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December 16, 2019

Ms. Lisa Felice
Executive Secretary
Michigan Public Service Commission
7109 West Saginaw Highway
Post Office Box 30221
Lansing, MI 48909

Re: MPSC Case No. U-20147 – In the matter, on the Commission's own motion, to open a docket for certain regulated electric utilities to file their five-year distribution investment and maintenance plans and for other related, uncontested matters.

Dear Ms. Felice:

Enclosed for electronic filing in the above-captioned proceeding, please find **Consumers Energy Company's Comments on Electric Distribution Planning Stakeholder Workgroup Issues**.

This is a paperless filing and is therefore being filed only in PDF.

Sincerely,

Anne M. Uitvlugt

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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**CONSUMERS ENERGY COMPANY'S COMMENTS ON ELECTRIC DISTRIBUTION
PLANNING STAKEHOLDER WORKGROUP ISSUES**

I. INTRODUCTION

Consumers Energy Company ("Consumers Energy" or the "Company") appreciates the opportunity to provide written comments in response to the series of discussions that have taken place on several issues related to electric distribution planning throughout the second half of 2019 in the Electric Distribution Planning stakeholder workgroup, established by the Michigan Public Service Commission ("MPSC" or the "Commission") in Case No. U-20147.

This workgroup was established by the Commission through a November 2018 Order in Case No. U-20147. That Order directed, among other things, that utilities, the MPSC Staff ("Staff"), and other stakeholders should hold "further discussion" in the form of a "technical conference" on issues related to hosting capacity analyses ("HCA"), non-wires alternatives ("NWA"), and cost benefit analyses (or benefit cost analyses, "BCA"), considering how each of these issues might be further incorporated into future electric distribution plans. On the issue of HCA, the Commission expressed interest in "a pilot application in the next iteration of distribution plans," with any potential pilot to be informed by this same series of meetings. The Commission also recommended discussion of how to better "have information presented in a consistent manner

among utilities.” The Company believes that each of these directives from the Commission have been met through this stakeholder workgroup process, which provided opportunity for robust discussion on each of these topics.

The Company thanks Staff and stakeholders who have taken part in this workgroup. The process has generated robust and diverse discussion on topics including HCA, NWA, and BCA, allowing issues to be better defined. The Company looks forward to continued conversations with all parties to refine utility approaches to electric distribution planning in preparation for their next electric distribution plans in 2021.

When the first public workgroup meeting took place on June 27, 2019, expert presenters from ICF International (“ICF”) and the Electric Power Research Institute placed the electric distribution planning environment in Michigan in a broader context that considered the industry across the United States. Those presentations, particularly from ICF, highlighted several key points:

- Integrated distribution planning is still in its infancy across the industry, but Michigan is well-positioned relative to other states in beginning the process;
- Michigan utilities are engaged in robust distribution planning efforts, at a level in line with industry trends; this includes considerations of NWAs, which have so far taken place at the pilot level; and
- Utilities and regulators should be careful and deliberate in pursuing next steps, not rushing into wholesale changes until issues, particularly relevant benefits and costs, are well understood.

The Company encourages Staff to capture the points above in its report. Michigan’s actions should be considered and deliberate as the state has a great opportunity to modernize the electric distribution grid and move towards greater integration with electric supply, but innovations should be well-thought out, reasonable, and prudent.

II. HOSTING CAPACITY ANALYSES

The Company maintains that full-scale, system-wide HCAs are a low-value proposition in Michigan at this time. The apparent value of such an HCA is to highlight where distributed energy resources (“DER”) can easily interconnect to the distribution system, incentivizing DER development in optimal locations, lowering costs for developers, and streamlining the overall interconnection process. However, the Company believes that this value is overstated for several reasons.

