

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter, on the Commission's own motion,)	
regarding the regulatory reviews, revisions,)	
determinations, and/or approvals necessary for)	Case No. U-17302
DTE ELECTRIC COMPANY to fully comply with)	
Public Acts 286 and 295 of 2008.)	
_____)	

At the December 18, 2014 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. John D. Quackenbush, Chairman
Hon. Greg R. White, Commissioner
Hon. Sally A. Talberg, Commissioner

ORDER

On November 4, 2014, DTE Electric Company (DTE Electric) filed an application requesting *ex parte* Commission review and approval of an engineering, procurement, and construction (EPC) agreement with Aristeo Construction Company (Aristeo) and a turbine supply agreement (TSA) with General Electric Company (General Electric), collectively referred to as the Meade Wind Park contracts. On December 11, 2014, DTE Electric filed a partially redacted amendment to the TSA.

The EPC agreement between DTE Electric and Aristeo is to design, engineer, procure, supply, construct, install, start-up, test, and provide related technical assistance for the Meade turbines. The TSA between DTE Electric and General Electric is to provide the turbines for the Meade

Wind Park. The contracts will result in the development of a company-owned wind farm that is anticipated to provide approximately 100 megawatts of nameplate renewable energy capacity.

The TSA is the result of a request for proposal (RFP), which DTE Electric developed in consultation with the Commission Staff (Staff). The bidding criteria used by the company for the RFP were technical evaluation, operation and maintenance, Michigan sourcing and services, total cost of ownership, financial strength and creditworthiness, commercial terms, and safety program. The closed-bid turbine RFP was issued on February 17, 2014. By the due date of March 31, 2014, DTE Electric received seventeen proposals from six suppliers. Using an evaluation scorecard developed in consultation with the Staff, DTE Electric entered into negotiations with two suppliers. DTE Electric completed negotiations with one supplier, General Electric, and the executed TSA is the result of the negotiations. The contract amendment provides additional flexibility in the timing of the turbine purchases.

The EPC agreement is the result of a competitive bidding process accomplished through an RFP that DTE Electric developed in consultation with the Staff and issued on June 20, 2014. The bidding criteria used by the company for the RFP were experience, project management, safety, price, and financial strength and creditworthiness. Additional points were given to diverse or Michigan-based EPC contractors. By the due date of August 4, 2014, DTE Electric received three proposals. Using the evaluation scorecard developed in consultation with the Staff, DTE Electric selected two contractors to move on to the next stage of the RFP process. DTE Electric entered into negotiations with these contractors and completed negotiations with one contractor, Aristeo. The executed EPC agreement is the result of these negotiations.

The Staff conducted regulatory reviews of DTE Electric's RFP processes, evaluation methods, and analyses that led to the two contracts. The Staff concluded that DTE Electric's RFP processes

in this instance complied in all material respects with the procedures approved on August 25, 2009 order in Case No. U-15806, and the guidance contained in the December 4, 2008 order in Case No. U-15800.

DTE Electric filed copies of the contracts, and amendment, with certain sensitive portions redacted to protect confidential information that might negatively affect the competitive market. However, DTE Electric provided the Staff the opportunity to review unredacted versions of the documents.

In its application, DTE Electric states that the estimated installed cost for the Meade Wind Park is \$2,170 per kilowatt (kW), which is less than the installed cost of \$2,317 per kW assumed in DTE Electric's renewable energy plan (REP).¹ Additionally, the company estimates that the Meade Wind Park will have an average net capacity factor of 41%, which is higher than the estimate within the REP of 39%.

In this application, DTE Electric has requested that the transfer price schedule in the company's most recently approved renewable energy reconciliation case, Case No. U-16656, be applied to the Meade Wind Park contracts. The proposed transfer price schedule was attached to the application.

DTE Electric requested that the Commission approve the contracts and provide assurance that the full costs will be recoverable through the combined application of the transfer price and renewable energy surcharge mechanism. DTE Electric states that the requested contract approvals will not result in an alteration or amendment in rates or rate schedules and will not result in an increase in the cost of service to customers because the contracts are consistent with the planning activities, expenses, and revenue recovery mechanisms and surcharges described in DTE Electric's

¹ The actual cost per kW installed may deviate slightly from the estimated cost.

