Replies from Interested Parties on Staff Strawman Proposal for Renewable Portfolio Standards
July 10, 2006
<table>
<thead>
<tr>
<th>Company/Association</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>John Gear</td>
<td>3</td>
</tr>
<tr>
<td>Dow Corning Company</td>
<td>8</td>
</tr>
<tr>
<td>White Pine Electric Power LLC</td>
<td>10</td>
</tr>
<tr>
<td>Dead River Campers Inc</td>
<td>12</td>
</tr>
<tr>
<td>Ann Arbor Energy Commission</td>
<td>14</td>
</tr>
<tr>
<td>State of Michigan Energy Office</td>
<td>16</td>
</tr>
<tr>
<td>ABATE</td>
<td>22</td>
</tr>
<tr>
<td>I&amp;M Power Company</td>
<td>30</td>
</tr>
<tr>
<td>Michigan Electric &amp; Gas Association (MEGA)</td>
<td>40</td>
</tr>
<tr>
<td>Michigan Electric Cooperative Association (MECA)</td>
<td>52</td>
</tr>
<tr>
<td>Consumers Energy</td>
<td>61</td>
</tr>
<tr>
<td>Lansing Board of Water and Light</td>
<td>68</td>
</tr>
<tr>
<td>Michigan Municipal Electric Association (MMEA)</td>
<td>73</td>
</tr>
<tr>
<td>Environment Michigan</td>
<td>79</td>
</tr>
<tr>
<td>Michigan Sustainable Energy Coalition</td>
<td>81</td>
</tr>
<tr>
<td>Detroit Edison</td>
<td>87</td>
</tr>
<tr>
<td>Geoff Lewis</td>
<td>95</td>
</tr>
<tr>
<td>Lowell Youngquist</td>
<td>100</td>
</tr>
<tr>
<td>RES Americas</td>
<td>102</td>
</tr>
<tr>
<td>US DOE</td>
<td>106</td>
</tr>
</tbody>
</table>
Comments by
John Gear
Comments by John Gear (in blue)

Request for Comments on Elements of the Strawman RPS Proposal

Suggested alternative(s), additions, deletions, and comments should be emailed to both pmpoli@michigan.gov and tstanton@michigan.gov by June 30, 2006.

Please provide your suggested alternative(s) and comments on the critical Renewable Portfolio Standard (RPS) components listed below, or indicate if you are in disagreement with the inclusion of that component in the Strawman proposal.

1. **RPS Load Serving Entities**
   Michigan’s RPS should apply to all load serving entities (LSE). This includes: Investor owned utilities, cooperative utilities, alternative electric suppliers, and municipal utilities.

   **Suggested Alternative:** Applies to IOUs, coops, and AESs immediately; applies to munis after enabling legislation.

2. **RPS Targets**
   RPS targets are mandatory for all LSEs, but subject to potential adjustment from time to time as discussed in element number 6 below. RPS targets should be established based on the results of the Capacity Need Forum modeling for the Alternative Generation Scenario, with any changes based on new model results for the 21st Century Energy Plan.

   Each LSE in Michigan will have a 24-month period to generate or purchase qualifying renewable energy or RECs, up to the initial target amount. That initial target will be set equal to the then-current statewide average renewable resource use (now approximately 3% of annual retail sales). Existing renewable resources may be included to reach RPS targets. Each subsequent target amount would have to be reached by pre-established dates.

   For example, the Non-Traditional Case Scenario modeling completed for the Capacity Need Forum Report indicated these targets: 3% additional renewable resources by 2008, 5% by 2010, and 7% by 2015, to reach total renewable resource levels of approximately 6% by 2008, 8% by 2010, and 10% by 2015. The target years and quantities will be adjusted as necessary to reflect the 24-month lead time and the best available information about Michigan renewable energy resource availability and cost.

   The strawman proposal has no carve-outs or set-asides for particular types of renewable energy.

   The strawman proposal has a provision for alternative compliance payments. The payment will be twice the average Michigan REC market price during the previous year in Michigan.

---

1 This scenario for the Capacity Need Forum modeling included non-renewable combined heat & power (CHP) generation, which would not qualify in the strawman RPS proposal.
Alternative compliance payments, if any, will be deposited into the Low Income and Energy Efficiency Fund administered by the MPSC.

**Suggested Alternative:** Alternative compliance payments should go to MREP or be controlled by MREP and used to fund R&D and pilots to encourage renewables. Money from these should not go to LIEEF.

3. **Eligible/Qualifying Resources**
Renewable energy should qualify based on the definition from 2000 PA 141 (MCL 460.10g: “Renewable energy source” means energy generated by solar, wind, geothermal, biomass, including waste-to-energy and landfill gas, or hydroelectric.)

Biomass facilities should be eligible only if they meet all existing environmental and waste management regulations.

Any discussion of RECs from net metering, green rates, or other utility tariffs or programs will be handled by the Policy Team. (See also element number 10, Other Related Policies, below.)

**Suggested Alternative:**

4. **REC System**
Strawman proposal includes a tradable REC system with 2-year banking.

A minimum of 75% of each LSE’s RPS target must come from renewable energy generated within Michigan. The remaining 25% can come from any state.

Renewable facilities will be certified by an independent certification agent, based on criteria established by the MPSC.

REC trading agents may participate in the Michigan program, as long as there are assurances that credits certified for use in Michigan will meet all Michigan criteria.

**Suggested Alternative:**

5. **Statewide Renewable Energy Purchasing Agent**
LSEs may meet their RPS targets by purchasing RECs from a statewide renewable energy purchasing agent.

The strawman proposal has not identified any specific provisions for a statewide renewable energy purchasing agent. If commenters agree that this approach is a good one, Staff requests suggestions regarding how to identify and fund a statewide renewable energy purchasing agent.

**Suggested Alternative:** Use an existing market maker (Green E, etc.) rather than inventing a new purchasing agent.

---

2 As a part of the 21st Century Energy Plan, a detailed plan for REC management is being developed.
3 The original staff strawman proposal included recommendations on Standard Offer Contracts. Any discussion on this issue will be handled by the Policy Team.
6. **Rate Impact Limit**
MPSC will review the RPS program one year prior to the date that the target is scheduled to change, and would adjust the RPS target as necessary. This review will include reporting and analysis of RPS progress, RPS program costs, diversity of Michigan’s retail electric sales portfolio, and recommendations on adjustments to future RPS targets and on whether the RPS should continue. (See also element number 9, Program Review, below.)

**Suggested Alternative:** Specify in advance that rate impact is measured against summer peak spot market power prices, because it is during this time (if ever) that we require additional capacity. Therefore, only limit rate impact of renewables if their cost exceeds the most recent summer spot market average price at peak.

7. **Cost Recovery**
Costs associated with renewable energy purchased by regulated utilities pursuant to the RPS targets will be considered an integral part of each utility's power supply portfolio and will be recovered through the annual power supply cost recovery process.

**Suggested Alternative:**

8. **Compliance Reporting Requirements**
Each LSE will file an annual report regarding compliance in the previous year, explaining renewable resource plans in detail for the next 1 year, and providing a renewable resource plan forecast for the next 5 years. Regulated utility reporting will be part of the annual PSCR process at the PSC, and a reporting schedule and requirements for AESs will be developed.

**Suggested Alternative:**

9. **RPS Program Review**
Every 3 years the PSC will review the RPS program and make recommendations on whether the RPS targets should be adjusted or if the RPS program should continue. The program may be suspended if RPS targets are regularly being met, REC prices are remaining very low (at or near zero), and the state has attained acceptable levels of renewable energy in the retail sales portfolio.

**Suggested Alternative:** change “the PSC will review” to “the PSC will hold a contested case” and change “make recommendations on whether RPS targets should be adjusted” to “revise the RPS targets as necessary.”

10. **Other Related Policies**
The Strawman proposal recognizes that additional policies may be important or even necessary to implement in conjunction with an RPS. The review and discussion of other policies is taking place in a separate process, through the Policy Team. Commenters on the RPS Strawman
Proposal are encouraged to simply list other related policies they feel are essential or very important to consider in conjunction with an RPS. Details of those proposed policies will be reviewed and discussed separately. MPSC Staff is now compiling a summary of which related policies have been implemented by other states that have RPSs, and will post that summary for review.

**Suggested Other Related Policies:**

1) Include hard (and declining) cap on statewide CO2 emissions from electric production.

2) Extend to clean energy portfolio

3) Add feed-in tariffs (standard offer contracts)
Dow Corning Corporation

Comments by
Rod Williamson
Thank you and those members of the 21st Century Energy Plan Renewables Workgroup for your work in developing the strawman Renewable Portfolio Standard proposal. We also appreciate the opportunity to provide the comments below:

1. RPS Targets

Renewable energy source purchases should not be mandatory for all customer classes of an LSE. In order for industrial companies within Michigan to remain competitive in a global market, we must not be forced to pay a premium for any particular energy supply. Industrial companies / manufacturing facilities should have the option to participate with their LSE.

3. Eligible/Qualifying Resources

Industrial / manufacturing customers may also be able to produce energy from industrial ‘waste’ steams. Industrial / manufacturing customers should receive credits for energy produced from these types of projects to offset any RPS charges from their LSE.

7. Cost Recovery

8. Compliance Reporting Requirements

Regulated utilities should have to use a competitive bid process for renewable energy supply and should be required to demonstrate their purchase of the lowest cost option. This will continue to drive technology development and lower the cost of these energy supplies.

<<strawman_requestforcommentsjun14_2006.pdf>>

Thank You

Rod Williamson

Energy Development Manager - Americas
Dow Corning Corporation
2200 W Salzburg Rd
Midland, MI 48686
Mail Stop C01205
Phone: (989) 496-4117
FAX: (989) 496-5849
Cell: (989) 948-5817
Email: rod.williamson@dowcorning.com
White Pine Electric Power LLC

Comments by
Zachary Halkola
Tom & Pat,

I have been representing White Pine Electric Power on the Renewables Committee and we are in agreement with the Strawman RPS Proposal the way it is written.

We are currently in the MISO que for and have completed through the feasibility study portion of a potential Biomass facility at our plant site in White Pine.

We plan on attending the next meeting on July 12th.

Zachary J. Halkola
Accounting Manager
White Pine Electric Power LLC
P.O. Box 695
33707 Power Plant Road
White Pine, Michigan 49971
Phone: 906-885-7905
Fax: 906-885-7903
http://www.traxys.com
Dead River Campers Inc

Comments by
Charles Sundberg
Distinguished Legislators:

I represent 376 Shareholders of Dead River Campers Inc, located in Marquette County. As you may be aware we were seriously affected by the Flood in 2003 caused by a fuse plug failure on Silver Lake Reservoir. In spite of this event our Board of Directors strongly supports the inclusion of Hydroelectric power as a source of renewable energy. The hydroelectric facility on The Hoist reservoir, a portion of the Dead River System, is what enables our shareholders to enjoy prime waterfront real estate. The lack of a Silver Lake Reservoir is impacting the ability to maintain consistent water levels on our property. The inclusion of Hydroelectric sources as a renewable energy credit source will indirectly and favorably impact our shareholders as it enables UPPCO and its parent company to experience improved economics for the Dead River System, including the rebuilding of the Silver Lake Reservoir. This enhances our property values and enhances further economic development as shareholders will be more inclined to invest in their properties, improving our local economy. We heartily endorse the inclusion of Hydroelectric facilities as one of the renewable energy sources.

Respectfully,

Charles R Sundberg
President Dead River Campers Inc
P.O. Box 323
Ishpeming MI 49849
Ann Arbor Energy Commission

Comments by
Wayne Appleyard
3. Eligible/Qualifying Resources

I would like a clarifying statement pertaining to the solar thermal. The purchase of solar thermal RECs could be used as an incentive to increase the usage of solar domestic hot water heating (SDHW) which is currently the most cost effective use of solar energy.

As a member of the Ann Arbor Energy Commission, I am involved with trying to promote renewables to meet the Mayor’s Green Energy Challenge of 20 percent renewables for the entire Ann Arbor Community by 2015(electricity, natural gas and transportation fuels). One proposed element of that plan calls for 5000 solar roofs in Ann Arbor, of which most would be SDHW. In order to reach this ambitious goal we are looking at all possible methods of providing further incentives for the installation of SDHW.

A program that allowed for the sale/purchase of RECS from the system owner would allow the system owner to receive an additional annual return on their investment. These systems have the added advantage of producing the energy where it is to be used, thereby eliminating the transmission and distribution losses, producing a greater end benefit than the same energy generated remotely. Since these are small, readily available and easily installed systems it will also provide for a more rapid increase in the available “Michigan Generated” renewables.

Wayne Appleyard
Architect & Member of the Ann Arbor Energy Commission.
June 28, 2006
State of Michigan Energy Office

Comments by
John Sarver
To: Tom Stanton  
From: John Sarver  
Subject: Comments on RPS Strawman Proposal  
Date: June 30, 2006

1. **RPS Load Serving Entities**  
Michigan’s RPS should apply to all load serving entities (LSE). This includes: Investor owned utilities, cooperative utilities, alternative electric suppliers, and municipal utilities.

   This policy is fair and equitable and by involving all LSE’s can have a greater impact on the development of renewable energy resources in Michigan.

2. **RPS Targets**  
RPS targets are mandatory for all LSEs, but subject to potential adjustment from time to time as discussed in element number 6 below. RPS targets should be established based on the results of the Capacity Need Forum modeling for the Alternative Generation Scenario, with any changes based on new model results for the 21st Century Energy Plan.

   Each LSE in Michigan will have a 24-month period to generate or purchase qualifying renewable energy or RECs, up to the initial target amount. That initial target will be set equal to the then-current statewide average renewable resource use (now approximately 3% of annual retail sales). Existing renewable resources may be included to reach RPS targets. Each subsequent target amount would have to be reached by pre-established dates.

   For example, the Non-Traditional Case Scenario modeling completed for the Capacity Need Forum Report indicated these targets: 3% additional renewable resources by 2008, 5% by 2010, and 7 percent by 2015, to reach total renewable resource levels of approximately 6% by 2008, 8 percent by 2010, and 10 percent by 2015.1 The target years and quantities will be adjusted as necessary to reflect the 24-month lead time and the best available information about Michigan renewable energy resource availability and cost.

   The strawman proposal has no carve-outs or set-asides for particular types of renewable energy.

---

1 This scenario for the Capacity Need Forum modeling included non-renewable combined heat & power (CHP) generation, which would not qualify in the strawman RPS proposal.
The strawman proposal has a provision for alternative compliance payments. The payment will be twice the average Michigan REC market price during the previous year in Michigan. Alternative compliance payments, if any, will be deposited into the Low Income and Energy Efficiency Fund administered by the MPSC.

**Suggested Alternative for Alternative Compliance:**

The suggested alternative is a modification of what is proposed. If an RPS target is not achieved in a given year, the load serving entity would provide an alternative payment based on the mWh deficiency times twice the average price of all Michigan REC purchases by all load serving entities for the given time period. Any alternative payments would be used for a financial incentive program for small renewable electric systems, e.g. $2/watt incentive. The incentive program could be administered by the MPSC or Energy Office. The owner of the small renewable electric system would have ownership of any REC’s from the system since the incentive would be a small part of the cost of the system.

Since there are no set-asides for particular types of renewable energy, it is important that the alternative compliance approach be directly linked to supporting small renewable energy systems like photovoltaic systems. An incentive program like a $2/watt incentive leverages private interest and funding and promotes renewable energy development in Michigan.

3. **Eligible/Qualifying Resources**

   Renewable energy should qualify based on the definition from 2000 PA 141 (MCL 460.10g: “*Renewable energy source*” means energy generated by solar, wind, geothermal, biomass, including waste-to-energy and landfill gas, or hydroelectric.)

   Biomass facilities should be eligible only if they meet all existing environmental and waste management regulations.

   Any discussion of RECs from net metering, green rates, or other utility tariffs or programs will be handled by the Policy Team. (See also element number 10, Other Related Policies, below.)

   Being consistent with the definition from PA 141 makes sense.

4. **REC System**

   Strawman proposal includes a tradable REC system with 2-year banking.

   A minimum of 75% of each LSE’s RPS target must come from renewable energy generated within Michigan. The remaining 25% can come from any state.

---

2 As a part of the 21st Century Energy Plan, a detailed plan for REC management is being developed.
Renewable facilities will be certified by an independent certification agent, based on criteria established by the MPSC.

REC trading agents may participate in the Michigan program, as long as there are assurances that credits certified for use in Michigan will meet all Michigan criteria.

**Suggested Alternative:**

The economic and environmental benefits from renewable energy generated within Michigan are significant. Rather than permit 25% of REC’s to come from any state, it would be preferable to have an Alternative Compliance approach that promotes small renewable energy systems in Michigan. If a LSE is not able to purchase renewable energy generated within Michigan for a reasonable price to meet the RPS requirements, the LSE would make the Alternative Compliance payment which would support small renewable energy systems in Michigan.

5. **Statewide Renewable Energy Purchasing Agent**

LSEs may meet their RPS targets by purchasing RECs from a statewide renewable energy purchasing agent.

The strawman proposal has not identified any specific provisions for a statewide renewable energy purchasing agent. If commenters agree that this approach is a good one, Staff requests suggestions regarding how to identify and fund a statewide renewable energy purchasing agent.

**Suggested Alternative:**

While this does not mention aggregation of REC’s from generators of small numbers of REC’s, it makes sense that a Statewide Renewable Energy Purchasing Agent would purchase and aggregate REC’s from smaller renewable energy systems. A competitive solicitation could be used to select a non-profit or private entity to perform this function on a statewide basis. The selected entity could sell REC’s to LSE’s with a modest mark-up to cover their costs. The economics should be able to work because many of the sellers of REC’s would be homeowners, small businesses, and public institutions that will be satisfied with modest payments that can complement other incentives like federal tax credits and government grants. System owners receiving the $2/watt incentive and net metering customers would be eligible to sell their REC’s to the Purchasing Agent. A start-up grant from the MPSC will be needed for the Statewide Renewable Energy Purchasing Agent. A simplified procedure to estimate REC’s from smaller renewable energy systems, e.g. systems 30 kW or less, will be needed to make this work. Software programs exist that can be used to make reasonable kWh estimates.

---

3 The original staff strawman proposal included recommendations on Standard Offer Contracts. Any discussion on this issue will be handled by the Policy Team.
6. **Rate Impact Limit**  
MPSC will review the RPS program one year prior to the date that the target is scheduled to change, and would adjust the RPS target as necessary. This review will include reporting and analysis of RPS progress, RPS program costs, diversity of Michigan’s retail electric sales portfolio, and recommendations on adjustments to future RPS targets and on whether the RPS should continue. (See also element number 9, Program Review, below.)

**Suggested Alternative:**

While this approach provides flexibility, a specific Rate Impact Limit may be needed to calm fears of high cost impacts. A Consumers Energy 100% green power program participant pays a rate increase of 18.6%. One quarter of that or 4.65% could be a maximum Rate Impact Limit.

7. **Cost Recovery**  
Costs associated with renewable energy purchased by regulated utilities pursuant to the RPS targets will be considered an integral part of each utility’s power supply portfolio and will be recovered through the annual power supply cost recovery process.

This seems reasonable, but there needs to be a provision to encourage long-term financing of Michigan renewable energy generation. The cost recovery process should recognize as reasonable long-term contracts that are needed to meet RPS requirements.

8. **Compliance Reporting Requirements**  
Each LSE will file an annual report regarding compliance in the previous year, explaining renewable resource plans in detail for the next 1 year, and providing a renewable resource plan forecast for the next 5 years. Regulated utility reporting will be part of the annual PSCR process at the PSC, and a reporting schedule and requirements for AESs will be developed.

This seems reasonable.

9. **RPS Program Review**  
Every 3 years the PSC will review the RPS program and make recommendations on whether the RPS targets should be adjusted or if the RPS program should continue. The program may be suspended if RPS targets are regularly being met, REC prices are remaining very low (at or near zero), and the state has attained acceptable levels of renewable energy in the retail sales portfolio.

This seems reasonable.

10. **Other Related Policies**  
The Strawman proposal recognizes that additional policies may be important or even necessary to implement in conjunction with an RPS. The review and discussion of other policies is taking place in a separate process, through the Policy Team. Commenters on the RPS Strawman proposal are encouraged to simply list other related policies they feel are
essential or very important to consider in conjunction with an RPS. Details of those proposed policies will be reviewed and discussed separately. MPSC Staff is now compiling a summary of which related policies have been implemented by other states that have RPSs, and will post that summary for review.

Suggested Other Related Policies:
ABATE

Comments by
Paul Novak
Request for Comments on Elements of the Strawman RPS Proposal

Suggested alternative(s), additions, deletions, and comments should be emailed to both pmpoli@michigan.gov and tstanton@michigan.gov by June 30, 2006.

