

13 April 2015

Chair Nesbitt, Vice Chair Glenn, Vice Chair LaVoy, and members of the Energy Policy Committee, thank you for providing Steelcase with this opportunity to provide our perspective on this important issue for Michigan businesses and residents. My name is John DeAngelis. I am a Leader in the Global Sustainability Initiatives group at Steelcase Inc. I am responsible for Steelcase's electricity and natural gas purchasing strategies in Michigan, I manage our global renewable energy portfolio, and I help to implement energy efficiency projects at various Steelcase facilities. I am joined by Brian Cloyd who is the Vice President of Global Corporate Relations for Steelcase.

Steelcase Background Information

Based in Grand Rapids, Michigan, Steelcase Inc. is the global leader of the office furniture industry:

- ~\$3 billion in annual revenue
- Provides jobs for over 3,000 people in Michigan
- Strongly engaged in the local community

For Steelcase, energy has a significant impact on our costs:

- We have been purchasing electricity as a part of Retail Open Access since 2009.
- We have historically saved an average of 20-25% when compared to tariff rates.
- Participating in Retail Open Access allows us to be more competitive as a business and frees up capital that we can further invest in our business and additional jobs in Michigan.

Steelcase is also a strong supporter of renewable energy:

- We currently purchase renewable energy credits equivalent to 100% of our global electricity consumption.
- We are constantly looking for additional opportunities to invest in economically sound renewable energy projects.
- Additional renewable energy investments could take the form of signing a power purchase agreement for renewable energy in Michigan, which is possible because Steelcase participates in Retail Open Access.

How Retail Open Access Customers Meet Capacity Requirements through AESs

One of the main areas that has been extensively discussed is the amount of capacity available in Michigan and how to ensure Michigan will continue to have adequate capacity resources available in future years to maintain the reserve margin necessary to meet the Industry Reliability Standard. This standard calls for enough capacity to maintain a probability of relying on emergency procedures or loss of load of one day in ten years. Before covering the different ways to provide adequate market signals to encourage these capacity resources when they are needed, I'd like to discuss how Retail Open Access customers currently purchase capacity through their Alternative Electric Suppliers (AESs).

MISO requires *each* load-serving entity (LSE), whether a utility or an AES, to annually purchase capacity to cover each customer's peak-load contribution (PLC) plus a reserve margin, which is 7.1% for the 2015-2016 planning year.¹ The PLC is based on each customer's prior year demand at the moment that the system peaks. For example, if the system peaked in 2014 at 4 PM on July 22nd and Steelcase's demand at that time was 10 MW, then it would be required to purchase 10.71 MW of capacity for the 2015-2016 planning year. There are two ways that Retail Open Access customers can purchase capacity through their AESs: in the Planning Resource Auction administered by MISO or through bilateral contracts.

Steelcase Prefers to Manage Its Own Business Risks

Similar to other commodities, the flexibility to purchase capacity in the Planning Resource Auction or the bilateral market allows businesses like Steelcase to manage their risk in the way they see most fit. In certain years, a business may believe that the market prices will be substantially increasing in future years and will therefore hedge its risk by purchasing capacity for multiple years into the future through bilateral contracts. On the other hand, if a business believes the price at which it can purchase capacity in the bilateral market is substantially above market prices, then it can wait and purchase capacity in the Planning Resource Auction. This process is the same process the utilities can use to hedge their price risk for non-owned assets. Just as businesses are not mandated to have firm contracts in place to purchase steel at a certain price years into the future, Steelcase supports policies that continue to enable businesses to choose how to best manage their risk related to capacity purchasing.

A Forward Price Signal Could Help Incentivize Additional Capacity

Though Steelcase supports competition and the competitive electricity market in Michigan, we are not here to state that the competitive markets are perfect. Instead, we acknowledge that there are improvements that should be made to the competitive market including a change that would encourage the appropriate amount of capacity in Zone 7. We believe it is a more prudent approach to develop creative solutions that would improve the market rather than to discard the entire competitive market because it could use a few enhancements.

One of the most substantial deficiencies in MISO's current competitive capacity market is the lack of a forward price signal. MISO's one-year resource adequacy construct is intended to mostly ensure reliability. It is not set up to incentivize additional capacity like other competitive markets such as PJM because the majority of the load within MISO's footprint is served by integrated utilities.² When an integrated utility needs additional capacity to meet its capacity requirements, it goes to its respective public service commission and submits a request to build additional generation. In Michigan, if a utility's request for a Certificate of Need is granted, it receives a guarantee of fixed cost recovery for the projected lifetime of the resource. However, in a competitive market, there needs to be a forward price signal to adequately incentivize additional capacity so that capacity resources have certainty for partial fixed cost recovery.

Without this forward price signal, MISO does not encourage additional capacity in competitive markets and, in fact, it can discourage capacity resources from participating in the MISO market. This was evident when the New Covert power plant in Covert, Michigan, representing 1,100 MW of capacity, announced its move to PJM. Brad Heisey, senior vice president of Tenaska Capital Management, the company that manages New Covert Generating Company, stated, "PJM is a good fit for merchant wholesale generators such as New Covert. It has a balanced, forward-looking capacity market that should provide certainty for covering the facility's fixed costs..."³ Additionally, without a forward price signal, it is tougher to convince companies to participate in demand response. Because it is difficult to build a new power plant in less than three years, demand response is one of the only capacity resources that can be deployed fast enough to meet the projected capacity shortfall in the 2016-2017 planning year.

Steelcase Supports Improvements to the Capacity Market

Though we have doubts about the Zone 7 capacity shortfall projection of 3 GW due to a few issues with the interpretation of the OMS Survey results such as ignoring that the survey did not include Zone 7's import capabilities, we still believe that changes to the capacity market would help to encourage the appropriate amount of capacity within Zone 7. A better forward price signal could be enacted in multiple ways including through changes made by MISO and legislative solutions. One solution could be to enact legislation that would use the cleared auction price of MISO's Planning Reserve Auction in Zone 7 to set a floor price for capacity for the following two years. Below is an example of how this type of mechanism could impact the forward price signal for capacity:

Planning Year	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
MISO Cleared PRA Price (in \$ per MW-day)	100	20	70	TBD	TBD
Floor Price (in \$ per MW-day)	N/A	100	100	70	70
Final Capacity Price (in \$ per MW-day)	100	100	100	≥70	≥70

This type of solution would allow Michigan to take advantage of the substantial benefits of MISO's capacity construct while preventing Michigan from reinventing an entire capacity market. Many of the finer details would still need to be determined for this particular mechanism, but these are the types of solutions that Steelcase looks forward to developing with the Energy Policy Committee members that will continue to improve our competitive market in Michigan.

Steelcase Supports Creative Solutions to Improve Michigan's Energy Market

We greatly appreciate the opportunity to speak with the Committee and look forward to working with Committee members and the Governor's Administration to develop innovative improvements to Michigan's electricity market to ensure reliability, adaptability, affordability, and the protection of the environment that will benefit all Michiganders.

Respectfully,

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Citations

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<http://www.ferc.gov/CalendarFiles/20140918110305-A-3-total.pdf>
- ³ Covert, Michigan, Power Plant Plans Interconnection to PJM Market
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