

UTILITY CONSUMER REPRESENTATION FUND

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House Bill 5612 (Substitute H-1)

Sponsor: Rep. Mike Shirkey

Committee: Energy and Technology

(Enacted as Public Act 170 of 2014)

Complete to 6-4-14

A SUMMARY OF HOUSE BILL 5612 AS REPORTED BY COMMITTEE 6-4-14

House Bill 5612 would amend the Public Service Commission Law, Public Act 3 of 1939, to allow the money in the Utility Consumer Representation Fund to be used for participation in cost allocation and rate design proceedings (of the kind proposed by House Bill 5476, Section 11(3)).

Generally speaking, the Fund is used to financially support the intervention in utility rate cases by the attorney general and consumer representatives. Currently, the annual receipts and interest earned, less administrative costs, may be used only for administrative and judicial proceedings relating to gas cost recovery, power supply cost recovery, and initial power supply cost recovery, and in federal administrative and judicial proceedings that directly affect the energy costs paid by Michigan utilities.

House Bill 5476, briefly put, 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; and allow the PSC to commence a proceeding to examine cost allocation and rate design methods of small utilities.

MCL 460.6m

BACKGROUND INFORMATION:

The Utility Consumer Representation Fund provides a mechanism whereby the attorney general and consumer advocates (also referred to as "public intervenors") have more resources to participate in complex utility rate proceedings. Under the Public Service Commission law, large utilities (a minimum of 100,000 customers) make annual payments to the fund. Half of the payments to the fund are available for use by the attorney general in utility rate cases. (This is included in each utility's operating expenses and may be charged to its customers). The remaining half of the payments are used for grants to consumer advocates for use in utility rate cases, and may only be charged to the utility's residential customers. Cooperative utilities also pay into the fund, but grants from the fund may not be used in cases that primarily affect cooperative utilities.

Nonprofit organizations and local units of government may apply for grants from the fund. Acceptable proposals must serve the interests of residential utility customers, including environmental protection, energy conservation, employment, and a healthy economy. Disbursements may not be used to represent mere individual interests.

The Utility Consumer Participation Board administers the fund, and coordinates the activities of the attorney general with those of grant recipients to avoid duplication of effort. Reports to the board are required of grant recipients and the attorney general regarding the use of money from the fund, and the board must report annually to the Legislature regarding the discharge of its statutory duties. In addition, a Senate and a House committee reviews the costs and benefits of the fund, and makes recommendations for necessary changes in the fund's payment levels, every three years. The committees are appointed by the Senate Majority Leader and Speaker of the House, respectively.

Recently, the House passed House Bill 5476, which aims to change the way cost allocation methods and rate designs methods are used to set rates for industrial customers with high energy needs. That bill's provisions would replace the E1 rate currently in place; the E1 rate currently is only available to Hemlock Semiconductor (HSC) and is set to expire at the end of 2015. Many other industries, such as large manufacturers, also use significant amounts of energy, albeit less than HSC, and would like the opportunity to apply for lower rates based on their usage. Large users generally have a smooth demand, which is actually less costly for a utility to serve as compared to a business which may use less energy but whose demand fluctuates during the day and from day to day. House Bill 5476 would address the issue by allowing the Michigan Public Service Commission to explore a new rate-setting system that supporters say would recognize the lower cost to supply electric energy to industrial customers whose energy use is more stable.

House Bill 5612 is a companion bill to House Bill 5476. The discussions that will ensue as the MPSC determines a feasible method to set rates for large industrial users, such as manufacturing plants, are expected to be complicated. In addition, though the rates will only apply to the large energy users, the cost to offer the discounted rates will be borne by other ratepayers – both commercial and residential customers. Because it is apparent that the complexities would be beyond the scope of most residential customers, and to ensure that the concerns of residential ratepayers are fairly and aggressively represented in upcoming hearings, House Bill 5612 will allow consumer advocacy organizations to obtain grants from the Utility Consumer Representation Fund. This will allow organizations with the expertise to represent the interests of residential electric energy customers to play an active role as the rate-setting system for large industrial energy users is deliberated (should 5476 be enacted).

FISCAL IMPACT:

House Bill 5612 would not have a significant fiscal impact on the state or local units of government.

POSITIONS:

A representative of the Michigan Environmental Council testified in support of the bill.
(6-3-14)

The Michigan Public Service Commission indicated support for the bill. (6-3-14)

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.