Consumers Energy

Count on Us®

Public Utility Regulatory Policies Act (PURPA) of 1978

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PURPA of 1978

- **Goals**
  - Encourage alternative energy development
  - Maintain customer rate neutrality
- **Requirements**
  - Utility mandatory purchase obligation
  - Just and reasonable, non-discrimination standard applies
  - Avoided Cost based rates
  - Energy Policy Act 2005: Allows utilities to terminate mandatory purchase obligation for Qualified Facilities (QF) > 20 MW if QFs have non-discriminatory access to competitive markets

"Avoided Costs"
Incremental costs to an electric utility of electric energy or capacity or both which, but for the purchase from the qualifying facility or qualifying facilities, such utility would generate itself or purchase from another source.

Market Conditions – Then vs Now

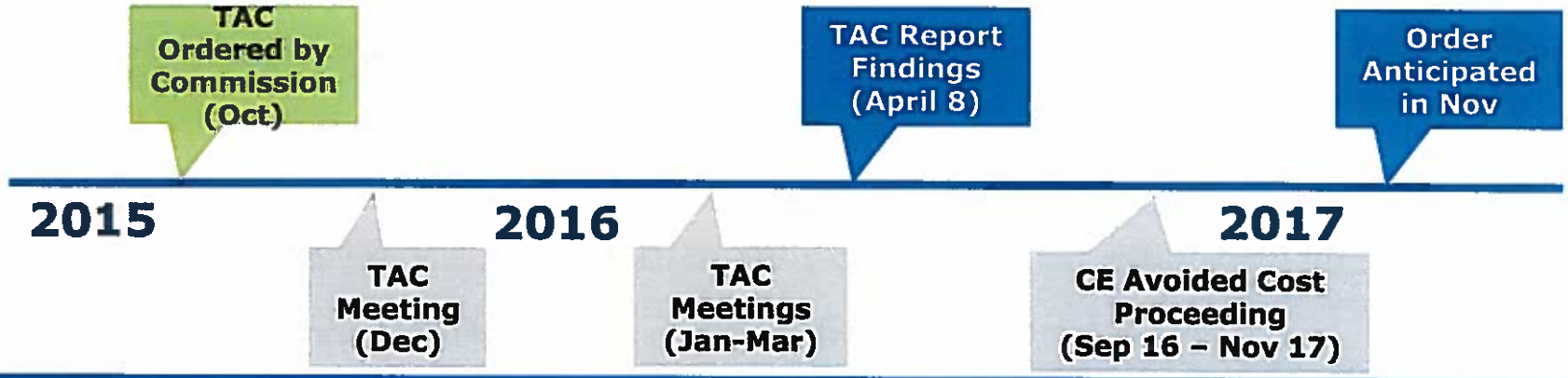
1978	Now
PURPA drivers…	Establishment of…
▪ Oil embargo and energy crisis of early 1970s	▪ Full or partial deregulation
▪ Need to reduce dependence on foreign oil and traditional fossil fuels	▪ MISO competitive wholesale electric market
▪ Monopolies by vertically integrated utilities (generation, transmission and distribution)	▪ State renewable portfolio standards
	▪ Competitive renewable supply pricing

Michigan Situation

- Two largest incumbent utilities (Consumers Energy and DTE Energy) no longer own their legacy transmission systems
- MISO capacity and energy markets are fully functional
- Michigan is a partially deregulated state
- Current market price of capacity and energy is typically 50% to 30% the cost of current PURPA PPA pricing – customers paying a significant premium to support QF Independent Power Producers (IPP)
- Current pricing of new renewables (wind) is approximately 30% less than current PURPA PPA pricing

State Review

- **Michigan Public Service Commission (MPSC) Technical Advisory Committee (TAC)**
  - **Purpose**
    - Assess the continuing appropriateness of the MPSC's current regulatory implementation of PURPA
  - **Participants**
    - MPSC Staff, utilities, qualifying facilities, other interested parties
  - **Focus**
    - Utility avoided cost methodology
    - PURPA PPA terms and conditions
- **Consumers Energy Avoided Cost Proceeding (MPSC Case No. U-18090)**



Avoided Costs

- Avoided cost inputs (MPSC Order U-18090):
  - **Capacity** based on natural gas combustion turbine (NGCT)
  - **Energy** based on natural gas combined cycle (NGCC) plus ICE[1]
  - **Heat rate** of 6,600 Btu/kWh
  - **Capacity factor** of 61.77%
  - **Natural gas price** tbd
- Assuming a natural gas price of ~$3.10/MMBtu, Consumers Energy's avoided cost is $52/MWh.[2]
- Commission has remanded the case for further development of avoided costs inputs
- For reference, current wind farms can be built at $45 to $50/MWh