Please provide your suggested alternative(s) and comments on the critical Renewable Portfolio Standard (RPS) components listed below, or indicate if you are in disagreement with the inclusion of that component in the Strawman proposal.

1. RPS Load Serving Entities

Michigan’s RPS should apply to all load serving entities (LSE). This includes: Investor owned utilities, cooperative utilities, alternative electric suppliers, and municipal utilities.

Suggested Alternative:

See ABATE general comments. ABATE suggests that application of RPS to load serving entities who have no (or little) projected need for additional capacity during the time periods for which RPS “targets” are set would punish those LSEs that either: 1) have already engaged in sufficient planning to meet projected energy demand for the period covered by the targets; and/or 2) face stagnant or declining load growth such that the addition of renewable energy capacity is unnecessary.

A determination that an LSE is required to meet RPS targets for any period of time should depend upon the contingent determination that the LSE faces a sufficient growth in demand that additional capacity is necessary.

There may be a Constitutional issue in trying to regulate municipal utilities as set forth in this proposal. See Michigan Constitution Art. 7, §24.

2. RPS Targets

RPS targets are mandatory for all LSEs, but subject to potential adjustment from time to time as discussed in element number 6 below. RPS targets should be established based on the results of the Capacity Need Forum modeling for the Alternative Generation Scenario, with any changes based on new model results for the 21st Century Energy Plan.

Each LSE in Michigan will have a 24-month period to generate or purchase qualifying renewable energy or RECs, up to the initial target amount. That initial target will be set equal to the then-current statewide average renewable resource use (now approximately 3% of annual retail...
Existing renewable resources may be included to reach RPS targets. Each subsequent target amount would have to be reached by pre-established dates.

For example, the Non-Traditional Case Scenario modeling completed for the Capacity Need Forum Report indicated these targets: 3% additional renewable resources by 2008, 5% by 2010, and 7 percent by 2015, to reach total renewable resource levels of approximately 6% by 2008, 8 percent by 2010, and 10 percent by 2015. The target years and quantities will be adjusted as necessary to reflect the 24-month lead time and the best available information about Michigan renewable energy resource availability and cost.

The strawman proposal has no carve-outs or set-asides for particular types of renewable energy.

The strawman proposal has a provision for alternative compliance payments. The payment will be twice the average Michigan REC market price during the previous year in Michigan. Alternative compliance payments, if any, will be deposited into the Low Income and Energy Efficiency Fund administered by the MPSC.

**Suggested Alternative:**

See ABATE general comments. ABATE recommends establishment of voluntary targets and the institution of competitive bidding processes where renewable energy projects may compete and be awarded capacity contracts with Load Serving Entities based upon their competitiveness in price and reliability. The Staff proposal fails to identify that establishment of a renewable energy credit trading system would increase the cost to residential, commercial and industrial customers who would presumably be forced to pay for the premium that is represented by the added cost of the renewable credits. A competitive bidding alternative would help ensure that only renewable projects that are economically competitive would be selected.

### 3. Eligible/Qaulifying Resources

Renewable energy should qualify based on the definition from 2000 PA 141 (MCL 460.10g: “Renewable energy source” means energy generated by solar, wind, geothermal, biomass, including waste-to-energy and landfill gas, or hydroelectric.)

Biomass facilities should be eligible only if they meet all existing environmental and waste management regulations.

Any discussion of RECs from net metering, green rates, or other utility tariffs or programs will be handled by the Policy Team. (See also element number 10, Other Related Policies, below.)

---

1 This scenario for the Capacity Need Forum modeling included non-renewable combined heat & power (CHP) generation, which would not qualify in the strawman RPS proposal.
Suggested Alternative:

See ABATE’s general comments.

4. **REC System**

Strawman proposal includes a tradable REC system with 2-year banking.

A minimum of 75% of each LSE’s RPS target must come from renewable energy generated within Michigan. The remaining 25% can come from any state.

Renewable facilities will be certified by an independent certification agent, based on criteria established by the MPSC.

REC trading agents may participate in the Michigan program, as long as there are assurances that credits certified for use in Michigan will meet all Michigan criteria.

Suggested Alternative:

See ABATE’s general comments. ABATE opposes the implementation of mandatory targets. To the extent that renewable energy projects from out of state are utilized to meet any “targets” (mandatory or voluntary), ABATE suggests that proposals originating from geographic areas that would assist Michigan in meeting National Ambient Air Quality Standards (“NAAQS”) should be given a preference, all other factors (cost and reliability) being equal. For example, to the extent that a renewable energy project in Milwaukee, Chicago or Gary assists in meeting NAAQS for counties in Western Michigan, that type of project should be favored, all things being equal, to a project in Georgia or Texas that would not yield similar environmental NAAQS compliance benefits to the State.

5. **Statewide Renewable Energy Purchasing Agent**

LSEs may meet their RPS targets by purchasing RECs from a statewide renewable energy purchasing agent.

The strawman proposal has not identified any specific provisions for a statewide renewable energy purchasing agent. If commenters agree that this approach is a good one, Staff requests suggestions regarding how to identify and fund a statewide renewable energy purchasing agent.

---

2 As a part of the 21st Century Energy Plan, a detailed plan for REC management is being developed.

3 The original staff strawman proposal included recommendations on Standard Offer Contracts. Any discussion on this issue will be handled by the Policy Team.
Suggested Alternative:

See ABATE general comments. ABATE opposes the development of a REC trading system and suggests implementation of a competitive bidding system instead.

6. **Rate Impact Limit**

MPSC will review the RPS program one year prior to the date that the target is scheduled to change, and would adjust the RPS target as necessary. This review will include reporting and analysis of RPS progress, RPS program costs, diversity of Michigan’s retail electric sales portfolio, and recommendations on adjustments to future RPS targets and on whether the RPS should continue. (See also element number 9, Program Review, below.)

Suggested Alternative:

See ABATE general comments. RPS targets should be flexible in order to address changing market conditions, growth (or lack of growth) in demand for additional generation capacity, and other factors. Only renewable projects that are competitive with traditional generation sources should be implemented so that ratepayers are not required to pay a premium on electricity costs.

7. **Cost Recovery**

Costs associated with renewable energy purchased by regulated utilities pursuant to the RPS targets will be considered an integral part of each utility's power supply portfolio and will be recovered through the annual power supply cost recovery process.

Suggested Alternative:

See ABATE general comments. ABATE favors implementation of renewable projects through a competitive bidding process rather than a renewable credit trading system. The annual PSCR process may be utilized to determine the reasonable and prudent reliance upon any sources of electricity, as is currently the case.

8. **Compliance Reporting Requirements**

Each LSE will file an annual report regarding compliance in the previous year, explaining renewable resource plans in detail for the next 1 year, and providing a renewable resource plan forecast for the next 5 years. Regulated utility reporting will be part of the annual PSCR process at the PSC, and a reporting schedule and requirements for AESs will be developed.

Suggested Alternative:

See ABATE general comments.
9. **RPS Program Review**

Every 3 years the PSC will review the RPS program and make recommendations on whether the RPS targets should be adjusted or if the RPS program should continue. The program may be suspended if RPS targets are regularly being met, REC prices are remaining very low (at or near zero), and the state has attained acceptable levels of renewable energy in the retail sales portfolio.

**Suggested Alternative:**

See ABATE general comments

10. **Other Related Policies**

The Strawman proposal recognizes that additional policies may be important or even necessary to implement in conjunction with an RPS. The review and discussion of other policies is taking place in a separate process, through the Policy Team. Commenters on the RPS Strawman proposal are encouraged to simply list other related policies they feel are essential or very important to consider in conjunction with an RPS. Details of those proposed policies will be reviewed and discussed separately. MPSC Staff is now compiling a summary of which related policies have been implemented by other states that have RPSs, and will post that summary for review.

**Suggested Other Related Policies:**

See ABATE general comments. ABATE supports the identification of policies that encourage the development of renewable energy projects and eliminate infrastructural or regulatory bottlenecks provided that such proposals are cost neutral for electricity customers.
General Comments of ABATE in Response to the MPSC Staff’s “Strawman” Renewable Portfolio Standard Proposal

On April 6, 2006, Governor Jennifer M. Granholm issued Executive Directive No. 2006-2 directing the Chair of the Michigan Public Service Commission (“MPSC”) to prepare a proposed Energy Plan for the State of Michigan by not later than December 31, 2006. Under the Directive, MPSC Chairman Lark was directed to address, among other things, “[a] renewable portfolio standard…that establishes targets for the share of this state’s energy consumption derived from renewable energy sources.”

The MPSC Staff has developed a Strawman Renewable Portfolio Standard (“RPS”) Proposal and solicited comments on it as a method of informing Chairman Lark’s decision of what kind of energy plan to submit in compliance with the Governor’s Directive. The Association of Businesses Advocating Tariff Equity (“ABATE”) submits these general comments to address the Staff’s RPS Proposal. At the outset, ABATE notes that the Governor’s Executive Directive leaves open the question of whether the “targets” to be established in Chairman Lark’s RPS proposal are to be mandatory or voluntary. ABATE recommends that the RPS targets be voluntary rather than mandatory for the reason that future energy market conditions are too volatile to “lock in” mandatory percentages of electricity capacity that must be met by various renewable resources. For example, load growth projection contained in the CNF report has been reduced by 50% based upon the data available to the participants to the 21st Century Energy Plan. If mandatory RPS requirements have been imposed on the utilities based upon the earlier projection of load growth, then Michigan's utilities would have spent money on new resources that were really unneeded. Michigan's economy is already threatened by the radical change in business in Michigan and cannot afford to have mandatory standards which will unnecessarily increase the cost of doing business in Michigan. In order to respond to unforeseen market forces that may disrupt the best devised energy “plan”, Michigan should establish targets that are flexible and capable of alteration to address market dislocations with minimal governmental review.

ABATE further recommends that the first step in any process to add new capacity should be to establish the appropriate price signals by setting rates based equal to the cost of service. Currently, residential customers are heavily subsidized by commercial and industrial customers and, therefore, are being given false economic signals regarding the cost of consuming electricity. Experience in the gas industry should be illustrative, because when the commodity price of gas went up, there was substantial conservation on the part of all customers as a result of the price signals they were receiving. In all likelihood, setting rates equal to the cost of service will do two things: make the cost of doing business in Michigan lower and, provide an incentive for residential customers to conserve.

ABATE also recommends that the establishment of RPS targets should be based upon a percentage of growth in load generating capacity as opposed to a percentage of total generating capacity. If, due to declining energy demand, the State needs no or little new generating capacity, then it makes no economic sense to displace existing capacity with renewable capacity solely for the purpose of meeting a “target” renewable percentage. Basing target renewable percentages on incremental growth, rather than the embedded existing capacity, will address this issue.
ABATE further recommends that any new renewable capacity added to the State’s generation portfolio should be based upon sound economics and competitive pricing. Instituting a competitive bidding process that specifically incorporates price and reliability, and requires renewable products to compete with conventional sources of capacity, as well as other renewable projects, will assure that the State’s use of renewable energy is also economically rational.

Finally, ABATE encourages the MPSC staff to identify regulatory and market bottlenecks that thwart the development and use of renewable energy and suggest policies to eliminate them. Developing net metering standards, appropriate transmission and distribution infrastructure and policies that encourage the use of renewable energy that is reliable and affordable is supported by ABATE. The MPSC may also consider proposing tax incentives or tax credits that allow renewable energy to economically compete with more conventional generation capacity without forcing higher energy costs onto industrial, commercial and residential customers.
Indiana Michigan Power Company (I&M or Company) and its parent, American Electric Power Company (AEP), support the use of a diverse set of energy resources to generate electricity including coal, natural gas, oil, nuclear, hydro, wind, solar and biomass. I&M and its AEP affiliates utilize a wide variety of these sources to generate electricity for customers. Notably AEP owns, operates or purchases approximately 680 MWs of wind capacity in the Southwest U.S. AEP’s strategic goals include asset diversification among technologies and fuels and renewable energy is expected to play an increasingly important role.

Mandatory renewable portfolio standards (RPS) should only be used sparingly in the Midwest region and Michigan in particular. Because the region does not generally have high quality renewable resources, the use of those that do exist would be expected to yield above market electricity prices. At the very least, prices yielded by the harvesting of such renewables would lead to prices greater than those enjoyed by customers of LSEs able to serve customers with existing cost effective generation resources.

Michigan is suffering a great deal of economic difficulty and any policy that would raise the costs of a product used by business and residents deserves a great deal of scrutiny. AEP notes that the strawman currently has only a sparing discussion of cost and AEP urges that the costs of an RPS be given much greater weight in the consideration of an RPS recommendation. AEP further suggests that policies supporting technology development and assuring recovery of reasonable investments in installed generation may more effectively promote the utilization of renewable resources.

I&M appreciates the opportunity to participate in this discussion of encouraging renewable resource development in Michigan.

1. **RPS Load Serving Entities**
   Michigan’s RPS should apply to all load serving entities (LSE). This includes: Investor owned utilities, cooperative utilities, alternative electric suppliers, and municipal utilities.

   **Suggested Alternative:**
   I&M believes that a state RPS, if adopted, should be competitively neutral (i.e. an RPS requirement should not disadvantage utilities in Michigan’s electric industry structure.) On its face, a state RPS that would apply to all LSEs satisfies this principle. However, in application it would unnecessarily result in making areas of Michigan less competitive by increasing electricity costs while providing no needed capacity to customers in those areas.
For instance I&M provides some of the lowest cost electricity in the state of Michigan. In addition I&M has sufficient generation resources and is not expected to need new capacity for some time. (Inside Michigan I&M has approximately 2,110 MWs of nuclear capacity and 14 MWs of hydroelectric capacity. Yet I&M’s Michigan peak load is only about 550 MWs.)

Applying an RPS to a utility in these circumstances presents difficult issues:

1. Should a utility’s customers be forced to directly or indirectly pay for new generation that is not needed to serve those customers? Traditionally public service commissions have sought to minimize electric utility customer bills and in particular have guarded against customers paying for the construction of excess capacity. The imposition of an RPS in this circumstance represents a mandate to create excess capacity. Such a dramatic change in MPSC regulatory philosophy should not be imposed without a more thoughtful and articulate explanation of why it is needed in this circumstance.

2. The contemplation of such a change of policy for I&M is particularly troublesome as I&M’s Michigan capacity (hydroelectric and nuclear) does not produce any air emissions. Imposing an RPS on I&M and its customers would not improve its Michigan air emissions profile, including carbon dioxide.

3. It is notable that the strawman proposes the use of renewable energy credits (RECs) to comply with an RPS. However, mandating that I&M’s customers pay for RECs to satisfy an RPS does not avoid the excess capacity issue. If I&M’s customers are forced to purchase RECs in order to satisfy an RPS, in essence I&M customers are paying to defray the costs of what is to them still excess capacity. For such customers the mandated purchase of RECs would be a payment forced upon them to benefit renewable developers for which customers will receive no power benefit. It appears to be the equivalent of a tax upon such customers.

4. An additional way to look at I&M’s situation would be to view it in light of a clean portfolio standard. If a utility has no air emissions in Michigan its customers should have no duty to pay for air emission profile improvements for other utilities.

Accordingly, for I&M and any other utility in similar circumstances, it would be appropriate to provide such companies with an exemption from an RPS.

2. **RPS Targets**

RPS targets are mandatory for all LSEs, but subject to potential adjustment from time to time as discussed in element number 6 below. RPS targets should be established based on the results of the Capacity Need Forum
modeling for the Alternative Generation Scenario, with any changes based on new model results for the 21st Century Energy Plan.

Each LSE in Michigan will have a 24-month period to generate or purchase qualifying renewable energy or RECs, up to the initial target amount. That initial target will be set equal to the then-current statewide average renewable resource use (now approximately 3% of annual retail sales). Existing renewable resources may be included to reach RPS targets. Each subsequent target amount would have to be reached by pre-established dates.

For example, the Non-Traditional Case Scenario modeling completed for the Capacity Need Forum Report indicated these targets: 3% additional renewable resources by 2008, 5% by 2010, and 7 percent by 2015, to reach total renewable resource levels of approximately 6% by 2008, 8 percent by 2010, and 10 percent by 2015.1 The target years and quantities will be adjusted as necessary to reflect the 24-month lead-time and the best available information about Michigan renewable energy resource availability and cost.

The strawman proposal has no carve-outs or set-asides for particular types of renewable energy.

The strawman proposal has a provision for alternative compliance payments. The payment will be twice the average Michigan REC market price during the previous year in Michigan. Alternative compliance payments, if any, will be deposited into the Low Income and Energy Efficiency Fund administered by the MPSC.

Suggested Alternative:
I&M believes that the RPS targets and schedule as described in the strawman example are too aggressive and potentially unachievable. The percentages are very substantial and would be difficult to achieve in such a short timeframe. The ability of Michigan LSEs to acquire or develop such resources this quickly is unsupported by analytical study. Rather than this program resulting in the addition of new green generating resources, there is a risk that such aggressive requirements could not be met with investment and, therefore, would simply become a “green tax” on consumers. I&M recommends that if a target must be established at all, it should be reasonable both in magnitude and with respect to the term and number of goals that must be met.

I&M does not support setting RPS targets based solely upon the findings of the Capacity Needs Forum Report, as adjusted in the future by the 21st Century process. 21st Century findings and methodologies are unavailable to date. Further, participation in the original Capacity Needs Forum’s process was limited and generally dominated by parties interested in the construction of renewable

1 This scenario for the Capacity Need Forum modeling included non-renewable combined heat & power (CHP) generation, which would not qualify in the strawman RPS proposal.
facilities. Target setting would best be done in the context of full legislative hearings in which all parties are given a chance to testify based upon the most current factors.

The decision-making process for setting RPS targets is far more complicated than merely looking at the projected levels of a state’s renewable resources. For instance it is common industry knowledge that wind turbine production is sold out through 2007, the end of the life of the current federal wind production tax credit. In 2008 turbines are available, but that would likely change quickly if the Congress extends the production tax credit through 2008. Imposing an RPS in Michigan that would encompass the 2007 and 2008 period could create difficult circumstances for LSEs/developers. Full legislative hearings to consider such additional outside factors would be a necessary part of setting RPS targets.

The strawman also proposes that there be an alternative compliance payment for those LSEs that do not meet the requirements of the RPS within the time limit. This payment is suggested to be twice the average Michigan REC market price during the previous year. Although I&M agrees with the concept of an alternative compliance mechanism, the Company believes that the suggested rate of twice the REC market price is too high. In fact, this figure is punitive to the end-use customers that will be required to pay this price. If the intent of this provision is to incent the construction of in-state renewable generation, a better approach would be to provide an enhanced return on equity for such projects.

Furthermore, it is not explained why any such payments made in compliance with an RPS should be dedicated to the Low Income Energy Efficiency fund. The purpose of the RPS is to develop renewable capacity in Michigan. A way should be found to dedicate any such payments to the construction and operation of renewable capacity.

3. **Eligible/Qualifying Resources**

Renewable energy should qualify based on the definition from 2000 PA 141 (MCL 460.10g: “Renewable energy source” means energy generated by solar, wind, geothermal, biomass, including waste-to-energy and landfill gas, or hydroelectric.) Biomass facilities should be eligible only if they meet all existing environmental and waste management regulations. Any discussion of RECs from net metering, green rates, or other utility tariffs or programs will be handled by the Policy Team. (See also element number 10, Other Related Policies, below.)

**Suggested Alternative:** I&M supports a broad definition of eligible resources and the strawman contains a good start. The Company suggests that, in addition to the sources identified, open and closed loop renewables as well as co-firing be added since these also support the goal of an RPS.
4. **REC System**

Strawman proposal includes a tradable REC system with 2-year banking.

A minimum of 75% of each LSE’s RPS target must come from renewable energy generated within Michigan. The remaining 25% can come from any state.

Renewable facilities will be certified by an independent certification agent, based on criteria established by the MPSC. REC trading agents may participate in the Michigan program, as long as there are assurances that credits certified for use in Michigan will meet all Michigan criteria.

**Suggested Alternative:** The inclusion of a REC banking system in the strawman is appropriate; however, the banking term limitation of two years is too short. I&M proposes that there be no time limit on the banking period and the subsequent utilization of these resources, and that there be a provision added to the proposed program to allow for the borrowing of future credits in order to meet current targets. Doing so would not only allow more flexibility for the LSEs to meet the goals of the program, but would also reduce customer costs.

I&M strongly disagrees with the strawman proposal that would require 75% of the RPS target be met through resources within the state. The 75% limit would almost certainly be punitive in terms of the REC costs that would be assessed to Michigan’s consumers.

