

**MUNICIPAL ELECTRIC PROVIDER
JOINT FILING
OF THE
RENEWABLE ENERGY PLAN
UNDER PA 295**

U-15800

APRIL 3, 2009

Renewable Energy Plan

Joint Filing of Small Municipals with less than 15,000 Retail Customers

Background

On October 6, 2008, Governor Jennifer M. Granholm signed into law the “Clean, Renewable, and Efficient Energy Act,” 2008 PA 295, MCL 460.1001 (PA 295). PA 295 requires certain electric providers, including those municipals in Michigan with their own electric utility systems, to file proposed Renewable Energy Plans (“REP”) with the Commission for its review and approval. In summary, PA 295 requires the Renewable Energy Plan to (1) explain how the electric provider intends to meet the renewable energy targets specified in PA 295, (2) estimate the costs associated with meeting those targets, and (3) propose cost recovery mechanisms to recover costs.

On December 4, 2008, the Michigan Public Service Commission issued a Temporary Order in MPSC Case No. U-15800 (“Temporary Order”) in which it established procedures for energy providers to follow in the preparation, submission, and processing of REPs.

This document and its attachments satisfy all of the requirements of Section 25 (2) for the time period running from 2009-2029.

Joint Filing

Section 25 of PA 295 states that two or more municipally owned electric utilities (“Cities”) that serve fewer than 15,000 customers may file jointly. As a result, certain Cities have requested that Michigan Public Power Agency (“MPPA”) prepare their REPs as part of this joint filing. Those Cities participating in this section of the joint filing are:

- City of Charlevoix
- Chelsea Electric Department
- Croswell Light & Power Department
- Dowagiac Department of Public Services
- City of Eaton Rapids
- Escanaba Electric Department
- Grand Haven Board of Light & Power
- Harbor Springs Municipal Utility
- Hart Hydro-Electric
- Lowell Light and Power
- Marquette Board of Light & Power
- Newberry Water & Light Board
- Niles Utility Department
- Village of Paw Paw
- City of Petoskey
- Portland Light and Power Board
- City of St. Louis
- Sebewaing Light & Water Department
- South Haven Department of Public Works
- City of Stephenson
- City of Sturgis
- Traverse City Light & Power
- Wyandotte Municipal Services
- City of Wakefield
- Zeeland Board of Public Works

Also, Section 25 states that the municipally owned electric systems shall file a proposed renewable energy plan within 120 days after the MPSC issues its Temporary Order and this filing meets that requirement.

This report is written to comply with the requirements of PA 295 and is written primarily in an aggregated format. The General Report Section applies to all of the previously listed Cities. When specific information for each city is required, then such information will be provided in a section unique for that city.

GENERAL REPORT SECTION

Section 25 in PA 295 specifies that the proposed Renewable Energy Plan address the following requirements as listed below.

Section 25 (2) (a) Describe how the provider will meet the renewable energy standards

Each city's basic plan is to:

- Utilize existing generation, when applicable, that qualifies as a renewable source in accordance with PA 295. In most cases this existing generation is hydroelectric generation or wind generation.
- Acquire additional renewable generation as required
- Sell or purchase Renewable Energy Credits ("RECS") as applicable.

Each City has an on-going process where various potential renewable energy sources are reviewed and evaluated. Certain Cities use MPPA for this process while other Cities work independent of MPPA. Potential renewable projects include wind, landfill gas, and biomass sources. In addition, the purchasing and/or selling of qualified RECs are an option that varies on a city-by city basis.

MPPA has a signed Master Agreement with Granger Electric of Michigan LLC ("Granger"), a Michigan based landfill company, to provide renewable energy and RECs from various sites in Michigan and possibly other states that qualify as sites for sources of RECs. These sites will use landfill gas as the fuel for generation. Most cities participating in this joint filing have signed agreements with MPPA to purchase the MWHs and RECs from the Granger projects.

The Granger sites are identified as sites 1 through 7 in the REPs and are classified by Granger as category 1 and 2 sites. Category 1 and 2 sites have very high probabilities of becoming operational and contractual arrangements between Granger and other parties are in the final stages.

Once Granger finalizes its agreements with the various landfill owners and accomplished other critical path tasks associated with each site, then MPPA and Granger will execute a Project Agreement specific to each site. These Project Agreements are the mechanisms that will ultimately lead to landfill gas generation becoming operational.

In addition to the category 1 and 2 sites mentioned above, Granger has identified several other sites, termed category 3 sites, for possible development. Category 3 sites are in earlier stages of development and not included in the City REPs. Consequently, many more renewable MWHs and RECs may be available to MPPA and participating Cities pending outcome of the category 3 sites.

Generation from Granger sites will be base load generation operating seven days per week throughout the year. Therefore, this generation qualifies for “on-peak” generation bonus RECs as defined in Section 39 of PA 295. It is possible that the Granger generation will also qualify for other bonus RECs as defined in Section 39. In particular, the 1/10 REC for using Michigan residents for construction of the renewable energy systems as determined by the MPSC. Also, the 1/10 REC for using equipment made in this state as determined by the MPSC may apply depending on the definition of “equipment made in this state”. However, for the purposes of this filing and in the interest of being conservative, until further definition of bonus RECs is forthcoming and until Granger contracts are finalized no additional RECs are being claimed at this time for Granger generation unless specifically noted in the City’s section of this REP.

