



**21st Century
Energy Plan**

**Renewable Energy
and Alternative Technologies
Policy Team**

**Renewables
Workgroup**



Strawman Proposal on Issues Distributed Resources Policy Issues July 31, 2006

Purpose and Request for Comments

By mid-September 2006 the combined Policy team for the Renewables and Alternate Energy Work Groups is scheduled to issue its final report on Regulatory and Policy issues for renewable and distributed energy resources to be addressed as a part of the 21st Century Energy Plan. The purpose of this Strawman Proposal is to outline for members of the Combined Policy Team the report's expected general format, what the report is envisioned to address, and major recommendations currently under consideration.¹ Policy Team Members are requested to review the proposal and make recommendations regarding suggested changes both to the form and content of the Final Report.

Report Format

The report format will be structured to first establish a basis why renewables and CHP should be considered as options in the State's Electric Generation Capacity planning process and identify how renewables should be evaluated and valued relative to other capacity options that may be identified as a part of the 21st Century Energy Plan. Second, it will identify current barriers to implementation that have, in the past, prevented optimal penetration of the technologies. Third, options to move forward will be discussed. Fourth, recommendations will be presented for inclusion in the 21st Century Energy Plan.

Expected Recommendations to be included and Addressed in the Report

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.

¹ This document does not include discussion of renewable portfolio standards (RPS) issues, which are being addressed separately.

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

Regulatory Policy Recommendations

- One goal of the report's regulatory policy recommendations will be to assure that transactional burdens are minimized on participating non utility generators involved in transactions with the utility, which is attempting to meet the target objectives within its service territory.
- The Commission should explore using marginal cost principals that reflect the full long-term cost, to the extent possible and practical, for designing utility tariffs related to generation services, consistent with the current cost of service standards. 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.
- 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 line loss 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

- 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 reap the benefits of that commitment by having that portion of their generating costs for the duration of their commitment, based upon the cost of the option selected.
- 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.
- Each Load Serving entity shall 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.

Legislative Recommendations

- 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 with distribution assets 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.
- 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. For all electric utility property, 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. Guidelines should be provided for local tax assessors which explain how to apply that method.

- The Legislature should consider permanent property tax exemptions for residential and small commercial scale Renewable and CHP applications.
- 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.