The goal of any RPS should be to encourage the use of renewable resources at the lowest cost reasonably possible - - a public service commission’s traditional goal. As our environment is not segregated along state boundaries and the air moves freely, it should not matter whether this power is produced in Michigan or another state. If RPS targets are established, they should be achievable through the use of the most economic qualifying resources or credits from within the general region – for example, an area such as the PJM footprint – and that no in-state/out-of-state limitations be included in the program.

It is notable that such limits in an RPS program may be suspect under the Interstate Commerce Clause of the U.S. Constitution. An alternative approach under which utilities that build renewable facilities are granted an enhanced return on investment would be better. For example, Indiana provides utilities with the opportunity to earn an enhanced return on investment in renewable energy. This alternative would provide an incentive to build in Michigan for Michigan’s most experienced energy providers.

With regard to the certification of each LSE’s RPS program, I&M suggests that the MPSC consider the use of the PJM’s GATS or similar tools. GATS is a

---

2 As a part of the 21st Century Energy Plan, a detailed plan for REC management is being developed.
successful well established program. In addition, the Company proposes that facility and REC certification be conducted as a part of the Power Supply Cost Recovery (PSCR) process.

5. **Statewide Renewable Energy Purchasing Agent**

LSEs may meet their RPS targets by purchasing RECs from a statewide renewable energy purchasing agent.

**Suggested Alternative:** The strawman proposes that there be registered REC trading agents and a tracking and certification system. In light of the tracking and certification protections already discussed, I&M does not see the need for a statewide renewable energy purchasing agent. However, if other entities believe that there is need for this service, all associated costs should be recoverable.

6. **Rate Impact Limit**

MPSC will review the RPS program one year prior to the date that the target is scheduled to change, and would adjust the RPS target as necessary. This review will include reporting and analysis of RPS progress, RPS program costs, diversity of Michigan’s retail electric sales portfolio, and recommendations on adjustments to future RPS targets and on whether the RPS should continue. (See also element number 9, Program Review, below.)

**Suggested Alternative:** The proposed schedule of RPS target reviews and potential multiple adjustments would result in a substantial degree of program risk and uncertainty. Under this proposal, suppliers and LSEs alike will not have clear direction regarding the future development of the program. Developers in particular have a longer time horizon and it would likely be anathema for them and their financiers to consider investing in renewable facilities to satisfy goals that are not firm.

As also recommended in item 9 below, reports and recommendations should be sent to the legislature and any changes to RPS goals should be adopted by the legislature. This will give investors greater confidence in Michigan’s investment climate.

I&M supports the monitoring of the proposed RPS program and suggests that such monitoring not only include the items proposed above, but also a review of the cost impacts of an RPS on Michigan’s consumers to measure the extent to which the costs of the program outweigh the benefits.

---

3 The original staff strawman proposal included recommendations on Standard Offer Contracts. Any discussion on this issue will be handled by the Policy Team. The strawman proposal has not identified any specific provisions for a statewide renewable energy purchasing agent. If commenters agree that this approach is a good one, Staff requests suggestions regarding how to identify and fund a statewide renewable energy purchasing agent.
7. **Cost Recovery**
Costs associated with renewable energy purchased by regulated utilities pursuant to the RPS targets will be considered an integral part of each utility's power supply portfolio and will be recovered through the annual power supply cost recovery process.

**Suggested Alternative:** Of utmost importance is timely and sufficient cost recovery. The recovery of RPS-related investments and costs should be assured through advanced approval by the Commission and should include full and contemporaneous cost recovery under fully regulated to fully open market scenarios.

I&M generally agrees with the approach proposed in the strawman regarding cost recovery. However, there are two improvements that are needed to enhance program effectiveness. First, the proposal appears to have been designed with only the purchase of renewable RECs or energy in mind.

I&M suggests that there be a provision added for LSEs that choose to construct their own renewables facilities. Such a provision would (1) provide assurance of prudence; (2) allow the utility to place the construction costs of the generation and associated facilities into ratebase in a more timely manner than general rate proceedings and; (3) authorize the utility to start earning a return on and of the investment along with recovery of the operations and maintenance costs of such facilities. The authorized rate of return on investment would be at least equal to the utility’s currently approved rate of return. (A higher rate of return should be considered as an economic incentive.) This would best occur through a single-issue administrative proceeding for determining that the proposed investments are prudent, reasonable and necessary.

Second, I&M supports the concept that costs associated with purchased RECs or energy be reviewed and recovered through the existing PSCR process. A proposed “up to” cost should be pre-approved for prudence through the PSCR Plan process with PSCR Reconciliation review limited to a verification of source or REC certification, accurate reflection of purchased power or REC costs in the PSCR mechanism, and any necessary justification of costs exceeding the pre-approved “up to” cost.

The mechanisms discussed above, will serve both to streamline any RPS program and its administration and to incent the LSEs to construct renewables facilities in the state.

8. **Compliance Reporting Requirements**
Each LSE will file an annual report regarding compliance in the previous year, explaining renewable resource plans in detail for the next 1 year, and providing a renewable resource plan forecast for the next 5 years.
utility reporting will be part of the annual PSCR process at the PSC, and a reporting schedule and requirements for AESs will be developed.

**Suggested Alternative:** I&M suggests that Provision 8 is duplicative and unnecessary for entities subject to the PSCR Plan and Reconciliation process.

9. **RPS Program Review**
Every 3 years the PSC will review the RPS program and make recommendations on whether the RPS targets should be adjusted or if the RPS program should continue. The program may be suspended if RPS targets are regularly being met, REC prices are remaining very low (at or near zero), and the state has attained acceptable levels of renewable energy in the retail sales portfolio.

**Suggested Alternative:** The details of this provision are somewhat confusing, redundant, and, as identified in comments under Provision 6, may be counterproductive. If the targets are reduced in number, as proposed by I&M, a 3-year review cycle could be appropriate. The Company suggests, however, that any such review include an evaluation of the extent to which the benefits of the RPS outweigh the costs to Michigan’s electric consumers.

I&M suggests that any RPS and subsequent changes in targets be authorized by the legislature. A periodic report to the legislature could be made with suggestions for amendments to the RPS goals. An investment climate in which administrative action could increase or decrease an RPS target would not provide sufficient stability for developers and LSEs.

10. **Other Related Policies**
The strawman proposal recognizes that additional policies may be important or even necessary to implement in conjunction with an RPS. The review and discussion of other policies is taking place in a separate process, through the Policy Team. Commenters on the RPS Strawman proposal are encouraged to simply list other related policies they feel are essential or very important to consider in conjunction with an RPS. Details of those proposed policies will be reviewed and discussed separately. MPSC Staff is now compiling a summary of which related policies have been implemented by other states that have RPSs, and will post that summary for review.

**Suggested Other Related Policies:** I&M recognizes the importance of considering the costs and benefits of an RPS program for the consumers of Michigan. However, the Company also anticipates pitfalls, especially for the smaller LSEs. For example, to require a significant portion of a small LSE’s generation to be met through renewable energy will serve to disproportionately increase the cost of power for that utility’s customers. Such cost increases could result in reduced load growth in those LSE territories, potentially leading to fewer customers and increased costs.
I&M suggests that if an RPS program is mandated, an opt-out provision would apply in either of two situations.

- First, the RPS should apply at the election of the smaller LSE – an LSE with less than 200,000 customers.

- Second, any LSE that has adequate generation to serve its load in Michigan would be able to opt-out of the RPS. This would avoid the unnecessary addition of new, more expensive renewables when additional resources are not warranted.

Additionally, I&M believes that if an RPS is enacted:

- It must include a proposal to establish statewide zoning requirements for development of renewables. Such requirements should set out clear rules for developers to follow and protect local communities from unreasonable actions. Most importantly they should remove the power of local governments to unreasonably block renewables investments through zoning ordinances. If this is not done Michigan’s government would leave LSE’s and developers in the untenable position of needing to comply with a state RPS mandate while leaving local government free to block the development of renewable resources.

- Expedited siting of generation and associated facilities must be addressed.

- Requirements can be met through purchased power, tradable RECs, or through construction of renewable generation in the state.

- Guaranteed, full, and contemporaneous cost recovery, including a fair rate of return on constructed projects, must be pre-approved.

I&M appreciates the opportunity to comment on the RPS strawman.
Michigan Electric and Gas Association

Comments by
James Ault

MEGA’s responses are included below in each section of the Strawman proposal asking for a “Suggested Alternative” or other comment. The text of the strawman is in black and the MEGA comments in green.

1. **RPS Load Serving Entities**

Michigan’s RPS should apply to all load serving entities (LSE). This includes: Investor owned utilities, cooperative utilities, alternative electric suppliers, and municipal utilities.

*Suggested Alternative:*

The concept of a single statewide RPS applied to all LSE’s can result in imposition of unnecessary costs and creation of excess capacity if it ignores the circumstances of particular LSEs, particularly those with adequate and affordable capacity.

Although the 21st Century Energy Plan process was created in a manner that appears to preclude debate on whether there should be an RPS, because of the executive order, the important circumstances bearing on the “whether” question also apply to design of any RPS.

If an RPS is adopted it should be voluntary, consider the utility-specific need for new capacity and include provisions that assure cost effectiveness.

In just the last few years, the MPSC has implemented a net metering consensus and simplified and uniform interconnection standards for small generating projects. The number of voluntary utility “green energy” programs has increased. These measures should be allowed more time to develop to determine whether they aid in the development of new renewable resources.

There are important facts regarding the MEGA members which do not favor a “one size fits all” mandatory RPS proposal. These companies have circumstances regarding service territory, local economics, number of customers, multiple state service (in some cases) and need for capacity which render them much different than Detroit Edison and Consumers Energy. Alpena Power Company buys practically all of its electric supply from Consumers Energy in the wholesale market. It does not own generating plant and is not situated in an area favorable for wind power development. Edison Sault is already the “greenest” Michigan electric
utility because of the St. Mary’s River hydroelectric plant. It would be more effective to focus on improving or replacing that aging base load facility to take advantage of the available renewable resource than to impose obligations under a new RPS. Indiana Michigan Power has a 2000 MW zero emissions nuclear plant in Southwest Lower Michigan serving its system in Michigan and Indiana. There are only about 130,000 Michigan retail electric customers; therefore, I&M has no need for new capacity in Michigan of any type in the foreseeable future. I&M is part of a much larger interconnected AEP system and renewable energy resources are under development elsewhere in the system, where the resource base is favorable (e.g. West Texas wind power).

Upper Peninsula Power Co. has hydroelectric resources in its Michigan system and over 10% of the current We Energies UP generation is hydroelectric. For UPPCo and nearly all of the companies serving in the Upper Peninsula, the current focus regarding supply adequacy is on upgrading the ATC electric transmission system to improve the overall reliability and access to power sources in Wisconsin. The We Energies Presque Isle coal plant assures that the UP has more generating capacity in the region than it needs. The ATC improvements will provide better access to new generating projects under construction in Wisconsin. The UP is not well connected with Lower Michigan, however.

We Energies and WPS provide most of their service in Wisconsin and their Michigan systems are part of a larger grid system serving Wisconsin and Upper Michigan (WUMS). Capacity planning occurs on a regional basis and the expansion of generation in Wisconsin includes substantial renewable energy. The current generating and transmission projects in WUMS and their associated costs will benefit the entire UP, but this is not the time to add costly mandates for other facilities, particularly where there is a low rate of demand growth in the UP.

Xcel Energy, serving the far Western UP, is part of a large multistate utility network with only a tiny fraction of its electric customers in Michigan and no interconnection with the rest of the state. Its capacity needs are met from sources in the Xcel system outside of Michigan, although renewable sources are an important part of the Xcel system generating mix.

A better option than an RPS mandate for a fixed renewable energy percentage of supply would be to identify the utility-specific incremental need for additional capacity and set aside some portion of that to be met with renewable energy, subject to reasonable constraints on cost and quantity.
Another option would be for the MPSC to establish reasonable and flexible targets for each utility based on assessment of factors for that utility, such as demand, available renewable supply, cost and whether the green energy program will generate adequate revenues to support the renewable premium.

A third option would be to establish an optional certificate of need process for major new generating proposals, and condition the certificate on some reasonable mix of renewable energy sources and conservation based on the utility specific circumstances addressed in the certificate proceedings. This could be considered as a form of RPS.

2. **RPS Targets**

RPS targets are mandatory for all LSEs, but subject to potential adjustment from time to time as discussed in element number 6 below. RPS targets should be established based on the results of the Capacity Need Forum modeling for the Alternative Generation Scenario, with any changes based on new model results for the 21st Century Energy Plan.

Each LSE in Michigan will have a 24-month period to generate or purchase qualifying renewable energy or RECs, up to the initial target amount. The initial target will be set equal to the then-current statewide average renewable resource use (now approximately 3% of annual retail sales). Existing renewable resources may be included to reach RPS targets. Each subsequent target would have to be reached by pre-established dates.

For example, the Non-Traditional Case Scenario modeling completed for the Capacity Need Forum Report indicated these targets: 3% additional renewable resources by 2008, 5% by 2010, and 7% by 2015, to reach total renewable resource levels of approximately 6% by 2008, 8% by 2010, and 10% by 2015. The target years and quantities will be adjusted as necessary to reflect the 24-month lead time and the best available information about Michigan renewable energy resource availability and cost.

The strawman proposal has no carve-outs or set-asides for particular types of renewable energy.

The strawman proposal has a provision for alternative compliance payments. The payment will be twice the average Michigan REC market price during the previous year in Michigan. Alternative compliance payments, if any, will be deposited into the Low Income and Energy Efficiency Fund administered by the MPSC.

**Suggested Alternative:**
For reasons stated above, statewide RPS targets mandatory for all LSEs will likely increase costs unnecessarily particularly where a particular utility has no need for additional capacity. The RPS could likely displace cheaper sources with more expensive ones. To avoid these defects, any RPS targets should be voluntary and flexible to account for the circumstances of each utility, or alternatives to an RPS should be considered, such as incorporating reasonable renewable sources in capacity expansion planning. For multistate utilities, non-Michigan renewable sources should be recognized where they contribute to the generating mix available to Michigan customers.

The concept of including all LSE’s is reasonable IF a mandatory program is adopted in the competitive market, since otherwise the mandate would impose costs on the regulated utilities leaving their competitors unfettered. This is the familiar “level playing field” issue for competitors and in terms of local service, the policy goals behind an RPS are related to the general welfare and costs should be assigned to the general public (i.e. municipal utility customers should contribute).

The referenced adjustments available under Item 6 apparently refer to the entire statewide target without the flexibility to make adjustments for individual company circumstances, such as lack of need or lack of reasonably priced or available renewable sources.

Although the selection of 24 months as a period to phase in renewable energy is not necessarily tied to any evaluation of the likely availability of supply, it is reasonable to consider a phase in period if mandates are adopted. The risks of forcing a decision to purchase at unreasonable costs could be mitigated by adding a general waiver provision available on a utility-specific basis. Such a waiver possibility is essential to protect the public if uniform mandates are adopted.

The proposed target percentages allow some consideration of the reasonableness and financial risk of the mandatory statewide RPS concept. In its summer supply assessment report, MPSC Staff projects total 2006 Michigan electric sales of 109.477 billion kWh. The RPS target would require 7% additional renewable generation on top of existing levels by 2015, an amount of 7.66 billion kWh if there is zero demand growth. With wind at an optimistic 30% capacity factor, this would require an additional 2,915MW of wind capacity statewide assuming wind is the only source of renewable capacity available in potentially large quantities, as appears to be the situation. If the capacity cost of wind is a conservative $1,500 per kW (offshore would likely be much higher), then this increment of capacity would require capital investment of over $4.3 billion over about 9 years. At 2.5MW capacity per wind
turbine, this represents over 1100 new utility scale wind towers in a state in which 3 are currently operating.

Obviously the numbers can change and wind may not be the only new source of renewable energy. However, it is apparent the proposed RPS will require a massive commitment of capital to renewable sources or RECs. Under the opportunity cost principle, such capital will then be unavailable for other potentially better uses for generation or otherwise. This calls for very serious evaluation of the potential costs and benefits of an RPS in advance of adopting a proposal. In particular, one has to question whether sufficient resources will be available to avoid having the program doomed to fail from the outset. Land use and transmission costs are causing difficulty with the relatively small wind facilities under active development at this time.

Preferential set asides for a particular technology may be appropriate if a reasonable decision is made to develop that technology as an experiment to evaluate performance and to foster generating diversity. Instead of an RPS mandate, a more conservative approach could be taken similar to that developed for certain waste-to-energy projects, where reasonable and limited blocks of capacity were set aside for utility purchases under the traditional regulatory model, before Act 141. With the developing interstate wholesale market, however, this may no longer be practical, since customers can elect to escape the higher cost units through retail choice (at least in theory). At the same time, that wholesale market provides an option for renewable facilities to sell electricity to buyers other than the local incumbent utility.

Alternate compliance payments are in effect a form of taxation or penalty. Companies that do not need capacity might tend to favor buying their way out of an unreasonable mandate with such payments. What is the rationale for doubling the price over market levels?

3. **Eligible/Qualifying Resources**

Renewable energy should qualify based on the definition from 2000 PA 141 (MCL 460.10g: “Renewable energy source” means energy generated by solar, wind, geothermal, biomass, including waste-to-energy and landfill gas, or hydroelectric.)

Biomass facilities should be eligible only if they meet all existing environmental and waste management regulations.
Any discussions of RECs from net metering, green rates, or other utility tariffs or programs will be handled by the Policy Team. (See also element number 10, Other Related Policies, below.)

**Suggested Alternative:**

MEGA generally agrees that the Act 141 definitions are required to be recognized absent legislative action. It is important to recognize the existing hydroelectric, wind and other facilities and their contribution to the renewable energy resource base, and provide for their continued use. Some members may favor expansion (without prejudice to the existing Act 141 technologies) to include open and closed loop renewables and co-firing.

Presumably, failure to meet other governmental regulations would lead to interruption of capacity available from biomass sources, which is a risk of moving to unregulated generating sources driven by non-utility considerations.

4. **REC System**

Strawman proposal includes a tradable REC program with 2-year banking.

A minimum of 75% of each LSE’s RPS target must come from renewable energy generated within Michigan. The remaining 25% can come from any state.

Renewable facilities will be certified by an independent certification agent, based on criteria established by the MPSC.

REC trading agents may participate in the Michigan program, as long as there are assurances that credits certified for use in Michigan will meet all Michigan criteria.

**Suggested Alternative:**

Use of RECs is a reasonable concept to allow compliance if the state adopts a mandatory RPS program. This is important in the likely situations where a utility faces the mandate, but needs no new capacity, or local sources of reasonable priced renewable energy do not exist to meet the requirement.

The in-state sourcing requirement should be eliminated. Michigan government, through legislation (Act 141) and involvement of the MPSC, has actively participated in the regional and national effort to develop a
regional wholesale generating service market and de-integrate the traditional utilities. Customers are paying for significant upgrades to the transmission systems, to allow better movement of power from remote and alternative sources and increase reliability. This interstate wholesale market contemplates power exchanges across state lines; indeed one of the fundamental benefits of a regional market is the greater reliability obtained by increasing the size of the pool of generating plants available to a utility. Further, the developing wholesale market itself provides access to a larger group of potential buyers than the local utility, for an independent generator including renewable resource operator. With government actively encouraging and supporting a shift to regional markets, it is contradictory to suggest new preferences for in-state renewable generation and a governmental disincentive for obtaining capacity from the interstate market. While economic development efforts are important, Michigan should not resort to a mercantile policy.

The independent certification proposal suggests creation of a costly new agency which citizens will pay for. Perhaps a better option would be to provide for certificates of need for independent power projects, with the MPSC empowered to determine, along with need, whether the project meets the renewable standard. Utility projects could be handled in existing regulatory procedures.

5. **Statewide Renewable Energy Purchasing Agent**

LSEs may meet their RPS targets by purchasing RECs from a statewide renewable energy purchasing agent.

The strawman proposal has not identified any specific provision for a statewide renewable energy purchasing agent. If commentators agree this approach is a good one, Staff requests suggestions regarding how to identify and fund a statewide renewable energy purchasing agent.

**Suggested Alternative:**

Creating and funding a new agency for RECs will likely add costs at a time when Michigan residents and businesses are concerned about rapidly escalating energy costs and the state is experiencing economic difficulties associated with the automotive industry structural issues. MEGA will consider any proposals for further comment. LSE’s could develop a non-profit organization for this purpose, if necessary and reasonable.

6. **Rate Impact Limit**
MPSC will review the RPS program one year prior to the date the target is scheduled to change, and would adjust the RPS target as necessary. This review will include reporting and analysis of RPS progress, RPS program costs, diversity of Michigan’s retail electric sales portfolio, and recommendations on adjustments to future RPS targets and on whether the RPS should continue. (See also element number 9, Program Review, below.)

