



## Public Utility Regulatory Policies Act (PURPA) Michigan

### What is the Public Regulatory Policies Act (PURPA)?

Congress enacted PURPA to reduce reliance on fossil fuels by promoting the development of small renewable energy facilities. Congress recognized that an electric utility's inefficient preference for self-generation prevented more robust development of these important resources. PURPA incentivizes non-utility renewable energy generation and introduces competition into otherwise monopolized markets by requiring utilities to purchase from these small facilities. This competition creates downward pressure power supply costs. The rate paid to the renewable energy facilities is based on the utility's "avoided costs", i.e., the incremental cost to a utility it would otherwise incur should it generate or purchase the electricity itself.



### Why did Michigan update its implementation of PURPA?

Michigan wanted to revitalize its market for small, independently-owned renewable energy facilities and bring its PURPA implementation into the 21st century. Prior to this year, Michigan had not updated its implementation since the 1980s. A lot has changed since then, and the cost to develop qualifying renewable facilities is only a fraction of what it was last time Michigan updated its PURPA implementation.

### How did Michigan update its implementation?

The biggest change is how Michigan calculates a utility's avoided cost. Since a natural gas plant is the most likely fossil fuel plant a large utility would build today, Michigan established an avoided cost methodology based on the cost of constructing and maintaining such a plant. Therefore, the rate paid to a qualifying renewable energy facility is based on the costs of a natural gas plant. This "proxy plant" method is one of the most common methods states use to determine a utility's avoided cost. In addition, Michigan promulgated standard contracts so that small, independent developers who lack the same expertise as large developers can still participate in the market.

### What does this mean for me as a ratepayer?

Ratepayers will pay no more than they would otherwise pay because the rate is based on the costs the utility avoids paying. In fact, due to increased competition from PURPA qualifying facilities, future costs could go down as the utility is incentivized to further lower its costs. Also, because these renewable energy facilities are not owned by the utility, should it go out of service, the ratepayer is not stuck paying for the facility. When a utility shuts down a plant early, however, these "stranded costs" are often still charged to ratepayers—even though facility is not in service!