

# Testimony of the Michigan Independent Hydroelectric Owners

Senate Energy & Technology Committee

September 17, 2015

Thank you, Chairman Nofs and members of the Committee, for this opportunity to testify before you regarding SB 437 and SB 438.

Michigan's small, independent hydroelectric owners and operators have been producing clean, emission-free energy for more than a century, providing electric customers in the state with affordable and reliable, clean and renewable power. Our group represents 22 MW of installed capacity that is interconnected with Consumers Energy Co.

There are about 2500 dams in Michigan, but only about 80 of them are electrified, totaling about 330 MW of capacity. Nineteen of these are small, independent hydros interconnected with Consumers Energy. Fifty-five were once electrified dams that have been retired (about 30 MW), and another 750 of these dams could be retrofitted to produce about 100 MW of power.

Hydropower is domestically produced, secure power that is not subject to the disruptions of fuel prices and economics, or foreign or out-of-state suppliers. Only 3% of the state's dams are electrified. They make up about 1.3% of Michigan's generation and 28% of its renewables. It is made from falling water, which is a sustainable, renewable resource with an overall efficiency of 85-90%. There are no air emissions, no pollution, and no toxic byproducts. It is a carbon-free source of energy eligible for state compliance with the Clean Power Plan.

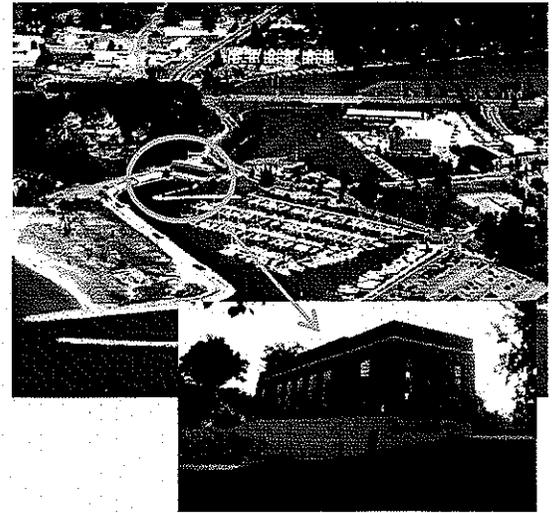
Hydroelectricity is firm, reliable, baseload power that contributes to Michigan's reserve capacity needs. It has "black start" capability, which means it can electrify the grid without an additional power source to get started, which is vital to recovery during power outages following storms.

These facilities have a capacity factor in excess of 60%, have life spans in excess of 100 years, and provided significant tax revenue to local communities, including ad valorem taxes from the lakefront property created by their impoundments. The impoundments these facilities create provide recreational opportunities for the public and lakefront property owners, and habitat for fish and wildlife.

All of this is made possible by the revenues provided through Michigan Public Service Commission-approved contracts ("Power Purchase Agreement," or "PPA").



*Bellevue Mill, 45 kW, restored 1977 and ongoing*



*Hydro Powerhouse, Elk River, Grand Traverse Bay*

As participants in Senator Nofs' Renewable Energy/Energy Efficiency Workgroup, we are disappointed that our request for statutory language to reflect the legislature's desire to ensure the viability of independent hydroelectric owners is not reflected in either of these bills. Legislative purpose language to reflect a state's desire that its Public Service Commission routinely and fairly set avoided cost rates pursuant to the federal Public Utility Regulatory Policies Act of 1978 ("PURPA") is the norm for most all states that have hydroelectric facilities, such as California, Washington, Oregon, Illinois and Rhode Island, just to name a few. The fact that Michigan has not set avoided rates for our facilities since 1982 is unique and unfortunate. Of course, the facilities that suffer most from this lack of regulatory oversight and leadership are the small, independent facilities that quite simply do not have the monetary resources that the Investor-Owned Utilities have. This jeopardizes the ability of these facilities to continue to provide benefits to the citizens of Michigan.

We have heard some remarks in the legislative process to the effect that it would be good for the utilities to only pay a "market rate" for independent hydro power, and/or that the hydro owners should just participate in the IRP process, because it would be good for customers to receive the "lowest rate" possible. We want to take this opportunity to dispel both of these positions, in no small part, because they would violate PURPA.

