

Michigan Electric Capacity Need Forum Meeting

August 25, 2005

Critical Electric Generation Need Questions

- Are Michigan's current resources sufficient to meet future electricity demand?
- When will additional generation be needed and what type of generation will be needed?

Critical Policy Related Questions

- How will Michigan's resource needs be met?
 - Who will build and operate a new plant?
 - Who will pay for the plant?

Industry Structure

- Vertically integrated utilities with an obligation to serve and exclusive franchises
- Competitive markets
- Hybrid markets

Competitive Market Characteristics

- Energy Markets
 - Numerous buyers and sellers
 - Entry and exit relatively easy
 - Transparent prices
 - Can be competitive
- Capacity Markets
 - Entry and exist difficult
 - Public good
 - Require government intervention

**Will the Commission's current
resource addition policy work in
today's market?**

Recommendations for Changing Commission's Policy

- Pre-approval
- Competitive bidding
- Revenue certainty
- Financing costs during construction
- Include existing units
- Market Power
- Legislation

Recommendation for Changing Commission's Policy

- Encourage adoption of demand-side management, renewable resources, and combined heat and power installations, current policy does not encourage adoption of these resources
- Create fair and transparent bidding process with performance standards and proper risk allocation
- Involve MISO in process
- Revenue certainty should provide benefit for payment

Regulated Utility Investment Recovery Options

- Traditional Regulation
- Reliability Option

Reliability Option

- Regulatory commitment through contested case recognition of need for plant and inclusion of CWIP without and AFUDC offset
- Revenue stability and certainty through nonbypassable surcharge for reliability component of plant
- Enforceable commitment to plant cost and schedule
- Reliability credit for payment of surcharge
- Benefit of comprehensive planning and consideration of renewables and demand side management
- Provide for construction of need generating plant

Reliability Option

- Conduct contested case
- Details of plant including cost and construction schedule
- Demonstration proposed plant appropriate and public benefits
- Can request CWIP without AFUDC
- Can request reliability charge on all customers

Requirements of Reliability Option

- Competitive bidding
- Energy efficiency
- Construction partnerships
- Market power