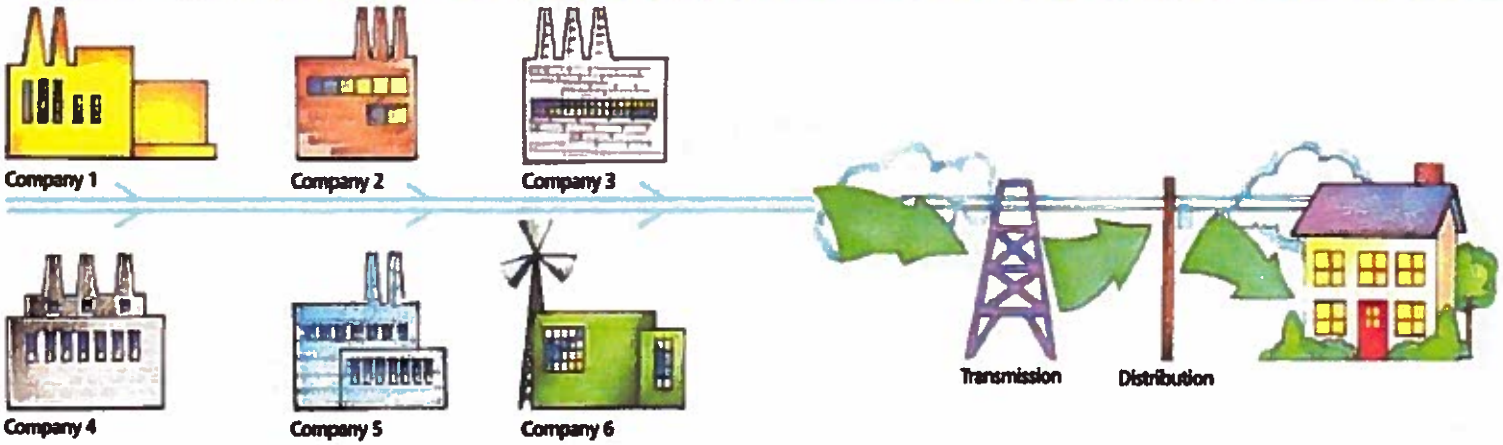
Independent System Operators (ISOs)



Here's how getting electricity used to work:

Until now, one company — your local electric company — took care of all the steps needed to bring electricity to your home.

Under the Pennsylvania Electric Choice Program, here's how getting your electricity works:



You can choose the company that will generate your electricity — your electric generation supplier.

If you choose a new supplier, your local electric company will still be responsible for bringing this power to your home.

Some reasons to enroll in Electric Choice:

- You may save money.
- You can choose how your electricity is generated.

Michigan's Original Electric Choice Model - 2001

"Choice for those who want it and protection for those who need it."

John Engler

Customer Choice and Electric Reliability Act (CCERA), 2000 PA 141-142

- IOUs mandated to implement electric choice by 1-1-01
- Municipal utilities and cooperatives retained more control over decision
- "unbundled" electric rates to G, T and D components
- Full recovery of stranded and implementation costs
- AES licensing by MPSC

CCERA - Continued

- Securitization financing authorized
- CE and DTE residential rates cut 5% and <u>all</u> IOU rates frozen to 12-31-03 (residential frozen to 1-1-06)
- Savings from securitization applied for fund the 5% rate cut and statewide low-income and energy efficiency fund
- Option to divest T or turn over control by joining multi-state ISO
- 2000 MW import capability expansion plan
- More (see outline)

MEGA
Michigan Electric and Gas Association

RABP

Retail Access Business Process Manual (RABP)

Implementing procedures for the

"Michigan Customer Choice and Electricity Reliability Act"

