

MPSC Resource Addition Policy

Commission Policy

Utility Builds

- Utility finances construction
- CWIP is booked as part of rate base
- AFUDC is computed as an offset to CWIP
- Utility requests rate treatment for the plant, when completed
- Utility must demonstrate that the plant is used and useful
- Rate treatment includes return on and of capital based on net book plant so revenue requirement starts high and declines through time
- Revenue requirement charged to customers on average cost basis

Commission Policy

Utility Purchases Capacity

- Utility requests Act 304 approval for recovery of capacity payments
- Utility must demonstrate that capacity payments are reasonable
- Utility seeks recovery of demand and energy payments through PSCR

Steering Committee Questions

- If additional generation is needed, will the Commission's current policy induce needed construction?
- If not, what changes need to be made to the Commission's current policy?

Pre-approval of need, plant type, and cost

Proponents:

Must wait until after plant is constructed to determine whether costs are recoverable. This puts capital at risk during a construction schedule that may span seven or eight years. This risk makes financing more difficult.

Must satisfy:

Was the plant needed?

Was the right "type" of plant built?

Was it constructed efficiently and at a reasonable cost?

Opponents:

Pre-approval is not supported by Michigan law. Giving pre-approval without a final, known price requires ratepayers to bear too much risk. It also opens the door for future stranded costs. In a deregulated market, price will signal the need for additional generation.

Revenue Certainty

Proponents:

Electric generation is very capital intensive leading to high fixed costs. If customers leave for choice those fixed costs remain and cause other rates to increase. This puts recovery of the large fixed cost obligation at risk, making it difficult to finance a large plant. Make all customers responsible for some or all of the cost of a new plant.

Opponents:

This is not needed because if the plant is built efficiently and operated effectively, it will produce power at a relatively low cost, which should assure a revenue stream. Also, it is merely an assumption that a revenue stream must be assured through ratemaking, and more information on this topic is needed. There never has been absolute revenue certainty.

Recovery of Financing Costs during Construction (CWIP)

Proponents:

Financial stress of constructing major generating plant, decreases cash flow and puts capital at risk for up to seven years. Placing CWIP into rate base without an AFUDC offset will lower the cost of the plant when operational.

Opponents:

The Commission's current policy is supported by Michigan law and adequately addresses this issue.

Competitive Bidding

Proponents:

Competitive bidding creates uncertainty and serves as an impediment to construction of new plant. Also, competitive bidding would represent a wholesale purchase which could create jurisdictional issues. Finally, long-term purchase power contracts create the same problems as construction under the Commission's current policy.

Opponents:

Competitive bidding should be mandatory to assure that the lowest cost power is attained for ratepayers.

Investment in Existing Generation

Proponents:

Existing generation and investment at existing plants should not be treated differently from new generation. To do so would create a disincentive to invest in and maintain existing generation.

Opponents:

The Commission's current policy adequately addresses this issue.

Other Issues

- Energy efficiency
- Market power
- Legislation