**Suggested Alternative:**

Periodic review and assessment of the RPS program is essential because there should be accountability and the program should not be indefinite in duration if it fails to deliver positive benefits. If this is a matter of legislative policy, there is a potential legal issue whether the MPSC is empowered to change the target. The targets are being established based on political policy arguments rather than assessment of what need exists for the proposed generation and what quantity is available at a reasonable price in Michigan, for each provider of utility service. The MPSC could provide the need and supply assessments to the legislature in considering what policy to adopt.

7. **Cost Recovery**

Costs associated with renewable energy purchased by regulated utilities pursuant to the RPS targets will be considered an integral part of each utility’s power supply portfolio and will be recovered through the annual power supply cost recovery process.

**Suggested Alternative:**

Cost recovery is appropriate and essential. Utility rate base facilities should also be considered in meeting any targets; therefore costs could be recovered through the traditional ratemaking process as well as the PSCR. Cost recovery is necessary to prevent a governmental “taking” of private property without due process of law. The PSCR long term contract approval policy should be used to obtain regulatory approval in advance of the commitment for major purchases, to avoid possible arguments over the costs on the theory that the utility could have located cheaper sources of similar renewable energy.

8. **Compliance Reporting Requirements**

Each LSE will file an annual report regarding compliance for the previous year, explaining renewable resource plans in detail for the next 1 year, and providing a renewable resource plan forecast for the next 5 years. Regulated
utility reporting will be part of the annual PSCR process at the PSC, and a reporting schedule and requirements for AESs will be developed.

**Suggested Alternative:**

Regulated utilities should handle this in the normal PSCR cycle, instead of developing a duplicative parallel procedure. For an AES, however, a reporting and review process would be required and this would be an element of any new legislation. If municipalities are included there may be a similar need for new regulatory laws unless the function is specifically assigned to the local governmental body.

9. **RPS Program Review**

Every 3 years the PSC will review the RPS program and make recommendations on whether the RPS targets should be adjusted or if the RPS programs should continue. The program may be suspended if RPS targets are regularly being met, REC prices are remaining very low (at or near zero), and the state has attained acceptable levels of renewable energy in the retail sales portfolio.

**Suggested Alternative:**

Any mandatory program should also be suspended if RPS targets cannot be met due to lack of available power sources, the renewable facilities are not providing reliable and adequate generation to the state supply mix, a specific utility does not need power and other more efficient and reliable power sources are available to provide power at lower total cost. Who determines whether the state has reached “acceptable levels of renewable energy?” This is a political question.

If the program is adopted, it should include a general waiver provision available to individual utilities to seek exemption based on their specific circumstances, including lack of need, lower costs alternatives and excessive costs for compliance.

10. **Other Related Policies**

The Strawman proposal recognizes that additional policies may be important or even necessary to implement in conjunction with an RPS. The review and discussion of other policies is taking place in a separate process, through the Policy Team. Commentators on the RPS Strawman proposal are encouraged to simply list other related policies they feel are essential or very important to consider in conjunction with an RPS. Details of those proposed policies will
be reviewed and discussed separately. MPSC Staff is now compiling a summary of which related policies have been implemented by other states that have RPSs, and will post that summary for review.

**Suggested Other Related Policies:**

See comment under number 9 proposing a general waiver and exception provision.

The state should pursue policies which provide for those making the necessary investment in power generation to make the decision as to best technology for the long run, subject to review in a new advance certification process available as an option to the traditional rate model.

Michigan should consider a less risky alternative to the RPS, which would provide for a limited amount of certain renewable technologies to be added on an experimental basis via setting aside a block of capacity out of projected needs, with an upper limit on the cost and guaranteed recovery of costs through the rate setting process. This would allow development of some resources to facilitate assessment of their effectiveness and value in operation, without an open ended commitment of public backing. Such a measure works best in a traditional (non-retail choice) environment; however, AESs could be required to share in the purchase obligation.

Michigan should allow the wholesale market to serve as the backstop customer base for new renewable projects, instead of mandating purchases by utilities.

Many of the items listed in the chart of other states’ incentives are additional subsidies, such as: required purchases, net metering (paying a retail rate for the power), public benefits funding, tax incentives, rebates, grants and loans (backed by the public). Michigan should strongly consider letting other states continue the subsidization experiment and evaluate the results there over a reasonably long period of time to see what policies work. It is difficult to determine whether renewable energy can survive without massive public subsidy – in the wind generator industry, it appears development halts whenever the federal production tax credit expires. Whether or not fossil generation benefits from alleged subsidies, it makes no sense to layer on more subsidies that will benefit private, unregulated developers but remove the market incentives to achieve cost breakthroughs.
As a final concern, the recent information presented by Consumers Energy and Detroit Edison on load forecasts is of critical importance. A significant reduction in the projected demand growth may affect the economics of power supply and the available capacity in Michigan. The state should assess these changes before developing requirements for major capacity additions.

These comments do not reflect the final position of MEGA or its members on any specific policy proposal, since the strawman is a preliminary document and members continue to evaluate their positions based on the changing proposal and their individual circumstances.

June 30, 2006
James A. Ault
MEGA President
110 West Michigan Ave., Ste. 1000B
Lansing, MI 48933
(517) 484-7730
Michigan Electric Cooperative Association

Comments by
Michael Peters
Comments of the Michigan Electric Cooperative Association
In Reply to the MPSC Staff’s Renewable Portfolio Standard Strawman Proposal
June 30, 2006

General Comments

The Michigan Electric Cooperative Association (MECA) and its member-cooperatives are supportive of reliable, cost-effective renewable energy generation alternatives. One of MECA’s members recently solicited proposals for the incorporation of renewable energy supply into its power supply portfolio. Cloverland Electric Cooperative’s (Cloverland) current power supply portfolio includes approximately 40% hydroelectric generation. Further, Cloverland has made available to its members a green energy tariff allowing customers to elect up to 100% renewable energy, which includes biomass and wind in addition to hydroelectric generation.

MECA has supported legislation that creates incentives to assist in the development of renewable energy options, including low income loan programs, waiver of personal property tax and sales tax for certain renewable energy technology, exemptions from the Single Business Tax for renewable energy investment, expansion of the mission of the Next Energy Authority to include additional renewable energy technologies, and the creation of an alternative energy zone under the Michigan Renaissance Zone Act. MECA believes any mandated Renewable Portfolio Standard (RPS), if adopted, must be done through legislation. P.A. 141 does not empower the Michigan Public Service Commission (MPSC) to impose a RPS on any Load Serving Entity (LSE) by administrative action.

MECA has opposed and, for now, will continue to oppose mandated renewable portfolio standards because such mandates have not been shown to benefit end-use customers, the cost impacts of a mandated RPS are not quantifiable,1 other policy changes recently adopted have not yet been given time to affect the development of renewable energy generation nor their effectiveness, and the proposed percentages included in the straw man proposal appear on their face to be unreasonable.

---

1 "In a 22-10 vote, the Missouri Senate voted not to require that state’s electric utilities to generate at least 10 percent of their power from renewable sources. After rejecting the mandate, the Senate in a voice vote approved an alternative measure directing utilities to "make a good faith effort" to generate 10 percent of their power from renewable sources by 2020.

"Targets, rather than mandates, are preferable because we don’t know what the economic impacts of mandates would be,” Chuck Caisley, president of the Missouri Energy Development Association, explained in the February 27 edition of the Kansas City Star.” Mo. Rejects Renewable Power Mandate, Environmental News, Heartland Institute, June 1, 2006. Senate Amendment 5 to Senate Bill 915, Mo. Journal of the Senate, p. 312-313 (daily ed. Feb. 27, 2006).
As member-owned electric cooperatives, the mission is to bring low cost, reliable energy to the member-consumers. To the extent renewable energy options are reliable and can be offered at a reasonable cost, cooperatives have been willing to include such supply in their individual power supply portfolios. The cooperatives have also offered renewable energy on a voluntary basis to their members who are willing to pay the actual cost of such supply. Overall, however, the demand for renewable energy supply by the member-consumers has been negligible.

The following are MECA’s comments in reply to the RPS strawman proposal:

1. **RPS Load Serving Entities**
   Michigan’s RPS should apply to all load serving entities (LSE). This includes: Investor owned utilities, cooperative utilities, alternative electric suppliers, and municipal utilities.

   **Suggested Alternative:** Any RPS should be voluntary, should only be considered when a utility needs to add generation or increase power supply purchases, and should not be a “one-size-fits-all” program. As an alternative, a utility should be allowed to offer to its customers a “green energy tariff” on a pass through basis, without any mandated percentage purchases or sales.

   There has been considerable focus on the national level to promote renewable energy in all sectors. Recently Congress introduced a resolution calling for a new national renewable energy GOAL: 25% of the nation’s energy supply from renewable sources by 2025. Although the GOAL is nationwide in scope, there are no mandates calling for every sector and every sector participant to meet the 25% GOAL. In the same regard, any RPS adopted in Michigan should not be imposed on every LSE in an across the board fashion. For instance, if a utility has sufficient resources to meet current and future power supply needs, the imposition of a RPS would likely lead to higher costs for that utility and its customers. Further, a utility that already includes in its supply portfolio a significant percentage of renewable energy should not be held to the same standard as a utility that has very little or no renewable energy supply.

   A better alternative would be to establish goals and provide incentives to meet those goals based on the unique circumstances of each utility. This could take into consideration the utility’s current power supply portfolio, and planned additions to generation or power purchases, available renewable generation, transmission constraints, and cost impacts. The goals should be reviewed periodically and adjustments made as necessary.

   Another option would be to require utilities to offer to its customers a green energy tariff on a pass through basis. Under such a tariff, the utility and its customers would not be forced to assume the economic burden currently associated with renewable energy generation. The utility would not be forced to buy a certain percentage of generation from a renewable generator, but the utility would make available to its customers renewable energy offered by other generators on a cost of service basis. In this arrangement the economic burden and financial risk would remain with the owner of the renewable generation supply, many of which have financial resources greater than the utility. Customers would not be forced to buy something they are not willing to pay for, and customers that are demanding renewable energy would have a ready source to buy from.

---

2. **RPS Targets**

RPS targets are mandatory for all LSEs, but subject to potential adjustment from time to time as discussed in number 6 below. RPS targets should be established based on the results of the Capacity Need Forum modeling for the Alternative Generation Scenario, with any changes based on new model results for the 21st Century Energy Plan.

Each LSE in Michigan will have a 24-month period to generate or purchase qualifying renewable energy credits or RECs, up to the initial target amount. That initial target will be set equal to the then-current statewide average renewable resource use (now approximately 3% of annual retail sales). Existing renewable resources may be included to reach RPS targets. Each subsequent target amount would have to be reached by pre-established dates.

For example, the Non-Traditional Case Scenario modeling completed for the Capacity Need Forum Report indicated these targets: 3% additional renewable resources by 2008; 5% by 2010; and 7% by 2015; to reach total renewable resource levels of approximately 6% by 2008; 8% by 2010; and 10% by 2015. The target years and quantities will be adjusted as necessary to reflect the 24-month lead time and the best available information about Michigan renewable energy resource availability and cost.

The strawman proposal has no carve-outs or set-asides for particular types of renewable energy.

The strawman proposal has a provision for alternative compliance payments. The payment will be twice the average Michigan REC market price during the previous year in Michigan. Alternative compliance payments, if any, will be deposited into the Low Income and Energy Efficiency Fund administered by the MPSC.

**Suggested Alternative:**

Any RPS should be voluntary, should only be considered when a utility needs to add generation or increase power supply purchases, and should not be a “one-size-fits-all” program. As an alternative, a utility should be allowed to offer to its customers a “green energy tariff” on a pass through basis, without out any mandated percentage purchases or sales.

MECA has serious concerns that the proposed percentage mandates are unreasonable. MECA would caution policy makers not to adopt a RPS program that is likely to fail and require constant downward revision. A closer examination of the proposed percentages contained in the strawman proposal bears this out. The proposal, although modest on its face, is unrealistic given the realities of the states renewable resources, available technology, and the current availability of transmission and the process and time required to increase transmission capacity.

The strawman proposal calls for an increase in renewable generation resources equal to 3% by 2008; 5% by 2010; and 7% by 2015. The MPSC’s recent summer capacity report projects an annual usage of 109,477 million kWh for 2006. A modest growth factor of one percent would

---

3 This scenario for the Capacity Need Forum modeling included non-renewable combined heat & power (CHP) generation, which would not qualify in the strawman RPS proposal.
result in sales of approximately 119,713 million kWh, in 2015. The proposed RPS would result in the need to generate an additional 8,689 million kWh to meet the 10% target by 2015, assuming the current level of renewable generation is maintained. Assuming an average wind mill size of 1.5 MW and a 35% capacity factor, statewide there would need to be approximately 2,850 MW of wind or 1,900 new wind turbines constructed by 2015 to meet what appears to be an otherwise “modest” target. A recent report in The North American Wind Power estimated construction costs at $1.3 million per MW for wind turbines. Based on current dollars the cost to build 1,900 wind mills would exceed $4.2 billion. The MPSC’s Capacity Needs Forum estimated wind capacity at 410 MW. Currently, Michigan has three operating wind turbines.

As discussed above, any program adopted must take into account the individual circumstances of each utility and its customers. Several cooperatives, and possibly other utilities, have fixed price contracts that would not allow the cooperative to pass on any increased power supply costs associated with a RPS. Any percentage target adopted should take into account such fixed price contracts thereby reducing the total renewable energy resource for that utility.

Utilities that purchase all, or substantially all, of its wholesale power from other utilities or from the marketplace, should be able to include the percentage of renewable energy included in the wholesale suppliers’ power supply portfolio in any calculation applicable to the purchasing utility. For example, if a cooperative is buying from a wholesale supplier under a contract that is not source specific, and the wholesale supplier has as part of its overall power supply portfolio a certain percentage of renewable resources, the buying utility should receive proportionate credit towards any RPS.

MECA supports having no carve-outs or set-asides for particular types of renewable energy.

MECA would not support alternative compliance payments being made to the Low Income and Energy Efficiency Fund administered by the MPSC since the fund has no direct relationship to the development of renewable energy supplies. If there are going to be alternative compliance payments as part of an overall RPS, such payments should go toward the development of renewable energy research and development. Obviously, more details would be necessary regarding such a proposal.

Any utility to which the RPS applies should be able to request a variance for good cause shown. Such cause should include a showing that there are limited or no eligible resources available to meet the required percentage, or that available resources exceed general market power prices by a certain percentage, such as 10 percent over average market price for comparable power supply. Other circumstances might be considered as well.

3. **Eligible/Qualifying Resources**
   Renewable energy should qualify based on the definition from 2000 PA 141, MCL 460.10g:
   “Renewable energy source’ means energy generated by solar, wind, geothermal, biomass, including waste-to-energy and landfill gas, or hydroelectric.”

   Biomass facilities should be eligible only if they meet all existing environmental and waste management regulations.

   Any discussion of RECs from net metering, green rates, or other utility tariffs or programs will be handled by the Policy Team. (See also comment number 10, Other Related Policies, below).
Suggested Alternative:

MECA supports the suggested definition above from 2000 PA 141, MCL 460.10g, of eligible/qualifying resources. MECA would be opposed, however, to limiting any adopted RPS to apply only to new renewable generation that has been built since the adoption of P.A. 141 in June 2000. Any RPS must recognize existing renewable resource generation. A flexible goal, tailored to each utility’s unique circumstances could do just that.

4. **REC System**

Strawman proposal includes a tradable REC system with 2-year banking.

A minimum of 75% of each LSE’s RPS target must come from renewable energy generated within Michigan. The remaining 25% can come from any state.

Renewable facilities will be certified by an independent certification agent, based on criteria established by the MPSC.

REC trading agents may participate in the Michigan program, as long as there are assurances that credits certified for use in Michigan will meet all Michigan criteria.

Suggested Alternative:

There needs to be significantly more details developed regarding the creation of a tradable REC system. MECA and its member-cooperatives look forward to those details. Every effort should be made to ensure that any REC trading system developed is large enough to ensure an adequate market that is not subject to extreme volatility or manipulation. The system should be transparent and subject to audit by the MPSC.

MECA is opposed to a mandate that 75% of renewable energy under the RPS must be generated in Michigan. It is unlikely that there will be a significant supply of renewable energy generated in Michigan for several years to meet such a requirement. Recent plans to construct an approximate 32 MW wind farm near Ubly, MI, have been scaled back to 10.5 MW due to issues regarding construction of necessary transmission capacity. Some reports indicate that it could take more than two years to make the necessary upgrades.

Also, even if a Michigan supply is available to meet the 75% requirement, if the supply is priced significantly higher than other renewable resources available outside of Michigan, Michigan customers should not be saddled with higher costs because Michigan suppliers are not competitive with comparable renewable energy suppliers in other states. Alternatively, the RPS should simply require that 75% of renewable energy generated must be in the wholesale supply footprint for the respective utility. For most utilities, this will be the Midwest Independent Transmission System Operator (MISO) area. Another option would be to give additional credit for meeting the RPS requirement with in-state generation.

MECA is not necessarily opposed to the certification of renewable resources by an independent certification agent, but more details are necessary before MECA can determine its position.

---

4 As a part of the 21st Century Energy Plan, a detailed plan for REC management is being developed.
Without more details, MECA is concerned about the involvement of “REC trading agents.” MECA would note that ENRON was considered a “trading agent”.

5. **Statewide Renewable Energy Purchasing Agent**

LSEs may meet their RPS targets by purchasing RECs from a statewide renewable energy purchasing agent.

The strawman proposal has not identified any specific provisions for a statewide renewable energy purchasing agent. If commenters agree that this approach is a good one, Staff requests suggestions regarding how to identify and fund a statewide renewable energy purchasing agent.

**Suggested Alternative:**

MECA is not necessarily opposed nor does it support the creation of a statewide renewable energy purchasing agent. Significantly more details are necessary before MECA can determine its position. If a plan to create such a procedure is proposed, MECA would look for it to include requirements that all transactions are totally transparent, the agent must be subject to audit by the MPSC, the agent must be a “nor-for-profit” entity, and there must be annual reporting requirements – at a minimum. MECA is also concerned that an agent or purchasing program that is too limited in scope, (i.e. limited to Michigan only), would be too small to ensure a vibrant market for RECs, which would lead to higher prices for all customers.

6. **Rate Impact Limit**

MPSC will review the RPS program one year prior to the date that the target is scheduled to change, and would adjust the RPS target as necessary. This review will include reporting and analyses of RPS progress, RPS program costs, diversity of Michigan’s retail electric sales portfolio, recommendations on adjustments to future RPS targets and whether the RPS should continue. (See also comment number 9, RPS Program Review, below.)

**Suggested Alternative:**

a. Any RPS program should have a method to make adjustments when achieving the RPS target would be cost prohibitive or where supply is unavailable. The MPSC should be hesitant to support a program that could lead to higher energy costs for customers in Michigan. By having the ability to make adjustments to applicable RPS targets, the MPSC can mitigate potential rate impact to customers. A better approach would be to establish RPS goals with periodic reporting and incentives.

b. Any RPS program should allow individual utilities to request a variance for demonstrated good cause as discussed above.

---

*The original Staff strawman proposal included recommendations on Standard Offer Contracts. Any discussion on this issue will be handled by the Policy Team.*
c. More detail is required regarding the suggested “reporting and analysis of RPS progress, RPS program costs, etc.” MECA assumes that each utility’s only obligation would be to report sales and program costs. If this is the case, the costs associated with reporting could be minimal. If, however, more extensive reporting and analysis is required of the utilities, this will be an additional cost applicable to the RPS program and recovery becomes an issue.

7. **Cost Recovery**
Costs associated with renewable energy purchased by regulated utilities pursuant to the RPS targets will be considered an integral part of each utility’s power supply portfolio and will be recovered through the annual power supply cost recovery (PSCR) process.

**Suggested Alternative:**

a. As indicated earlier, several cooperatives have fixed price contracts that do not include a PSCR provision. Any supply associated with such contracts should not be counted when determining the percentage requirement for the serving utility under any RPS. This will reduce the required kWh of renewable energy, but not the percentage.

b. At least one state identifies the costs associated with RPS mandates as a line item on each customer’s monthly statement. MECA would encourage similar treatment under any Michigan RPS to ensure customers were aware of the program.

8. **Compliance Reporting Requirements**
Each LSE will file an annual report regarding compliance in the previous year, explaining renewable resource plans in detail for the next year, and shall provide a renewable resource plan forecast for the next five years. Regulated utility reporting will be part of the annual PSCR process at the MPSC, and a reporting schedule and requirements for AESs will be developed.

**Suggested Alternative:**

Generally, MECA has no objections regarding annual reporting; however, without more detail MECA is concerned about the level of “detail” necessary to file the annual report. If the annual report requires significant analysis, this will add additional costs to the program and result in higher electric rates in Michigan.

