DTE Electric Company
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February 16, 2023

Ms. Lisa Felice
Executive Secretary
Michigan Public Service Commission
7109 West Saginaw Highway
Lansing, MI 48917

RE: In the matter of the Application of **DTE ELECTRIC COMPANY** to describe the tariff options available to customers with distributed generation systems consistent with MCL 460.1173(3)
MPSC Case No: U-21376

Dear Ms. Felice:

Attached for electronic filing in the above referenced matter is DTE Electric Company's Application and Direct Testimony of Witness, Neal T. Foley along with a Proof of Service.

Very truly yours,

Carlton D. Watson
Digitally signed by Carlton D. Watson
Date: 2023.02.16 11:16:27 -05'00'

Carlton D. Watson

CDW/erb
Encl.
cc: Service List

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the Application of **DTE ELECTRIC COMPANY** to describe the tariff options available to customers with distributed generation systems consistent with MCL 460.1173(3)	)))))	Case No. U-21376

APPLICATION

DTE Electric Company ("DTE Electric" or "Company") files this Application pursuant to the Michigan Public Service Commission's ("MPSC" or "Commission") November 18, 2022 Order issued in Case No. U-20836 (November 2022 Order). In support of this Application, DTE Electric states as follows:

1. DTE Electric is a corporation organized and existing under and by virtue of the laws of the State of Michigan, with its principal office at One Energy Plaza, Detroit, Michigan 48226. DTE Electric is a wholly-owned subsidiary of DTE Energy Company supplying retail electric service to 2.1 million customers located in Southeast Michigan. The Company is a public utility with more than 1,000,000 retail customers in Michigan and is therefore subject to the jurisdiction of the Commission per various provisions of 1919 PA 419, as amended, MCL 460.51 et seq.; 1939 PA 3, as amended MCL 460.1 et seq.; and 2008 PA 295, as amended MCL 460.1001 et seq.

2. The Commission, on page 452 of its November 2022 Order, directed the Company, in pertinent part, as follows:

> Within 90 days from the date of this order, DTE Electric shall file in a new docket the options available to customers with [Distributed Generation] systems should DTE Electric decide to cap participation in its current [Distributed Generation] program consistent with MCL 460.1173(3). These options may include its Riders 5 and 14, with supporting justification. The filing shall be addressed in a contested proceeding allowing for interested parties to weigh in on the proposed tariff options.

3. Accordingly, DTE Electric timely files this Application pursuant to the November 2022 Order. Consistent with the filing requirements of the November 2022 Order and in support of this Application, DTE Electric provides the testimony of Neal T. Foley, which 1) discusses the history of the Company's current Distributed Generation ("DG") program, 2) discusses the laws and regulations governing the Company's current DG program, and 3) discusses the options available to customers with DG systems should the Company decide to cap participation in its current DG program consistent with MCL 460.1173(3).

WHEREFORE, DTE Electric Company respectfully requests that the Commission:

A. Accept this Application and accompanying testimony for filing;

B. Give such notice to interested parties as may be required by statute or the Commission's rules;

C. Establish a date, place and time for a prehearing conference;

D. Enter an Order acknowledging that DTE Electric satisfied the directives in the November 18, 2022 Order relative to the options available to customers with DG systems should DTE Electric decide to cap participation in its current DG program consistent with MCL 460.1173(3);

E. Enter an Order confirming that the Company's currently approved Riders 5 and 14 are appropriate to allow DG customers to interconnect to the Company's system if the Company were to elect to limit participation in its DG program consistent with MCL 460.1173(3);

F. Grant Applicant such further additional relief and authority as the Commission may deem necessary, suitable and appropriate.

DTE ELECTRIC COMPANY

By: Carlton D. Watson Digitally signed by Carlton D. Watson Date: 2023.02.16 11:17:41 -05'00'

Attorney for the Applicant
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Dated: February 16, 2023

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the Application of	)	
DTE ELECTRIC COMPANY	)	
to describe the tariff options available to	)	Case No. U-21376
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consistent with MCL 460.1173(3)	)	

QUALIFICATIONS

AND

DIRECT TESTIMONY

OF

NEAL T. FOLEY

DTE ELECTRIC COMPANY
QUALIFICATIONS AND DIRECT TESTIMONY OF NEAL T. FOLEY

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Q1. What is your name, business address and by whom are you employed?