First, requests for interconnection of DERs in Michigan is, to date, very low in volume, meaning the need for HCAs is unnecessary at present and in the near future. Second, HCAs are very expensive, costing tens of millions of dollars in investment in human and computing resources to produce an output that would mainly be useful to developers looking for interconnection sites. Third, while HCAs would result in high utility costs – costs that would be borne by all customers – the benefits only accrue to DER developers. Developers are the only parties with the ability to seek out DER sites; residential customers, and in fact many commercial and industrial customers, are necessarily constrained to their existing location. In short, HCAs impose costs on all customers while only benefiting a limited number of parties. Fourth, proponents suppose that HCAs will benefit utilities by streamlining the interconnection process and reducing interconnection applications in unsuitable locations. But Staff has recently produced new draft interconnection rules – following a separate stakeholder workgroup with many of the same participants as this one – that create a new interconnection process that will provide developers with the information they would otherwise glean from HCAs. This process entitles developers to a pre-application report that would screen out many unsuitable proposals. Even if utilities performed HCAs,

interconnection studies would still be needed because an HCA does not completely consider all technical aspects of interconnection.

While the Company believes full HCAs are a low-value proposition today, the Company acknowledges that DER penetration is likely to increase in the future. Considering that the Commission expressed interest in an HCA pilot, the Company proposed in this workgroup process a “Solar Zone” pilot to explore certain HCA concepts as a tightly scoped, prudent first step in preparing for a high-DER future. After its initial presentation on August 14, 2019, the Company provided additional details of its proposed framework on October 16, 2019 including testing hypothesis, definitions of “success” and potential next steps. The Company continues to believe that the Solar Zone pilot would be a prudent first step and would be in line with the Commission’s direction.

A “phase-in” approach to HCAs is not prudent and is not in line with the Commission’s direction. As considered in this workgroup, the phase-in approach seeks to solve the challenges of a full HCA by asking utilities to simply dump what data they have into the public domain. This is not a pilot; it does not test any concept or approach but instead assumes that data must be useful and directs utilities to provide it uncritically. Some kind of phase-in approach may be useful if a pilot demonstrates that broader HCAs would be beneficial but pursuing the phase-in approach immediately would not represent a well-thought-out, reasonable, prudent innovation.

III. NWAs

During the June 27, 2019 workgroup meeting, ICF noted that across the industry most utility NWAs to date have followed the utility program approach, as opposed to procurement or pricing approaches. As Consumers Energy illustrated in its NWA presentation to the workgroup on August 14, 2019, Consumers Energy is in line with this industry trend, as its major NWA pilots

have relied on the Company's existing energy efficiency and demand response programs in a targeted manner. The Company has had considerable success to date learning, through these pilots, about how to best design these NWAs and apply existing programs for NWA purposes. The Company's August 14, 2019 presentation clearly showed how lessons learned from its Swartz Creek NWA pilot were being applied in the design of its Four Mile NWA pilot. As long as utility NWA efforts continue to be productive, the Commission should continue to allow utilities the discretion to pursue the NWA pilot approach(es) of their choice, rather than requiring any particular approach going forward.

Reliability is a paramount consideration. NWAs cannot reasonably be considered as reliability solutions until they have very well-defined and vetted costs, deployment timelines, and reliability performance parameters. Numerous presentations, including those from ICF on June 27, 2019 from Paul De Martini on October 16, 2019, and from the utilities at various points, highlighted the fact that NWAs and NWA pilots are predominately limited to addressing capacity issues. For Consumers Energy, this limits the current applicability to approximately 9% of its total distribution investment portfolio. This total is further limited by other suitability criteria, which the Company discussed in multiple workgroup meetings, including the timeline until the capacity solution was needed, the customer mix of a circuit, the propensity of customers to adopt increased energy efficiency and demand response, and other considerations. Discussions in this workgroup have illustrated that NWAs are not suitable for one-size-fits-all solutions. Different utilities may use different suitability criteria and thresholds based on their own system needs. As the Company continues to learn from its own NWA pilots, it will continue refining its suitability criteria to ensure due consideration of NWAs where appropriate and feasible on the system.