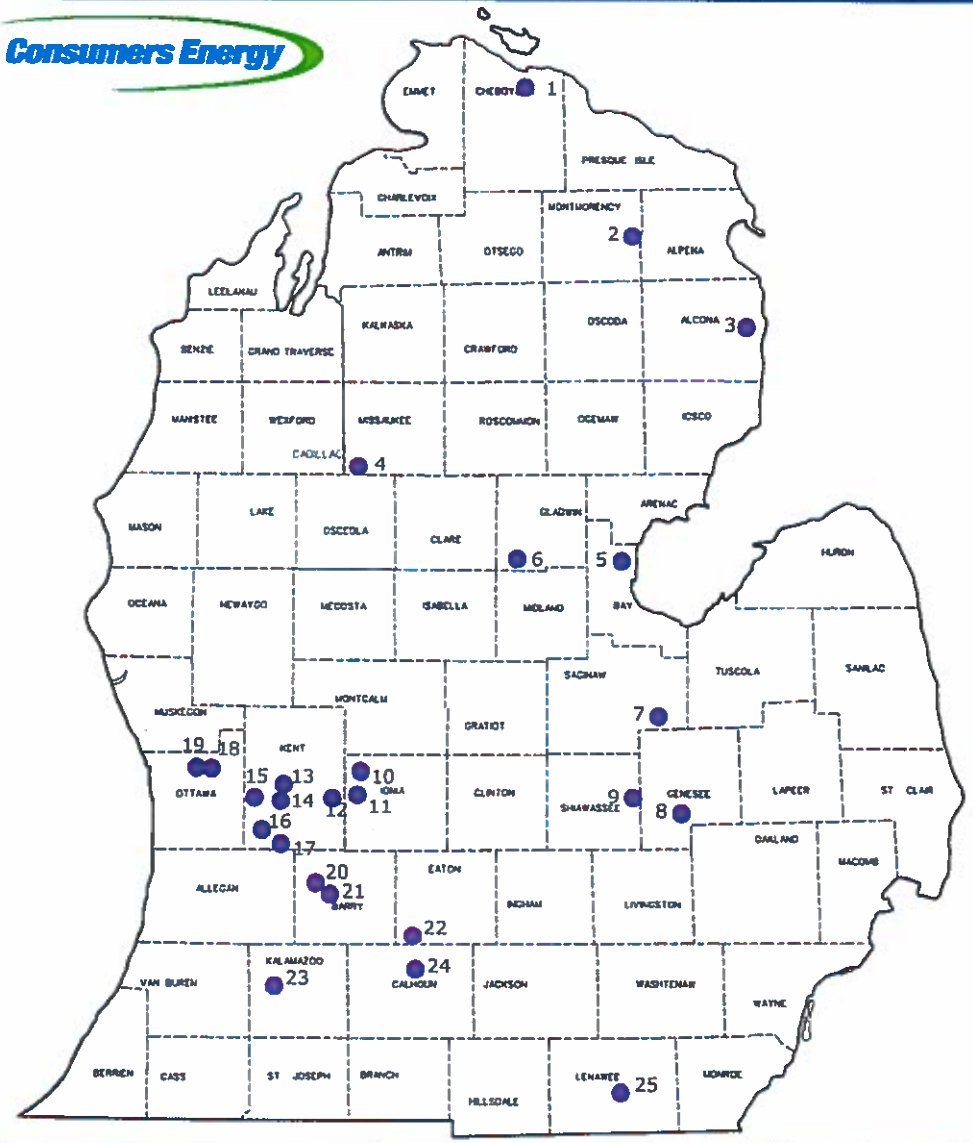
[1] Fixed Investment Cost Attributable to Energy (ICE) is an energy rate adjustment factor, calculated as the difference between the fixed cost of a NGCC and the fixed cost of a NGCT

[2] 2019 snapshot estimate using CE's proposed input assumptions, or $58/MWh using MPSC Staff's proposed input assumptions

Consumers Energy PURPA PPAs

- **25 with QFs <= 20 MW**
  - Total 104 MW
  - Customers paid ~$300 million above market last 10 years
  - Small PURPA PPAs starting to reach their termination date
- **7 with QFs > 20 MW**
  - Total 1,558 MW
  - Customers paid ~$2.1 billion above market last 10 years
  - Consumers Energy has FERC-approved waiver of mandatory purchase obligation
- **21 with IPPs that could qualify as QFs**
  - Total 383 MW
  - Most waived QF rights to qualify under State mandated program
  - Customers paid ~$130 million above market last 10 years

Consumers Energy PURPA QFs <= 20 MW



Index of Generating Plants

1. Black River Power
2. Hillman Power Company
3. Viking Energy of Lincoln
4. Viking Energy of McBain
5. Granger Electric of Pinconning
6. City of Beaverton
7. North American Natural Resources (Peoples Plant)
8. Granger Electric Company (Grand Blanc Plant)
9. WM Renewable Energy (Venice Park Plant)
10. Grenfell Hydro
11. White's Bridge Hydro
12. STS Hydropower (Fallasburg Plant)
13. Thornapple Association
14. STS Hydropower (Cascade Plant)
15. Kent County
16. Granger Electric of Byron Center
17. Commonwealth Power Company (LaBarge Plant)
18. Granger Electric Company (Ottawa Plant)
19. Granger Electric Company (Seymour Plant)
20. Commonwealth Power Company (Middleville Plant)
21. Commonwealth Power Company (Irving Plant)
22. Michiana Hydroelectric Company
23. STS Hydropower (Morrow Plant)
24. C&C Energy (Plant #1)
25. Adrian Energy Associates

Questions