Legislative Analysis

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REALLOCATE ELECTRICITY COSTS TO DIFFERENT CUSTOMER GROUPS; ADOPT NEW SCHOOL RATES & LOWER "ECONOMIC INCENTIVE" BUSINESS RATES

House Bill 5522
Sponsor: Rep. Philip LaJoy
Committee: Energy and Technology

Complete to 12-19-07

A SUMMARY OF HOUSE BILL 5522 AS INTRODUCED 12-4-07

The bill would require the Public Service Commission (PSC) to adopt new methods of allocating costs to different groups of electric customers and, with certain exceptions, to set rates in accordance with the mandated cost-allocation methods.

Some customers, however, would qualify for special rates: (1) schools, universities, and community colleges; (2) customers with "interruptible" service, who use electricity during preferred seasons or times of day, or who are able to shift their use to "off-peak" times; and (3) businesses eligible for reduced "economic incentive" rates, described below. The PSC would have to impose a surcharge on all customers to pay for the discounted "economic incentive rates" to eligible businesses.

Utilities would have to file new tariffs for school rates within 90 days of the bill's effective date. The PSC could phase in changes to the rates of primary customers (those with service using at least 2,400 volts) over three years (over seven years for other customers) to minimize the impact of new rates. The PSC would also have to adjust rates paid by alternative energy supplier customers during these phase-in periods.

MCL 460.11

More details are provided below.

General methods of cost allocation. In general, the PSC would be required to adopt electric rates that "reflect the cost of providing service to each customer class." Currently, customer classes consist of residential, commercial, and industrial, and subclasses within these groups. The bill would have the PSC define a customer class based on the voltage level at which the customer receives service.

There are many different ways that "the cost of providing service" could be calculated or allocated. The bill's approach is to divide costs into three categories—(1) production-related and transmission, (2) fixed, and (3) variable—and to establish a formula for allocating costs by category, as follows:

- Production-related and transmission costs would be allocated using a "75-25" method (75 percent demand/25 percent consumption). 75 percent of total capacity costs would be based on the demand of each customer class and 25 percent would be based on the level of electricity consumption of each class. The "demand" of a customer class would be the amount the class contributes "to the average of the utility's 12 monthly system coincident peak demands for the relevant 12-month period."

  [Note: Peak demand times vary somewhat by utility but tend to come in the morning between 7 and 9 a.m. and between 3 and 9 p.m. Generally speaking, "coincident peak demand" refers to demand by customers or a class of customers that coincides with times of peak demand, those times of day when both residential customers and non-residential customers are using a lot of electricity.]

- Fixed costs would be allocated based on the demand of each customer class, calculated in accordance with the bill. As previously described, the "demand" of a class of customers would be its share of a utility's coincident peak demand averaged over 12 months. Fixed costs are not defined in the bill but would presumably include things such as equipment or personnel.

- Variable costs (costs that vary with the number of customers) would be based on the number of customers in each class.

Special school and university tariffs. Notwithstanding the general cost allocation methods mandated by the bill, the PSC would have to establish retail electric rates for public and private schools, universities, and community colleges that would both reflect "the actual cost of providing service" and "fully reflect their unique load characteristics." Within 90 days of the bill's effective date, utilities would have to file tariffs with the PSC for schools, universities, and community colleges. [It is not clear whether a college that is not a community college would qualify for these special lower rates under the bill as currently drafted.]

Additional factors to be reflected in rates. Notwithstanding the general cost allocation methods mandated by the bill, rates would also have to reflect cost differences based on:

- The time of day and season of the year.
- The ability of a customer to shift usage from peak to off-peak periods.
- "Interruptible" service." ["Interruptible service," generally speaking, refers to a voluntary contractual arrangement under which a utility customer agrees to reduce a portion of their consumption during periods of extremely high demand (such as a summer heat wave) in return for year-round discounted rates.]

Possible phase-in of rates based on new cost-allocation formulas. The bill would allow, but not require, the PSC to phase in cost-based rates over a period of years if necessary to minimize the impact on customers:

Possible Phase-in Period for Cost-based Rates

Primary Customers	Secondary and Residential Customers
Up to 3 years	Up to 7 years

"Primary customers" are defined as those receiving service at a nominal voltage level of at least 2,400 volts. "Secondary customers" are nonresidential customers receiving service at less than 2,400 volts.

Adjustment of rates for "choice" customers. During phase-in periods, the PSC would also have to adjust the rates "choice" customers receiving service from alternative electric suppliers upward or downward by customer class "to reflect the full amount by which the rates in effect for other customers in the same customer class differ from actual cost of service." The differential could be allocated on a per-customer basis.

Discounted "economic incentive" rates and contracts. Notwithstanding the general cost allocation methods mandated by the bill, the PSC would have to establish one or more "economic incentive rates" or approve one or more "special contracts" designed to attract or retain industrial or commercial facilities in Michigan.

Eligibility for discounted "economic incentive rates." The PSC 's eligibility policies for these discounted rates would have to consider the following factors:

- Have the facilities received a competitive and verifiable economic incentive rate from another state or jurisdiction?
- Are they in an energy-intensive industry? [Note: The bill does not define "energy-intensive industry."]
- Do the facilities create significant jobs, tax revenue, or other economic benefits to Michigan?
- Are the facilities eligible for and have they received economic development incentives from the Michigan Economic Development Corporation?
- Are the facilities engaged in a "competitive edge technology," as defined in Section 88a of the Michigan Strategic Fund Act (MCL 125.2088a)? [Under that section, the following technologies are considered "competitive edge": (1) life sciences; (2) advanced automotive, manufacturing, and materials; (3) homeland security and defense, and (4) alternative energy.]

Up to five percent of a utility's primary load available at "economic incentive" rates. The annual aggregate amount of electricity available at discounted "economic incentive" rates could not exceed five percent of a utility's primary load.

Surcharge on all customers to pay for discounted rates to eligible businesses. The PSC would have to impose a surcharge on all customers to pay for the discounted "economic incentive" rates provided to eligible businesses.

Tie-bars. The bill is tie-barred to the following bills, meaning that it will not take effect unless all of the bills are enacted:

House Bill 5520 (Miller) (PSC approval of certain utility asset sales)
House Bill 5521 (Gaffney) (PSC certifications)
House Bill 5523 (Clemente) (implementation of proposed rate increases after 90 days)
House Bill 5524 (Accavitti) (modify choice program)
House Bill 5525 (Angerer) (energy efficiency)
House Bill 5548 (Mayes) (renewable portfolio standards)
House Bill 5549 (Palsrok) (renewable portfolio alternatives)
House Bill 5383 (Brown) (allow electricity co-ops to set rates without PSC approval)
House Bill 5384 (Nofs) (loosen restrictions on municipal utility joint action agencies)

FISCAL IMPACT:

House Bills 5520-5525 are expected to be tie-barred to other pending bills in both the House and the Senate, so this analysis is preliminary. This group of six bills is expected to require the addition of 25 to 30 staff to the Michigan Public Service Commission to administer the new programs and standards and the resulting caseload. The cost of this additional staff is estimated to be $1.5 million to $1.8 million, assuming that this many staff can be added to the existing MPSC office space.

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