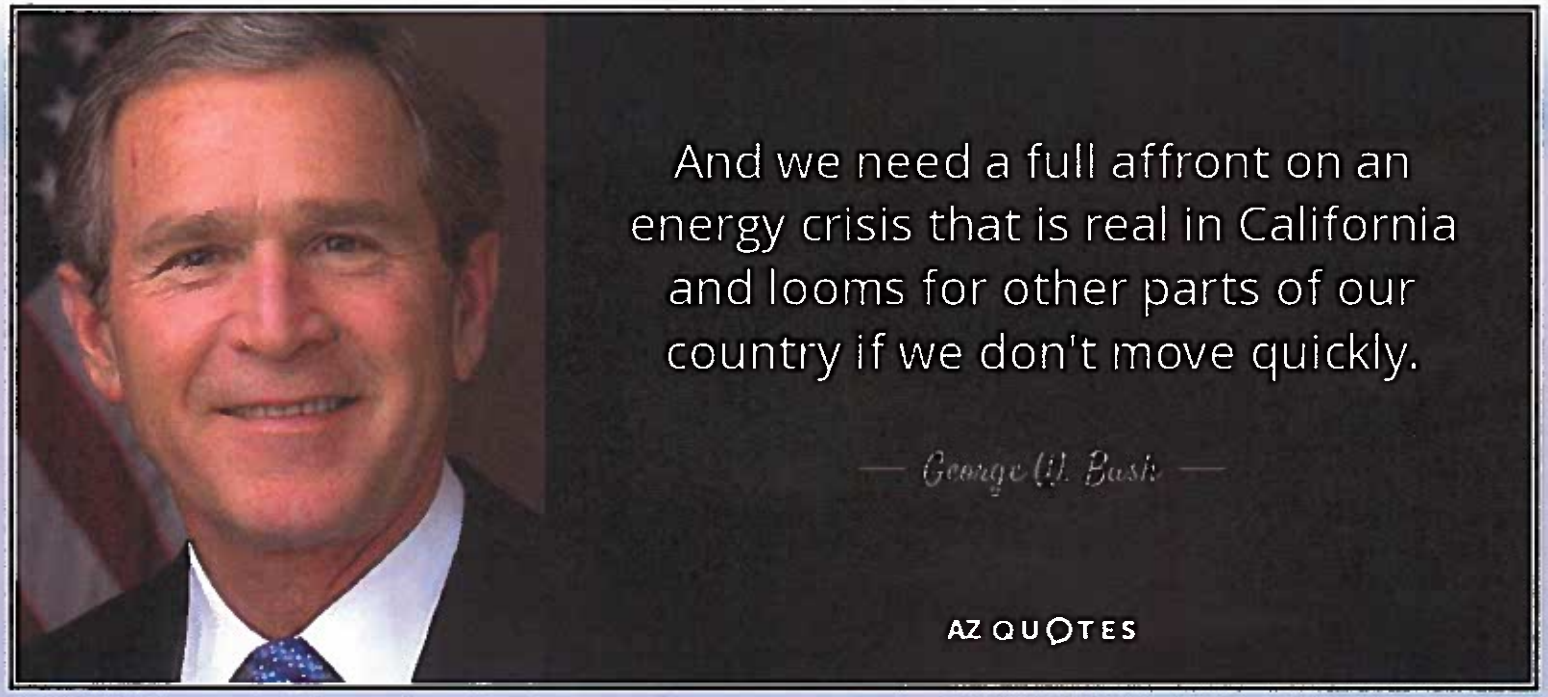
by MEGA Companies

Retail Choice Interrupted

HOUSTON CHRONICLE

Guilty! Guilty!

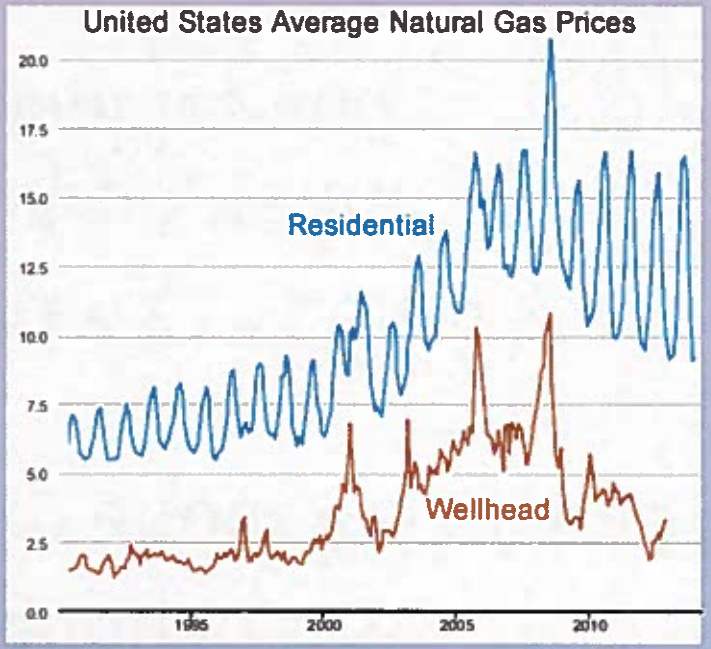
Verdict will mean prison for ex-Enron chiefs


