



January 11, 2019

Sally A. Talberg
Chairman
Michigan Public Service Commission
7109 W. Saginaw Highway
Lansing, MI 48917

Re: Case U-20162; Comments of the Alliance for Industrial Efficiency

Dear Chairman Talberg,

The Alliance for Industrial Efficiency (the “Alliance”) appreciates the opportunity to submit our public comments in DTE Energy Case U-20162. The Alliance is a diverse coalition that includes representatives from the business, labor, contractor, and academic communities, including over 200 member companies in Michigan alone. We are committed to enhancing manufacturing competitiveness and reducing emissions through industrial energy efficiency, particularly through the use of clean and efficient power generating systems, such as combined heat and power (CHP) and waste heat to power (WHP).

The Alliance has a track record of engagement on standby rate design in Michigan. In March 2017, the Alliance submitted public comments¹ urging the Michigan Public Service Commission (the “Commission”) to review each Michigan utility’s standby tariffs to ensure that rates are equitable and correlated to cost of service. We also supported the adoption of the model tariff² put forth by the Midwest Cogeneration Association (MCA), which would help Michigan utilities achieve fair rates, accurate cost recovery, and reductions in peak load. In addition, in February 2018, we submitted public comments³ to the Commission, which broadly support the Administrative Law Judge’s Proposal for Decision⁴ and recommendations for standby rates, including equitable cost allocation and a proposal for reconvening the Standby Rate Working Group to consider standardizing and clarifying standby tariff terms and conditions.

¹ Alliance for Industrial Efficiency, Mar. 17, 2017, “Re: MPSC Standby Rate Working Group – Combined Heat & Power Comments and Recommendations of the Alliance for Industrial Efficiency” (<https://bit.ly/2Fm22rh>).

² Midwest Cogeneration Association, Oct. 14, 2016, “Conceptual Model Standby Rate Tariff” (https://www.michigan.gov/documents/mpsc/mca_conceptual_model_545588_7.pdf).

³ Alliance for Industrial Efficiency, Feb. 28, 2018, “Re: Case U-18255; Reply to Exceptions; In the matter of the application of DTE ELECTRIC COMPANY for authority to increase its rates, amend its rate schedules and rules governing the distribution and supply of electric energy, and for miscellaneous accounting authority; Comments and Recommendations of the Alliance for Industrial Efficiency” (<https://bit.ly/2RldCTs>).

⁴ Michigan Public Service Commission, Jan. 26, 2018, “Proposal for Decision: Case No. U-18255” (<https://mi-psc.force.com/sfc/servlet.shepherd/version/download/068t000001f74PAAQ>).



While the Commission decided not to accept the ALJ's recommendation to continue the Standby Rate Working Group in its final (April 2018) order, it took important, positive steps, such as rejecting DTE's proposed increase in standby rates, finding that the utilities have been overcharging standby customers, and recommending that utilities establish standby tariffs that prorate base tariff charges based on the forced outage rates of the best-performing generators.

We are writing now to express our concerns with DTE's proposal and to ensure that DTE's electricity rates are consistent with the MPSC's April 2018 decision. We have three main concerns about DTE's proposal. Namely, DTE proposes to:

1. Increase its rates by increasing power supply capacity charges and distribution charges for *all customers*, regardless of whether they are standby customers who use the grid infrequently;
2. Increase its standby rates by increasing power supply capacity charges for standby customers and by ignoring the Commission's direction to incorporate forced outage rates in the calculation of the generation reservation fee; and
3. Increase its distribution charge rate with no proration for standby customers, and with no study to support its claim that standby customers impose the same costs on the distribution grid as full requirements customers.

Addressing these three rate increases would help remove barriers to the further deployment of CHP and WHP in Michigan, which would ultimately benefit all ratepayers, as outlined below.

About CHP and WHP in Michigan

By generating both heat (thermal energy) and electricity from a single fuel source, CHP dramatically increases overall fuel efficiency – allowing utilities and host companies to effectively “get more with less.” CHP can operate using more than 70 percent of fuel inputs – compared to fossil-fueled power plants, which have an average efficiency of 33 percent.⁵ Due to its scale, a single CHP investment can achieve significant emissions reductions. WHP, which uses waste heat as its energy source to generate electricity and requires no additional fuel and generates no incremental emissions, also provides significant benefits. CHP and WHP can produce electricity while lowering costs for both host companies and all Michigan ratepayers.

