Michigan Planning Consortium

Round 2 Questions for MPC Report
from 4/20/09 MPC Meeting
Responses due 5/8/09
Submit responses to: colec1@michigan.gov

1. Consumers Energy introduced the possibility of continuing the MPC on a much smaller scale focused on hot topics. Excerpts from their written comments are shown below. Please provide your feedback on the proposed hot topic concept.

   > Consumers Energy recommends that many of the Michigan issues likely to be addressed in the MTEP planning process should be vetted in a Consortium meeting prior to the MTEP process, since the bulk of the state is in the Midwest ISO footprint. Consumers Energy believes this can be handled by adding a couple of Consortium meetings to discuss current and emerging issues and load forecasts prior to the MTEP process.
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   > In establishing the agenda for issues that participants want discussed, the parties involved in the process should be polled for "Hot Topic" issues.
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   > As stated earlier, Consumers Energy recommends the Consortium be reconvened as a periodic meeting to prepare for and support the Midwest ISO Transmission Expansion Planning process. Consumers Energy also believes there are opportunities to bridge the work done as part of the Michigan Planning Consortium with the work to be done as part of the Michigan Technical Workgroup at the Midwest ISO.

2. The following recommendations were made by individual entities within their 1st round of comments. Please provide your feedback on each of the proposals. Are these issues that should be addressed by the MPC now or at some point in the future?

2.1 Consumers Energy suggests that the issue of a common cost allocation position for EHV transmission should be addressed.

2.2 Within the Generation Integration Group – consortium should address how transmission network upgrade cost sharing will apply if upgrade is made in advance of developer's commitment to build.

2.3 How are benefits of transmission to be defined? How should qualitative benefits be portrayed in a cost/benefit analysis. What weight do qualitative benefits receive?

2.4 What role will lower voltage distribution systems play in accommodating RPS mandate?

2.4.1 What function will lower voltage lines serve? Transmission?

2.4.2 What requirement is there to build to serve?

2.4.3 If lower voltage system viewed as "transmission" by FERC, does utility have obligation to connect developers to accommodate inter-state transactions?

2.4.4 What is state's expectation with respect to utility's charging FERC Wholesale Distribution Charge to developers connecting to the utility system.

2.4.5 What part will the lower voltage system play in a broader transmission build to serve RPS generation?

2.4.6 Who is to build "feeder" system to move RPS generation from site to grid?

2.5 What role do private developers have compared to utility development of RPS resources. What are expectations of Commission?

2.6 What role should the Planning Consortium play in assuring that information requested of transmission developer during MTEP process is provided on a basis sufficient to enable review of projects and, if desired, the development of alternative solutions?

3. The following recommendation was made for the MPC to consider recommending an expansion of PA 30 to the legislature to include all facilities 100 kV and above. The proposal is included below. Please provide your feedback on this proposal.

> Michigan stakeholders should be encouraged to participate in the Midwest ISO transmission planning process and attempt to address their issues in that venue. That being said, the Midwest ISO transmission planning process is not a contested regulatory process and there is no specific way to adjudicate differences of opinion. If there is a disagreement on the need for a transmission project, the Midwest ISO will defer to the transmission owner's request to include the project in the MTEP with a potential discussion of the opposing position.
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> As a result, the Act 30 certification proceedings for new transmission lines should be maintained and expanded to include all transmission lines greater than 100 kV. The certification proceedings would allow the impact of the proposed project on the customers in Michigan to be adjudicated by interested stakeholders.

4. Please provide a response to the written comments received from Constellation New Energy. How should these comments be handled within the report? Are there points within these comments that have not already been addressed in the previous questions that should be detailed in the MPC report to the Commission? The comments have been provided below for reference.

To: Tom Stanton
From: Jack Dempsey
Date: March 20, 2009

On behalf of Staff, you have requested that participants in the Michigan Planning Consortium's Generation Integration Workgroup provide comments on a future approach to electricity infrastructure planning and review in Michigan. As we understand it, your stated goal is to recommend an approach that would optimize infrastructure/reliability planning as a whole and devise appropriate policy in a final report to the Michigan Public Service Commission (the "Commission") in U-15590.

Constellation NewEnergy, Inc. and Constellation Energy Commodities Group, Inc. (collectively, "Constellation") appreciate the opportunity to provide such a recommendation regarding the Commission's role in infrastructure planning and review. Constellation understands that the Commission is evaluating the benefits of an Integrated Resource Plan ("IRP) approach. As part of that evaluation, Constellation encourages the Commission Staff to consider making the following determinations:

(1) Require electric utilities to consider and evaluate the use of competitive procurement processes under any certificate of necessity ("CON") process;
(2) Foreclose utilities from taking action that hinders the development of retail competition;
(3) Subject any utility projects – for base load generation or otherwise - to competitive bid; and
(4) Encourage Smart Grid strategies that provide the maximum amount of value to all consumers.

BENEFITS OF COMPETITION

Competition - at the wholesale level for procuring the generation needed by electric utilities, and at the retail level for customers that choose to shop – will keep costs as low as possible and produce a number of benefits that are aligned with the Commission's goals for the future of the Michigan electric market. Additionally, encouraging participation of competitive market principles will maximize the value of any Smart Grid development in Michigan.

Benefits of Wholesale Competition

• Competitive procurements provide appropriate market signals. In cases where consumers do not pay actual market prices, they have little or no incentive to reduce consumption during times when production costs are significantly higher (or defer consumption to periods in which there is lower system demand). Since costs may be substantially higher at these times, the potential for savings should not be overlooked. Moreover, demand response programs, which provide the tools and incentives for electricity customers to

reduce their consumption at critical times or in response to market prices, provide relatively low-cost means of guarding system reliability.