And we need a full affront on an energy crisis that is real in California and looms for other parts of our country if we don't move quickly.
— George (I). Bush —
AZ QUOTES

CLOSED
OUR POWER IS OUT
WE WILL RE-OPEN
WHEN IT HAS RETURNED
SORRY FOR THE INCONVENIENCE

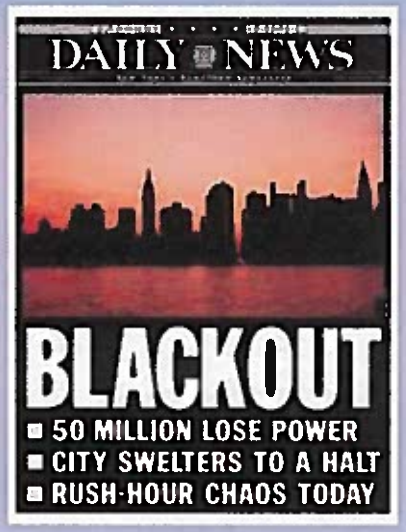
Financial Stresses

- Enron – December 2, 2001 bankruptcy
- Pacific Gas and Electric – April 6, 2001 bankruptcy
- Calpine Corp – December 20, 2005 bankruptcy
- Dynegy – near bankruptcy in 2002



Michigan Experience 2000-2008

- No choice offered to residential customers
- Merchant gas plants uneconomic
- AES choice sales declined to about 4% of load (2006-08); none in MEGA
- Major IRPs – Capacity Need + 21st Century
- Continued pressure for environmental mandates to support renewables and efficiency



"All the News That's Fit to Print"

The New York Times

Late Edition

VOL. CLII ... No. 52,296 NEW YORK, FRIDAY, AUGUST 15, 2003 ONE DOLLAR

POWER SURGE BLACKS OUT NORTHEAST, HITTING CITIES IN 8 STATES AND CANADA; MIDDAY SHUTDOWNS DISRUPT MILLIONS

The view looking across Manhattan at sunset yesterday. New York City was left without traffic lights at rush hour, and officials struggling to load off a wider blackout than all power.

OVERLOADED GRID

Buildings Are Evacuated and Hospitals Fill — Bush Plans Review

by JAMES BARDEN

2008 PA 286 – Amend Act 3 (MPSC)

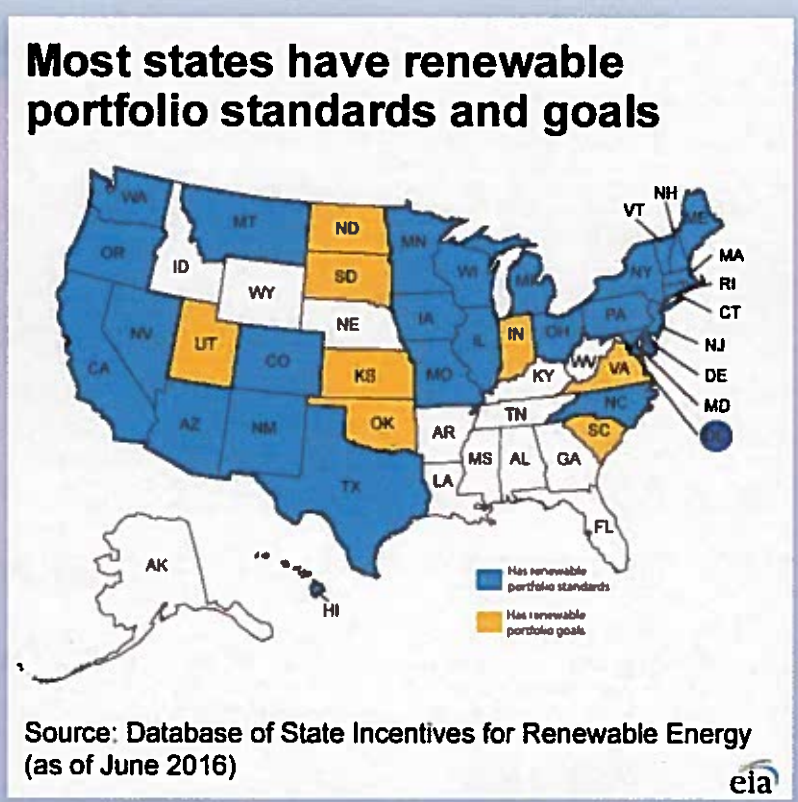
- Self implementation subject to refund (6 months)
- 12-month limit for rate cases – or deemed approved
- New authority: mergers and asset transfers
- New authority: large project certificate of need
- Electric rate "de-skewing"
- 10% retail choice cap (exception = U.P. mines)