A1. My name is Neal T. Foley (he/him/his). My business address is One Energy Plaza, Detroit, Michigan 48226. I am employed by DTE Energy Corporate Services, LLC, a subsidiary of DTE Energy Company as Director, Regulatory Affairs.

Q2. On whose behalf are you testifying?

A2. I am testifying on behalf of DTE Electric Company (DTE Electric or Company).

Q3. What is your education background?

A3. I received a Bachelor of Science in Aerospace Engineering and a Bachelor of Science in Mechanical Engineering from the University of Michigan. I also received a Master of Science in Systems Engineering from Johns Hopkins University and a Master of Business Administration from Georgetown University.

Q4. What work experience do you have?

A4. In 2007, I was employed by Lockheed Martin Corporation as a Satellite Operations Engineer. In 2008, I was hired by Booz Allen Hamilton as an Associate Consultant in its Federal consulting practice. In 2012, I was hired by Deloitte as a Manager of Financial Analysis in its Federal consulting practice. In 2014, I was hired by McKinsey & Company as an Associate Consultant, ultimately being promoted to Engagement Manager before my departure in 2017. In 2017, I was hired by DTE Energy Company as Manager of Corporate Strategy. In this role I was broadly responsible for tracking and assessing utility industry trends, executing analyses to better understand the economic impacts of emerging technologies and business

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models, and leading strategic initiatives for the Company. I was promoted to my current role as Director of Regulatory Affairs in 2020.

Q5. What are your current duties and responsibilities with DTE Electric?

A5. My responsibilities broadly include the management of regulatory activities relative to DTE Electric's Load Research, Tariffs, Pricing, and Rate Design.

Q6. Have you previously sponsored testimony before the Michigan Public Service Commission (MPSC or Commission)?

A6. Yes. I have sponsored testimony in the following cases:

U-20836	DTE 2022 Electric Rate Case
U-21297	DTE 2023 Electric Rate Case

Q7. What is the purpose of your testimony in this proceeding?

A7. The purpose of my testimony is to respond to the Commission's directive from its November 18, 2022 Order in Case No. U-20836 (November 2022 Order) which states:

> "Within 90 days from the date of this order, DTE Electric shall file in a new docket the options available to customers with DG systems should DTE Electric decide to cap participation in its current DG program consistent with MCL 460.1173(3). These options may include its Riders 5 and 14, with supporting justification. The filing shall be addressed in a contested proceeding allowing for interested parties to weigh in on the proposed tariff options." (page 452)

In response to this Commission requirement, my testimony will discuss the history of the Company's current Distributed Generation (DG) program, the laws and regulations governing the Company's current DG program, and the options available to customers with DG systems should the Company decide to cap participation in its current DG program consistent with MCL 460.1173(3).

Q8. Are you sponsoring any exhibits in this proceeding?

A8. No.

Q9. Can you please describe the recent history of the Company's current DG Program?

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A9. The Company's current DG Program is largely governed by Public Act 342 (PA 342) which was originally enacted in 2008 and amended in 2016. PA 342 defined the statutory requirement that the Company establish a DG program by stating:

> "The commission shall establish a distributed generation program by order issued not later than 90 days after the effective date of the 2016 act that amended this section…The program shall apply to all electric utilities whose rates are regulated by the commission and alternative electric suppliers in this state." (MCL 460.1173(1))

PA 342 further defines the required size of the Company's DG program by stating:

> "An electric utility or alternative electric supplier is not required to allow for a distributed generation program that is greater than 1% of its average in-state peak load for the preceding 5 calendar years. The electric utility or alternative electric supplier shall notify the commission if its distributed generation program reaches the 1% limit under this subsection. The 1% limit under this subsection shall be allocated as follows:
>
> (a) No more than 0.5% for customers with an eligible electric generator capable of generating 20 kilowatts or less.
>
> (b) No more than 0.25% for customers with an eligible electric generator capable of generating more than 20 kilowatts but not more than 150 kilowatts.
>
> (c) No more than 0.25% for customers with a methane digester capable of generating more than 150 kilowatts." (MCL 460.1173(3))

For the purposes of its DG program, the Company defined the following system categorization:

- Category 1 systems are those aligning to MCL 460.1173(3a) with a size of 20 kW or less
- Category 2 systems are those aligning to MCL 460.1173(3b) with a size of greater than 20 kW but not more than 150 kW
- Category 3 systems are those aligning to MCL 460.1173(3c) which are methane digesters with a size of not more than 150 kW