9. **RPS Program Review**
Every three years the MPSC will review the RPS program and make recommendations on whether the RPS targets should be adjusted or if the RPS program should continue. The program may be suspended if RPS targets are regularly being met, REC prices are remaining very low (at or near zero), and the state has attained acceptable levels of renewable energy in the retail sales portfolio.
Suggested Alternative:

a. MECA would suggest that the MPSC review any RPS program annually and make the report and any recommendations to the legislature in a similar manner as is required under P.A. 141 regarding the choice market. An annual review will allow for incremental changes, if necessary, thereby protecting customers from a delay that would be associated with a three year reporting requirement. MECA believes that because the renewable energy program is only now being developed, Michigan citizens would be better served by an annual review and report instead of waiting three years between reviews. The annual review could be increased to a review every three years after the program is better established and it is determined that its goals are being met.

b. The MPSC should be able to adjust the RPS mandates downward if market conditions warrant such a change. Further, any utility should be able to request a variance or reduction in the RPS for good cause shown as stated earlier.

10. Other Related Policies
The strawman proposal recognizes that additional policies may be important or even necessary to implement in conjunction with an RPS. The review and discussion of other policies is taking place in a separate process, through the Policy Team. Commenters on the RPS strawman proposal are encouraged to simply list other related policies they feel are essential or very important to consider in conjunction with an RPS. Details of those proposed policies will be reviewed and discussed separately. MPSC Staff is now compiling a summary of which related policies have been implemented by other states that have RPSs, and will post that summary for review.

Suggested Other Related Policies:

a. The impact of local zoning ordinances must be considered.

b. MECA suggests that credit for demonstrated energy efficiency programs that reduce demand or kWh usage could be used to meet any RPS. Reducing consumption may be a better and less costly option than building renewable energy resources.
Consumers Energy

Comments by
Steve Stubbleski
Consumers Energy believes that consideration of a Renewable Portfolio Standard (RPS) needs to be done in the context of an overall energy policy that balances energy, economic and environmental objectives. Primarily, the state’s energy policy should assure that Michigan residents and businesses have access to reliable sources of energy at competitive prices. Secondarily, the policy should promote the development of a diverse, environmentally responsible, Michigan-based generation supply that is adequate to meet the state’s short- and long-term energy needs.

Guided by the principles stated above, a comprehensive energy policy needs to identify the state’s objectives with respect to: generation resources; energy efficiency and conservation; fuel diversity and renewables; integration with environmental policy; support for low-income assistance and other related social programs. The policy also needs to acknowledge that the options for achieving those objectives are closely related to the regulatory model within which utilities and others operate, and that what may work in one model may not achieve the same objectives in another regulatory environment.

Within the context provided above, Consumers Energy provides the following comments to the specific provisions presented in Staff’s RPS Strawman Proposal below:

1. RPS Load Serving Entities
Any legislated RPS should apply to all load serving entities (LSE). This includes: Investor owned utilities, cooperative utilities, alternative electric suppliers, and municipal utilities.

Suggested Alternative:

Consumers Energy Comments:
RPS requirements should apply to all load serving entities (LSE), including investor-owned utilities, cooperative utilities, alternate energy suppliers (AES) and municipal utilities. If the state’s jurisdiction to require all LSE to comply with RPS requirements is limited, the RPS requirements should be applied so as to encourage non-jurisdictional LSE to meet the requirements applied to jurisdictional LSE. The costs associated with RPS compliance should be recovered through nonbypassable distribution charges in the event RPS standards are not applied equally to all LSE who compete for generation services in Michigan. This is critical to maintaining a level playing field in Michigan’s open retail access market.

2. RPS Targets
RPS targets are mandatory for all LSEs, but subject to potential adjustment from time to time as discussed in element number 6 below. RPS targets should be established based on
the results of the Capacity Need Forum modeling for the Alternative Generation Scenario, with any changes based on new model results for the 21st Century Energy Plan.

Each LSE in Michigan will have a 24-month period to generate or purchase qualifying renewable energy or RECs, up to the initial target amount. That initial target will be set equal to the then-current statewide average renewable resource use (now approximately 3% of annual retail sales). Existing renewable resources may be included to reach RPS targets. Each subsequent target amount would have to be reached by pre-established dates.

For example, the Non-Traditional Case Scenario modeling completed for the Capacity Need Forum Report indicated these targets: 3% additional renewable resources by 2008, 5% by 2010, and 7 percent by 2015, to reach total renewable resource levels of approximately 6% by 2008, 8 percent by 2010, and 10 percent by 2015. The target years and quantities will be adjusted as necessary to reflect the 24-month lead time and the best available information about Michigan renewable energy resource availability and cost.

The strawman proposal has no carve-outs or set-asides for particular types of renewable energy.

The strawman proposal has a provision for alternative compliance payments. The payment will be twice the average Michigan REC market price during the previous year in Michigan. Alternative compliance payments, if any, will be deposited into the Low Income and Energy Efficiency Fund administered by the MPSC.

Suggested Alternative:

Consumers Energy Comments:
RPS requirements should be established by statute and not subject to adjustment or change without legislative approval (with the exception of pre-established rate impact caps). RPS targets should be based on a number of considerations, including resource availability, cost, reliability and economic & environmental impacts. Any targets should be reasonable, economically viable and recognize the real contribution that renewable energy provides to Michigan’s existing and future capacity requirements.

Standards should apply equally to all Michigan LSE. For example, if the initial target is set at 3% of annual retail sales, an LSE who has an existing renewable energy mix of 4% renewable energy should be considered in compliance with the initial target. This properly recognizes the forward looking efforts that LSE have made in advancing renewable energy in the State and prevents ratepayers (customers) of that LSE from carrying a disproportionate “burden” than other Michigan residents for complying with the RPS.

A 24-month period to comply with initial RPS requirements may not be sufficient given the issues of interconnection, transmission access, financing, construction and manufacturing lead times for generation equipment. Consumers Energy recommended
Staff take these factors into consideration when developing a recommended compliance timetable.

Technology carve-outs generally result in subsidies for one technology over another and should not be applied to an RPS unless there are tangible benefits for Michigan residents.

Consumers Energy generally agrees with the provision for alternative compliance payments, but recommends that the structure of this payment help foster development of cost-competitive renewable resources in the state and not be punitive. There should be a clear distinction between “alternative compliance” methods (for when REC prices are excessively high or scarce) and penalties for LSE who are deemed “noncompliant” with the RPS requirements. Consumers believes that more thought needs to be given to establishing an alternative compliance payment amount.

3. Eligible/Qualifying Resources

Renewable energy should qualify based on the definition from 2000 PA 141 (MCL 460.10g):

“Renewable energy source” means energy generated by solar, wind, geothermal, biomass, including waste-to-energy and landfill gas, or hydroelectric.)

Biomass facilities should be eligible only if they meet all existing environmental and waste management regulations.

Any discussion of RECs from net metering, green rates, or other utility tariffs or programs will be handled by the Policy Team. (See also element number 10, Other Related Policies, below.)

Suggested Alternative:

Consumers Energy Comments:

2000 PA 141 (MCL 460.10g) is a broad definition of renewable energy. Consumers Energy recommends that renewable technologies be limited to those that generate electricity for purposes of setting acceptable RPS requirements. Technologies that offset customer electric consumption, but do not result in electricity being supplied to the grid, are best addressed in demand-side management or conservation programs. Consumers Energy recommends that Staff consider the inclusion of hydro-electric energy generated from pumped storage in meeting RPS requirements, provided the output from this technology displaces fossil-based generation by utilizing excess base-load capacity during off-peak periods.

Based on Consumers Energy’s understanding of Staff’s proposal, both existing and new renewable energy would qualify under Michigan’s RPS. Consumers Energy agrees with this approach. To the extent not previously addressed, a determination must be made as to the ownership of RECs from existing purchased power contracts between utilities and Qualifying Facilities. Utilities must be given rights to these RECs in order to protect
ratepayers from paying for the attributes of this energy twice. On a prospective basis, ownership of the REC should be negotiated and specified in power purchase agreements.

4. **REC System**

Strawman proposal includes a tradable REC system with 2-year banking.

A minimum of 75% of each LSE’s RPS target must come from renewable energy generated within Michigan. The remaining 25% can come from any state.

Renewable facilities will be certified by an independent certification agent, based on criteria established by the MPSC.

REC trading agents may participate in the Michigan program, as long as there are assurances that credits certified for use in Michigan will meet all Michigan criteria.

**Suggested Alternative:**

**Consumers Energy Comments:**
Consumers Energy supports the use of RECs to comply with RPS requirements and agrees with Staff’s proposed 2-year (minimum) banking system. Consumers Energy recommends that Staff also consider a one year period to true-up to RPS requirements without penalty, following the end of each calendar year. This is consistent with other nationally certified programs and recognizes the fact that LSE sales will fluctuate from year to year.

Consumers Energy supports the proposed requirement that allows 25% out-of-state RECs, but recommends that the out-of-state RECs meet the same minimum qualifications or standards that apply to Michigan-based RECs. To the extent feasible, a pre-determination of out-of-state RECs that qualify under a Michigan-based RPS would be beneficial. Allowing a portion of out-of-state RECs to qualify under a Michigan-based RPS will help foster a cost-competitive REC market for Michigan-based renewable generation.

5. **Statewide Renewable Energy Purchasing Agent**

LSEs may meet their RPS targets by purchasing RECs from a statewide renewable energy purchasing agent.

The strawman proposal has not identified any specific provisions for a statewide renewable energy purchasing agent. If commenters agree that this approach is a good one, Staff requests suggestions regarding how to identify and fund a statewide renewable energy purchasing agent.
Suggested Alternative:

Consumers Energy Comments:
The existence of a Statewide Renewable Energy Purchasing Agent to facilitate REC trading and compliance may be an attractive option for some LSE, but should not be required. LSE need flexibility to implement approaches that best comply with any standards. Feed-in-Tariffs and other required-purchase provisions should not be mandatory, because they could unnecessarily increase transaction and compliance costs.

6. Rate Impact Limit
MPSC will review the RPS program one year prior to the date that the target is scheduled to change, and would adjust the RPS target as necessary. This review will include reporting and analysis of RPS progress, RPS program costs, diversity of Michigan’s retail electric sales portfolio, and recommendations on adjustments to future RPS targets and on whether the RPS should continue. (See also element number 9, Program Review, below.)

Suggested Alternative:

Consumers Energy Comments:
While rate impact limits may help protect ratepayers from excessive costs associated with renewable energy, they create uncertainty for both LSE and renewable suppliers. Suspension of annual targets materially affect contractual obligations and may adversely impact the ability of developers to obtain financing. Establishing reasonable RPS targets, with sufficient phase-in periods, is the preferred approach to establishing a stable and cost-effective renewable energy market in Michigan.

7. Cost Recovery
Costs associated with renewable energy purchased by regulated utilities pursuant to the RPS targets will be considered an integral part of each utility’s power supply portfolio and will be recovered through the annual power supply cost recovery process.

Suggested Alternative:

Consumers Energy:
Recovery of costs associated with renewable energy purchases (or RECs) through the power supply cost recovery process is appropriate under the proposed model that applies RPS requirements equitably to all load serving entities (e.g., Alternate Energy Suppliers). Otherwise, costs must be recovered through nonbypassable distribution surcharges so that jurisdictional utilities are not disadvantaged in the competitive market for generation services.

8. Compliance Reporting Requirements
Each LSE will file an annual report regarding compliance in the previous year, explaining renewable resource plans in detail for the next 1 year, and providing a renewable resource plan forecast for the next 5 years. Regulated utility reporting will be part of the annual
PSCR process at the PSC, and a reporting schedule and requirements for AES will be developed.

**Suggested Alternative:**

**Consumers Energy Comments:**
Consumers Energy fully supports this approach. Certification and audit requirements should be applied to all LSE equally.

9. **RPS Program Review**
Every 3 years the PSC will review the RPS program and make recommendations on whether the RPS targets should be adjusted or if the RPS program should continue. The program may be suspended if RPS targets are regularly being met, REC prices are remaining very low (at or near zero), and the state has attained acceptable levels of renewable energy in the retail sales portfolio.

**Suggested Alternative:**

**Consumers Energy Comments:**
A sunset provision should be included in the legislation to allow for periodic review of the program. The MPSC should report results to the state legislature a minimum of every 3 years, where revisions to the policy can be debated and codified. The potential for any adjustments will create uncertainty in a Michigan-based renewable energy market and will inhibit investment.

10. **Other Related Policies**
The Strawman proposal recognizes that additional policies may be important or even necessary to implement in conjunction with an RPS. The review and discussion of other policies is taking place in a separate process, through the Policy Team. Commenter on the RPS Strawman proposal are encouraged to simply list other related policies they feel are essential or very important to consider in conjunction with an RPS. Details of those proposed policies will be reviewed and discussed separately. MPSC Staff is now compiling a summary of which related policies have been implemented by other states that have RPS, and will post that summary for review.

**Suggested Other Related Policies:**

**Consumers Energy Comments:**
Will Act 304 approval be required?
Will there be a pre-approval process for jurisdictional utilities?
Is certification required to ensure a particular project will qualify?
Lansing Board of Water & Light

Comments by
Pete Schimpke
Request for Comments on Elements of the Strawman RPS Proposal

Suggested alternative(s), additions, deletions, and comments should be emailed to both pmpoli@michigan.gov and tstanton@michigan.gov by June 30, 2006.

Please provide your suggested alternative(s) and comments on the critical Renewable Portfolio Standard (RPS) components listed below, or indicate if you are in disagreement with the inclusion of that component in the Strawman proposal.

1. **RPS Load Serving Entities**
   Michigan’s RPS should apply to all load serving entities (LSE). This includes: Investor owned utilities, cooperative utilities, alternative electric suppliers, and municipal utilities.

   **Suggested Alternative:**
   Municipal utilities such as the Board of Water & Light (BWL) have been successfully governed locally by Boards or City Councils for over one hundred years. A large part of that success has been due to the responsiveness these governing bodies demonstrate to their customer’s needs and expectations (e.g. the BWL responded to the demands of its customers by establishing a renewable energy program in 2001 with the assistance of its customers that at the time was the largest in the State of Michigan). As a result, the BWL supports a position that maintains local governance for establishing any RPS.

2. **RPS Targets**
   RPS targets are mandatory for all LSEs, but subject to potential adjustment from time to time as discussed in element number 6 below. RPS targets should be established based on the results of the Capacity Need Forum modeling for the Alternative Generation Scenario, with any changes based on new model results for the 21st Century Energy Plan.

   Each LSE in Michigan will have a 24-month period to generate or purchase qualifying renewable energy or RECs, up to the initial target amount. That initial target will be set equal to the then-current statewide average renewable resource use (now approximately 3% of annual retail sales). Existing renewable resources may be included to reach RPS targets. Each subsequent target amount would have to be reached by pre-established dates.

   For example, the Non-Traditional Case Scenario modeling completed for the Capacity Need Forum Report indicated these targets: 3% additional renewable resources by 2008, 5% by 2010, and 7 percent by 2015, to reach total renewable resource levels of approximately 6% by 2008, 8 percent by 2010, and 10 percent by 2015.¹ The target years and quantities will be

---

¹ This scenario for the Capacity Need Forum modeling included non-renewable combined heat & power (CHP) generation, which would not qualify in the strawman RPS proposal.
adjusted as necessary to reflect the 24-month lead time and the best available information about Michigan renewable energy resource availability and cost.

The strawman proposal has no carve-outs or set-asides for particular types of renewable energy.

The strawman proposal has a provision for alternative compliance payments. The payment will be twice the average Michigan REC market price during the previous year in Michigan. Alternative compliance payments, if any, will be deposited into the Low Income and Energy Efficiency Fund administered by the MPSC.

**Suggested Alternative:**

See response to question 1. Also, municipal utilities do not benefit from the current programs administered by the MPSC including the Low Income and Energy Fund. Therefore, municipal compliance payments should not be deposited into funds administered by the MPSC.

3. **Eligible/Qualifying Resources**

   Renewable energy should qualify based on the definition from 2000 PA 141 (MCL 460.10g: “Renewable energy source” means energy generated by solar, wind, geothermal, biomass, including waste-to-energy and landfill gas, or hydroelectric.)

   Biomass facilities should be eligible only if they meet all existing environmental and waste management regulations.

   Any discussion of RECs from net metering, green rates, or other utility tariffs or programs will be handled by the Policy Team. (See also element number 10, Other Related Policies, below.)

   **Suggested Alternative:**

   The BWL agrees with the definition of Eligible/Qualifying Resources.

4. **REC System**

   Strawman proposal includes a tradable REC system with 2-year banking.

   A minimum of 75% of each LSE’s RPS target must come from renewable energy generated within Michigan. The remaining 25% can come from any state.

   Renewable facilities will be certified by an independent certification agent, based on criteria established by the MPSC.

   REC trading agents may participate in the Michigan program, as long as there are assurances that credits certified for use in Michigan will meet all Michigan criteria.

   **Suggested Alternative:**

   As a part of the 21st Century Energy Plan, a detailed plan for REC management is being developed.
Although the goal should be for renewable energy to be generated within Michigan, setting a percentage may pose a financial hardship on customers if the costs are not competitive with other generators outside the state. As a result, the MPSC may want to consider implementing a system where Michigan renewable energy facilities are preferred but not set an actual percentage of required in state facilities. The BWL’s preference would be to secure renewable energy sources from within Michigan.

5. **Statewide Renewable Energy Purchasing Agent**
   LSEs may meet their RPS targets by purchasing RECs from a statewide renewable energy purchasing agent.

   The strawman proposal has not identified any specific provisions for a statewide renewable energy purchasing agent. If commenters agree that this approach is a good one, Staff requests suggestions regarding how to identify and fund a statewide renewable energy purchasing agent.

   **Suggested Alternative:**

   Although having a statewide renewable purchasing agent should be explored, LSE’s should not be limited to purchase REC’s **only** through this agent. Other purchasing options should be accepted as well.

6. **Rate Impact Limit**
   MPSC will review the RPS program one year prior to the date that the target is scheduled to change, and would adjust the RPS target as necessary. This review will include reporting and analysis of RPS progress, RPS program costs, diversity of Michigan’s retail electric sales portfolio, and recommendations on adjustments to future RPS targets and on whether the RPS should continue. (See also element number 9, Program Review, below.)

   **Suggested Alternative:**

   See response to question 1 above.

7. **Cost Recovery**
   Costs associated with renewable energy purchased by regulated utilities pursuant to the RPS targets will be considered an integral part of each utility’s power supply portfolio and will be recovered through the annual power supply cost recovery process.

   **Suggested Alternative:**

   See response to question 1 above.

---

3 The original staff strawman proposal included recommendations on Standard Offer Contracts. Any discussion on this issue will be handled by the Policy Team.
8. **Compliance Reporting Requirements**
Each LSE will file an annual report regarding compliance in the previous year, explaining renewable resource plans in detail for the next 1 year, and providing a renewable resource plan forecast for the next 5 years. Regulated utility reporting will be part of the annual PSCR process at the PSC, and a reporting schedule and requirements for AESs will be developed.

**Suggested Alternative:**

See response to question 1 above.

9. **RPS Program Review**
Every 3 years the PSC will review the RPS program and make recommendations on whether the RPS targets should be adjusted or if the RPS program should continue. The program may be suspended if RPS targets are regularly being met, REC prices are remaining very low (at or near zero), and the state has attained acceptable levels of renewable energy in the retail sales portfolio.

**Suggested Alternative:**

See response to question 1 above.

10. **Other Related Policies**
The Strawman proposal recognizes that additional policies may be important or even necessary to implement in conjunction with an RPS. The review and discussion of other policies is taking place in a separate process, through the Policy Team. Commenters on the RPS Strawman proposal are encouraged to simply list other related policies they feel are essential or very important to consider in conjunction with an RPS. Details of those proposed policies will be reviewed and discussed separately. MPSC Staff is now compiling a summary of which related policies have been implemented by other states that have RPSs, and will post that summary for review.