First, PURPA requires that rates be set for a Qualifying Facility ("QF"), such as ours, at the utilities' avoided cost rate. That rate must be fair to the utility, its customers *and* the QF. Setting a very low rate, which may be preferred by the utility, will violate PURPA if it is otherwise unreasonable and too low to the QF. Likewise, setting a high rate, which may be preferred by the QF, will violate PURPA if it is otherwise too high and discriminatory toward the utility. Finding that reasonable rate that satisfies PURPA generally requires the help of the state public service commission. It is generally based on generating plants that the utility owns, and thus, examines how the utility pays itself for similar power. Furthermore, setting a market-based rate would arguably only be allowed if the utility has obtained a waiver from FERC to require that its QFs utilize the market. In Michigan, neither Consumers Energy nor Detroit Edison has received such a waiver for QFs under 20 MW, although they have for facilities greater than 20 MW.

For all of the reasons above, requiring the QFs to somehow use the IRP process and "hope for the best," would also violate PURPA.

Michigan's hydro owners are not alone in this concern, which are shared by the other independent power producers that have PPAs with utilities.

Michigan's small hydroelectric facilities are too valuable to let them go idle. Our energy source – clean, renewable, sustainable flowing water – provides stable pricing against fluctuating fuel prices. We have low operating expenses, but large capital costs, particularly in complying with environmental and FERC-mandated requirements. We are baseload power with "black start" capability that is critical to the grid as distributed generation. The impoundments these facilities create provide recreational opportunities for the public and lakefront property owners, and habitat for fish and wildlife.

Of course, Consumers Energy knows all of these valuable attributes and challenges first hand, as it owns and operates 13 river hydros and is part-owners of the Ludington Pumped Storage Facility. As this Committee probably knows, Consumers is currently requesting some \$800 million for various operating and environmental costs for Ludington alone. Consumers Energy would hardly request simply a three-cent MISO "market rate" to cover its costs.

Without the revenues from a PPA these facilities cannot operate and these benefits will be lost.

Michigan's energy policy needs to keep small independent hydro viable. We need contract terms that are just and reasonable under the constructs of PURPA, and allow for the recovery of compliance, operations and maintenance costs, just like the utilities ask to be treated for their own hydro plants.

The Michigan Independent Hydroelectric Owners and Operators believe that the state needs to explore incentives to encourage regulated utilities to enter PPAs for small hydro energy and capacity that reflect the benefits of zero-emissions, recreational opportunities, and renewable electrical power, which includes a hedge against volatile coal and natural gas pricing and the intermittency of electricity sources, such wind and solar.

Regulated utilities like Consumers Energy and DTE Energy are obligated by PURPA to purchase power, at avoided cost rates, from qualified electric generating facilities of 20 MW and smaller. Recent attempts to renew these contracts have been unsuccessful. Consumers Energy's blanket offer of short-term market pricing and capacity,<sup>1</sup> approximately 4.5 cents per kWh, is not what they pay themselves, is inadequate for maintaining these facilities and does not meet the avoided cost standard of building new generation, which is the basis for PURPA. We believe the avoided cost rate should be based on the cost of the utility's proposed Thetford natural gas plant, which has a transfer price of approximately 8 cents per kWh<sup>2</sup>.

Electricity from small hydroelectric facilities diversifies Michigan's energy portfolio, secures and provides drinking water to local communities, and supports recreational opportunities for lakefront property owners and the general public. Not ensuring their viability will have major consequences. Any long-term energy policy passed by this legislature should signal your intent to keep *all* of Michigan's hydroelectric facilities operational – not just those of the incumbent utilities.

The Michigan Independent Hydroelectric Owners appreciate this opportunity, and would like to work with the bill sponsors to ensure small hydroelectric facilities can continue their role and service to the people of the State of Michigan.

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<sup>1</sup> See CECO. testimony case U-17678, Direct testimony of David F. Ronk, JR "Company plans to offer"

<sup>2</sup> Based on transfer price of Consumers Energy's proposed Thetford natural gas plant, case U-17429