In addition, these units are assumed to operate at a 95% capacity factor. This high capacity factor is based on actual capacity factors obtained from their existing landfill generation sites. Granger has a well tuned preventative maintenance program utilizing a trailer mounted temporary generator when taking a unit down for maintenance. This system reduces down time at the site to mere minutes as the existing unit is disconnected and the temporary unit is connected and brought on line.

Some Cities are in the process of developing other sources of renewable energy—most notably wind generation. Those cities pursuing such projects have them listed in the “RECs” part of their REP. Based on discussions with developers and the review of other sources of information, a smoothed yearly cost increase for wind power is estimated at 3% per year. Also, as with the Granger projects, no Michigan labor or equipment bonus RECs are claimed at this time unless specifically noted in the City’s section of this REP.

Certain Cities had qualified renewable generation in operation during the twelve month period preceding the effective date of Order PA 295. These sources are included in the City’s REP as a baseline source listed in the RECs part of the REP. Footnotes provide information regarding these baseline sources.

The selling of excess RECs or purchasing of required RECs is also a part of the individual City REPs. Given the fact that a Michigan REC market is not established, determining the cost of a Michigan REC is problematic. MPPA has had informal discussions with a few different entities regarding the possible price of Michigan RECs. The general consensus is there is a wide range of possible costs depending, in part, on the renewable source providing the RECs. The price range for RECs resulting from these informal discussions is \$15-\$80 per REC. An investor owned utility in Michigan recently estimated the REC price at about \$50 in their REP filing. For purposes of this filing, this report has assumed a \$25 price in 2009 dollars and escalating at 3% per year. Most Cities plan to have excess RECs available for sale so the \$25 price is considered conservative. To the extent that the REC price exceeds the assumed price, the incremental cost to Cities selling RECs will be reduced.

Detailed information on how each City will meet the renewable energy standards can be found in its specific section included in this report.

Section 25 (2) (b) Specify whether the number of megawatt hours of electricity used in the calculation of the renewable energy credit portfolio will be weather-normalized or based on the average number of megawatt hours of electricity sold by the electric provider annually during the previous 3 years to retail customers in this state.

All of the cities utilize the 3-year average method. Years 2009-2012 were taken from each city's total retail sales forecast used as the basis for their Energy Optimization Plan ("EOP") with years 2013-2015 estimated separately. These forecasted values do not include the effects of sales reductions that may occur as part of the EOP since PA 295 does not specifically state to do so. Therefore, if the effects of a City's EOP are included, then required RECs would decrease.

Section 25 (2) (c) "Include the expected incremental cost of compliance with the renewable energy standards."

The incremental costs of compliance (cost of RECs) are calculated in accordance with Section 47 of PA 295 with details for each City included in their section of this filing. Most of the incremental costs are the result of the Granger projects with upper levels of costs (energy and interconnection) pre-determined in the MPPA/Granger Master Agreement. Since the Granger projects are with MPPA and Cities purchasing the output, estimates for administrative expenses were made by MPPA based on similar expenses for existing MPPA projects. Wholesale Distribution Charges (WDC), if applicable, were estimated based on WDC charges actually paid by cities participating in the MPPA Power Pool Project.

These REPS use the suggested yearly transfer price rates per MWH to calculate the transfer costs that are deducted from each renewable project's total incremental cost calculation. This results in the incremental cost of compliance. Also, the transfer price amounts are allowed for recovery through an electric provider's power supply cost recovery (PSCR).

In general, the transfer price represents an estimate of long term capacity and energy costs avoided

by the renewable energy program and most Cities have chosen to use this suggested transfer price as the starting point for the reduction in the total incremental cost. The primary reason for using the suggested transfer prices is because each City's long term capacity and energy needs vary and calculating unique transfer prices for each City would, to a certain extent, reduce the benefits of a joint filing.

Section 25 (2) (d) "Describe the manner in which the provider will allocate costs"

As stated above, the incremental cost is reduced by the costs allocated to the transfer price. This subtraction is done on a year-by-year basis and then the net present value (NPV) of the yearly differences is calculated for the REP planning period. The next step is to levelize this NPV value over a 20-year period and this levelized amount becomes the yearly cost to be recovered through the surcharges from the various customer classes. The split between customer classes are based, in part, on the maximum surcharges provided in PA 295. However, the predominant factor in the determining the planned surcharges for each customer class is the City's knowledge of its customer base which results in a fair and equitable assessment of surcharges.

For all Cities, surcharges collected (if any) are below the specified levels in Section 45 of PA 295. Several Cities in this joint filing have a negative incremental cost of compliance. For those Cities, no surcharges will be assessed.

Summary

Based on the above, these REPs take a very conservative approach in the calculation of required RECs. In particular, the decision to not claim at this time the Michigan Labor and Michigan Equipment bonus RECs for most projects demonstrates this conservative approach. Another example is to not include at this time the effects of MWH sales reductions resulting from the EOP. Yet a third example is the decision to not include Granger category 3 projects at this time.

Therefore, as a City's REP and EOP progress over the next several months the required RECs for each City will most likely be less than those presented in their plan.