2008 PA 295 – Clean, Renewable and Efficient Energy Act

- 1st RPS in MI – 10% by 2015 (IOUs, co-ops)
- Large utility capacity portfolio – 1100 MW
- REC territorial sourcing limit – MI/nearby
- 1st Energy Optimization requirements – (IOUs, co-ops, municipals), 1% of sales (0.75% gas)
- Expedited transmission siting
- Statewide net metering

2008 – How Much Does it Cost?

- $3.3 billion for 1670 MW new renewable energy through 2016 – MPSC annual report
- Wind (most RE) at $71.55/MWh vs $133/MWh for new coal generation (15.6% capacity value)
- EO cost $262,248,571 in 2015
- MPSC website says customers save $4 in avoided energy costs for every $1 spent on EO



20 states with energy efficiency resource standards; 8 with "goals"

Michigan – 8 Investor-Owned Electric Utilities (MPSC regulates)

Company	# Customers	Location
DTE Electric	2.1 million +	SE Michigan
Consumers Energy	1.8 million +	Lower Peninsula
Alpena Power Company	17,700	NE Lower MI
Indiana Michigan Power (AEP)	128,000	SW Lower MI
Upper Peninsula Power Company	52,000	Central U.P.
UMERC (former WPS, We Energies)	36,500	W-Central U.P.
Xcel Energy (NSP-W)	9,000	Western U.P.
We Energies	1	Central U.P.

Michigan – 9 Rural Electric LDC Cooperatives

- Alger Delta, Cherryland, Cloverland, Great Lakes, Midwest, Ontonagon, Presque Isle, Thumb, Tri-County (LDCs)
- Wolverine Power Cooperative is a Generating/Transmission entity serving the co-op LDCs
- Wolverine Power Marketing Cooperative
- Total electric customer – 322,000
- All are member-regulated for rates

Michigan – Municipal Electric Utilities

- 40 members of Michigan Municipal Electric Association
- 8% of Michigan electric customers
- Largest are Lansing BWL, Holland, Traverse City and Marquette
- Wholesale suppliers include Michigan Public Power Agency, Michigan South Central Power Agency, WPPI Energy

Michigan – Other Electricity Providers

- 26 Alternative Electric Suppliers (AES) Licensed (MPSC Website)
- AES providers offer retail choice (subject to 10% choice cap
- ITC Michigan – high voltage electric transmission (120kV+) in lower peninsula (includes former DTE and Consumers lines)
- ATC – American Transmission Company (high voltage transmission in the U.P., Wisconsin and elsewhere
- Independent Power Producers/PURPA Facilities (QFs including hydro, biomass, waste-to-energy and landfill gas generators)
- Industrial Sites/Cogeneration (paper mills; MCV)