REP, approved by the Commission on December 19, 2013, in Case No. U-17302. Therefore, DTE Electric's application may be authorized and approved without notice or hearing pursuant to MCL 460.6a(1).

Discussion

MCL 460.1033 provides in part:

(1) Subject to subsections (2) and (3), an electric provider that had 1,000,000 or more retail customers in this state on January 1, 2008 shall obtain the renewable energy credits that are necessary to meet the renewable energy credit standard in 2015 and thereafter as follows:

* * *

(a) At the electric provider's option, up to but no more than 50% of the renewable energy credits shall be from any of the following:

(i) Renewable energy systems that were developed by and are owned by the electric provider. ***An electric provider shall competitively bid any contract for engineering, procurement, or construction of any new renewable energy systems described in this subdivision.***

* * *

(3) An electric provider shall submit a contract entered into pursuant to subsection (1) to the commission for review and approval. ***If the commission approves the contract, it shall be considered to be consistent with the electric provider's renewable energy plan.***

(Emphasis added)

MCL 460.1047 provides in part:

(1) Subject to the retail rate impact limits under section 45, the commission shall consider all actual costs reasonably and prudently incurred in good faith to implement a commission-approved renewable energy plan by an electric provider whose rates are regulated by the commission to be a cost of service to be recovered by the electric provider. Subject to the retail rate impact limits under section 45, an electric provider whose rates are regulated by the commission shall recover through its retail electric rates all of the electric provider's incremental costs of compliance during the 20-year period beginning when the electric provider's plan is approved by the commission and all reasonable and prudent ongoing costs of compliance during and after that period. The recovery shall include, but is not limited to, the electric provider's authorized rate of return on equity for costs approved under this section, which shall remain fixed at the rate of

return and debt to equity ratio that was in effect in the electric provider's base rates when the electric provider's renewable energy plan was approved.

(2) Incremental costs of compliance shall be calculated as follows:

(a) Determine the sum of the following costs to the extent those costs are reasonable and prudent and not already approved for recovery in electric rates as of the effective date of this act:

(i) Capital, operating, and maintenance costs of renewable energy systems or advanced cleaner energy systems, including property taxes, insurance, and return on equity associated with an electric provider's renewable energy systems or advanced cleaner energy systems, including the electric provider's renewable energy portfolio established to achieve compliance with the renewable energy standards and any additional renewable energy systems or advanced cleaner energy systems, that are built or acquired by the electric provider to maintain compliance with the renewable energy standards during the 20-year period beginning when the electric provider's plan is approved by the commission.

(ii) Financing costs attributable to capital, operating, and maintenance costs of capital facilities associated with renewable energy systems or advanced cleaner energy systems used to meet the renewable energy standard.

The Commission has reviewed the contracts submitted by DTE Electric pursuant to Act 295 and finds that the contracts should be approved. In accordance with MCL 460.1033(1)(a)(i), the company has demonstrated that it has competitively bid the contracts, and the Commission finds that the projected cost per kW under the contracts is less than what was approved in DTE Electric's latest REP. The Commission also grants DTE Electric's request to apply the transfer price schedule approved in Case No. U-16656 to the Meade Wind Park contracts.

The Commission agrees to provide assurance that the costs of the contracts will be recoverable through the combined application of the renewable energy surcharges and application of the transfer price mechanism. The Commission notes, however, that it will further review the company's actions and costs associated with these contracts in a contested case pursuant to MCL 460.1047 and MCL 460.1049(1), during DTE Electric's corresponding REP reconciliation proceeding.

The Commission finds that *ex parte* review and approval is appropriate, because the contracts will not affect rates or rate schedules, thus will not result in an increase in the cost of service to customers.

THEREFORE, IT IS ORDERED that:

A. The Engineering, Procurement and Construction Agreement with Aristeo Construction Company and the Turbine Supply Agreement and amendment with General Electric Company are approved as in compliance with Public Act 295 of 2008.

B. The Commission approves the use of the transfer price schedule, as approved in DTE Electric Company's 2011 renewable cost reconciliation in Case No. U-16656, for the Meade Wind Park contracts.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, under MCL 462.26.

MICHIGAN PUBLIC SERVICE COMMISSION

John D. Quackenbush, Chairman

Greg R. White, Commissioner

Sally A. Talberg, Commissioner

By its action of December 18, 2014.

Mary Jo Kunkle, Executive Secretary