

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter, on the Commission's own motion,)	
to establish MI Power Grid.)	Case No. U-20645
_____)	

At the February 4, 2021 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. Daniel C. Scripps, Chair
Hon. Tremaine L. Phillips, Commissioner
Hon. Katherine L. Peretick, Commissioner

ORDER

Background

On October 17, 2019, the Commission issued an order (October 17 order) opening this docket for the purpose of providing the impetus, vision, objectives, process, and next steps for the MI Power Grid initiative established by the Commission in partnership with Governor Gretchen Whitmer.

MI Power Grid is a focused, multi-year stakeholder initiative to maximize the benefits of the transition to clean, distributed energy resources (DERs) for Michigan residents and businesses. MI Power Grid seeks to engage utility customers and other stakeholders to help integrate new clean energy technologies and optimize grid investments for reliable, affordable electricity service. The initiative includes outreach and education as well as changes to utility regulation designed to advance Michigan's clean energy future.

In continuing efforts to assist in Michigan's transition to a modern, clean, customer-focused energy system MI Power Grid will better integrate ongoing and future discussions and decision making in three core areas of emphasis: (1) customer engagement, (2) integrating emerging technologies, and (3) optimizing grid investments and performance.

In the October 17 order, the Commission provided dates for the filing by the Commission Staff (Staff) of the first status report on utility pilot projects (due June 30, 2020), and the first status report on MI Power Grid (due September 30, 2020). On May 19, 2020, in recognition of the effect of the COVID-19 outbreak, the Commission issued an order extending those filing dates to September 30, 2020, and October 15, 2020, respectively. In the October 17 order, with regard to the MI Power Grid status report, the Commission stated:

[T]he Commission directs the Staff to file a MI Power Grid status report on or before September 30, 2020, in this docket. The report shall detail actions taken to date, the status of the work areas, and any recommendations for Commission consideration. In addition, the Commission expects publication of an overview of actions taken as part of a final report issued in the third quarter of 2021.

October 17 order, p. 10.

On September 30, 2020, the Staff filed its Utility Pilot Best Practices and Future Pilot Areas report (pilot report) highlighting the efforts of the Energy Programs and Technology Pilots Workgroup (workgroup), stakeholder process, and the Staff's findings and recommendations.

On October 15, 2020, the Staff filed its MI Power Grid status report (October 15 MI Power Grid status report) which recognized the efforts of the workgroup and summarizes the Staff's pilot report. In the October 15 MI Power Grid status report the Staff stated:

Given the importance of the remaining work areas, and the need to ensure adequate time for stakeholder efforts, Staff review and recommendations, and Commission action, the Commission should consider requesting Staff to submit a second status report during the third quarter of 2021, and extending the deadline for the MI Power Grid final report until 2022, in order to allow for a fuller accounting of MI Power Grid activities.

October 15 MI Power Grid status report, p. 23.

On October 29, 2020, the Commission issued an order (October 29 order) which reviewed the pilot report and recommendations, directed the Staff to create an online Michigan Pilot Directory, and requested comments regarding the adoption of a definition of the term “pilot” and objective criteria for pilot program review, to be filed no later than December 11, 2020.

Comments

On December 10, 2020, DTE Electric Company and DTE Gas Company (collectively DTE) and Michigan Electric and Gas Association (MEGA) filed comments. Additionally, on December 11, 2020, Consumers Energy Company (Consumers) and Advanced Energy Economy and the Michigan Energy Innovation Business Council (together AEE/MEIBC) filed comments.

In its comments, DTE states that it recommends that the Commission continue existing requirements and not add any unnecessary duplication. Specifically, DTE avers that it is “presently required to justify the prudence of all costs for which it requests recovery” and “is obligated to explain which costs will be incurred in the bridge period and test year.” DTE’s comments, p. 1. DTE further indicates that, while it attempts to highlight a future spend if a pilot spans across multiple rate cases, “it must still request recovery in the relevant rate case.” *Id.* DTE also contends:

Pilots are initiated and designed to learn about how one or more interventions generates one or more outcomes. One of those outcomes is often comparing the cost of the intervention to the impact of the intervention. That learning will then inform how the intervention compares to other technologies, approaches, or methods on a cost-effectiveness basis and a performance basis. If the underlying motivation for the pilot is to learn about the characteristics of the outcomes generated by the intervention, it is not possible to prospectively know if the intervention is or is not cost-effective at scale.

Id. Therefore, DTE contends that it is not appropriate to apply a cost-effectiveness test to pilot programs at the outset and that the Commission should consider pilot program proposals on the merits of the program instead.