In Michigan, there is a substantial opportunity to implement CHP. Currently, the state has 87 CHP sites, generating 3,382 megawatts (MW) of clean and efficient power.⁶ The Department of

⁵ U.S. EPA, Mar. 21, 2016, “CHP Benefits” (<https://www.epa.gov/chp/chp-benefits>).

⁶ U.S. DOE Combined Heat and Power Installation Database, (<https://doe.icfwebservices.com/chpdb/state/MI>).



Energy estimates the state has 4,987 MW of remaining CHP and WHP technical potential capacity (identified at 10,370 sites), with 2,170 MW of remaining onsite technical potential in the industrial sector alone.⁷ A 2016 report from the Alliance for Industrial Efficiency found that if an economically viable portion of the state's CHP and WHP was deployed,⁸ Michigan industrial sector customers would save \$2.27 billion on electricity costs from 2016 to 2030.⁹ Such savings would help make Michigan manufacturers more competitive.

Michigan is particularly well-positioned for CHP growth because of its strong industrial base, the availability of natural gas, and a potential supply chain already in the state. Manufacturing accounts for 19 percent (\$82.3 billion in 2013) of the total gross state product and employs nearly 14 percent of the workforce.¹⁰ Michigan's industrial sector consumed about 26 percent of the total energy used statewide in 2013 (or 746.2 trillion British thermal units).¹¹ The size of the state's manufacturing industry and the significant technical potential for CHP indicates that Michigan has a tremendous opportunity for additional CHP implementation, which can be encouraged by removing barriers such as arbitrary and excessive standby rates.

Recommendations for Standby Rates in Michigan

As noted above, we are concerned for three main reasons: (1) DTE proposes to increase its rates by increasing power supply capacity charges and distribution charges for all customers, including standby customers who use the grid infrequently; (2) increase its standby rates by increasing power supply capacity charges for standby customers, going against the Commission's direction to incorporate forced outage rates in the calculation of the generation reservation fee; and (3) increase its distribution charge rate with no proration for standby customers, and with no study to support its claim that standby customers impose the same costs on the distribution grid as full requirements customers.

To address these issues, we recommend that the Commission reject DTE's proposal to increase its power supply capacity charges and distribution charges for standby customers. We also recommend that the Commission require DTE to complete a study to determine the actual

⁷ U.S. Department of Energy, Mar. 2016, "Combined Heat and Power (CHP) Technical Potential in the United States" (<http://energy.gov/sites/prod/files/2016/03/f30/CHP%20Technical%20Potential%20Study%203-18-2016%20Final.pdf>).

⁸ Percentage of Michigan's technical potential for CHP with less than 10-year payback period.

⁹ The Alliance for Industrial Efficiency, Sep. 2016, "State Ranking of Potential Carbon Dioxide Emission Reductions through Industrial Energy Efficiency" (http://alliance4industrialefficiency.org/wp-content/uploads/2016/09/FINAL-AIE-State-Industrial-Efficiency-Ranking-Report_9_15_16.pdf). Unpublished data on results from CHP and WHP deployment alone.

¹⁰ National Association of Manufacturers, Feb. 2015, "Michigan Manufacturing Facts," (<http://www.nam.org/Data-and-Reports/State-Manufacturing-Data/2014-State-Manufacturing-Data/Manufacturing-Facts--Michigan/>).

¹¹ U.S. Energy Information Administration, "Michigan: State Profile and Energy Estimates," December 2015 (<https://www.eia.gov/state/?sid=MI#tabs-2>).



costs of providing standby service and to incorporate forced outage rates into the calculation of the reservation fee.

We were encouraged by the positive steps in the Commission's April 2018 order, which would have encouraged large customers in the state to invest in cost-effective CHP. However, we find DTE's proposal problematic for the reasons stated above. Therefore, we recommend the Commission reject DTE's proposed rate increases and require that DTE follow the guidelines laid out by the April 2018 MPSC Order.

Standby rates should be transparent and designed to send a clear price signal to encourage the most efficient use of CHP and WHP resources. Ensuring that tariffs reflect equitable cost allocation will help keep electricity costs lower for all consumers and help cut electricity and thermal costs for Michigan's manufacturers, making them more competitive.

Thank you for your consideration.

Sincerely,

Jennifer Kefer
Executive Director
Alliance for Industrial Efficiency