Public Act 341 of 2016 directed the Commission to define and approve a tariff reflecting equitable cost of service to be applied to the Company's DG program by stating:

> "Within 1 year after the effective date of the amendatory act that added this subsection, the commission shall conduct a study on an appropriate tariff reflecting equitable cost of service for utility revenue requirements for customers who participate in a net metering program or distributed generation program under the clean and renewable energy and energy waste reduction act, 2008 PA 295, MCL 460.1001 to 460.1211. In any rate case filed after June 1, 2018, the commission shall approve such a tariff for inclusion in the rates of all customers participating in a net metering or distributed generation program under the clean and renewable energy and energy waste reduction act, 2008 PA 295, MCL 460.1001 to 460.1211." (MCL 460.6a(14))

After completing the study directed in MCL 460.6a(14), the Commission in its April 18, 2018 order in Case No. U-18383 directed utilities to file, "the Inflow/Outflow tariff, attached to [that] Order as Exhibit A," and continued, "the rate-regulated utility may also file its own distributed generation tariff, if desired." (page 18)

The Company complied with this directive in its general rate case filed July 6, 2018, Case No. U-20162, wherein DTE Electric proposed its Rider 18 (Distributed Generation Program), to replace Rider 16 (Net Metering) on a going forward basis. The Company proposed that Rider 18 customers be subject to the following general rate structure:

- Inflow (energy the DG customer consumes from the Company's distribution system) charged at the retail rate of the underlying rate schedule.
- Outflow (energy exported from the customer's DG system to the Company's distribution system) credited at the monthly average real-time Locational Marginal Prices (LMPs) for energy at the DTE Electric-appropriate load node
- A System Access Contribution (SAC) charge, which assigned a cost per kW AC of nameplate system capacity based on the system-cost responsibility of distributed generation customers. The charge was proposed to apply to customers taking service under rates without demand charges.

The Commission's May 2, 2019 Order in Case No. U-20162 approved an alternate version of the Company's proposed Rider 18. Total inflow was ordered to be charged at the retail rate of the underlying rate schedule, as had been proposed by the Company, however the Commission ordered the outflow credit be set at the Power Supply rate less Transmission (based on the customer's underlying rate schedule) and rejected the Company's proposed SAC charge.

In Case No. U-20561, MPSC Staff argued in its testimony the Company should voluntarily increase the size of its DG program (comprised of Rider 16 and Rider 18 customers) above what is required by MCL 460.1173(3). The Company declined to do so, explaining in rebuttal testimony in that case that doing so may have the unintended consequence of exposing the Company to uncapped revenue shifts and expose non-DG customers to increased and improper cost subsidizations (See Case No. U-20561, 4T p. 496).

In Case No. U-20836, largely in an effort to reduce the cost shift from DG customers to non-DG customers, the Company proposed several changes to its DG Program that would become effective once the category-specific program allocations laid out in MCL 460.1173(3) were met. In summary, the Company proposed:

- A requirement that new Rider 18 residential customers take service on a base rate that incorporates a demand-based charge for certain cost components;
- Changing Rider 18 outflow compensation to be based on LMPs, adjusted for avoided line losses; and
- A voluntary increase of the Company's DG program size from 1% to 3% of the Company's average in-state peak load for the preceding five calendar years

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In its November 2022 Order the Commission rejected the Company's proposals related to inflow and outflow rate design. Instead, it elected to order an increase in the per kWh compensation paid for outflowed energy by including the Transmission component of the Company's Power Supply rates.

Q10. Are there any additional laws or regulations governing the underlying rate design and/or compensation that should be paid for outflow from DG systems?

A10. Yes. The Public Utility Regulatory Policy Act (PURPA) is a federal law originally enacted in 1978. Among other things, PURPA established the concept of a Qualifying Facility (QF), which are small power production facilities whose primary energy source is renewable or cogeneration. According to PURPA, QFs must be compensated for the sale of energy to the utility. The utility is not obligated to provide that compensation at a price higher than its avoided cost associated with the outflowed energy. The implementation of PURPA and its provisions is delegated by law to state regulatory bodies, including the Commission. The Company's Commission-approved implementation of PURPA avoided cost compensation for QFs is codified by the Company's Standard Contract Rider No. 5 (Rider 5). Consistent with federal law and Commission Orders, Rider 5 describes the avoided cost compensation available to QFs, including Standard Offer contracts available to facilities less than or equal to 550kW, under various conditions.