In addition, DTE specifically comments on the requirement to share any added benefits to ratepayers or the energy delivery system, arguing that the “[f]ull implementations and general business optimizations that generate cost savings are already effectively shared with customers over the long term through reductions in the revenue requirement.” *Id.*, pp. 1-2. Similarly, DTE states that impacts on reliability, resilience, safety, and ratepayer bills are already presented in the company’s justification of prudence of a proposed pilot program and its costs. Further, DTE indicates that assessing long-term employment or business opportunities prior to the implementation of a pilot program would be inappropriate as it would require broad assumptions and speculation and that it believes the goal of investing in Michigan “is most effectively pursued on a holistic, company-wide basis and not on a pilot-by-pilot basis.” *Id.*, p. 2. Overall, DTE avers that the public interest criteria should align with existing practices regarding cost reductions, investment objectives, and supply chain reporting. *Id.*, p. 1.

MEGA comments that it generally agrees with the proposed definition of “pilot” but that “pilot programs may also be limited in scope, size, scale, and geography in a manner that non-experimental offerings would not” and that “consideration of these additional aspects of potential pilots should be incorporated into the definition to provide clarity[.]” MEGA’s comments, pp. 1-2. MEGA notes that the proposed objective criteria should only be applicable if a utility applies for pilot program approval outside of a general rate case or integrated resource plan proceeding. *See*, MEGA’s comments, p. 2, n. 3. MEGA also recommends the addition of three additional criteria as follows: (1) Section 1.c. “to include references to any pending applicable regulatory dockets,

legislation or other considerations that is relevant to the project;” (2) Section 3.d. to include “the proposed rate recovery approach so the Commission has greater understanding of the utility’s holistic consideration of the project and opportunity for agreement, which will incentivize the development of these programs;” and (3) Section 6.f. “to allow for addition of any other public benefits.” *Id.*, p. 2. MEGA avers that Section 2.b. should be modified “to include location-driven programs and supporting rationale.” *Id.* Additionally, MEGA notes membership concerns regarding the phrase “clean, distributed energy resources” in Section 6.a., arguing that this phrase “may be used to advocate against natural gas utility pilots or preclude pilot programs not specifically targeting clean energy solutions but addresses reliability, safety, or equity for example.” *Id.*

MEGA further seeks clarification regarding the objective criteria proposed and the energy waste reduction (EWR) pilot program guidance established in Case No. U-15800 and notes that it “supports maintaining the well-established approach set for EWR as-is and utilizing the proposed methodology in this docket for other types of projects.” MEGA’s comments, p. 2. MEGA also notes that there is inherent potential for failure in pilot programs and recommends that the Commission provide “some direction and level of certainty on the treatment of projects that do not, cost-effectively produce the results anticipated despite prudent utility efforts to undergo the pilot.” *Id.*, p. 3.

In comments, Consumers avers that adopting the Commission’s proposed “pilot objective criteria without a streamlined regulatory process and dedicated funding for early-stage pilot exploration will indirectly harm utility customers.” Consumers’ comments, p. 4. Consumers contends that the objective criteria set a high burden of proof for pilot programs especially early-phase small scale pilots which will delay the implementation of innovative pilots. As such,

Consumers emphasizes the need for a streamlined regulatory approach for both gas and electric pilot programs. Consumers also argues that the *ex parte* process does not provide the necessary clarity with respect to funding approval which must be addressed through a contested proceeding.

Consumers proposes that the Commission adopt a process, similar to the EWR pilot process, for non-EWR pilots because “[d]edicated funding for early phase pilots could reduce the pilot lifecycle time and help streamline the collection of information to meet the [Commission’s] objective criteria” and that an annual budget of \$2 to \$3 million “would be sufficient for pilot testing and exploration prior to filing for regulatory pilot approval, where additional details would be shared with the Commission and interested stakeholders.” Consumers’ comments, p. 5.

Consumers also opines that the adoption of the proposed definition and objective criteria should not affect the EWR process. Finally, with respect to Section 6, Consumers avers that “the scope should be expanded to capture environmental benefits including sustainability and long-term decarbonization of the gas business” because, currently, it is “narrowly focused on electric and capturing benefits of distributed energy resources.” *Id.*, p. 6.

