National Energy Marketers Association

To: NEM Membership
From: Craig Goodman
Re: Legislation Introduced on Michigan Electric Choice Program
Date: July 7, 2004

Legislation has been introduced in the Michigan Senate that could have serious impacts on the State's electric choice program.

I. SB 1331

SB 1331 pertains to alternative electric supplier licensing, calculation and assessment of transition charges against migrating customers, rate redesign and unbundling, and terms of utility default service.

> **A. Supplier Licensing -** The Commission is required to institute licensing procedures for alternative electric suppliers to ensure the suppliers financial, managerial and technical capabilities. Suppliers must collect and remit sales and use taxes to local government units.
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> **B. Transition Charges** - Customers receiving alternative electric service, default service, or customers not on retail open access service but that take electric power or energy from an alternative supplier or directly from a supplier of energy other than the electric utility are to pay transition charges. The charges are to be calculated twice annually using a lost revenue approach.[1] Utilities may provide

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1 Section 10a(20) provides that:
As used in this subsection, "transition charge" means a charge or charges expressed in cents per kilowatt hour or as otherwise provided under subsection (22) that are calculated twice annually as follows:
(a) The amount of revenue that an electric utility would receive from the customer or group of customers if it were serving the customer's or group of customers' electric power and energy requirements as a tariff service based on all of the customer's actual usage during the 12 billing months ending 30 days preceding the 6-month period in which transition charges are to be collected and on the base rates, any separate riders, including any power supply cost recovery mechanisms, and any surcharges, including, but not limited to, securitization charges, environmental compliance surcharges, low income and energy efficiency surcharges, and decommissioning charges in effect 30 days preceding the 6-month period in which the transition charges are to be collected.
(b) Less the amount of revenue, other than revenue from transition charges, but including revenue from securitization charges, environmental compliance surcharges, low income and energy efficiency surcharges, decommissioning charges, and any other surcharges, the electric utility would receive from the customer or group of customers for retail open access services provided by the electric utility, assuming the

for calculation of a customer-specific transition charge for customers with a maximum demand of 1,000 kilowatts or greater at a single location.

Utilities can also recover interim transition charges for retail open access service rendered from 2002 through the effective date of the legislation. The interim transition charge is to be calculated in the same fashion as the transition charge discussed above and recovered from all customers during the transition period.

Customers taking service from an alternate supplier will also be charged for utility securitization charges, environmental compliance surcharges, low income and energy efficiency surcharges and decommissioning charges.

C. Rate Redesign and Unbundling - Utilities shall redesign their rates to eliminate subsidies between the various classes of customers so that all customer classes produce equal rates of return. Utilities shall also unbundle their electric rates by December 31, 2005.

D. Default Service - Utility default supply service is to be priced to include the utility's actual cost of obtaining electric energy, retail open access tariff charges, and other applicable charges such as transition charges. Customers that: 1) return to utility service before December 31, 2005 without providing notice by December 31, 2004; or 2) that choose alternative electric service after the legislation is effective and subsequently return to utility service, will receive default supply service.

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customer or group of customers were taking retail open access services for all of their usage, based on the retail open access services tariffs in effect 30 days preceding the 6-month period in which the transition charges are to be collected and on the usage identified in subdivision (a).
(c) Less the amount of revenue for the transmission of electricity, to the extent applicable, that the electric utility would receive from the customer or group of customers if it were serving the customer's or group of customers' electric power and energy requirements as a tariff service in effect 30 days preceding the 6-month period in which transition charges are to be collected.
(d) Less an amount of revenue calculated by multiplying the market value of energy by all of the customer's or group of customers' actual usage during the 12 billing months ending 30 days preceding the 6-month period in which the transition charges are to be collected. As used in this subdivision, "market value of energy" means the forward market price for the subsequent 12-month period for the electric power and energy expressed in cents per kilowatt hour that an electric utility would normally buy from or sell into the regional wholesale electric market. Until there is a viable, transparent market price for wholesale electric energy in an electric utility's service territory, an electric utility shall use an exchange or other market traded index, options, or futures contracts or forward contracts that reflect power and energy normally traded in the wholesale electric market. The market value of energy shall be modified to reflect an electric utility's internal system losses in the transmission and distribution of electricity.
(e) Less a customer credit in an amount equal to 8% of the amount produced by applying the base rates and any separate riders including any power supply cost recovery mechanisms in effect on January 1 of the year in which the transition charges are to be collected.
(f) Divided by customer usage as calculated in subdivision

II. SB 1332

SB 1332 pertains to reliability standards that are to be uniformly applicable to electric utilities AND alternative electric suppliers. It also requires the institution of "financial reliability standards" for alternative electric suppliers.

A. Reliability Standards - Utilities and alternative electric suppliers would be required to file annual plans demonstrating compliance. Standards are to include the following: 1) maintaining a minimum 15% planning reserve margin above forecasted peak load demand; 2) a minimum one-year planning reserve margin requirement; 3) total electric supply resource requirements are to be met through self-supply and contracts to purchase generation supply, and until a "proper electric capacity market exists," electric supply resources must be tied to physical generating assets via ownership or contracts; 4) electric supply resources must satisfy deliverability standards; 5) direct load control options can be used to satisfy minimum planning reserve margin requirements; and 6) all electric supply resource commitments must be entered into before April 1 to meet that year's peak load period.

B. Financial Reliability Standards - Alternative electric suppliers must demonstrate financial reliability to the Commission by completing an audited financial statement showing they have a net worth of at least $5 million dollars or obtaining a letter of credit or other equivalent credit instrument in an amount not less than the greater of $1 million dollars or 20% of the amount of the supplier's revenue for the sale of electricity for the most recently completed fiscal year. The supplier must also comply with any other financial safeguards adopted by the Commission to protect electric retail customers.

III. SB 1333

SB 1333 establishes a **low income and energy efficiency nonbypassable surcharge** that is to be payable by every customer receiving a distribution service from a gas or electric utility regardless of the identity of the customer's gas or electric generation supplier.

IV. SB 1334

SB 1334 provides for **discounted utility rates for electric service to schools**. Electric utilities must offer schools receiving electric service at secondary voltage levels a 20% discount on purchases of electric power and energy from the electric utility from the applicable rate when the legislation takes effect. Electric utilities must offer schools receiving electric service at primary voltages and above a 10% discount on purchases of electric power and energy from the electric utility from the applicable rate when the legislation takes effect.

V. SB 1335

SB 1335 modifies the **definition of "qualified costs"** for utility recovery. The definition now includes, "capital and operating and maintenance costs of complying with all federal or state government laws, rules, regulations, and standards, regarding emissions from its electrical power generating facilities."

VI. SB 1336

SB 1336 institutes an **environmental compliance nonbypassable surcharge** payable by every customer receiving a distribution service from the electric utility regardless of the identity of the customer's electric generation supplier.

The full texts of **SB 1331**, **SB 1332**, **SB 1333**, **SB 1334**, **SB 1335** and **SB 1336** are available on the NEM Website.