

WHY IS THERE A NEED TO REQUIRE FIRM CAPACITY

Senate Committee on Energy and Technology

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STEVEN A. TRANSETH
210 West Michigan Street
Lansing, Michigan 48204
Office: (313) 778-6467
Cell: (313) 778-6467
sttranseth@aol.com

TRANSETH & ASSOCIATES PLLC
210 West Michigan Street, Suite 200
Lansing, Michigan 48204

Reliable/Affordable Electricity

- Electricity is not a simple commodity or service but *the* essential service that literally powers every facet of our modern life – our success has been due to the fact that electricity has been both reliable and affordable
- Any energy policy going forward cannot focus on one of these components to the exclusion of the other
- There has to be a balance

The Changing Nature of the Industry

- We have been in a period of sufficient capacity where the need to build new generation has not yet become an issue
- A requirement of demonstrating that a provider has secured capacity to meet contracted or obligated load has not been necessary
- That is about to change for Michigan
- The ramifications of a provider, regardless of its regulated status, not having sufficient capacity to meet its obligation is a scenario we cannot afford

The Reality of the Market

- In any debate on appropriate changes to the existing laws involving the means and manner of how we generate power, we must recognize the market forces in play
- Deregulation is being driven by customers (primarily businesses) based on a faith in market mechanisms that gives short term economic goals priority over long term system requirements

The Coming Crisis in Electricity Generation

- We have the potential of a perfect storm - with the retirement of aging base-load coal plants, a transition toward new and cleaner generation, and the return of load growth as the economy improves
- The full extent of the challenge of meeting future capacity needs has not yet been experienced in most states, including Michigan
- Meeting this challenge is going to require long term planning and long term investments

RELIABILITY/CAPACITY
Ensuring sufficient electric generation to meet future demand
http://www.eia.gov/formcast/neo/021_electric.cfm

- The EIA projects that the EPA rules will result in 11 to 16 GW of retired capacity in the Midwest within the next 5 to 10 years
- MISO is projecting significant capacity deficiencies for Michigan (2 to 3 GW by 2020)
- Until now reliability issues (i.e. blackouts) have been limited to infrastructure failure (i.e. transmission and distribution lines) – unless new base-load generation is built we are taking a risk of facing system failures (sometimes forced) due to insufficient capacity or significant increases in rates due to imported power

Reliance on deregulated market forces to meet short-term pricing needs will put long-term reliability at risk

- The economic drivers behind deregulation are inconsistent with those necessary to build the type of base-load generation that will be needed to meet future capacity needs for all customers – including the large industrial customer
- Investments in privatization projects will be made for the short term profit of a select few as opposed to ensuring long term reliability, sustainability, and stable cost for all customers
- Price driven versus system integrity (Ohio and Illinois)
- Federal/regional control versus State/local control

We must never let electricity become a speculative commodity

What does this mean for Michigan?

- EPA requirements will result in the building new clean energy facilities – requiring the investment of tens of millions, if not billions of dollars over the next several decades
- Where will these new facilities be built?
- As Michigan considers the right policies to ensure the state's reliable, affordable, and clean energy future it will need to decide between state control and oversight or dictates from the federal government (i.e. Presque Isle)

A simple protection provision for Michigan

- To focus solely on short-term efforts to purchase a kWh at the lowest price today is a careless disregard for the need to make the necessary investments to ensure there is a kWh to purchase tomorrow
- Sec 10a (3) & (4) – Requires an AES to demonstrate to the Commission that it has secured sufficient in-state capacity to serve its retail electric customers (the requirements are minimal)
- The changing nature of the electric industry and State interest requires this protection and should be required of all providers – including the utilities
- Strengthen the provisions of Sec. 6j(4) and specifically make part of the IRP