AEE/MEIBC comments that well-designed pilots are more urgent now in light of Executive Directive (ED) 2020-10, which sets forth a defined path for Michigan to reach economy-wide decarbonization. AEE/MEIBC also contends that the use of the term “measure” in the definition of “pilot” is too narrow because “pilots are increasingly likely to test multiple technologies and solutions to meet various grid and customer needs.” AEE/MEIBC’s comments, p. 2. Regarding the objective criteria, AEE/MEIBC notes its support but recommends that the Commission also “provide guidance on the specific policy outcomes the Commission would like the pilots to support.” *Id.* AEE/MEIBC also recommends that the Commission increase stakeholder reporting requirements by requiring utilities to file reports regarding pilot plans, results, and data in the

docket. Noting that the benefits of pilot programs can be diverse, AEE/MEIBC recommends that the Commission provide a framework methodology for utilities to estimate net benefits and require pilot proposals to “include information on how they would scale, if successful, and reports on pilots should refine these estimates.” *Id.*, p. 3. AEE/MEIBC also seeks clarification of Section 6.c. regarding whether it refers to “pilot participants, the impact of the pilot on all ratepayers, or the ratepayer bill impacts of a full-scale program based on the pilot.” *Id.*

Discussion

The Commission first notes its agreement with the Staff’s recommendations regarding the timing of the remaining MI Power Grid status reports. Thus, the Commission directs the Staff to submit a second MI Power Grid status report during the third quarter of 2021, and extends the deadline for the final MI Power Grid report to the third quarter of 2022, and in no case later than October 1, 2022.

The Commission appreciates the comments and feedback provided regarding the proposed “pilot” definition and objective criteria and again notes that continued collaboration is necessary to support the efforts of the workgroup, to implement the Staff’s recommendations, to provide more analytical rigor in the review of pilots, and to facilitate additional discussions about ongoing and future pilot programs.

The Commission has reviewed the comments filed and notes its agreement with AEE/MEIBC’s comments regarding the term “measure” in the proposed definition. Therefore, the Commission modifies the proposed definition, and adopts the definition of “pilot” as follows: “A pilot is a limited duration experiment or program to determine the impact of a measure, integrated solution, or new business relationship on one or more outcomes of interest.” The Commission recognizes the importance of including existing terminology such as EWR pilot programs. The

Commission also wants to ensure utilities are pursuing dynamic approaches to solving issues and the addition of integrated solutions to the definition recognizes the importance of pilots seeking to solve a problem rather than testing a single measure. Similarly, the Commission acknowledges the importance of exploring new business relationships and not just technology, especially considering recent orders by the Federal Energy Regulatory Commission (FERC),¹ and that early and thoughtful collaboration between utilities and third parties will be necessary to ensure compliance and to minimize any potential issues.

Therefore, for all proposals that meet this pilot definition and that are submitted to the Commission for funding approval, utilities shall file a comprehensive pilot plan that includes the objective criteria, set forth in Exhibit A and discussed below, to be evaluated by the Commission. As is noted in Exhibit A, the “provision of data listed in the objective criteria is not envisioned to guarantee funding approval” and the “failure to provide information for some of the listed criteria or subcomponents is not envisioned to automatically lead to funding rejection.”

In addition, the Commission also finds merit in modifying the proposed objective criteria as follows:

1. Pilot need and goals detailed.

- a. Need for the pilot is expressed. Results of past similar pilots and findings are shared to justify the need for the proposed pilot.
- b. Pilot goals and desired learnings detailed.
- c. Reference any pending applicable regulatory dockets, legislation, or other consideration relevant to the pilot project.

2. Pilot design and evaluation plan designed and presented together.

- a. Pilot program design and evaluation plans are designed together so examined metrics and collected data support evaluation of the pilot in meeting goals and desired learnings.

¹ On September 17, 2020, FERC issued Final Rule, Participation of Distributed Energy Resource Aggregations in Markets Operated by Regional Transmission Organizations and Independent System Operators, Docket No. RM18-9-000, 172 FERC ¶ 61,247 (Order 2222).

- b. If applicable, define target customer population, selection rationale (including those for location-driven programs), recruitment plans, and evaluation plans for customer adoption and satisfaction.
- c. If statistical analysis will be conducted on pilot results, a statistically significant sample size must be selected, supported, and detailed. If a statistically significant sample size is not selected, justification must be provided.
- d. If statistical analysis will not be conducted, justification must be provided as well as an approach for evaluating pilot goals.
- e. If changes are required during implementation, pilot design, and evaluation impacts are shared.

3. *Pilot project costs detailed.*

- a. Project costs are detailed by source and amount for applicable periods.
- b. Availability of non-utility funding and whether any was pursued (such as state or federal funding opportunities) described.
- c. Anticipated cost-effectiveness and net benefits when deployed at scale described.
 - i. Quantification of expected benefits of the pilot and the evaluation criteria/methods used.
- d. Proposed rate recovery approach detailed.

4. *Project timeline detailed.*

- a. Proposed timeline for the pilot project and any related reports or evaluations delineated.

5. *Stakeholder engagement plan detailed.*

- a. Stakeholder engagement plan before, during, and after pilot takes place detailed.
- b. Interim and final stakeholder reporting described.
- c. Expected publicly available data from pilot shared under proper protections and privacy.