• Utilities should be required to enter into full requirements contracts, for all or a portion of their IRP, which achieves several benefits. First, a full requirements procurement structure relieves the Commission or utility from active portfolio management responsibility, and instead places the planning responsibility into the hands of the winning full requirements suppliers, who have extensive experience in managing portfolios. In doing so, full requirements procurement demands far less regulatory involvement in evaluating the specifics of a procurement plan to assess whether the utility is buying the "right" products, in the "right" amounts, and at the "right" times. Second, this approach yields the lowest fixed price at which these customers can be served, so it provides a fully competitive price while at the same time minimizing short term price volatility and insulating customers from other risks that would be borne by the full requirements suppliers. Third, it will offer an efficient way to bring the benefits of wholesale competition to residential and small commercial customers that do not select alternative retail electric suppliers.

Benefits of Retail Competition

• The ability and information to make decisions and have choices regarding their electric power needs -- just as they do with the telecommunications, natural gas, and airlines industries, which were previously under a monopoly system of regulation.

• A superior platform to promote demand response and energy efficiency than traditional cost-of-service regulation. Competitive suppliers currently offer demand response, energy efficiency, and green products and services.

• A competitive market model will allow the marketplace to respond to any future (federal or state) climate regulation in the most cost competitive manner. Without such competitive forces, Michigan's customers will be forced to bear the entire burden of costly climate change regulation.

Requirements For New Generation Facilities

• **Mandate the use of a Competitive Bidding Process**. Consider safeguards to minimize risks to customers and suppliers. Among other things, the Commission should require that incumbent utilities demonstrate: (1) a need for additional energy and/or capacity considering all available resources, including resources available in the region and regional planning initiatives; (2) that the type of plant construction being proposed is the proper plant to build, and; (3) that the proposed cost of the new facilities is just, reasonable,

and prudent, as demonstrated through a competitive bidding process. The solicitation of competitive bids will ensure that Michigan consumers who will ultimately pay for the costs of a new plant will get the benefit of a quality, lowest cost product, rather than foot the bill for utility-built plants that have historically been the subject of gross cost overruns. Electric customers – both bundled and retail choice – are still paying the costs (through securitization assessments) of the last time the incumbent electric utilities built or tried to build new generating facilities. The utilities should be held to the lessons of the past and should not be permitted to again require Michigan consumers to pay the costs for their mistakes. This reasoning applies equally to other utility projects, as well.

• Allowance for Funds Used During Construction ("AFUDC") offset be utilized for Construction Work in Progress ("CWIP") during the construction of new generation facilities, and limit rate recovery to that time only after a plant is put into service. The electric utility seeking to recover the costs of plant construction should bear the burden of financing the construction until such point as the plant actually begins producing electric power for the benefit of the utility's ratepayers. Such a safeguard helps protect ratepayers from unnecessary or unsuccessful plant investment. Michigan history is replete with examples of utility plant construction plans gone awry. Detroit Edison's Fermi II power plant is but one example. The plant was originally scheduled to be completed in 1980, with total projected costs under $1 billion. However, the plant was not completed until 1985, did not go on-line until 1988, and exceeded $5 billion in total cost. Had Edison been permitted to include CWIP without an AFUDC offset, the cost of the new plant would have gone into Edison's rate base for an extended period of time without any corresponding benefit to the affected ratepayers. Such a result must be avoided if at all possible.

Effective Smart Grid strategies

• An effective Smart Grid strategy should direct significant attention to demand-side resources currently in play, and their increasing role in the future as part of a Smart Grid, including allowing customers to bid in to markets. Demand response programs for commercial and industrial customers, in particular, bring a number of significant benefits to consumers, including but not limited to:

a) Strong rates of return and typically relatively low investments on a dollar/MW basis.
b) If properly structured, provide the ability to leverage private funds from competitive demand response providers.
c) Capable of faster implementation that exists with larger infrastructure projects.

d) Reduce the need to run older peaking generating units, which typically have high emissions rates.

One of Michigan's very first Smart Grid objectives should be to maximize participation of commercial and industrial customers in demand response programs.

• Encourage the treatment of demand resources on a comparable basis to supply resources. This parity will enable greater demand elasticity for all rate classes, resulting in a better functioning market and a more reliable grid. Additionally, utility supply-side investments should always be made with consideration of demand-side resources and their capabilities in mind. In other words, if properly enabled, demand-side resources can often be substituted for many types of supply-side resource investments including new peaking plants, new transmission lines, new substations, new capacitor banks, etc. Properly enabling demand resources to serve these functions will require work in several areas including building automation systems, communications protocols, and extensive public education – all appropriate issues for the Initiative to explore.

• Opportunity to involve non-utility parties - including demand response providers, energy services companies, building automation companies, and end-user groups - into Smart Grid discussions and solutions. It is these groups that have lead much of the Smart Grid innovation in the U.S. to date, and it is these groups that will be making the required investments on the customer's side that are needed in order to achieve a Smart Grid.

Conclusion

Constellation commends the Commission and Staff in taking this pro-active look at infrastructure planning and review as a means of meeting Michigan consumers' electricity needs in the future. As articulated above, Staff's final report to the Commission in the Michigan Planning Consortium regarding the optimal approach to infrastructure planning and review should include the following elements:

(1) Require electric utilities to consider and evaluate the use of competitive procurement processes under any certificate of necessity ("CON") process;
(2) Foreclose utilities from taking action that hinders the development of retail competition;
(3) Subject any utility projects – for base load generation or otherwise - to competitive bid; and
(4) Encourage Smart Grid strategies that provide the maximum amount of value to all consumers.