**Suggested Other Related Policies:** All customers in the State of Michigan, whether they are served by investor owned utilities, municipals, or cooperatives, are best served when equal participation is allowed for large purchases of renewable energy or the building of large renewable energy systems. This equal participation by all Load Serving Entities would allow for greater economies of scale to be achieved with all customers experiencing least cost renewable energy.
Michigan Municipal Electric Association

Comments by
Jim Weeks
June 30, 2006

The Honorable J. Peter Lark
Chairman
21st Century Energy Plan
Michigan Public Service Commission
6545 Mercantile Way, Suite 7
Lansing, MI 48911

Tom Stanton
Michigan Public Service Commission

Patricia Poli
Michigan Public Service Commission

Sent via email to mpsc21stcenturyenergyplan@michigan.gov,
tstanton@michigan.gov, and pmpoli@michigan.gov

Re: Michigan Public Power Supports Non-Mandatory Renewable Goals

Dear Chairman Lark, Mr. Stanton and Ms. Poli:

I am writing on behalf of the 38 public power systems that make up the Michigan Municipal Electric Association (MMEA), to submit comments on the “Renewable Portfolio Standard Strawman” that has been proposed by staff at the Michigan Public Service Commission (MPSC). While Michigan public power will continue to support the expansion of renewable energy capacity in our state, MMEA and its members call on the State of Michigan to avoid setting an inflexible, mandatory renewable portfolio standard (RPS) requirement for all load serving entities including municipally owned and operated electric utilities. Public power, which is subject to local control by citizens, is already a leader in renewable power production. The increasing demand for green power by consumers will be a sufficient mandate for these sustainable resources, without further mandates by State agencies. A mandate for municipalities could pose negative impacts on rates, reliability, and resources in public power communities. Michigan public power entities would be subject to disproportionate costs and burdens from an RPS mandate, because these municipal systems have more limited access to capital, and diseconomies of scale in the establishment of additional generation. Moreover, most Michigan municipal systems are purchasing power via contract from other, investor-owned entities under contracts that require the municipalities to pay for the costs of RPS-mandated resources. Yet no credit for such municipal RPS payments under such arrangements with investor-owned utilities...
would be granted under an RPS mandate. For these reasons, Michigan should adopt the approaches used in the vast majority of other states across the nation that have adopted RPS requirements, which exempt municipal utilities or provide them with substantial flexibility. Specifically, the State of Michigan should require the RPS only for those municipal electric utilities that apply for a license as an “alternative energy supplier” under section 10a(2) of Michigan Public Act 141, thereby continuing the appropriate exemption for municipal utilities from MPSC jurisdiction.

**PUBLIC POWER IS COMMITTED TO CITIZEN PRIORITIES INCLUDING GREEN ENERGY**

Michigan public power entities play a unique and important role in providing Michigan’s citizens with safe, clean, reliable sources of electric energy. The 38 communities represented by MMEA including the largest cities like Detroit along with smaller communities like the Town of Hart (pop. 1,942), in places from Marquette on the northern Upper Peninsula to Niles on the southern state border, and with dozens of cities, towns and villages in between. Michigan municipal utilities are essential to electric reliability and energy supply diversity, and critical to the communities they serve. These public power systems provide energy to important community facilities such as law enforcement, hospital, and educational facilities. These facilities increase electric reliability and help avoid wholesale electric market price spikes. They provide reactive power to the transmission grid, and serve “load pocket” areas in which there are limited available options for securing power. Importantly, public power systems are non-profit entities that are controlled by, and accountable to, Michigan citizens who elect the officials that own and administer these entities. Public power is therefore accountable to the growing citizen demand for environmental sustainability and green power alternatives.

A direct consequence of this local control is that public power leads the utility industry in many environmentally protective practices. Nationwide, public power continues to lead the industry in renewable energy production, cleaner burning coal power plants, and hydropower generation. See, e.g., “Public Power: Generating Greener Communities,” by the American Public Power Association (Fall 2005), which explains that public power entities nationally have nearly four times the renewable energy generation capacity of investor-owned utilities and nearly five times the renewable energy generation capacity of cooperatives. These renewable efforts are being demonstrated in Michigan as well, through ongoing hydropower generation, biomass innovation, and cutting edge wind energy initiatives in places like Traverse City and Wyandotte.

Based on public power’s strong commitment to citizens and the growing consumer demands for green energy options, Michigan municipal utilities will continue to be committed to renewable energy generation and distribution. Customer demand and accountability is the best driver for renewable energy in public power communities – not mandates. This has been seen in other states. The only Renewable Portfolio Standard programs established at the local level in the United States have been established by municipal utilities working voluntarily with their citizens, in places like Fort Collins, CO, Columbia, MO and Austin, TX. In Texas, a mandatory state RPS requirement was imposed on investor-owned utilities, but municipal entities were exempted. However, municipal utilities continue to lead Texas in renewable energy production,
with more than 25 percent of total renewable energy produced by municipals (which sell only 15 percent of total power statewide).

Based on these experiences, the State of Michigan should focus on encouraging voluntary renewable energy initiatives by Michigan public power. In particular, the MPSC can continue to encourage municipal utility systems to develop and offer “green pricing” options to consumers, like the ones already in use in Lansing, Traverse City and Wyandotte. As recognized by the Michigan Renewable Energy Program in its 2004-2005 Annual Report to the Michigan Public Service Commission, these green pricing programs are expected to achieve penetration at between 2 and 5 percent of annual sales for participating utilities in the short term. Combined with other renewable initiatives being conducted by many municipal utilities, such green pricing programs could help municipals voluntarily achieve these important goals without the inflexibility and burdens of a state mandate.

**DISPROPORTIONATE COSTS & IMPACTS ON PUBLIC POWER**

It is also important to avoid a state RPS mandate for municipal utilities, because such a mandate would impose disproportionate costs and impacts on public power communities.

First, although municipal utilities continue to be voluntary leaders on green power, these municipals have fewer options for development of renewable generation sources as compared to larger investor-owned systems. Municipalities are at a disadvantage in obtaining private capital for major investments. Costs for new capital projects must be passed onto customer rates because municipals do not earn profits from which to derive capital funding. Some municipalities are fully resourced and have slow load growth.

Second, municipal utilities are generally already paying for renewable energy resources in Michigan, and will continue to do so, because their purchased power contracts with investor-owned utilities typically require them to make such payments. Most Michigan municipal utilities obtain a major portion of their electricity through purchase contracts. MMEA has inquired of its members, and has received confirmation that these contracts typically include provisions requiring that, in the event of any state or federal RPS requirement being implemented in Michigan, the supplier will provide renewable power as part of the customer’s load, and the municipal purchaser will pay for any cost premiums associated with such renewable resources.

The Strawman RPS proposal does not suggest that municipal entities will receive credit toward RPS mandates for the renewable power load that they purchase and pay for via these contracts. Instead, the Strawman RPS proposal makes clear, at Recommendation #7, that seller utilities will be fully able to recover costs associated with the RPS standard. It would be a disproportionate burden on many municipalities to impose an additional RPS requirement on these systems in addition to the renewable payments already made via these contracts.

**MOST STATES EXEMPT MUNICIPALITIES FROM RPS MANDATES**

Michigan should encourage voluntary renewable initiatives by public power communities, rather than impose an RPS mandate on municipalities, because it would be consistent with the approach
taken by the majority of other states. This is particularly the case where, as in Michigan, states have implemented retail electric choice programs that do not apply to municipal utilities unless they opt into public service commission jurisdiction.

According to the Interstate Renewable Energy Council and its “Database of State Incentives for Renewable Energy,” two-thirds of the 21 States that have RPS programs exempt municipalities from the mandatory standard. In many states, municipal entities are not subject to retail choice and competition programs, and are exempt from public service commission regulations under such programs (e.g., see the programs in Connecticut, Maine, Massachusetts, Pennsylvania, and Texas). In such states, the municipal utilities are not mandated to meet RPS requirements, unless the municipality chooses to compete outside its local service area and thus become subject to PSC jurisdiction. In other states, municipalities have the flexibility to move toward renewable energy goals without state mandates, as in Minnesota where utilities must demonstrate a “good faith effort” toward state renewable production goals, or in California where the municipal utilities voluntarily manage their own efforts to reach state renewable energy targets.

These approaches, which recognize the particular role of public power communities and provide them with options and incentives for increasing the use of renewable energy without asserting intrusive jurisdiction or inflexible mandates, are likewise appropriate for Michigan as it moves toward a more robust renewable energy program.

**MPSC Should Not Assert New Jurisdiction Over Public Power**

The State of Michigan should not impose an RPS mandate on municipal utilities because these municipal entities are not subject to Michigan PSC jurisdiction and have been exempted by the Michigan Legislature from most of 2000 PA 141, the “Customer Choice and Electricity Reliability Act” (the Act).

Municipally owned utilities are not subject to the jurisdiction of the MPSC, are not considered an “electric utility” for purposes of sections 10 through 10bb, and they are exempt from sections 6l, 10 through 10x, and 10z through 10bb of the Act unless electing to provide electric generation to retail customers receiving delivery service from an electric utility. In such a case, the municipally owned utility would have to obtain a license under 10a(2) and comply with orders issued pursuant to sections 10a(3), 10q, 10r, and 10t of the Act, with respect to customers served outside of the municipality that owns the utility.

Michigan municipal utilities are very concerned about attempts to assert PSC jurisdiction over their systems, particularly on major issues such as the type of power these municipalities generate and

---

1 The following states exempt municipalities from mandatory RPS requirements: Arizona, California, Colorado, Connecticut, Delaware, Illinois, Iowa, Maine, Massachusetts, Minnesota, Montana, Nevada, New Mexico, New York, Pennsylvania, Texas. There is no RPS mandate for municipalities in Hawaii or the District of Columbia, as there are no municipal utility entities there. In Minnesota and Illinois, the statewide RPS program that applies to all entities is a goal, not a mandate. In Delaware, the municipal utility may exempt itself from RPS mandated requirements, if the municipal first informs customers, establishes a voluntary renewable energy program, and creates a self-administered fund to support such renewable energy initiatives. In Colorado, the RPS mandate applies only to entities serving 40,000 or more customers. A municipal entity can be opted out of this mandate by local voter approval.
distribute. In this RPS effort, the Michigan PSC should, as it always has in the past, continue to exercise restraint in the exercise of jurisdiction over public power.

**SPECIFIC REQUEST FOR PUBLIC POWER FLEXIBILITY**

Again, Michigan municipal utilities are committed to renewable energy as part of our obligation to our citizen customers, and are in fact leading many efforts to promote green, sustainable power. The State of Michigan should follow the lead of the majority of states that do not assert unwarranted jurisdiction over public power to impose RPS mandates. Instead, the Michigan PSC should work in partnership with public power communities to boost voluntary approaches to renewable energy development.

The Michigan Municipal Electric Association requests that Recommendation #1 of the Strawman RPS Proposal be changed to say:

**RPS Load Serving Entities**

Michigan’s RPS should apply to all load serving entities (LSE) subject to the jurisdiction of the Michigan Public Service Commission. This includes: Investor owned utilities, cooperative utilities, alternative electric suppliers, and municipal utilities which are subject to an alternative energy supplier license under Section 10a(2) of Act 141.

We appreciate the opportunity to comment on this important proposal, and look forward to working with the State of Michigan to boost the use of clean renewable energy in our communities. If you have any questions or seek more information, please contact me at (517) 323-8919, x105 or at jweeks@mpower.org.

Sincerely,

Jim Weeks

Jim Weeks
General Counsel & Governmental Liaison
Environment Michigan

Comments by
Mike Shriberg
Here are Environment Michigan's RPS strawman proposal initial comments. We generally like the direction of the strawman but have concerns outlined below about which we would be glad to provide more details. Thank you for pulling this together.

2. This group should set a specific, aggressive RPS target not tied to the CNF modeling. Our suggestion is 20% by 2020 with a gradual ramp up. This would set Michigan on a leadership path. The strawman proposal already includes an “offramp” based on Rate Impacts so there is no need to hedge the goal based on the extremely conservative values in the CNF modeling. We are confident that technologies will improve and thus renewable energy potential will rise, as it has for years. Therefore, basing a forward-looking policy on conservative estimates of current potential seems disingenuous.

3. We do not agree with including hydroelectric, at least in terms of being a “new” renewable energy source. We would like a stronger statement about the need for clean biomass, not just biomass that is legal.

6. These criteria should be more specific in the next strawman so that the MPSC cannot arbitrarily stop a program

7. This should be subject to the cost-effectiveness of the purchases made.

9. We do not agree with the second sentence. If the program is working, why should it be stopped? This scenario seems like it would be ripe for an increase not a stoppage

- Mike

** Note new contact info below **

-------------------------------------------------------------------------
Mike Shriberg, Ph.D.
Director, Environment Michigan (The new home for PIRGIM's environmental work)
103 E. Liberty Street, Suite 202
Ann Arbor, MI 48104
734-662-9797
mshriberg@environmentmichigan.org
www.environmentmichigan.org
Please provide your suggested alternative(s) and comments on the critical Renewable Portfolio Standard (RPS) components listed below, or indicate if you are in disagreement with the inclusion of that component in the Strawman proposal.

1. **RPS Load Serving Entities**  
   Michigan’s RPS should apply to all load serving entities (LSE). This includes: Investor owned utilities, cooperative utilities, alternative electric suppliers, and municipal utilities.  
   
   **Suggested Alternative:**  
   MSEC supports applying RPS to all load serving entities.

2. **RPS Targets**  
   RPS targets are mandatory for all LSEs, but subject to potential adjustment from time to time as discussed in element number 6 below. RPS targets should be established based on the results of the Capacity Need Forum modeling for the Alternative Generation Scenario, with any changes based on new model results for the 21st Century Energy Plan.

   Each LSE in Michigan will have a 24-month period to generate or purchase qualifying renewable energy or RECs, up to the initial target amount. That initial target will be set equal to the then-current statewide average renewable resource use (now approximately 3% of annual retail sales). Existing renewable resources may be included to reach RPS targets. Each subsequent target amount would have to be reached by pre-established dates.

   For example, the Non-Traditional Case Scenario modeling completed for the Capacity Need Forum Report indicated these targets: 3% additional renewable resources by 2008, 5% by 2010, and 7 percent by 2015, to reach total renewable resource levels of approximately 6% by 2008, 8 percent by 2010, and 10 percent by 2015. The target years and quantities will be adjusted as necessary to reflect the 24-month lead time and the best available information about Michigan renewable energy resource availability and cost.

   The strawman proposal has no carve-outs or set-asides for particular types of renewable energy.

   The strawman proposal has a provision for alternative compliance payments. The payment will be twice the average Michigan REC market price during the previous year in Michigan. Alternative compliance payments, if any, will be deposited into the Low Income and Energy Efficiency Fund administered by the MPSC.

---

1 This scenario for the Capacity Need Forum modeling included non-renewable combined heat & power (CHP) generation, which would not qualify in the strawman RPS proposal.
Suggested Alternative:
On percentages and year targets:

<table>
<thead>
<tr>
<th>Year</th>
<th>% of Michigan Electricity Provided from Renewable Energy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004 (Baseline)</td>
<td>3%</td>
</tr>
<tr>
<td>2007</td>
<td>4%</td>
</tr>
<tr>
<td>2009</td>
<td>5%</td>
</tr>
<tr>
<td>2011</td>
<td>6%</td>
</tr>
<tr>
<td>2013</td>
<td>7%</td>
</tr>
<tr>
<td>2015</td>
<td>8%</td>
</tr>
</tbody>
</table>

On Alternative Compliance Payments:

MSEC supports the development of an Alternative Compliance Payment that is twice the average Michigan REC market price during the previous year in Michigan. The Alternative Compliance Payments should go to a fund that is managed by an agency such as the state of Michigan Energy Office for support of renewable energy market transformation activities and renewable energy projects. The MPSC Low Income and Energy Efficiency Fund has established priorities with funding currently for focused projects. The goal of the RPS is to increase the use of renewable energy in the state of Michigan. The Low Income and Energy Efficiency Fund is not set up to further renewable energy use in the state. Therefore, in keeping with the goals of the RPS, the Alternative Compliance Payment should go to a different entity to be dispersed for increasing renewable energy use in the state of Michigan. The state of Michigan Energy Office currently funds and promotes renewable energy education and installations.

On carve outs or set-asides:

MSEC strongly encourages the development of a solar energy system rebate.

I. Introduction

In Michigan, photovoltaics are a wind energy companion because of their high performance during the summer. Solar energy is a renewable resource that requires a measure for increasing the value of the energy produced because of the benefits that solar energy offers the grid during peak hours of electricity use. Solar electricity producing technology is easily applicable to existing structures such as flat roofs, buildings and the residential market.

II. Background

Twenty-six states that have a mechanism to increase solar energy use. The following methods have been applied:

- Increased value of Renewable Energy Credit (REC), known as a Solar REC (SREC)
- Carving out a percentage of a Renewable Energy Portfolio Standard that is devoted to solar energy only.
- and Solar Energy Rebates, where a percentage of the installation of a solar energy system cost is rebated back to the purchaser through a utility, state agency or third party program.
III. Proposal

Twenty years ago, Michigan residents spent 32,000 tax incentives on mostly hot water and air solar systems. During this period, Michigan was seventh and sixth in the nation for manufacturing and utilizing solar systems. In 2001, the state of Michigan issued a $3 a Watt incentive program for purchase of renewable energy. Within four months, the state approved 86 incentives and the entire $300,000 budget. The state of Michigan Energy Office reported that interest in the program exceeded the amount of funding available. The level of participation in the past incentive programs illustrates Michigan's ability to be a valuable player in the solar market.

On average, it is found that the point for increasing solar energy system use in the market is a rebate of 30% of the solar energy system installation costs. MSEC proposes the development a Michigan incentive rebate of 30% solar energy system cost for a resident or business in Michigan. The 30% rebate would decrease by 5% every 3 years until the industry becomes established in the state and no longer will need a financial incentive.

3. **Eligible/Qualifying Resources**
   Renewable energy should qualify based on the definition from 2000 PA 141 (MCL 460.10g: “Renewable energy source” means energy generated by solar, wind, geothermal, biomass, including waste-to-energy and landfill gas, or hydroelectric.)

   Biomass facilities should be eligible only if they meet all existing environmental and waste management regulations.

   Any discussion of RECs from net metering, green rates, or other utility tariffs or programs will be handled by the Policy Team. (See also element number 10, Other Related Policies, below.)

   **Suggested Alternative:**

   MSEC would like to participate in the discussion of RECs from net metering, green rates, or other utility tariffs or programs.

4. **REC System**
   Strawman proposal includes a tradable REC system with 2-year banking.

   A minimum of 75% of each LSE’s RPS target must come from renewable energy generated within Michigan. The remaining 25% can come from any state.

   Renewable facilities will be certified by an independent certification agent, based on criteria established by the MPSC.

   REC trading agents may participate in the Michigan program, as long as there are assurances that credits certified for use in Michigan will meet all Michigan criteria.

   **Suggested Alternative:**

   

---

2 As a part of the 21st Century Energy Plan, a detailed plan for REC management is being developed.
MSEC supports 100% of all LSE’s RPS targets coming from renewable energy generated within Michigan. Analysis of Michigan's renewable energy resources by the National Renewable Energy Laboratory suggests that Michigan has enough renewable energy resources to meet and exceed the proposed RPS target of 8% by 2015. Michigan spends over $20 billion to import fuel. As Michigan’s renewable energy infrastructure is built, billions sent out of state today to fossil fuel-rich states and countries will be redirected to energy projects, people, and businesses in this State.

5. **Statewide Renewable Energy Purchasing Agent**
LSEs may meet their RPS targets by purchasing RECs from a statewide renewable energy purchasing agent.

The strawman proposal has not identified any specific provisions for a statewide renewable energy purchasing agent. If commenters agree that this approach is a good one, Staff requests suggestions regarding how to identify and fund a statewide renewable energy purchasing agent.

**Suggested Alternative:**

6. **Rate Impact Limit**
MPSC will review the RPS program one year prior to the date that the target is scheduled to change, and would adjust the RPS target as necessary. This review will include reporting and analysis of RPS progress, RPS program costs, diversity of Michigan’s retail electric sales portfolio, and recommendations on adjustments to future RPS targets and on whether the RPS should continue. (See also element number 9, Program Review, below.)

**Suggested Alternative:**
The MPSC should review, track and analyze the RPS target progress of the LSEs. MSEC forsees no reason to consider stopping the RPS unless LSEs reach targets early. If RPS targets are met early, MSEC would support review of the program and evaluation to establish targets that go beyond the year 2015 and/or increase the RPS targets. LSE Alternative Compliance Payments should not be eligible for cost recovery from LSE customer rates.

7. **Cost Recovery**
Costs associated with renewable energy purchased by regulated utilities pursuant to the RPS targets will be considered an integral part of each utility's power supply portfolio and will be recovered through the annual power supply cost recovery process.

**Suggested Alternative:**

---

3 The original staff strawman proposal included recommendations on Standard Offer Contracts. Any discussion on this issue will be handled by the Policy Team.
LSE Alternative Compliance Payments should not be eligible for cost recovery from LSE customers, LSE rates or LSE PSCR process.

8. **Compliance Reporting Requirements**
   Each LSE will file an annual report regarding compliance in the previous year, explaining renewable resource plans in detail for the next 1 year, and providing a renewable resource plan forecast for the next 5 years. Regulated utility reporting will be part of the annual PSCR process at the PSC, and a reporting schedule and requirements for AESs will be developed.