6. *Public interest detailed.*

- a. Public interest justification, including supporting the transition to clean, distributed energy resources; enhancing reliability, safety, affordability, or equity; or other related goals, and the pilot's expected impacts described.
- b. Any added benefits to ratepayers or the energy delivery system, either due to proposed site selection or through other pilot variables, especially if any system weaknesses or forecasted needs are addressed, shared.
- c. Expected impacts of the piloted measure on reliability, resilience, safety, and ratepayer bills detailed.
 - i. Pilot reduction goals for metrics like customer bill, outage minutes/frequency, and OSHA reportable, as well as the translation to full deployment expectations.

- d. Expected local or Michigan-based employment and business opportunities created by pilot described.
- e. Any potential impacts or added benefits of the pilot on low-income customers, seniors or other vulnerable populations described.
- f. Any other public benefits detailed.

In making these modifications, the Commission acknowledges the comments submitted and appreciates the feedback from stakeholders. The addition of Section 1.c., as proposed by MEGA, is reasonable as it will provide additional context in the consideration of pilot program proposals. In the comments, stakeholders specifically referenced Governor Whitmer's ED 2020-10, issued on September 23, 2020, which announced the "MI Healthy Climate" Plan. ED 2020-10, in conjunction with Executive Order 2019-12, set forth a statewide goal of decarbonization which is a reasonable driver for future pilot program proposals and could be considered as a driver for a pilot program proposal.

The Commission recognizes that, even though a pilot program may not be initially cost-effective, consideration must be given to whether the pilot program will grow into a cost-effective program when deployed at full scale. Moreover, quantification of expected benefits is essential for the Commission to consider in reviewing pilot program proposals through the ratemaking process. The Commission also recognizes that there are ongoing conversations about the appropriate benefit/cost considerations, specifically in distribution planning, but concludes that it is reasonable, in the meantime, for utilities to provide their internal scorecard, evaluation process, performance measurements, and other measures that may serve as the basis for pursuing full deployment. In addition, the Commission finds value in requiring an outline of the rate recovery timeline of the pilot, as this will help to illustrate rate impacts over the project timelines.

The Commission also recognizes the concerns raised pertaining to the current EWR pilot process and the inherent potential for failure in pilot programs. The Commission reiterates that

adopting the proposed definition and objective criteria should not impact the current EWR pilot process² and notes that failure can provide an opportunity to learn and will not, in itself, be a bar to cost recovery. The Commission has previously found that reasonable and prudent pilot expenditures can still be deemed recoverable expenses irrespective of whether the pilot indicates a go-forward decision. *See e.g.*, November 4, 2010 order in Case No. U-16191.

In conclusion, the Commission appreciates the work of the utilities, other stakeholders, and the Staff throughout this process. As previously noted, the Commission's goal is to provide more analytical rigor to the review of utility pilots, additional follow-up to determine where pilots are headed, and to allow for additional information sharing.

THEREFORE, IT IS ORDERED that:

A. The Commission Staff shall file in this docket a second MI Power Grid status report in the third quarter of 2021, and shall file the final MI Power Grid report in the third quarter of 2022, and in no case later than October 1, 2022.

B. The Commission adopts the definition of "pilot" and objective criteria as listed in the attached Exhibit A, and finds that for all proposals that meet this pilot definition and that are submitted to the Commission for funding approval, utilities shall file a comprehensive pilot plan including the objective criteria to be evaluated by the Commission.

² The Commission does, however, envision that EWR pilot programs will be included in the Michigan Pilot Directory, as discussed in the October 29 order.

The Commission reserves jurisdiction and may issue further orders as necessary.

MICHIGAN PUBLIC SERVICE COMMISSION

Daniel C. Scripps, Chair

Tremaine L. Phillips, Commissioner

Katherine L. Peretick, Commissioner

By its action of February 4, 2012.

Lisa Felice, Executive Secretary

PROOF OF SERVICE

STATE OF MICHIGAN)

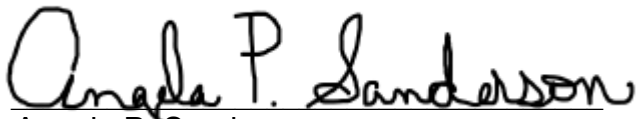
Case No. U-20645

County of Ingham)

Brianna Brown being duly sworn, deposes and says that on February 4, 2021 A.D. she electronically notified the attached list of this **Commission Order via e-mail transmission**, to the persons as shown on the attached service list (Listserv Distribution List).


Brianna Brown

Subscribed and sworn to before me
this 4th day of February 2021.



Angela P. Sanderson
Notary Public, Shiawassee County, Michigan
As acting in Eaton County
My Commission Expires: May 21, 2024

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