

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter, on the Commission’s own motion,)
to commence a collaborative to consider issues)
related to implementation of effective new)
technologies and business models.)
_____)

Case No. U-20898

**COMMENTS BY SEMCO ENERGY GAS COMPANY REGARDING
THE BENEFIT COST ANALYSIS STANDARDIZATION PROPOSAL FILED BY
CONSUMERS ENERGY AND DTE ELECTRIC COMPANY**

SEMCO Energy, Inc, doing business as SEMCO ENERGY Gas Company (SEMCO) now files its comments in response to both the joint proposal of DTE Electric Company and Consumers Energy as filed on February 1, 2023 (Proposal) and the questions posed by the Commission in its April 24, 2023 order.

I. Introduction

On July 27, 2022, the Commission entered an order directing the investor-owned electric utilities to file proposed Michigan-specific uniform benefit cost analysis (BCA) requirements.

At the request of an August 8, 2022 joint motion made by DTE Electric Company and Consumers Energy Company with support by MEGA, the Commission in its August 23, 2022 order agreed to extend the deadline for the submission of proposals to February 1, 2023. The Commission also agreed to narrow the focus of the BCA proposals to initially focus on pilot projects, noting “that a BCA for use in assessing a pilot program proposal may differ in significant ways from a BCA intended for use in evaluating other types of investments.” August 23, 2022, Order, p. 3.

In as much as the July 27, 2022 order contemplated a BCA impact to electric utilities only, and in as much as the Commission specifically indicated which utilities were to submit a proposed BCA, SEMCO did not file comments during either the August 26, 2022 or February 17, 2023 comment period, nor was it named as a joint commenter in the comments filed by the Michigan Electric and Gas Association (MEGA).

On April 24, 2023 the Commission issued an order reviewing the Proposal and requesting additional feedback. During its discussion and in its final order, the Commission extended the consideration of potential impact of the BCA to natural gas utilities. SEMCO offers the following comments, supporting some of the points made by MEGA's electric utility members and offering additional comments.

II. Support of Prior Comments

Considerations for Small Utilities

SEMCO supports the comments offered by MEGA electric members specific to considerations for small utilities and suggests a whole dollar threshold for pilots requiring a minimum investment of \$1 million. The Proposal requires a significant investment of resources and, if required for all pilots, big and small, or if extended beyond pilots regardless of cost, additional staffing would be required for small utilities.

In reference to multi-jurisdictional utilities with a small Michigan footprint, MEGA's February 3, 2023 comments indicate a concern that the Proposal would potentially prevent utilities from pursuing pilots strictly due to the administrative cost associated with completing the BCA. SEMCO feels small utilities, and multi-jurisdictional utilities with a small Michigan footprint bring value and a different perspective than large utilities and the BCA process should not be one to disincentivize participation from utilities without the resources of large utilities.

Effective Date

SEMCO supports MEGA's comment requesting an effective date for any required BCA to allow for ample time for utilities to adjust their processes to meet the requirements. Consistent with the Commission's recent order in the rate case filing requirements, SEMCO suggests an effective date one year from the date the final BCA is approved.

Regulatory Accounting Treatment

SEMCO supports MEGA electric utilities' recommendation that the Commission provide regulatory accounting treatment for costs associated with developing the BCA regardless of whether or not the pilot is approved. The Commission should support utilities efforts toward innovation, especially during this current climate of energy transformation. SEMCO argues that conditioning cost recovery on the outcome of the pilot approval process, or on the outcome of the pilot itself, will only serve to stifle innovation.

III. Commission Follow-up Questions

SEMCO offers additional comments regarding the questions posed in the April 24, 2023 Commission order, as follows:

1. Are there necessary elements that are missing from the BCA proposal? Are there additional impact categories, such as environmental and health effects or equity considerations, which should be considered? If other impacts should be included, how should they be included (monetized, quantitative, or qualitative)?

SEMCO Responds: The current Proposal is general enough that all project benefits could be considered. Each of the suggested considerations above would fit into one of the existing categories provided in the Proposal. It is SEMCO's perspective, however,

that no impact category should be required in the BCA unless there is an associated cost. Impact areas that do not have any associated cost should not be specifically required but could be optionally included for consideration to more fully describe the proposed pilot and its benefits. The benefits of the proposed project should be specific to the project itself and all benefits presented by a utility through its filed BCA should be considered by the Commission.

2. The BCA proposal recommends three potential treatments for different impacts: monetized, quantitative, and qualitative. Are the proposed treatments for each impact appropriate? How can qualitative impacts be incorporated into a BCA?

SEMCO Responds: SEMCO offers no comment to the direct question except to say that all benefits, including qualitative, should be considered when contemplating the merits of a proposed project.

3. The BCA proposal includes an assumed discount rate of the after-tax WACC. Is this an appropriate discount rate?

SEMCO Responds: SEMCO offers clarification that the appropriate discount rate should be *each utility's approved* after-tax WACC.

4. What, if any, changes to the BCA proposal are required in order for natural gas utilities to make use of the BCA proposal for pilots?

SEMCO Responds: The Proposal is general enough to apply to natural gas utility proposed pilots.

5. Do stakeholders find value in a spreadsheet-based tool with a user guide for both the Staff and utility personnel to utilize? Should the spreadsheet-based tool be developed by the Staff or outside consultants? How can the spreadsheet-based tool be used to provide additional transparency into the assumptions underlying the BCA?

SEMCO Responds: A spreadsheet-based standardized tool would be greatly beneficial to small utilities with limited resources. It is important, however, that the tool remains flexible to account for the differences between utilities, service territories, and proposed projects. SEMCO is indifferent to whether Staff or an outside consultant develop the tool but requests that utilities be consulted in the development of such a tool and that a review, comment, and possible modification process be provided before the use of any standardized tool is required.

6. Are there regulatory examples of JST or BCA developments in other states that could be instructive for use in Michigan?

SEMCO Responds: SEMCO has reached out to its affiliate, Washington Gas, for insight into the Maryland, District of Columbia, and Virginia requirements. It is reported that D.C. is currently considering a standardized BCA framework but has not yet concluded that process. It is also reported that, similar to Michigan, D.C. does require a BCA calculation for utility energy efficiency programs.

IV. Conclusion

SEMCO appreciates that the Commission recognized the potential future impact to natural gas utilities and provided this opportunity for SEMCO to provide comment. SEMCO supports the overall concept of a BCA and, with consideration of the comments offered herein, supports the Proposal as offered by Consumers Energy and DTE Electric.

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Respectfully submitted,

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