Michigan Municipal Association for Utility Issues

DTE Energy Large-Customer Voluntary Green Program:
Issues and Options for Public Agencies and Others

DTE Energy's new "Voluntary Green Power" (VGP) program allows large customers to contract to increase their renewable-energy supply incrementally up to 100%. The program recently received interim approval from the Michigan Public Service Commission (MPSC) as case U-20343.

The rules and rates of this program are important to customers that have adopted policy or financial goals related to clean energy, and that are unable (like most) to achieve those goals wholly through energy conservation and on-site (distributed) energy generation, like solar PV.

Eligibility

"Large customers" are defined as those having aggregate peak demand exceeding 1 MW. We estimate that a municipal government serving 100,000 people or more, that operates its own water-treatment facilities, is likely to satisfy this threshold.

Basic Features:

Customers can choose contract lengths of 5, 10 or 20 years for wind or solar power.

Customers must increase their renewable-energy buy in 5% increments, starting at the baseline 15% that all customers receive.

Cost

DTE's methodology for determining VGP rates results in customers paying a small net premium, around $0.012/kwh of wind energy and more for solar PV. This margin could change over time, in either direction, as different components of the tariff change.

While many customers expect to, and are prepared to, pay a premium for green energy, MI-MAUI contends that application of established MPSC-approved energy pricing rules should result in the VGP being *cheaper* for customers than the tariffs they are now paying.

VGP pricing has three primary components:

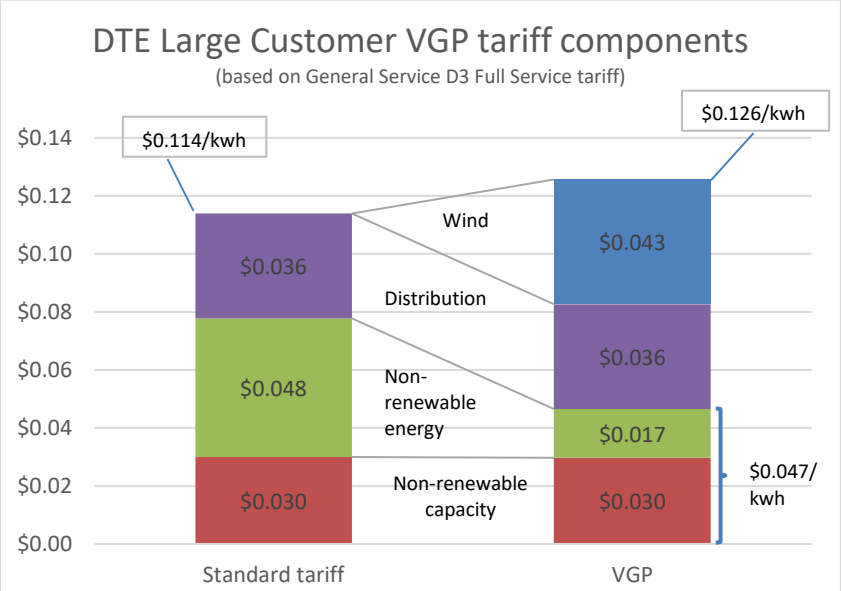
1. Existing tariff: customers continue to pay whatever tariffs they are paying today, whether commercial rate for buildings, street lights, industrial rates for water treatment and pumping, etc. This cost component will change whenever the MPSC approves changes to tariffs.
2. Renewable energy charge: DTE will add to the basic tariff the cost of contracting with renewable energy providers. This cost cannot increase over the term of the contract, but may decrease if DTE is able to contract additional renewable energy capacity at lower cost than today, per the cost trend seen in recent years.
3. Avoided cost credit: DTE will credit back to customers savings it realizes from VGP customers' reduced reliance on non-renewable generation resources. This credit can vary over time with regional market prices, without approval from MPSC.

Issues for Local Governments

Cost: DTE's tariff does not credit VGP participants with the true avoided cost of renewable energy.

When a utility sells green power to a customer, it must credit that customer for any resulting reduced costs in its non-renewable power generating facilities. It costs DTE about $100/MW to bring a new, conventional generating facility on line – specifically, the new combined cycle gas turbine the MPSC recently approved. Rather than using this figure as the cost avoided when a customer buys green power, in case U-20343 DTE proposes to use the average price at which utilities on the Midwest system auction off their *spare* generating capacity, which in 2018 was about $3.65/MW – in other words, about 96% less than DTE's own capacity cost.

Thus, the capacity charge methodology DTE applies results in virtually no net capacity credit for green power customers, as well as a partial energy credit. For example, a VGP customer on the General Service D3 full service tariff (see chart) would continue to pay about $0.03/kwh toward legacy capacity costs and $0.017/kwh toward legacy energy costs for every kwh of renewable power they bought: a total of about $0.047. In contrast, DTE projects the renewables will cost less than $0.045/kwh. In other words, the "green energy" tariff will actually charge customers more for non-renewable generation than for renewables.



A better approach already exists. The MPSC recently determined that DTE should use costs of its new combined cycle gas turbine to determine how much it should pay third-party renewable energy providers under the federal Public Utilities Regulatory Policy Act. MI-MAUI, and others, argue that directive should apply in principle to VGP costing, which would result in much greater capacity credits for green power customers than what DTE proposes. If that argument prevails, green power customers would end up paying a lower net tariff than they do today for conventional power, because total credits would exceed the projected green energy premiums.

Customer Size threshold: an increasing number of municipalities and other local public agencies have adopted climate and energy goals, but few will qualify for the 1 MW "large customer" threshold. DTE states no rationale for this threshold. The logical qualification would seem to be ability to sign long-term energy contracts, for which public agencies are arguably better positioned than almost any private-sector entity regardless of size.

Options for Action

The MPSC unexpectedly approved DTE's Large Customer VGP (case U-20343) *ex parte* – without taking any comment or testimony from the public or stakeholders – in late January. Several parties intend to petition the MPSC for a rehearing and are advocating a full contested case for the LCVGP. If the MPSC does not grant rehearing, the next opportunity to influence the LCVGP rate design will be at the end of the interim approval period, in about six months.

Customers have limited alternatives for purchasing renewable energy. The 10% "choice market" for electrical providers in Michigan is capped out, so DTE is likely the only renewable energy provider available to most customers. Alternatively, customers can continue to buy conventional energy from DTE then separately buy Renewable Energy Credits generated anywhere else in the world. As a matter of policy, however, most public agencies prefer their renewable energy to be generated on the same system in the same year when they use it (i.e., bundled). In addition, the total cost of RECs plus conventional energy from DTE is more expensive than the LCVGP.

Customers with aggregate peak demand under 1 MW per year are eligible for DTE's Voluntary Green Program, filed recently for review by the MPSC. This program will be significantly more expensive for customers then the LCVGP but will offer more flexible contract terms.

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