   **Suggested Alternative:**

   LSE Alternative Compliance Payments should not be eligible for cost recovery from LSE customers, LSE rates or LSE PSCR process.

9. **RPS Program Review**
   Every 3 years the PSC will review the RPS program and make recommendations on whether the RPS targets should be adjusted or if the RPS program should continue. The program may be suspended if RPS targets are regularly being met, REC prices are remaining very low (at or near zero), and the state has attained acceptable levels of renewable energy in the retail sales portfolio.

   **Suggested Alternative:**

   The MPSC should review, track and analyze the RPS target progress of the LSEs. MSEC sees no reason to consider stopping the RPS unless LSEs reach targets early. If RPS targets are met early, MSEC would support review of the program and evaluation to establish targets that go beyond the year 2015 and/or increase the RPS targets. ***Please define the use of "acceptable levels of renewable energy in the retail sales portfolio".

10. **Other Related Policies**

    The Strawman proposal recognizes that additional policies may be important or even necessary to implement in conjunction with an RPS. The review and discussion of other policies is taking place in a separate process, through the Policy Team. Commenters on the RPS Strawman proposal are encouraged to simply list other related policies they feel are essential or very important to consider in conjunction with an RPS. Details of those proposed policies will be reviewed and discussed separately. MPSC Staff is now compiling a summary of which related policies have been implemented by other states that have RPSs, and will post that summary for review.

    **Suggested Other Related Policies:**
Detroit Edison

Comments by
Phil Dennis
On April 6, 2006, Governor Jennifer Granholm directed the Chairman of the Michigan Public Service Commission ("MPSC") to prepare a proposed Energy Plan for the State of Michigan. One of the components of the Governor’s directive was development of a Renewable Portfolio Standard ("RPS") that establishes targets for the share of Michigan’s energy consumption to be derived from renewable energy sources. The MPSC Staff responded by issuing a proposed strawman as part of the 21st Century Energy Plan effort, which includes various RPS policy recommendations.

As noted in previous comments to the Capacity Needs Forum ("CNF"), Detroit Edison supports consideration of various types of other resources (besides base load plants) to meet the future electric needs of its customers, such as load management, energy efficiency and renewable energy. However, these resources must contribute substantially to reliability and be cost competitive.

Detroit Edison supports a voluntary renewable program. The strengths of a voluntary renewable program include simplicity of administration compared to mandated programs. A voluntary renewable program also leaves green power decisions to the marketplace. Arguably, until economies of scale take hold, most renewable resources are at a premium compared to traditional forms of generation. With the state of Michigan experiencing a slowdown in its economy, a voluntary program may be more appropriate in the near term. While voluntary programs most likely would not achieve renewable levels approaching those of mandated programs, the phasing-in of renewable resources allows LSEs to gain more experience with respect to the operating characteristics of renewable energy facilities.

As a follow-up to its Renewable Resources Program application first filed on July 1, 2005 (Case No. U-14569), Detroit Edison will be filing a comprehensive revised voluntary renewable program by year-end 2006. This program will be designed to provide renewable energy for all those who request it. Some of the program goals are: 1) develop new renewable energy resources in Michigan; 2) ease and affordability; 3) utilize renewable energy or Renewable Energy Credits ("REC") (whichever is desired) and 4) a high level of quality assurance as verified by an independent third party.

A mandatory RPS could have merit when Michigan’s economic situation improves and only if stakeholders are mindful of several factors, some of which include: the overall costs to implement; reliability considerations; and realistic expectations on the availability of renewable resources on the specific dates established in any RPS.

Below, Detroit Edison offers its comments with respect to each of the mandatory RPS policies proposed by the MPSC Staff’s June 7th and June 14th proposal. In addition, if the State of Michigan adopts RPS legislation it should be in coordination with an overall comprehensive state energy legislative package.

1. **RPS Load Serving Entities - Michigan’s RPS should apply to all load serving entities (LSE).**  
   This includes: Investor owned utilities, cooperative utilities, alternative electric suppliers, and municipal utilities.

   *Detroit Edison Comments:*  
   Detroit Edison agrees that if a mandatory RPS is legislated, it should apply to all LSEs. Detroit Edison assumes legislation would insure applicability to all LSEs in the state. If however, a "utility only" plan was implemented, costs for such a program should be recovered via distribution charges.

2. **RPS Targets - RPS targets are mandatory for all LSEs, but subject to potential adjustment from time to time as discussed in element number 6 below.** RPS targets should be established based on the results of the Capacity Need Forum modeling for the Alternative
Comments of The Detroit Edison Company
MPSC Staff’s Strawman RPS Proposal
21st Century Energy Plan
June 30, 2006

Generation Scenario, with any changes based on new model results for the 21st Century Energy Plan.

Each LSE in Michigan will have a 24-month period to generate or purchase qualifying renewable energy or RECs, up to the initial target amount. That initial target will be set equal to the then-current statewide average renewable resource use (now approximately 3% of annual retail sales). Existing renewable resources may be included to reach RPS targets. Each subsequent target amount would have to be reached by pre-established dates.

For example, the Non-Traditional Case Scenario modeling completed for the Capacity Need Forum Report indicated these targets: 3% additional renewable resources by 2008, 5% by 2010, and 7 percent by 2015, to reach total renewable resource levels of approximately 6% by 2008, 8 percent by 2010, and 10 percent by 2015.1 The target years and quantities will be adjusted as necessary to reflect the 24-month lead time and the best available information about Michigan renewable energy resource availability and cost.

The strawman proposal has no carve-outs or set-asides for particular types of renewable energy.

The strawman proposal has a provision for alternative compliance payments. The payment will be twice the average Michigan REC market price during the previous year in Michigan. Alternative compliance payments, if any, will be deposited into the Low Income and Energy Efficiency Fund administered by the MPSC.

Detroit Edison Comments:

a) RPS Targets: Detroit Edison agrees with Staff that any mandated RPS target should include existing renewable resources, such as PA2 contracts, electric sales through an established voluntary green rate program and net metering.

As Detroit Edison understands it, Staff bases its RPS targets assuming an existing statewide average of 3%, plus additional resources from the modeling assumptions utilized in the CNF. This results in RPS targets of 6% in 2008, 8% in 2010 and 10% in 2015. Therefore, under the Staff approach, regardless of its existing percentage of renewables in its portfolio, each LSE would be required to incrementally increase its renewable resources by 3% to meet the first target. This approach spreads the costs of renewables among all customers. Although these targets on the surface appear reasonable, additional studies may be needed to determine if these targets are feasible for the state of Michigan.

Based on data provided by the Alternative Generation group, the targets in the CNF were optimistic. For example, the Staff’s final report in the CNF states that since there were not enough forecasted renewable resources available to meet the 7% requirement in 2015, the available capacity in the state was arbitrarily “scaled-up”.

“Given the assumptions for a mandated renewable portfolio as described on the previous page, the non-traditional resources projected to be available in Michigan by the Alternative Generation Work Group (Landfill Gas, Digestion, Wind and Cogen), were unable to meet the

---

1 This scenario for the Capacity Need Forum modeling included non-renewable combined heat & power (CHP) generation, which would not qualify in the strawman RPS proposal.
requirements. Therefore, each non-traditional resource was scaled-up in order to meet the renewable portfolio standards of 3 percent in 2008, 5 percent in 2010 and 7 percent in 2015.”
(Staff Report to the Michigan Public Service Commission, January 3, 2006, Appendix C, Page 59)

The lack of renewable resources is further exacerbated since approximately 600 MW of combined heat and power (“CHP”) was modeled as renewable in the CNF, whereas, CHP would probably not count toward an RPS as it has been defined.

If Staff’s approach is adopted, by 2010 the State of Michigan would be required to add over 1,300 MW of renewable resources. Assuming the projections used in the CNF, 200 MW would be met by Landfill Gas and Digestion, and the remaining by wind. This would require over 700 wind turbines at a cost of approximately $900 million, excluding costs for transmission upgrades. If the siting and transmission concerns could be worked out over this time frame, it is doubtful that suppliers of turbines and other component parts could meet this expectation. Based on conversations with suppliers, Detroit Edison understands that there is a 24 to 36 month wait for a wind turbine and that available turbines are already sold out through 2008. Therefore, a longer lead-time than 24 months would be appropriate.

Detroit Edison Recommendation:

A mandatory RPS should include a phased-in approach to renewable resources. This would enable the program to grow at a pace more in line with market behavior and supply availability. In order to provide more time to address issues related to siting and construction, Detroit Edison recommends that any RPS include a 48-month lead time after enactment in order to provide the necessary buffer that will enable the most economical choices to be made. Detroit Edison could support incremental RPS targets of 3% (effective 48 months after enactment of law), followed by 1% increases every year until a maximum of 8% is reached. RPS percentages would be contingent on a rate impact limit as discussed in issue #6. They could also be adjusted based on success of the program as discussed in issue #9.

b) Carve-outs.  Detroit Edison agrees with Staff that an RPS should have no specific carve-outs or set asides for a particular type of renewable energy.

c) Alternative Compliance Payments:  Detroit Edison agrees that an alternative compliance payment provides a good method to encourage meeting RPS requirements. However, the Staff strawman proposal regarding alternative compliance payments could result in a spiraling increase in the cost of renewables/RECs in Michigan. Under the Staff proposal, renewable suppliers will know that LSEs face a cost that is double the cost of the prior year’s Michigan REC prices and will likely use that as leverage to get higher prices each subsequent year.

An approach is needed that will provide both an incentive to the LSEs to purchase renewables each year and for the renewable suppliers to hold or bring down their prices in subsequent years. The ultimate goal is to make gradual progress in the reduction of the cost of renewables so that they become economic alternatives to non-renewable derived energy supplies.

Detroit Edison Recommendation:

Under a mandatory RPS, the LSE should be allowed two years to “true-up” a deficiency in meeting its renewables requirement. If insufficient offers of renewable energy/RECs have been
bid by Michigan or out-of-state resources at prices at or below the prior year’s statewide average REC premium, then an LSE should be allowed to make an alternative compliance payment equal to the prior year’s average into the Low Income and Energy Efficiency fund. This will keep the money in Michigan, while encouraging renewable developers to seek cost effective solutions.

3. **Eligible/Qualifying Resources** - Renewable energy should qualify based on the definition from 2000 PA 141 (MCL 460.10g: “Renewable energy source” means energy generated by solar, wind, geothermal, biomass, including waste-to-energy and landfill gas, or hydroelectric.)

   Biomass facilities should be eligible only if they meet all existing environmental and waste management regulations.

   Any discussion of RECs from net metering, green rates, or other utility tariffs or programs will be handled by the Policy Team. (See also element number 10, Other Related Policies, below.)

   **Detroit Edison Comments:**

   Adopting the definition of “renewable energy source” as has been defined in PA 141 does not capture all the potential renewable resources. Detroit Edison is concerned that the definition will be subject to various interpretations and not include other forms of renewables. For example, does this definition allow solar thermal heating and cooling, pumped storage, geothermal heating and cooling or co-firing using bio fuels as a renewable energy source? Stakeholders should further explore the various specific types of Michigan renewables to be included in any RPS before implementation.

4. **REC System** - Strawman proposal includes a tradable REC system with 2-year banking.

   A minimum of 75% of each LSE’s RPS target must come from renewable energy generated within Michigan. The remaining 25% can come from any state.

   Renewable facilities will be certified by an independent certification agent, based on criteria established by the MPSC.

   REC trading agents may participate in the Michigan program, as long as there are assurances that credits certified for use in Michigan will meet all Michigan criteria.

   **Detroit Edison Comments:**

   We agree that RECs should be included in meeting mandated RPS levels. RECs are a valuable tool in providing LSEs opportunities in seeking the lowest possible cost of renewables for its customers. A Michigan RPS should not restrict or limit the purchasing of RECs by an LSE in meeting its RPS level. In other words, if the most cost effective means for an LSE to achieve its RPS level is to purchase RECs for 100% of its obligation, the LSE should be allowed to implement such a strategy.

   **a) 2-year banking:** There should not be a limit to banking of RECs. Banking of RECs can be a valuable tool in reducing costs if a renewable facility addition larger than that required to meet the RPS could be added earlier at a significantly lower cost than that of several smaller facilities built over a longer term.

   **b) 75% minimum Michigan renewables content:** Detroit Edison supports economic development of Michigan renewables to the maximum level. A future level as high as 100% may be appropriate as it will go toward improving Michigan’s infrastructure and facilitate expansion and job growth within our
State. However, stakeholders must be mindful of the costs it may take to achieve this requirement, particularly in the early years of an RPS and balance economic growth with the potential of increases in consumer rates.

Detroit Edison Recommendation:

Detroit Edison supports a program where out of state RECs can be utilized for a short period of time until the Michigan market matures and RECs are available in both quantity and price that minimizes customer’s costs. A phased-in approach applicable to Michigan percentages would be more appropriate in order to provide a reasonable time frame in which Michigan renewables can be built and eventually support 100% of the need.

c) Certified by an independent certification agent: The need for certification is recognized, but care needs to be taken that the certification agent is not involved with the facility owner or an energy/REC marketer who might have a vested interest in the certification.

d) Ownership of RECs. The new legislation should clarify that RECs (including any environmental attributes which may now or subsequently have a monetary value) associated with energy purchased by a utility subject to PA2 belong to the utility. Legislation should also clearly state the method for determining REC ownership in the future.

5. Statewide Renewable Energy Purchasing Agent - LSEs may meet their RPS targets by purchasing RECs from a statewide renewable energy purchasing agent.

The strawman proposal has not identified any specific provisions for a statewide renewable energy purchasing agent. If commenters agree that this approach is a good one, Staff requests suggestions regarding how to identify and fund a statewide renewable energy purchasing agent.

Detroit Edison Comments:
A statewide purchasing agent is not necessary as RECs can be purchased by various brokers. In addition, LSEs in Michigan (particularly the regulated utilities, co-ops and munis) have jointly owned generating facilities in the State. This relationship could be extended to the development of and or purchasing of renewable energy resources in Michigan.

6. Rate Impact Limit - MPSC will review the RPS program one year prior to the date that the target is scheduled to change, and would adjust the RPS target as necessary. This review will include reporting and analysis of RPS progress, RPS program costs, diversity of Michigan’s retail electric sales portfolio, and recommendations on adjustments to future RPS targets and on whether the RPS should continue. (See also element number 9, Program Review, below.)

Detroit Edison Comments:
The Staff strawman proposal does not include a “rate impact limit” as suggested in the title to issue #6. The Staff has only suggested a review period that would include reporting and analysis of RPS program costs. Detroit Edison addresses the RPS program review in its comments to issue #9. Detroit Edison fully supports a rate impact limit similar to what other states have implemented. Detroit Edison supports legislation that would limit the annual cost increases and total impacts of renewables on electric rates above that of a non-renewable energy supply. This legislated rate impact limit or
Comments of The Detroit Edison Company  
MPSC Staff’s Strawman RPS Proposal  
21st Century Energy Plan  
June 30, 2006

“circuit breaker” approach provides benefits because it encourages development of renewable resources while controlling costs to consumers.

7. Cost Recovery - Costs associated with renewable energy purchased by regulated utilities pursuant to the RPS targets will be considered an integral part of each utility's power supply portfolio and will be recovered through the annual power supply cost recovery process.

_Detroit Edison Comments:_
The PSCR process is the logical place to review costs associated with procurement of power supply. Contracts entered into as a result of a state mandated RPS, should receive automatic pass-through. In addition, there should be a waiver or exception to the existing PSCR law for all renewable energy contracts which require pre-approval for contracts greater than six months which contain capacity payments. Costs associated with renewable energy may also be recovered by utilities as part of its base rates if the utility were to build, operate and own the facilities. A revision to Act 304 is most likely required.

8. Compliance Reporting Requirements - Each LSE will file an annual report regarding compliance in the previous year, explaining renewable resource plans in detail for the next 1 year, and providing a renewable resource plan forecast for the next 5 years. Regulated utility reporting will be part of the annual PSCR process at the PSC, and a reporting schedule and requirements for AESs will be developed.

_Detroit Edison Comments:_
Agree.

9. RPS Program Review - Every 3 years the PSC will review the RPS program and make recommendations on whether the RPS targets should be adjusted or if the RPS program should continue. The program may be suspended if RPS targets are regularly being met, REC prices are remaining very low (at or near zero), and the state has attained acceptable levels of renewable energy in the retail sales portfolio.

_Detroit Edison Comments:_
Detroit Edison agrees, however, suggests a report be prepared annually to the Michigan Legislature. The annual report could identify the progress in meeting the RPS targets and may want to include such items as: the amount (capacity and energy) from renewables added to Michigan’s electric supply, including renewable resource type; contribution from each renewable facility to meeting peak load requirements; and the portion of energy sourced from renewables within Michigan. The annual review could include recommendations by the MPSC as to whether the targets should be adjusted.

10. Other Related Policies - The Strawman proposal recognizes that additional policies may be important or even necessary to implement in conjunction with an RPS. The review and discussion of other policies is taking place in a separate process, through the Policy Team. Commenters on the RPS Strawman proposal are encouraged to simply list other related policies they feel are essential or very important to consider in conjunction with an RPS. Details of those proposed policies will be reviewed and discussed separately. MPSC Staff is
now compiling a summary of which related policies have been implemented by other states that have RPSs, and will post that summary for review.

*Detroit Edison Comments:*

**PA2 Facilities RECs:** As stated in response to issue #4, new legislation should clarify that RECs (including any environmental attributes which may now or subsequently have a monetary value) associated with energy purchased by a utility subject to PA2 belong to the utility.

Legislation should also state clearly the method for determining REC ownership in the future. Detroit Edison believes that going forward, power purchase contracts should specify ownership of RECs stay with the producer unless transferred to the power purchaser in the contracts.

**Summary**

As stated in the introduction, Detroit Edison supports voluntary programs offered by each LSE as the best way to encourage use of renewable resources. By year-end 2006, Detroit Edison will be updating its voluntary renewable program with the MPSC. This program should encourage the use of renewable energy for all customers. As stated above, Detroit Edison’s comments are only applicable in response to Staff’s proposed mandatory RPS program and therefore would not be appropriate for a voluntary program. A number of the Staff’s strawman proposals identify policies with respect to third party purchases of renewable energy by LSEs. Any RPS policy should not preclude LSEs from building, operating or owning renewable facilities in lieu of purchasing from third parties.
Comments by
Geoff Lewis
Request for Comments on Elements of the Strawman RPS Proposal

Suggested alternative(s), additions, deletions, and comments should be emailed to both pmpoli@michigan.gov and tstanton@michigan.gov by June 30, 2006.

Please provide your suggested alternative(s) and comments on the critical Renewable Portfolio Standard (RPS) components listed below, or indicate if you are in disagreement with the inclusion of that component in the Strawman proposal.

1. **RPS Load Serving Entities**
   Michigan’s RPS should apply to all load serving entities (LSE). This includes: Investor owned utilities, cooperative utilities, alternative electric suppliers, and municipal utilities.

   **Suggested Alternative:**

2. **RPS Targets**
   RPS targets are mandatory for all LSEs, but subject to potential adjustment from time to time as discussed in element number 6 below. RPS targets should be established based on the results of the Capacity Need Forum modeling for the Alternative Generation Scenario, with any changes based on new model results for the 21st Century Energy Plan.

   Each LSE in Michigan will have a 24-month period to generate or purchase qualifying renewable energy or RECs, up to the initial target amount. That initial target will be set equal to the then-current statewide average renewable resource use (now approximately 3% of annual retail sales). Existing renewable resources may be included to reach RPS targets. Each subsequent target amount would have to be reached by pre-established dates.

   For example, the Non-Traditional Case Scenario modeling completed for the Capacity Need Forum Report indicated these targets: 3% additional renewable resources by 2008, 5% by 2010, and 7 percent by 2015, to reach total renewable resource levels of approximately 6% by 2008, 8 percent by 2010, and 10 percent by 2015.\(^1\) The target years and quantities will be adjusted as necessary to reflect the 24-month lead time and the best available information about Michigan renewable energy resource availability and cost.

   The strawman proposal has no carve-outs or set-asides for particular types of renewable energy.

   The strawman proposal has a provision for alternative compliance payments. The payment will be twice the average Michigan REC market price during the previous year in Michigan.

---

\(^1\) This scenario for the Capacity Need Forum modeling included non-renewable combined heat & power (CHP) generation, which would not qualify in the strawman RPS proposal.
Alternative compliance payments, if any, will be deposited into the Low Income and Energy Efficiency Fund administered by the MPSC.

