

Renewable Energy 2: To date, what has been Michigan's cost of renewables, and how has that impacted rates paid by residential, commercial, and industrial customers?

Executive Summary

1. Utilities have made and will continue to make significant investments in renewable energy in Michigan to meet the state's 10% renewable portfolio standard (RPS) under PA 295 of 2008. This includes capital investments of approximately \$2 billion through 2012 with additional investments necessary to meet the 10% target in 2015.
 2. The funding for renewable energy comes from families and businesses through their utility bills in several ways. The amount collected through utility bills of DTE Energy and Consumers Energy associated with the 10% RPS to date is approximately \$640.6 million.
 3. The rate impact from the renewable energy standard is approximately 0.3-0.6 cents per kWh for residential customers and 0.1–0.3 cents per kWh for business customers. These amounts may vary over time and by customer and by utility.
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- 1. Utilities have made and will continue to make significant investments in renewable energy in Michigan to meet the state's 10% renewable portfolio standard (RPS) under PA 295 of 2008. This includes capital investments of approximately \$2 billion through 2012 with additional investments necessary to meet the 10% target in 2015.**

New wind energy projects in various corners of Michigan—the Thumb, West, Northern, and Central Michigan, and the Upper Peninsula—are now in operation with additional wind projects in the construction and planning stages. These projects will increase Michigan's use of its local, renewable resources in order to meet the statutory target of 10% renewable energy by 2015. While not on the same scale as the wind projects, there are additional renewable energy projects such as biomass, landfill gas, and solar that have been or will be developed in Michigan to comply with the law. As discussed under Renewable Energy Question 1, the total capital investment in renewable energy that is owned or purchased by electric providers in Michigan is approximately \$2 billion. Additional investments of roughly \$1.5 billion will be made over the next several years to comply with the 10% RPS in 2015. Over time, these capital investments are recovered by electric providers from customers.

- 2. The funding for renewable energy comes from families and businesses through their utility bills in several ways. The amount collected through utility bills of DTE Energy and Consumers Energy associated with the 10% RPS to date is approximately \$640.6 million.**

Revenue is collected from customers to comply with the RPS standard through two line items on utility bill as discussed further under Renewable Energy Question 17. That is, utilities assess a surcharge to fund the incremental cost of compliance for renewable energy pursuant to PA 295. This RPS surcharge is assessed per meter per month with the following *maximum* amounts by type of customer, as specified in the law:

- Residential—\$3.00
- Small commercial (secondary service)—\$16.58
- Large commercial (primary service) or industrial—\$187.50

Consumers Energy's surcharge is set at \$0.52 for residential, between \$0.90 and \$14.40 for small commercial, and between \$3.60 and \$90.00 for large commercial and industrial. DTE Energy's surcharge is currently set at the statutory maximum. Indiana Michigan Power Company's surcharge is \$0.05 per

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month for residential customers, \$0.19 per month for small commercial and industrial, and \$18.33 per month for large commercial and industrial. For DTE Energy and Consumers Energy, the total revenue collected from the surcharge through 2012 is approximately \$526.4 million.

Additional revenues are collected through another line item on the bill called the power supply cost recovery factor, or PSCR. Through 2012, the PSCR revenue associated with renewable energy amounts to a total of \$114.2 million for DTE Energy and Consumers Energy. The RPS surcharge revenue, combined with the PSCR revenue for both companies through 2012, is approximately \$640.6 million. This revenue represents the amount customers have paid for new renewable energy since 2008.

Although \$2 billion in investments have been made under PA 295, DTE Energy and Consumers Energy have recovered only \$251.8 million in renewable energy costs to date.¹ This is because certain costs are recovered in the year incurred (such as operating costs) while capital investments are recovered over the life of the asset. Cost recovery to date represents payments by the utilities to third-party owners under purchased power contracts and amounts recovered for utility-owned renewable generation, which include the annualized amount for the return on the capital investment as well as operating and other expenses such as taxes associated with the facilities.² The cost recovery through 2012 and additional cost recovery in the future will go toward paying off the approximately \$3.5 billion in capital investments that will be made over time in order to meet the 2015 RPS.

There are additional expenses associated with renewable energy that are not reflected in the numbers above. For example, transmission upgrade investments and ongoing charges are not included. In addition, this does not consider the operating of existing hydroelectric facilities and renewable energy contracts that were in existence before PA 295 and count toward the RPS. Consumers Energy had a higher percentage of existing renewable energy, which explains in part why its surcharge amount and capital expenditures for new projects are lower.

3. The rate impact from the renewable energy standard is approximately 0.3–0.6 cents per kWh for residential customers and 0.1–0.3 cents per kWh for business customers. These amounts may vary over time and by customer and by utility.

The impact on rates from the RPS from 2008–2012 is approximately 0.3–0.6 cents per kWh for residential customers (or 2–4%) and 0.1–0.3 cents per kWh (or 1–3%) for business customers.³ For utilities that are not required to build new renewable capacity to meet the RPS, the rate impact is expected to be smaller. For example, Indiana Michigan Power Company estimated the rate impact from the RPS on its customers to be 0.25% on average. These amounts may vary over time and by customer and by utility. Actual rate impacts may vary over time and are based on the utility as well as the customer's specific tariff and electricity usage characteristics.

¹ This is based on costs recovered through December 2012.

² This is similar to the accounting for conventional generation as part of the utility's base rates, but PA 295 requires the renewable costs to pass through either the RPS surcharge or the power supply cost recovery factor. Only a small amount of Consumers Energy's \$64 million expended through 2012 was for Lake Winds because it went into service in late 2012.

³ Based on estimates from DTE Energy and Consumers Energy.