

Strawman Proposal

Distributed Resources Policy Issues

Review session

August 9, 2006

Treatment of Renewable and Alternative Energy Options in LSE Planning

- Renewables' and CHP's role must be justified based on their cost effectiveness versus central station technologies on a life cycle basis.
- Part of this justification should include recognition of the shorter lead times associated with such facilities and the reduced risk to the Load Serving Entity (LSE) due to diversity of supply and a portfolio approach to its investment in such supply.

Treatment of Renewable and Alternative Energy Options in LSE Planning Continued

- In developing future Michigan energy policies, the capacity value of renewables and CHP facilities should be considered on an aggregate, must-run basis; taking into account the average capacity factor of the class of generators by time of day and season of production.
- Dispatchability capabilities should receive an additional premium.

Treatment of Renewable and Alternative Energy Options in LSE Planning

Continued

- Each utility should be required to present to the MPSC a plan to meet its future power needs.
- The plan should identify the amount and types of resources that best satisfy the needs of its customers.
- The resource options analyzed should include energy efficiency, load management and customer demand response, renewable energy, and distributed generation options along with traditional power plants.

Regulatory Policy Recommendations

- The 21st Century Energy Plan should assure that transactional burdens are minimized when non utility generators attempt to enter into transactions with the utility.
- The 21st Century Energy Plan should require use of marginal cost principals that reflect the full long-term cost of generating options added to the extent possible and practical when designing utility tariffs related to generation services.
- In particular, the energy component of all rates should vary on a monthly basis following seasonal variations in the cost of generation.

Utility Power Purchase Policy

- Non-utility generators should be able to enter into contractual agreements to sell power to utilities under varying terms that reflect the specific characteristics of various resources, including: value of the power, enhanced reliability, environmental benefits, and financing terms.
- Utilities should be able to fully recover all expenditures for renewable and CHP options whose costs exceed the option(s) deemed to be the least cost in the current planning process if and only if the ancillary benefits of the option are determined by the Commission to exceed the additional costs on a life cycle basis.

Utility Power Purchase Policy Continued

- The value of emissions and reliability benefits of Renewable generating technologies and CHP need to be explicitly quantified on a life cycle basis and incorporated into the capacity planning process even if such estimates are difficult to measure and are subject to change
- Purchase rates from non utility generators should reflect the transmission and benefits associated with providing power at distribution voltage without transformations and at locations that reduce the flow of power on the utility network by backfeeding the system.

Customer Options

- Each Load Serving entity should offer standby, backup, maintenance and supplemental power under terms and conditions that reflect the cost of serving a class of such customers on an aggregate basis.
- Load serving entities shall offer retail tariffs to CHP facilities that provide for internal use of the generation or for sale to the LSE for use in service to other customers, for the Day 2 MISO market price, at the option of the generator.

Customer Options Continued

- Customers should have an opportunity to purchase their electric power needs from different combinations of generation sources over different periods of time and with different levels of reliability.
- Customers who voluntarily elect to receive a portion of their electric power needs from dedicated renewable and/or CHP facilities, and who make multi-year commitments for those resources, should have their generating costs based upon the option selected.

Customer Options Continued

- Each utility shall establish tariffs that provide for net metering for renewable and CHP facilities less than 150 kW in size. A fixed monthly service charge may be applied to compensate the utility for un-recovered distribution and administration expense. Net metering interconnections, metering, and billing options shall be the lowest total cost to customers while still maintaining system safety and integrity, and meeting all MPSC approved interconnection rules.

Customer Options Continued

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Legislative Recommendations Continued

- Property tax increases should be capped at no more than the percent increase in revenue received in the most recent three year period relative to the first three years of operation.
- Local tax assessors should be urged to utilize the method of property valuation based on the value of the energy produced, rather than the capital costs of the facilities.
- The Legislature should consider permanent property tax exemptions for residential and small commercial scale Renewable and CHP applications.

Legislative Recommendations Continued

- If targets are not adopted for a mandatory renewable portfolio standard, then Michigan 21st Century Energy Endowment Fund should be established by the Legislature, to facilitate project financing.
- The Endowment could be funded through a non-bypassable public benefits charge. The fund would be used to provide financing for renewable energy and energy efficiency projects.

Legislative Recommendations Continued

- Statewide Siting guidelines suitable for local zoning adoption and uses should be adopted for each technology. Such guidelines should take into account each technology's target objectives and competing land use objectives and resources.
- The distribution system of each load serving entity should be considered a common carrier of electric power.
- The local distribution companies should be required to provide an option to non-utility generators to “sell through” to the MISO Day Two market at cost as power is produced and delivered to the LSE via an interconnection to the LSE's distribution network.