



CHP  
TECHNICAL ASSISTANCE  
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# Michigan Standby Rate Working Group

## Policy Description

From January 2016 through February 2017, Michigan Public Service Commission (MPSC) staff held meetings for its Standby Rate Working Group (SRWG). The SRWG's goal was to ensure that any new standby service tariffs were based on the cost to serve self-generation standby customers. MPSC staff were guided by Michigan's revised energy law, Public Act 341 of 2016, which required that "any prices charged by an electric utility for maintenance power, backup power, interruptible power, and supplementary power and all other such services are cost-based and just and reasonable." MPSC staff were also interested in increasing the transparency of standby tariffs. Over the course of eleven meetings, several organizations came together to discuss standby rate best practices, cost of service, and modeling of charges. Participants included the MPSC, Consumers Energy, DTE Electric, the Association of Business Advocating for Tariff Equity (ABATE), and the Midwest Cogeneration Association (MCA).

## Policy Development

*Ahmad Faruqi, a principal with the Brattle Group, presented "A Conversation About Standby Rates" at the SRWG's kickoff meeting, held on January 20, 2016. The presentation helped educate participants about standby tariffs, including the cost of service and rate design implications. The information ensured constructive dialogue during the ten remaining workgroup sessions, which ran through February 2017.*

In a November 2015 Order, the MPSC directed its staff to form the SRWG and issue a report by August 19, 2016 (Case No. U-17735). Staff filed two reports throughout the SRWG process. An August 2016 report focused on standby rates for solar, and a June 2017 report focused on standby rates for combined heat and power (CHP), noting that "Some participants in the SRWG have asked for additional time to do a more in-depth analysis of the cost to provide standby service to customers with CHP." In the SRWG kick-off meeting, an expert from the Brattle Group educated participants about the history and development of standby tariffs and common arguments surrounding them.

### Standby charges are designed to compensate utilities for one or more of the following services

Service	Situation
1. Backup power	unplanned generator outage
2. Maintenance power	scheduled generator maintenance or repair
3. Supplemental power	onsite generation does not meet energy needs under normal operation
4. Economic replacement power	utility energy costs less than onsite generation
5. Delivery	delivery of energy associated with any of the services above

Michigan PSC Standby Rate Working Group

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**A presentation slide from  
"A Conversation About Standby Rates"**

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## Key Stakeholders and Partners

The SRWG concluded with consensus that the group had a deeper understanding of standby tariffs and their operation, which allowed MPSC staff to identify its recommendations. The knowledge was gleaned through the collaboration and comments received from a variety of stakeholders:

- ABATE
- Alliance for Industrial Efficiency
- Consumers Energy
- DTE Electric
- Electricity Users Resource Council
- Michigan Energy Innovation Business Council
- MCA

## Summary of Policy Results and Outcomes

As a result of the SRWG's collaboration, MPSC recommended the following in its June 2017 report:

- Utilities should work with staff and stakeholders to ensure a good understanding of the standby service tariff.
- Where possible, the MPSC should create a cost-of-service-based standardized framework for standby service tariffs.
- Standby tariffs should recognize a customer's net load between supplemental and standby service.
- Monthly customer charges, daily capacity demand charges, and the use of generator reservation fees should be reviewed.
- Standby service tariffs should include a reasonable capacity price differential to encourage scheduled maintenance, which in turn may reduce unscheduled outages.
- Time-of-use charges for capacity and energy should be an available option for standby service customers.

*"It is probably impossible to reach full consensus. Our workgroup described the recommendations as coming from staff. Stakeholders commented on the report and all comments were attached to the report in an appendix."*

– Julie Baldwin  
Renewable Energy Section  
MPSC

### Lessons to Share

- Invest time in educating workgroup participants on cost of service and rate design principles related to standby tariff development.
- Apples-to-apples comparisons can be helpful in understanding the impacts of various tariffs. A model with hourly, 30-minute, or potentially 15-minute forecasts of site load and generation may also be useful.\*
- A workgroup created by a public utility commission order gives weight to the proceedings and can increase the value of the final report prepared by staff. Later, staff and others who provide testimony in rate cases can use recommendations in the report to bolster support for proposed changes to the tariffs.

### Resources:

- [Standby Rate Working Group Report](#), MPSC Case No. U-17735, MPSC Staff, August 19, 2016
- [Standby Rate Working Group Supplemental Report](#), Case No. U-17735, MPSC Staff, June 2017

### For More Information

**U.S. DOE MIDWEST CHP TECHNICAL ASSISTANCE  
PARTNERSHIP (CHP TAP)**

[www.mwchptap.org](http://www.mwchptap.org)

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\* [https://slakesenergy.com/wp-content/uploads/2018/09/5LE\\_A2A\\_SBR\\_White\\_Paper\\_July\\_2018.pdf](https://slakesenergy.com/wp-content/uploads/2018/09/5LE_A2A_SBR_White_Paper_July_2018.pdf)