Legislative Analysis

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ELECTRIC UTILITIES:
COST ALLOCATION & RATE DESIGN METHODS

House Bill 5476
Sponsor: Rep. Jim Stamas
Committee: Energy and Technology

Complete to 4-28-14

A SUMMARY OF HOUSE BILL 5476 AS INTRODUCED 4-23-14

The bill would:

- Require the Public Service Commission to examine proposals submitted by large electric utilities to modify existing cost allocation methods and rate design methods used to set rates for customers.
- Require such proposals to meet certain conditions.
- Establish time frames for the submission and adoption of the proposals.
- Allow the PSC to commence a proceeding to examine cost allocation and rate design methods of small utilities.

Under the provisions of Public Act 286 of 2008, the Public Service Commission (PSC) began on January 1, 2009, to phase in cost-based electric rates for industrial and commercial customers over a period of five years, with a possible longer phase-in for industrial metal melting customers. This applied only to utilities with one million or more customers.

Section 11(1) of PA 286 required the PSC to adopt the 50-25-25 method of allocating production-related and transmission costs to each customer class, but was authorized to modify this method to better ensure that rates reflect the cost of service if this method did not result in a greater amount of production-related and transmission costs allocated to primary customers. (The 50-25-25 allocation method consists of a 50 percent weighting of coincident peak demand, a 25 percent weighting of energy used in the on-peak period, and a 25 percent weighting of total energy use.)

House Bill 5476 would amend Section 11 of the Public Service Commission law, Public Act 3 of 1939, to require the PSC to commence a proceeding for each affected utility, within 60 days of the bill's effective date, in order to examine cost allocation methods and rate design methods used to set rates.

Within 60 days of the commencement of a PSC proceeding, each affected utility would have to file a proposal to modify the existing cost allocation and rate design methods that have been used to set existing rates. A proposal would have to meet the following conditions:

- Be consistent with Section 11(1) described above.
- Explore different methods for encouraging energy-intensive industrial customers to locate or maintain operations within the state, while maintaining affordable rates for residential customers to better ensure rates are equal to the cost of service.
- Within the primary and secondary classes, encourage the attraction and retention of industrial customers to better ensure rates are equal to the cost of service.

The scope of the PSC proceeding would be limited to examining cost allocation and rate design methods used to set rates for each affected electric utility that filed a proposal under the bill. Within 180 days after a utility filed a proposal, the PSC would have to issue a final order adopting the cost allocation methods and rate design methods it considered appropriate. The final order would also fix a date not later than December 1, 2015, for the establishment of rates consistent with those cost allocation and rate design methods.

During the pendency of a proceeding under the bill, a utility could file other rate applications. If an affected utility files a rate application before December 1, 2014, the PSC could close and consolidate the proceedings with another case so long as a final order is able to be implemented by December 1, 2015.

For electric utilities with fewer than one million retail customers, the PSC would be authorized to commence a proceeding to examine cost allocation and rate design methods used to set rates. (The act currently requires the PSC to approve rates equal to the cost of providing service to customers.)

MCL 460.11

FISCAL IMPACT:

House Bill 5476 would have an indeterminate, yet neutral, fiscal impact on the Michigan Public Service Commission (PSC). HB 5476 would engender increased administrative costs for the PSC; however, Section 2 of the Costs of Regulating Public Utilities Act of 1972 stipulates that LARA "shall ascertain the amount of the appropriation attributable to the regulation of public utilities… [which] shall be assessed against the public utilities…." Consequently, irrespective of the short-term and long-run fiscal impacts of HB 5476, LARA would assess public utilities the amounts sufficient to administer the PSC's regulatory responsibilities.

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