Q11. Given the applicable laws and regulations, is the Company obligated to provide compensation for energy exported to its system (outflow) from customers electing to install DG systems?

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A11. While I am not a lawyer and am not offering a legal analysis, it is my understanding that given the applicable laws and regulations, the Company has two obligations pertaining to outflow compensation.

First, the Company is obligated to provide compensation for outflow from QFs taking service under Rider 5. The level and structure of outflow compensation for QFs is determined through a separate PURPA avoided cost proceeding and codified in the Company's Rider 5. The most recent Order updating the avoided cost rate was issued on September 26, 2019, in Case No. U-18091. There is no limit to the amount of QF capacity that can connect to the Company's system and receive energy compensation for outflow under Rider 5.

Second, the Company is obligated to provide compensation for outflow from any DG system that has met the requirements to connect under the Company's DG Program as defined by MCL 460.1173(3) and has elected to take service under one of the associated DG program tariffs. The level and structure of compensation for outflow from DG systems participating in the Company's DG program is established through general rate cases, the most recent being Case No. U-20836, and codified in the Company's Rider 18. The Company is required to allow a certain amount of DG capacity to participate in its DG program as defined by MCL 460.1173(3).

Said differently, besides the obligation to provide outflow compensation through the Company's implementation of PURPA and codified in Rider 5, MCL 460.1173(3) made clear that the Company is under no obligation to offer a DG program or provide compensation for outflow to systems above the category-specific allocations established through that law. However, the Company may offer compensation for outflow for DG systems above those category-specific allocations at its discretion. The level and structure of such outflow compensation, if the Company were to elect to offer it, would be established through a general rate case.

Q12. When does the Company expect to first meet one of the category-specific program allocations for either Category 1, Category 2, or Category 3 systems as defined in MCL 460.1173(3)?

A12. Based on currently installed capacity and assuming installation levels roughly equal to 2022, the Company expects installed capacity to meet the 0.50% program allocation for Category 1 systems in the second quarter of 2023. The Company notes that at the time of this filing the sum of installed capacity and pending applications for Category 1 systems already exceeds the Category 1 program allocation.

The Company does not anticipate meeting the Category 2 or Category 3 program allocations before an order is issued in the instant case.

Q13. Does the Company plan to voluntarily increase the size of its DG Program by the time the Category 1 allocation is reached?

A13. Yes. The Company expects that a Commission order in the instant case will not be issued by the time installed capacity of Category 1 systems meets the program allocation. However, the Company appreciates that stakeholders broadly desire

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stability and certainty when it comes to DG outflow compensation and rate design. As such, the Company commits to continuing to connect Category 1 systems under its current Rider 18 through the end of calendar year 2023[1].

Q14. If in the future the Company elects not to further increase the size of its DG program, would it continue to offer compensation for outflow from customers electing to install DG systems?

A14. As discussed previously, the Company is obligated to offer compensation for outflow from QFs taking service under the Company's Rider 5, regardless of the disposition of its DG Program. As such, there is no limit to the amount of DG capacity that can access outflow compensation through Rider 5.

In addition, the Company also plans to continue to voluntarily offer compensation for DG outflow from systems taking service under the currently offered Rider 14. The Company does not limit the amount of DG capacity that can access outflow compensation through this rider.

Q15. What is the structure of Rider 5?

A15. Rider 5 is the Company's implementation of PURPA. It describes compensation available to QFs under different scenarios. For standard offer contract customers (i.e., those with <550 kW of generation capacity):

[1] More specifically, the Company commits to accepting applications for DG interconnection under Rider 18 through the end of 2023; any deficiencies in a submitted application must be remedied within sixty days; physical connection must occur within six months of application approval, consistent with existing interconnection rules

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- If the Company has a demonstrated capacity need, customers receive payment for capacity and energy based on the Company's avoided cost described in Rider 5.
- If the Company has a short term, intermittent, or no capacity need, customers will be compensated for capacity based on the Midcontinent Independent System Operator (MISO) Planning Resource Auction (PRA) price for Zone 7, and compensated for energy based on either the day-ahead LMP or a fixed schedule of LMPs (at the customer's election).

