Inherent conflict between Reliance on the Markets & Ensuring Reliability

Senate Committee on Energy and Technology

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Reliable/Affordable Electricity

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

RELIABILITY/CAPACITY

Ensuring sufficient electric generation to meet future demand

- **The EIA projects that there will be 11 to 16 GW of retired capacity in the MISO footprint within the next 5 to 10 years**
- **MISO is projecting significant capacity deficiencies for Michigan 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**

Auctions

- Auctions were initially created to provide a means of selling excess capacity in deregulated markets
- During the current period of excess capacity there has not been an issue or need for new generation
- As capacity levels have dropped it has imposed a new requirement to the auction process – new generation (the reason for the proposed 3 year auction).
- The question is will the 3 year auction create the right pricing signals to sustain adequate resource levels and provide incentives to build new capacity?

Auctions

- Neither the new generation that has been built or that which is currently planned is sufficient to meet the projected deficiencies
- Illinois and Ohio (deregulated states) are examples of where large base load facilities are unable to sustain operations under current auction pricing
- The only way for the auctions to provide incentives for the kind of new generation that is needed is through prices that equal or exceed the embedded costs of existing power producers

The Need for Balance

- **Markets are naturally driven by short term economic goals:** ***"What is the lowest price to purchase a kilowatt today?"***

  The focus is on the cost of energy

- **Reliability requires long term planning and asks the question:** ***"What do I need to invest to ensure I have a kilowatt to purchase tomorrow?"***

  The focus is on the fix cost of capacity

Lansing Board of Water and Light

Integrated Resource Plan

The City of Lansing's municipal utility is the largest in the state with over 625 MW of installed capacity. Due to plant retirements it will lose 494 MWs of coal-fired generation by 2030 (or nearly 80%)

Lansing Board of Water and Light
Integrated Resource Plan

The first IRP in the State of Michigan

The key objectives in plan development:

- Affordability
- Reliability
- Generating energy while minimizing environmental impact
- Self-sufficiency by reducing BWL's reliance on outside energy markets

Lansing Board of Water and Light

Integrated Resource Plan

Process: The LBWL Board formed an advisory committee that evaluated a variety of energy portfolios. Each portfolio included differing amounts of potential sources of generation (supply-side resources); as well as sources of energy conservation, curtailment or management (demand-side resources).

This resulted in eight separate portfolios which were evaluated against the key objectives

Lansing Board of Water and Light
Integrated Resource Plan

While not the lowest cost portfolio, the portfolio selected includes a blend of natural gas plant replacement with a progressive addition of renewable energy, continuation of the existing energy efficiency programs and increasing demand side options