



**House  
Legislative  
Analysis  
Section**

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COGENERATION: DEFINE "AVOIDED COST"

**RECEIVED**

SEP 13 1988

House Bill 5243 as introduced  
Sponsor: Rep. Ken Sikema  
Committee: Public Utilities

Complete to 8-24-88

**A SUMMARY OF HOUSE BILL 5243 AS INTRODUCED 12-30-87**

Federal law and regulatory rulings require state public service commissions to set rates for utility companies' purchase of power from cogenerators (facilities which simultaneously produce electric and thermal energy from a single source) and small power producers. The rates are to be based upon the costs avoided by the utility (known as "avoided costs") because of its reduced need to generate electricity or to purchase power from another source.

The bill would add a section to the Public Service Commission act to specify the rates under which a public utility would be required to buy power from a cogeneration or small power production facility.

More specifically, the bill would allow the Michigan Public Service Commission (MPSC) to (a) require a public utility to buy power from a "qualifying facility" (that is, a qualifying cogeneration facility or qualifying small power production facility as defined in federal law), (b) establish the terms and conditions of a power sales contract (including rates), and (c) review and approve all power sales contracts.

Rates under which a public utility would be required to buy power from a qualifying facility could not be less than what it would have cost the utility to generate itself or to buy from another source.

The bill would require that by January 1, 1988, public utilities buy at least 600 megawatts of electricity from cogeneration and small power projects (though public utilities could not own, directly or indirectly, more than 20 percent of the qualifying facilities in question). After January 1, 1989, the MPSC could increase the megawattage that public utilities were required to buy from qualifying facilities, up to an amount constituting 20 percent of the state's electric capacity.

MCL 460.6p

House Bill 5243 (8-24-88)