Customers may elect to take service under the "Energy Only Sales" provision of Rider 5 to outflow to the Company on an as-available basis. The compensation rate is based on the day-ahead MISO LMP.

Q16. Is Rider 5 an appropriate rate design under which to connect future DG systems?

A16. The structure and pricing associated with Rider 5 is determined based on applicable law and separate PURPA avoided cost proceedings, the most recent being Case No. U-18091. As such, a determination of the appropriateness of the specific pricing is reserved for those proceedings. With that said, the underlying concept of Rider 5 is one that the Company supports as a basis for DG outflow compensation.

More specifically, as the Company has previously argued, outflow compensation should be based on the avoided costs of that outflow, which are best represented by wholesale market prices. Appropriately, Rider 5 offers compensation based on

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market energy and capacity prices unless there is a demonstrated need for long-term capacity.

Q17. What is the structure of Rider 14?

A17. Rider 14 compensates customers on a per kWh basis for outflow. The per kWh compensation rate is based on a calculation of average monthly load-weighted real-time LMPs. More specifically, the calculation first determines a load-weighted daily average LMP by assessing real-time LMPs in each hour and DTE system load in each hour of every day. Then, the per kWh compensation rate for the month is set based on the average of the daily averages previously calculated. In this way, LMPs during times of high load have more influence over the per kWh compensation rate than LMPs during times of low load.

Q18. Is Rider 14 an appropriate rate design under which to connect future DG systems?

A18. Yes. Effectively, when the Company receives outflow from a DG system, it either (1) reduces the amount of energy it purchases from the market to serve its load, or (2) increases the amount of energy sales to the market. Either way, the value of the DG outflow at the time it is received is the market-based LMP. Rider 14 appropriately bases outflow compensation on LMPs. As such, it is an appropriate rate design under which to connect future DG systems that does not create a cost shift from DG customers to non-DG customers in the way that the current Rider 18 does.

Q19. Would the Company be supportive of any changes to Rider 14?

A19. Potentially yes. While the Company is not proposing any modifications to Rider 14 in the instant case, it is open to three potential changes to Rider 14. Specifically:

- Per kWh compensation calculation. Currently, as described previously, Rider 14 outflow compensation is based on a load-weighted average monthly LMP value. Instead of using this calculation, the Company would potentially support a compensation structure that better reflects the value of outflow at the time it is received by the Company. For example, basing Rider 14 compensation on day-ahead LMPs, real-time LMPs, or average LMPs for pre-specified pricing windows may better reflect the value of outflow at the time it is received, and therefore may be supported by the Company.
- Adjusting outflow for avoided line losses. As discussed by the Company in Case No. U-20836, outflow from a DG system is likely consumed near the point of generation, such as a neighbor's house. As such, the line losses associated with movement of outflowed energy are likely relatively small. As such, as it was in Case No. U-20836, the Company may be supportive of adjusting outflow compensation to account for avoided line losses based on the Company's most recently approved line loss study.
- Eligibility. The Company notes that it has proposed in Case No. U-21297 to adjust the eligibility requirements of Rider 14 to increase the maximum capacity from 100kW to 150 kW, expand the availability to all full-service rate schedules unless otherwise noted on the customer's tariff, and include stationary and vehicle storage as eligible resources. The Company expects this proposed change to be assessed and ordered on through that proceeding.

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Q20. Would the Company voluntarily offer compensation for DG outflow under a new tariff established through this proceeding or if changes to Rider 14 were ordered?

A20. Any new tariff or change to an existing tariff, including a change to Rider 14, would need to be fully assessed once it is proposed. As such, it is impossible to say if the Company would continue to voluntarily offer compensation for DG outflow under a new tariff or tariff change that has not yet been defined or proposed.

Q21. Does this complete your direct testimony?

A21. Yes, it does.

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PROOF OF SERVICE

ESTELLA R. BRANSON states that on February 16, 2023, she served a copy of DTE Electric Company's Application and Direct Testimony of Witness, Neal T. Foley, in the above-captioned matter, via electronic mail upon the persons listed on the attached service list.

Estella R. Branson Digitally signed by Estella R. Branson Date: 2023.02.16 11:18:37 -05'00'

ESTELLA R. BRANSON

MPSC Case No. U-21376
SERVICE LIST

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