IV. STANDARD COMPONENTS IN FUTURE DISTRIBUTION PLANS

At the October 16, 2019 workgroup meeting, the utilities presented jointly on proposed standard components for future distribution plans. The utilities will each provide those standard components and data in future filings, but utility-specific formats may differ. The Company is not aware of any adverse comments from any parties regarding the proposed standard components and believes that all stakeholders are in agreement.

V. BENEFIT COST ANALYSES

The Company presented its positions on BCAs for future distribution plans at the October 16, 2019 workgroup meeting. For all foundational investments in traditional distribution infrastructure to deal with issues that must be addressed, such as to replace infrastructure and maintain reliability, utilities should use a least-cost-best-fit approach to evaluate projects, in line with recommendations from the U.S. Department of Energy. Since these investments are essential, the utilities' objective should be to select projects that address issues at the lowest cost.

For utility-facing grid modernization investments, defined here as investment in technologies to improve efficient operation of the distribution system, more robust BCAs can be helpful. Grid modernization investment components are highly interdependent, and a comprehensive BCA look across many individual components can better capture true total value compared to studying each component in isolation.

For grid modernization BCAs, the framework proposed by Synapse Energy Economics and Lawrence Berkeley National Laboratory is constructive. This framework divides grid modernization investments into foundational “platforms” and optional additional “applications.” Under this framework, platforms and applications can be bundled together to create different options for comprehensive grid modernization strategies, and each bundle can be evaluated with

an overall BCA. This approach allows for interdependencies to be accounted for, since entire bundles are considered as integrated wholes. In future distribution plans, grid modernization plans should provide BCA information in this bundled manner.

To account for the fact that some grid modernization benefits are difficult to monetize, some qualitative scoring of certain benefits should be explored. The workgroups to date have not included robust discussion among the utilities, Staff, and other stakeholders regarding appropriate approaches to doing this. More discussion should take place before Staff makes any specific recommendations about scoring methodologies.

The workgroups devoted substantial time to discussions on the value of “resilience.” While these discussions were illuminating, Consumers Energy’s observation is that they raised more questions than answers. It is still not clear how resilience should be defined or valued in future BCAs or in future distribution investment prioritization more broadly. Ultimately, continued stakeholder discussion is warranted.

VI. RESPONSE TO ABATE’S NOVEMBER 18 COMMENTS

Prior to the November 19, 2019 workgroup meeting, ABATE filed comments on November 18, 2019. While these comments were not thoroughly discussed at the workgroup, ABATE’s comments generally dealt with concepts related to BCAs. Considering ABATE’s comments in light of the Company’s general positions on BCAs, the Company offers the following comments in response.

ABATE’s comments are broadly geared towards a proposed dramatic overhaul of how distribution planning in Michigan is done. ABATE advocates for a “stakeholder-engaged distribution planning process” in which multiple parties play a role in identifying specific distribution issues, selecting solutions, and setting budgets. Consumers Energy asserts that there

is no need in Michigan for such an approach. This would be an unwarranted intrusion into utility business practice and of questionable legality. Utilities bear the responsibility for managing and improving their distribution systems and for making the business decisions to execute on their plans. Utilities also bear the responsibility for justifying their decisions through regulatory proceedings. Stakeholders already have venues to evaluate utility decisions. The Commission fully vets utility distribution investment when establishing rates. ABATE's contention that the existing planning process simply provides utilities with opaque avenues to inflate spending is unsubstantiated and without merit. While the Company is happy to discuss improvements to regulatory requirements in workgroups such as this one, it would be entirely unwarranted and unreasonable to give third parties an active role in day-to-day project-by-project distribution planning and budgeting.

