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BILL ANALYSIS

House Bill 5476 (Substitute S-1 as reported)
Sponsor: Representative Jim Stamas
House Committee: Energy and Technology
Senate Committee: Energy and Technology

CONTENT

The bill would amend Public Act 3 of 1939, the Public Service Commission (PSC) law, to provide for the examination and modification of the cost allocation and rate design methods used to set electric utilities' rates. With regard to utilities with at least 1.0 million retail customers in Michigan, the bill would do the following:

-- Require the PSC, within 60 days after the bill took effect, to commence a proceeding for an examination of each utility's cost allocation and rate design methods.
-- Require a utility, within 60 days after a proceeding began, to file a proposal to modify the methods that were used to set existing rates.
-- Require the PSC, within 270 days after a proposal was filed, to issue a final order adopting the cost allocation and rate design methods it considered appropriate, and requiring the establishment of rates consistent with those methods by December 1, 2015.
-- Require the PSC to allow any interested person to intervene in a proceeding.
-- Authorize the PSC to consolidate certain proceedings.
-- Require the PSC to order the presiding administrative law judge to prepare an interim report that the Commission would submit to the Legislature within 150 days after proposals were filed or in a consolidated case, describing the actions taken to comply with the bill's proceeding requirements.
-- Require the PSC, at least 60 days before a final order had to be issued or in a consolidated case, to forward to the Legislature the proposal for decision in each of the proceedings initiated under the bill.

With regard to smaller electric utilities, excluding member-regulated electric cooperative utilities, the bill would do the following:

-- Allow a utility with fewer than 120,000 Michigan retail customers, within two years after the bill took effect, to apply to the PSC to modify the cost allocation and rate design methods used to set the utility's existing rates.
-- Require an electric utility serving 120,000 or more but fewer than 1.0 million retail customers in Michigan, within 180 days after the bill took effect, to apply to the PSC to modify its cost allocation and rate design methods.
-- Require the PSC, upon receiving an application, to commence a proceeding for the examination and implementation of modifications to the utility's methods.

Regardless of the size of a utility's customer base, an analysis of affordable rates would have to include both of the following:

-- An analysis of rate impacts directly attributable to proposed cost allocation methods, excluding expiring costs associated with non-base energy and its delivery that had,

except for an expiring contract described in Section 5 of the Energy for Economic Development Act, specific statutory time durations.
-- An analysis of the expected impact overall on customer bills.

(Section 5 of the Energy for Economic Development Act pertains to an electric utility's contract with an industrial customer providing for an increase in connected load at a single premises of at least 70,200,000 kilowatt hours over 12 consecutive months pursuant to an economic development tariff provision approved by the PSC as of October 6, 2008. Until December 1, 2015, the Commission may not take any action that would alter the rates, terms, conditions, duration, or enforceability of that tariff.)

MCL 460.11 Legislative Analyst: Julie Cassidy

FISCAL IMPACT

The bill would have a neutral fiscal impact on the Public Service Commission within the Department of Licensing and Regulatory Affairs, and no fiscal impact on local units of government. The bill would result in an indeterminate increase in administrative costs for the PSC related to required examinations of cost allocation and rate design methods for large public utilities. Additional increases in administrative costs would result from processing applications from smaller public utilities that applied to modify their existing cost allocations and rate designs. The fiscal impact of these increased administrative costs would be neutral, however, since the PSC has statutory authority to set the assessments it charges to regulate public utilities at a level that cover its administrative costs. To the extent that current public utility assessment collections would not be sufficient to cover these costs, the PSC could increase those assessments to compensate.

Date Completed: 5-29-14 Fiscal Analyst: Josh Sefton