

# ELCON FALL WORKSHOP

## Low Carbon Electricity: Will the Technology Shift Be There?

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# New Michigan Statutes Mandating Low-Carbon Electricity

3 Bills signed into law with immediate effect on October 6, 2008:

- Removed utility risk
- Energy efficiency and RPS mandates
- Michigan income tax credits for energy efficient appliances

## Risk Removal (2008 PA 286)

File and use rates with 180 day suspension.

Rates go into effect after 12 months if no MPSC order.

Projected expenses allowed.

Pre-approval of new construction and power purchase agreements (CON).

- 110% of approved cost is reasonable;
- Review limited to plus 110% cost overruns;
- Approval also covers fuel and plant type;
- Financing costs in rate base during construction.

## Risk Removal (2008 PA 286) (cont'd.)

Sourcing power purchases from 3<sup>rd</sup> parties limited to 10% of sales.

5 year phase-in of cost-based rates – 2.5%/year impact limit.

Approves production cost allocation based on 75% of energy use.

# Energy Efficiency and RPS (2008 PA 295)

- Each regulated utility must file a “renewable energy plan” within 90 days.
- Plan must:
  - Explain compliance strategy
  - Use 20 year time horizon
  - Describe the bidding process
  - Describe the cost recovery mechanism
- Approval required if life cycle cost of renewable energy less energy efficiency savings is less than life cycle cost of a conventional coal plant.
- Separate requirements for 3<sup>rd</sup> party suppliers, co-ops and munis.

# RPS Standards

## RPS standard for large utilities

- 200 MW by 12/31/2013
- 500 MW by 12/31/2015

## RPS standard for larger utilities (>2 million customers)

- 300 MW by 12/31/2013
- 600 MW by 12/31/2015

10% of amount may be met by REC's and clean coal

Utilities may own up to 50% of renewable energy systems

# RPS Payment Methods

Monthly per meter fees:

- \$3/meter/month residential
- \$16.58/meter/month commercial
- \$187.50/meter/month industrial

Market cost calculation in fuel clause.

All other costs deferred with a return and collected over 5 years after 20 years.

# Energy Efficiency

All gas and electric utilities must file Energy Optimization Plans.

Plans shall describe costs, cost recovery mechanism, ensure class cost recovery is for that class' program except all classes will pay for low income program.

Goal for electric: minimum energy savings based on prior year's weather adjusted sales or prior three year's average sales (1 time election)

- .3% during 2008-09
- .5% during 2010
- .75% during 2011
- 1% each year, 2012-2015

## Energy Efficiency (Cont'd.)

### Goal for gas:

- .1% during 2008-09
- .25% during 2010
- .50% during 2011
- .75% each year, 2012-2015

Gas sales decoupling

Rate caps on compliance costs

Low income program funded by other classes

Self-directed plans for large users – no surcharges except for low income

Financial penalties for not achieving goals

# Wind Energy Resource Zone

## Wind Energy Resource Zone Board

- Mission is to study and report on wind potential and location
- MPSC will designate “primary” zones
- Expedited transmission line siting approval into primary zones if RTO has approved line

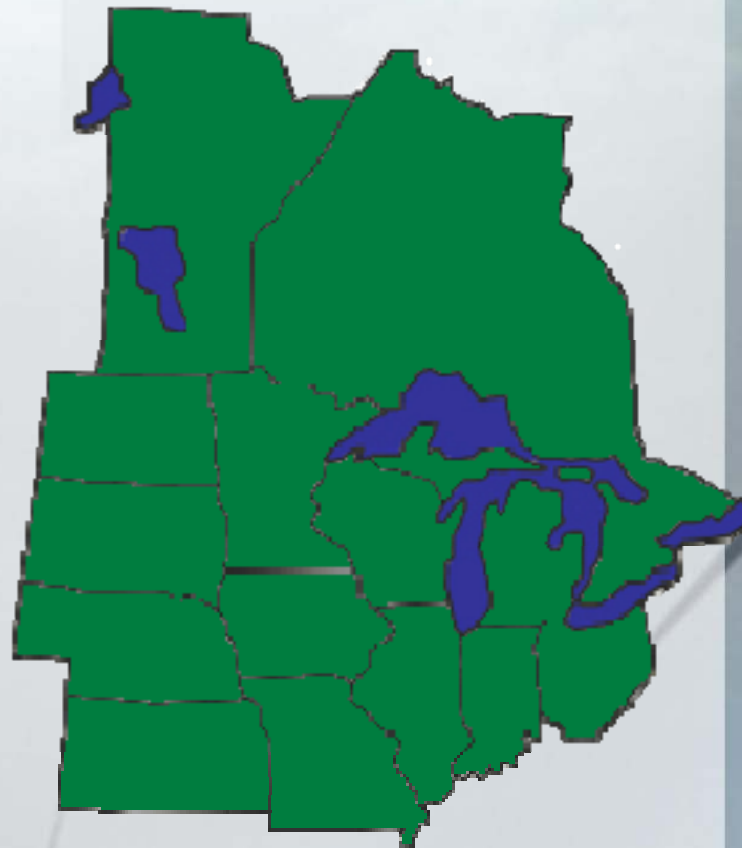
# Midwestern Accord Overview

- Establishes GHG reduction targets and timeframes
- Develop a market-based and multi-sector cap-and-trade mechanism to help achieve GHG reductions targets
- Establishes an advisory groups composed of representatives from the public, private, non-governmental institutions to make recommendations to jurisdictional leaders

# Midwestern Accord

## 12 States:

- Illinois
- Indiana
- Iowa
- Kansas
- Michigan
- Minnesota
- Missouri
- Nebraska
- North Dakota
- Ohio
- South Dakota
- Wisconsin



12-State MGA Footprint plus Manitoba and Ontario

# Midwestern Accord Timeline

- July 2008 – Establishes targets for GHG emission reductions
- November 2008 – Complete development of proposed Cap & Trade agreement and model rule
- July 2010 – “Complete the undertaking”

# Midwestern Accord Subgroup Status

## Scope:

- Preliminary recommendation, subject to modeling, that cap and trade program will cover electricity and large industrials (just under half of regional emissions)

## Major questions:

- Which complementary policies will be recommended to supplement for greater economy-wide coverage?
- How will implementation be assured?

# Midwestern Accord Target-Setting Subgroup

Subgroup has recommended (subject to modeling):

- 15-25% reduction from 2005 levels by 2020
- 60-80% reductions by 2050
  - 2005 baseline levels
  - Generally consistent with MN statutory and IL executive order targets

Targets will be reviewed periodically based on evolving science and technology and on results of program to date.