**Suggested Alternative:**
I approve of no carve-outs and alternative compliance payments, but would like to make sure that the payment is high enough to make sure that new renewable capacity is installed and LSEs aren’t able to buy their way out – is 2x average REC price enough? I think 24 months is too long, 12 or 18 would be better and I think the initial target should be set now, not as a future average percentage. If I understand correctly, LSEs that already meet the average renewables % don’t need to add new capacity until at least the first step in target past 24 months? They should install something new and not get a total pass. Why do targets need to rely on CNF modeling/assumptions? The targets mentioned above seem quite low when compared to other RPS states. Couldn’t the target change annually instead of in 5-year steps? Uncertainty in targets isn’t desirable, the target steps and dates should be spelled out and LSEs should understand they need to meet the targets.

3. **Eligible/Qualifying Resources**
Renewable energy should qualify based on the definition from 2000 PA 141 (MCL 460.10g: “Renewable energy source” means energy generated by solar, wind, geothermal, biomass, including waste-to-energy and landfill gas, or hydroelectric.)

Biomass facilities should be eligible only if they meet all existing environmental and waste management regulations.

Any discussion of RECs from net metering, green rates, or other utility tariffs or programs will be handled by the Policy Team. (See also element number 10, Other Related Policies, below.)

**Suggested Alternative:**
This definition is too broad. What is geothermal doing on the list (do we have geothermal electricity generation in MI)? I don’t think the RPS should encourage new hydro (with the possible exception of run-of-river) or waste-to-energy, neither of which is strictly renewable. Also, the definition of biomass should be clarified to only include renewable forms, not just meeting environmental and waste regs, and shouldn’t encourage energy crops over food crops.

4. **REC System**
Strawman proposal includes a tradable REC system with 2-year banking.

A minimum of 75% of each LSE’s RPS target must come from renewable energy generated within Michigan. The remaining 25% can come from any state.

Renewable facilities will be certified by an independent certification agent, based on criteria established by the MPSC.

REC trading agents may participate in the Michigan program, as long as there are assurances that credits certified for use in Michigan will meet all Michigan criteria.

---

2 As a part of the 21st Century Energy Plan, a detailed plan for REC management is being developed.
Suggested Alternative:

When you say the REC system allows 2-year banking, does that mean that RECs have a 2-year life (presumably from date of generation?), or is there another mechanism for retirement of RECs? They need to expire or retire.

It should be clear that the only use or value of RECs is showing compliance with the RPS targets. They carry no other attributes, especially in relation to regulated emissions markets (i.e. $\text{SO}_2$).

Requiring in-state is a good thing, since that’s where the environmental benefits happen, I’d be happy if this percentage was 100%, but understand the need for flexibility. Perhaps this percentage could ramp up from 75% over time?

5. Statewide Renewable Energy Purchasing Agent\textsuperscript{3}
LSEs may meet their RPS targets by purchasing RECs from a statewide renewable energy purchasing agent.

The strawman proposal has not identified any specific provisions for a statewide renewable energy purchasing agent. If commenters agree that this approach is a good one, Staff requests suggestions regarding how to identify and fund a statewide renewable energy purchasing agent.

Suggested Alternative:

6. Rate Impact Limit
MPSC will review the RPS program one year prior to the date that the target is scheduled to change, and would adjust the RPS target as necessary. This review will include reporting and analysis of RPS progress, RPS program costs, diversity of Michigan’s retail electric sales portfolio, and recommendations on adjustments to future RPS targets and on whether the RPS should continue. (See also element number 9, Program Review, below.)

Suggested Alternative:
This is fine, if adjustments are only permitted upwards. This review could be combined with Program reviews (point 9).

7. Cost Recovery
Costs associated with renewable energy purchased by regulated utilities pursuant to the RPS targets will be considered an integral part of each utility’s power supply portfolio and will be recovered through the annual power supply cost recovery process.

Suggested Alternative:

8. Compliance Reporting Requirements

\textsuperscript{3} The original staff strawman proposal included recommendations on Standard Offer Contracts. Any discussion on this issue will be handled by the Policy Team.
Each LSE will file an annual report regarding compliance in the previous year, explaining renewable resource plans in detail for the next 1 year, and providing a renewable resource plan forecast for the next 5 years. Regulated utility reporting will be part of the annual PSCR process at the PSC, and a reporting schedule and requirements for AESs will be developed.

**Suggested Alternative:**

9. **RPS Program Review**
   Every 3 years the PSC will review the RPS program and make recommendations on whether the RPS targets should be adjusted or if the RPS program should continue. The program may be suspended if RPS targets are regularly being met, REC prices are remaining very low (at or near zero), and the state has attained acceptable levels of renewable energy in the retail sales portfolio.

   **Suggested Alternative:**
   I’m not sure that making a decision on the continuance of an RPS should happen every 3 years – maybe once before the final target step. If the program is successful (targets are being met, cheap RECs) you should have the option of ratcheting the target up (as in Texas), but I don’t think you want to provide an easy mechanism for gutting the RPS. You could also coordinate/combine this step with the rate impact limit review.

10. **Other Related Policies**

    The Strawman proposal recognizes that additional policies may be important or even necessary to implement in conjunction with an RPS. The review and discussion of other policies is taking place in a separate process, through the Policy Team. Commenters on the RPS Strawman proposal are encouraged to simply list other related policies they feel are essential or very important to consider in conjunction with an RPS. Details of those proposed policies will be reviewed and discussed separately. MPSC Staff is now compiling a summary of which related policies have been implemented by other states that have RPSs, and will post that summary for review.

    **Suggested Other Related Policies:**

    Energy efficiency – DSM programs (appliance efficiency, building codes) these should be outside the RPS (i.e. not count as qualifying resources)
    State-level PTC
    Consider joining RGGI or another regional carbon trading market.
Comments by
Lowell Youngquist
Tom,

I just finished listening into the 1:30 to 3:05PM meeting and appreciate the amount of work you, Julie, and other members of the MPSC are putting into this RPS project. I was tempted to interrupt but decided to listen and provide written feedback.

My feedback

* Need to give credit for renewables already being generated which somewhere between 3 and 3.5%. Ratchet up 0.5% per year from the baseline. Interesting the MSEC revision of HB 4608 has the same increase.

The MPSC goal needs to be for the State of Michigan. If an utility is short, they can purchase RECs from another state provider that has a surplus above the target or pay a penalty. In the long term, the Utility can decide to buy RECs, pay penalties, or install their own Renewable Power System depending on economics.

* Use wording from the MSEC proposal to assure “Provider” means any person or entity that is business of selling electricity to retail customers in the state.'

* Yes, include municipals, coops, AESs and investor owned utilities plus Universities

* Need the RPS to have enough longevity (minimum of 10 years) to encourage long term financing not end after 3 years.

* Yes, we need a REC system and MSEC adopted much of what Don John’s proposed

* Need to have the enforcement entity be separate from the yearly reporting entity.

Respectfully,
Lowell
RES Americas

Comments by
Rodger Kershner
COMMENTS OF RES AMERICAS INC.
ON THE 21ST CENTURY ENERGY PLAN
RENEWABLES WORK GROUP
STRAWMAN RPS PROPOSAL

Introduction

RES Americas Inc. and its parent company, Renewable Energy Systems Ltd. of Great Britain, are among the largest, oldest and most successful developers, builders, owners and operators of commercial scale wind farms in the world. RES Americas Inc., headquartered in Austin, Texas, has constructed more than 900 megawatts of wind powered generating capacity in the United States so far, including projects currently in operation in the states of Texas, California, Washington and Nebraska. RES appreciates the opportunity to review and comment on the staff’s thoughtful draft policy for a renewable portfolio standard (RPS) for the state of Michigan.

RPS Load Serving Entities. RES agrees with the proposed scope of load serving entity (“LSE”) obligations under the Strawman policy. It is both desirable and necessary that load serving entities of every type, including investor-owned utilities, cooperatives, alternative electric suppliers and municipal utilities be included within the umbrella of the RPS plan. An all-inclusive plan is desirable for the obvious reason that the more load serving entities which are included in the program, the more renewable energy will be sold and displace the economically and environmentally less advantageous fossil fuel generation. But, it is also necessary that all load serving entities be included. To the extent that renewable energy may remain at a slight cost disadvantage to nonrenewable sources of power it is plain that if some LSEs were within the plan’s requirement and others were not, customers could migrate away from the LSE’s who participate in the RPS program in favor of LSE’s who do not, thereby frustrating the purposes of the plan.

RPS Targets. In conversations with members of the MPSC staff RES has been given to understand that the Strawman proposal section entitled RPS Targets would work as follows. By carefully examining the modeling done in connection with preparation of the Capacity Need Forum report and similar work to be done in connection with preparation of the 21st Century Energy Plan, the staff will recommend reasonably achievable levels of mandatory renewable generation, expressed as a percentage of total load in the state. Michigan LSEs presently have within their generation portfolio an average of 3% renewable sources, but the specific percentage by utility varies greatly from perhaps as little as 1% to amounts exceeding 10%. Staff proposes that the percentage of renewable resources in the average LSE’s portfolio at the beginning of the program, say 3%, would be established as the minimum level of renewable energy as a percentage of total load required on each individual LSE by the end of the second year of the program. Thereafter, the percentage minimum in each LSE’s portfolio would gradually increase to a number like, for example, 10% in 2015.

Assuming that the preceding paragraph correctly states the Strawman proposal, we are of the view that such a proposal is too modest. Michigan has significant renewables potential and
can bring much of it on line without significant delay. To begin to require an increase in the statewide renewables portfolio only after the end of the second year of the program - for practical purposes at the end of the third year of the program - represents an unnecessary postponement of start of the renewables program. We recommend some requirement of incremental renewable resources in every year of the program.

The President has recommended a nationwide goal of 20% of electricity generated from wind alone by the year 2020. A target for Michigan renewables of only 15% from all renewable resources actually represents a threat that other states might divert wind generating resources and the hedge against unreliable and expensive imported fuels wind resources represent from Michigan.

Other states such as Wisconsin and Missouri have embarked upon renewable portfolio expansion much more rapidly than the Strawman proposal suggests we do in Michigan. If one were to assume, for example, that legislation calling for adoption of an RPS program was introduced early in calendar year 2007, and that it was enacted midyear and required action by the Public Service Commission in order to supply implemental details, the earliest that a program could reasonably be expected to begin would be the beginning of 2008. As a consequence there will be no reason to expect meaningful additions to the state’s renewables assets until at the earliest January 2010. There is no apparent need for such a tentative rate of implementation.

We also suggest that the terminology in paragraph 2 of section 2 of the Strawman proposal that load serving entities be required to generate or purchase RECs “up to” the initial target amount be revised to read “equal to or greater than the initial target amount.”

**REC System.** RES strongly suggests reconsideration of the provision that only 75% of each load serving entity’s RPS target must come from renewable energy generated within Michigan. Renewable energy has the prospect of bringing two important advantages to the people of Michigan. First and foremost, is the obvious advantage of having a source of electric generation which does not present any risk of global warming, smog, acid rain, respiratory diseases or introducing carcinogens into the food or water systems. Wind power represents protection of Michigan’s economy from rising costs of oil, coal and natural gas, all of which must largely be imported into the state from other states or counties, many of which are politically unstable or represent active threats to the United States. Wind power represents energy freedom and it should be Michigan’s policy to do all we can to encourage its development.

At a minimum, it should be our policy that, to the extent that the LSE’s are permitted to obtain 25% of their renewable energy from other states or provinces, it should come from regions where Michigan resources could be used to meet similar requirements.

But the second important advantage is that in employing renewable sources of energy the state has the opportunity to reduce its reliance on imported sources of energy while at the same time attracting capital investment to the state, bolstering constructing and permanent employment, creating markets for local materials and services and enhancing tax revenues. To permit Michigan LSE’s to obtain at renewable energy credits from out of state sources is
tantamount to subsidization by Michigan customers of clean energy and new investment in other states. As a matter of policy and politics we think that is ill-advised approach.

**Rate Impact Limit.** RES urges the staff to describe in greater detail the criteria and mechanics of the adjustments mechanism being proposed. In general, the policy will be more useful and will be more readily received if any uncertainty regarding the future of the standard is understood by both the customers and suppliers of renewable energy.

**Cost Recovery.** RES agrees with the proposition that the load serving entities should be entitled to full recovery of any amount paid by them to honor their obligations under renewable portfolio standard rules and regulations.

**RPS Program Review.** Paragraph 9 of the Strawman proposal would require the Public Service Commission to review the renewable portfolio standard, its performance and the actual incorporation of renewable energy sources into the energy mix in determining whether to “make recommendations” for the continuance of the program or the adjustment of the RPS standard. Clarification is sought on this item. We request clarifying details regarding this aspect of the Strawman proposal. Does this proposal mean that the Public Service Commission recommendations would be sent to the legislature for amendment of the statute establishing the renewable portfolio standard or, will the MPSC have power to adjust the standards? Similarly, the suggestion that the program could be suspended is lacking in specificity would the Commission have suspension authority or would that authority reside with the legislature? If the authority is with the Commission would any standards be suggested in the Strawman proposal for criteria for suspension?

RES Americas, Inc. congratulates the state of Michigan and the Michigan Public Service Commission staff for this initiative, and looks forward to the opportunity to develop commercial wind generating facilities in Michigan in the near future.

Respectfully submitted,

Howard & Howard Attorneys PC

/s/Rodger A. Kershner  
Rodger A. Kershner  
Attorneys for RES Americas Inc.
US DOE Comments

By

Ryan Wiser and Ed Holt
Date: June 20, 2006

To: Tom Stanton, Michigan Public Service Commission

From: Ryan Wiser and Ed Holt

Subject: Comments on Straw RPS Proposal

The paper “Elements of the Staff Strawman Proposal” appears to be the key document soliciting comments, and our comments therefore relate to this proposal (we do not offer comments on the other documents at this time). We specifically focus on the proposal on the website, not the earlier one provided to us by Tom Stanton.

1. RPS Load Serving Entities

Many states have seen fit to exempt certain suppliers from the RPS. Sometimes these exemptions apply to all publicly owned utilities, while in other cases exemptions are more targeted (small load-serving entities (LSEs), rate-sensitive industrial customers, etc.). We take no position on this topic, other than to note that for various political and practical reasons exemptions are rather common. We have attached a PowerPoint summary of state RPS experience, which contains some slides near the end on the kinds of exemptions that other states have employed, as an FYI. At a minimum, it may make sense to exempt certain very small load serving entities. You also need to think about who will monitor and regulate the compliance of publicly owned utilities under the RPS.

2. RPS Targets.

The way in which future year targets are applied (e.g., on an annual basis, based on either current year or previous year retail sales) should be more clearly indicated. We might recommend basing the percentage targets on previous year sales, since sales can vary from what was forecast, creating some uncertainty on the actual renewable energy purchase requirement if based on current year sales. You should also be clear that the terminal RPS target (10%?) will remain constant for at least 10 years after first being achieved, to ensure renewable energy market stability.

The proposed alternative compliance payment is 2x the previous year’s REC price. We would suggest that you make the ACP a specific cents/kWh value (e.g., 3 cents/kWh for all shortfalls). This has two advantages to the 2x REC price approach. First, it provides a real cap to the cost of the RPS as a whole, if the costs of ACPs are recoverable in rates. Under the 2x REC price approach, the ACP does not act as a cap on costs. Second, it is not always the case that liquid REC markets will develop with a clearly identifiable average REC price. This is especially the case in still-regulated electricity markets where suppliers often buy RECs along with the underlying electricity. As such, 2x the previous year’s REC price may not be as easily determined as currently assumed. Finally, you will need to specify the conditions under which these ACPs are recoverable in rate: (1) all cases (true ACP); (2) only when demonstrated to be the least cost compliance option (partial ACP), or (3) never (true penalty). There is experience with all three of these
options in other states, and pros and cons for each. The approach taken here will also
determine whether the ACP is really a cost cap, or whether it is simply a penalty. I have
also attached a presentation that covers RPS costs, which at the end describes how
various other states have attempted to limit the cost impacts of state RPS requirements.

3. Eligible/Qualifying Resources.
We recommend that you at least consider limiting the RPS to “new” facilities, or limiting
out of state facilities to new projects. Otherwise, we would expect that at least the 25%
of the target that can be delivered from other states is quite likely to come from existing
hydroelectric or other renewable energy facilities in the broader region, with little/no
effect on the regional resource mix. If existing facilities are included, you will need to
determine REC ownership in the case of QFs.

Keeping with our emphasis on the importance of RPS simplicity and also to ensure
credible consumer marketing, we urge you to not include green pricing in the RPS under
any circumstance. This would be seen as double counting, and would shift the cost of
compliance to those more supportive of renewables. It could also undermine the
motivation of those willing to voluntarily pay for more renewables if they understand that
their purchase won’t really make a difference by adding renewables above and beyond
what is required by the RPS. If you wish to encourage better green pricing programs, we
suggest that be done separately. As to net metering, we agree that the RECs from net-
metered or self-service systems should generally be acquired by the utilities for fair
market value in order for it to count towards the RPS, absent changes to the net metering
legislation.

We would recommend that you clarify the treatment of: (1) multi-fuel or co-firing
applications (presumably, the renewable energy fraction should qualify); and (2) whether
only electricity generation technologies will be eligible (vs. thermal; we recommend
keeping it simple, and focused on electricity generation technologies).

4. REC System.
To address RECs, we suggest that this section include:
• Definition of a REC, and what attributes are required in order to satisfy compliance;
• Denomination of a REC, e.g. a REC equals one MWh of eligible renewable energy
production;
• Compliance with the obligation is to be met by retiring RECs;
• REC banking (2 years already proposed)
• REC tracking and accounting system to be established, e.g. MRETS;
• Ownership of RECs from QF contracts that are silent on which party owns the RECs,
and from net metering.

The proposed requirement for sourcing 75% of the obligation from in-state facilities
should perhaps be covered in section 2 on RPS Targets, or section 3 on
eligible/qualifying resources. The same goes for certifying eligible renewable facilities.
While we certainly understand the desire to ensure that a certain amount of the renewable energy development occurs within Michigan, and are not opposed to the 75% requirement, we do note that this will be open to legal challenge under the interstate commerce clause. You may wish to consider alternative approaches to encouraging in-state renewable resource development, if you have not already done so (we suspect you have already gone through that thinking).


This is a complex subject. The simplest path would be not to have a central procurement agent (or standard offer contracts), but rather to require that LSEs (or at least regulated LSEs) procuring energy/RECs enter into long term contracts of perhaps 10 years for a minimum percentage of their obligation, say 75% (although some states require 100%).

It is not entirely clear why a central procurement agent is called for—while we think there is a role for such central procurement in some markets, we are not yet convinced that Michigan is one of those markets. Unless you believe that such a mechanism is either politically or practically necessary, we would recommend that you not complicate the RPS with this addition. Or, alternatively, allow the creation of such an agent, but leave the details and even whether it is created for later.

We note that we also have concerns with the combined RPS/standard-offer-contract approach recommended in an earlier iteration of the proposal, but since that is now removed, we will not further comment on it here, with one exception. If you proceed with this combination of RPS and feed-in tariff, it might be attractive to limit the SOCs to eligible projects under a certain size threshold (e.g., 10 MW), as Ontario has recently proposed, in order to encourage local, distributed generation.

6. Rate Impact Limit.

One of the key lessons learned about renewable energy policy over the last 10 years is that policy stability is extremely important. The threat of adjustments to targets could be a fatal flaw to an RPS because developers will be reluctant to invest in new facilities if they risk changes to the obligation levels. Further, LSEs and utilities will be reluctant to enter into long-term contracts with this risk hanging over them. We recommend removing this language and maintaining consistency over a capital investment time horizon. If there are cost concerns, develop a true cost cap, but do not insert policy instability every time the percentage obligation is scheduled to increase.

7. Cost Recovery.

Current language is fine, but you might want to make clear that only prudently incurred costs will be recovered. You will also need to note under what conditions ACP payments will be recoverable (there are tradeoffs here, and it depends on the purpose of the ACP: is it intended to act as a penalty, or a cost cap/safety valve?). Finally, it may make sense to note whether contract pre-approval will be offered. We recommend an affirmative answer to this last question.

8. Compliance Reporting Requirements.
Language looks fine. Legislation should delegate to the PSC to determine the precise content of these filings.

9. RPS Program Review.
“Every 3 years the PSC will review the RPS program and make recommendations on whether the RPS targets should be adjusted or if the RPS program should continue.” See comments on section 6 above. If this language is retained, then it is also necessary to specify whether these are just recommendations to the legislature, or whether the PSC has the authority to alter the RPS percentage requirements, or even suspend the policy, without new legislation. If the latter (which we don’t recommend), then the legislation should be very clear about the specific conditions under which the percentage targets can be altered or eliminated, so as not to leave too much regulatory discretion and the resultant uncertainty.

10. Other Related Policies.
No comments at this time.