Michigan – Grid Operational Control

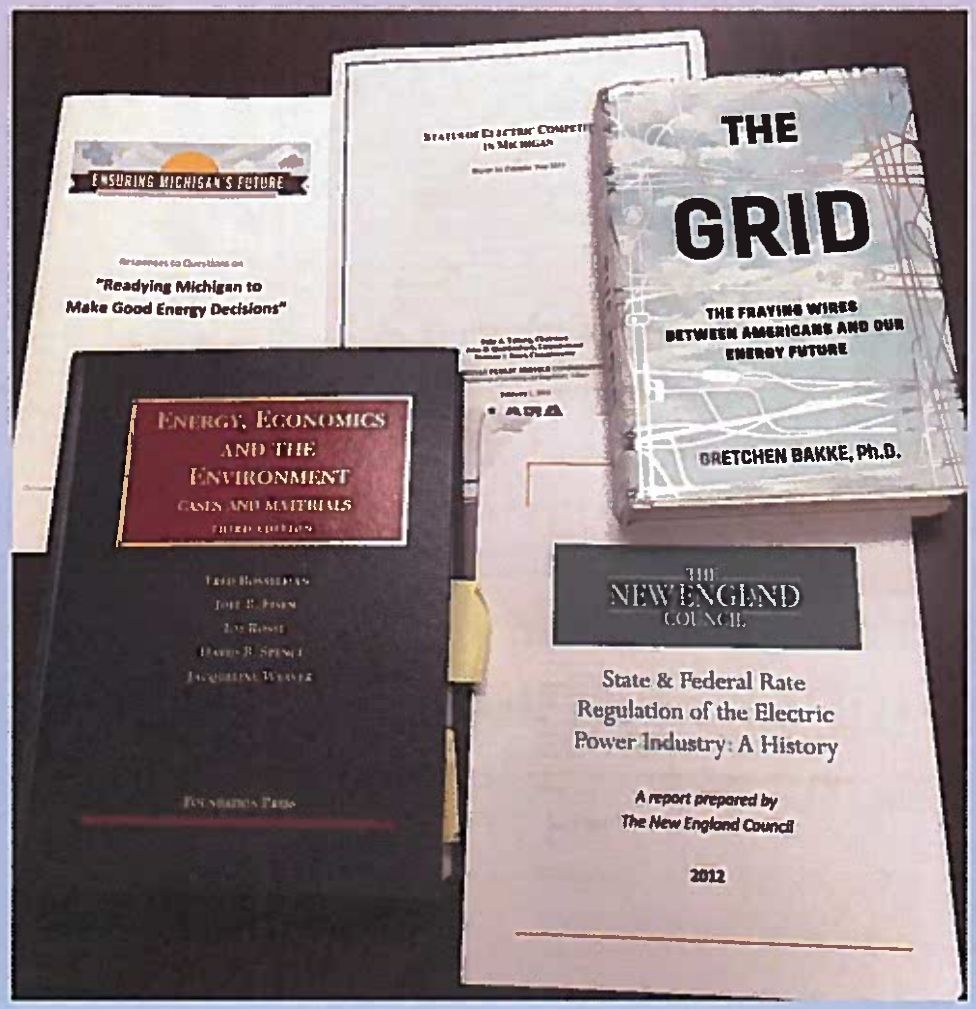
- Midcontinent Independent System Operator (MISO)
- MISO controls most of the state grid
- Lower Michigan is in MISO Zone 7; Upper Peninsula is in MISO Zone 2 (Xcel is in Zone 1)
- PJM controls the SW Lower Michigan area served by Indiana Michigan Power Company/AEP

"Each decision issued by the courts in the area of utilities regulation entails a journey into the heart of darkness in which the only reliable guideposts are this Court's own prior decisions. The time has long-since passed for a comprehensive review of this legislation."

Michigan Supreme Court

Union Carbide decision - 1988

QUESTIONS??


ENSURING MICHIGAN'S FUTURE
"Readying Michigan to Make Good Energy Decisions"
THE GRID
THE FRAYING WIRES BETWEEN AMERICANS AND OUR ENERGY FUTURE
GRETCHEN BAKKE, Ph.D.
ENERGY, ECONOMICS AND THE ENVIRONMENT
CASES AND MATERIALS
THE NEW ENGLAND COUNCIL
State & Federal Rate Regulation of the Electric Power Industry: A History
A report prepared by The New England Council
2012