Several flaws exist in ABATE's comments that serve to undermine its overall thesis. For example, ABATE points to various situations in other states, such as California and Hawaii, in which ABATE alleges that utilities inflated their capital investment needs, erroneously classifying certain projects as necessary in order to avoid regulatory scrutiny. But ABATE does not, in their comments, point to any circumstances in which this has happened in Michigan, where Michigan utilities received approval for large distribution spending programs with little regulatory oversight. Such criticism of the state's regulatory framework, and ultimately the review of the Commission, is unsupported. ABATE has not offered any relevant examples to support its contention that Michigan's regulatory processes should be radically overhauled.

In discussing BCA approaches, ABATE asserts that, when considering costs and benefits to evaluate particular projects, "operational savings should be calculated on variable costs avoided, not fully loaded costs." This is incorrect. Loaded costs reflect the true cost in dollars of any given

project; if a project is avoided, then all of the loaded costs for that project are avoided. ABATE cites an example from New Jersey in which a utility claimed avoided costs as benefits from a smart meter deployment program, and ABATE argues that, unless the utility were to lay off line crews, much of that money would not actually be saved. This is faulty reasoning on ABATE's part. If a project is avoided, then the labor that would have supported that project can be reallocated to a different project, which would still result in net savings on labor. Accordingly, the use of loaded avoided costs is appropriate.

ABATE also alleges that "rate case timing can prevent operating benefits from reaching customers," and that a project may produce savings that accrue to shareholders rather than to customers until the next rate case. ABATE contemplates a situation in which there is no rate case until five years after a project takes place. First, this is not an issue in Michigan, as contested regulatory proceedings occur with more frequency than other jurisdictions. Second, the Company continues to explore, develop, and create system optimization programs that provide meaningful benefits to customers. Further, exploring opportunities to reduce administrative burden and promote regulatory efficiency does not necessarily translate into decreased or delayed customer benefits.

ABATE further asserts that "societal benefits should not be included in benefit-cost analyses." ABATE takes the position that utilities "always overstate such benefits." In support of this position, ABATE claims that any benefits to society from utility investments will be offset by higher electricity rates "by a wide margin," but ABATE does not provide any support for such an assertion. In any case, societal benefits may be broader than the narrow economic development benefits contemplated by ABATE in their comments. Societal benefits may include environmental benefits – consider that many grid modernization investments either reduce electricity

consumption or promote integration of renewables, either way reducing carbon emissions – and it would not be appropriate to exclude such benefits from consideration.

Finally, ABATE criticizes the U.S. Department of Energy’s Next Generation Distribution System Platform (“DSPx”) Guide, which has informed much of the workgroup’s discussions on BCAs, particularly related to grid modernization. ABATE alleges that the DSPx Guide is biased, having been produced by a committee with an overrepresentation of utilities and no representation from any customer advocacy organizations. As an example of this apparent bias, ABATE points to the DSPx Guide’s position that “pace and scope of change reflected in distribution investment plans may not be sufficient to meet customer needs and policy objectives,” and that “future (DER) adoption rates will always occur on a timeframe faster than new grid infrastructure implementation.” In ABATE’s interpretation, the DSPx Guide takes these positions in order to justify utility overinvestment in grid modernization. ABATE argues that grid modernization investment should only proceed at a pace justified by expansion of DERs, on a circuit-by-circuit basis if necessary. The Company understands that the grid modernization process should be thoughtful and deliberate, not rushed, as discussed in the introduction to these comments, but the Company notes that technology and control investments needed to accommodate DERs often must be made on a system-wide basis and delivered as a whole finished product to be effective, due to interdependencies. It is not always possible, or beneficial to the customer, to go circuit by circuit as ABATE suggests.

VII. CONCLUSION

Consumers Energy appreciates the opportunity to have taken part in this workgroup and to provide these comments. The Company encourages Staff to consider these comments in developing its report, which the Company looks forward to reading and reviewing in 2020.

Respectfully submitted,

CONSUMERS ENERGY COMPANY