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Timothy J. Lundgren

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May 26, 2017

Ms. Kavita Kale
Executive Secretary
Michigan Public Service Commission
7109 W. Saginaw Highway
P.O. Box 30221
Lansing, Michigan 48909

Re: MPSC Case No. U-18197

Dear Ms. Kale:

Attached for electronic filing in the above-referenced matter, please find the Initial Comments of Energy Michigan, Inc. Thank you for your assistance in this matter.

Sincerely yours,

VARNUM

Timothy J. Lundgren

TJL/kc
Enclosures

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the investigation, on the)
Commission’s own motion, into the electric)
supply reliability plans of Michigan’s)
electric utilities for the years 2017 through 2021.)
_____)

Case No. U-18197

INITIAL COMMENTS OF ENERGY MICHIGAN, INC.

In its order on May 11, 2017, in this docket, the Commission requested that interested persons file initial comments to the three threshold questions posed in the order. Energy Michigan submits the comments and recommendations herein, in the form of a summary followed by detailed explanations.

The Questions

Energy Michigan’s responses focus on the three narrow questions. There are a number of other factors that are related to the questions, which should be taken up later in the technical conference process or addressed within the full testimony filings in the SRM cases. For example, related to demonstration of capacity, there are issues such as changing forecasts, customer switching, new resources, unanticipated retirements, etc.

Some of these issues may be easily resolved later in the technical conferences, such as customer switching, which was solved by MISO several years ago and merely has to be extended for the three-year duration of the SRM outlook. Other issues, such as exactly how a utility would relieve an LSE from capacity responsibility under the MISO tariff, are fundamental to the meaning of the SRM and no doubt will be contested in the full SRM filings.

Context of PA 341

Public Act 341 went through many versions prior to enactment, some widely different. As many have observed, the final law as passed does not necessarily exhibit a complete understanding of the MISO resource adequacy process or the contractual challenges faced by Alternative Electric Suppliers and retail consumers. However, it does in many instances refer to MISO-approved capacity and the MISO rules. In this context, to Energy Michigan a workable implementation means that the directions and limitations in PA 341 are observed, subject to the specified Commission discretion allowed in PA 341, exercised such that there is no harm to any affected party, and consistent with MISO rules.

Finally, Energy Michigan observes that “implementation” does not mean “renegotiation” of AP 341 with respect to what the various parties and stakeholders would have liked to have seen in PA 341. In the version that passed and was signed into law, PA 341 maintains Electric Choice. The Commission’s implementation of PA 341 should therefore likewise assure that Electric Choice continues as a viable energy alternative for Michigan’s customers.

Summary of Energy Michigan’s Comments and Recommendations

Question 1: Should the schedule laid out in Section 6w(8), MCL 460.6w(8) for capacity demonstrations be adhered to, or should any of these deadlines be adjusted as allowed under Section 6w(10), MCL 460.6w(10), to ensure proper alignment with MISO’s procedures and requirements? If a stakeholder recommends that the dates should be adjusted, please describe what revisions should be made.

Recommendation: The dates for demonstration of capacity – December 1 for electric utility [Section 6w(8)(a)] and seventh business day of February for AES, cooperative utility, and municipal utility [Section 6w(8)(b)] – should be changed to “the end of the third business day prior to the opening of the offer window for the MISO annual Planning Resource Auction,” as that window is specified now or in the future.

Question 2: Should there be a uniform methodology for capacity demonstration, both among types of providers (investor-owned utilities, rural electric cooperatives, municipally-owned utilities, and AESs) and among service territories?

Recommendation: There should be a uniform method of demonstrating and communicating how the provider has planned to meet its capacity obligations. Energy MI recommends a method consisting of three parts:

1. Submitting a list of the owned resources, ZRC contracts, and any other resource that MISO allows to meet the capacity obligations of the electric provider for the applicable three-year period. Example in Attachment A.
2. Submitting a certification or affidavit from an officer of the provider attesting that the listing is accurate.
3. At the due date for each year (the second business day prior to the opening of the MISO auction), submitting a report of the provider’s capacity for the upcoming Planning Year from the MISO Module E Capacity Tracking system (“MECT”).

Question 3: Should there be a “locational requirement” for resources used to satisfy capacity obligations, and if so, should individual load serving entities (“LSEs”) be required to demonstrate a share of the overall locational requirement?

Recommendation: There should not be any “locational requirement.” A locational requirement or any obligation related to MISO’s Local Clearing Requirement:

- Is not specified in PA 341 and therefore is not allowed to be imposed.
- Was in fact removed from earlier drafts of PA 341, so it is clear that the intent of the Legislature was to eliminate any locational requirement.
- Is not required by MISO in satisfying capacity obligations to MISO.
- Does not affect reliability, since MISO uses all resources to serve all loads, no matter who owns which resources.
- Has the potential to force Michigan customers to overpay for excess local capacity.

Detailed Explanations of Energy Michigan’s Comments and Recommendations

Question 1: Should the schedule laid out in Section 6w(8), MCL 460.6w(8) for capacity demonstrations be adhered to, or should any of these deadlines be adjusted as allowed under Section 6w(10), MCL 460.6w(10) to ensure proper alignment with MISO’s procedures and requirements? If a stakeholder recommends that the dates should be adjusted, please describe what revisions should be made.

Energy Michigan Response

Considerations

A workable schedule has to be:

- reasonably flexible considering MISO time lines and commercial practices for the Load Serving Entities (“LSEs”) that have to demonstrate capacity, and

- adequate for the local utility to meet its obligation to satisfy the capacity obligations to MISO for those LSEs who do not demonstrate sufficient capacity.

The relevant guidance from PA 341 is:

- “The Commission shall adjust the dates under this section if needed to ensure proper alignment with the appropriate independent system operator’s procedures and requirements. However, any changes to the dates in this section must ensure that providers still meet applicable reliability requirements.” [MCL 460.6w(10).]
- “A capacity charge shall not be assessed for any portion of capacity obligations for each planning year for which an alternative electric supplier can demonstrate that it can meet its capacity obligations through owned or contractual rights to any resource that the appropriate independent system operator allows to meet the capacity obligation of the electric provider. The preceding sentence shall not be applied in any way that conflicts with a federal resource adequacy tariff, when applicable.” [MCL 460.6w(6). *Emphasis added.*]

Additionally, PA 341 contained no specification of *how* the local utility would satisfy the capacity obligation of other LSEs who did not demonstrate sufficient resources. Would the utility pay MISO the fee that MISO charges to the LSE? Would the utility purchase Zonal Resource Credits (“ZRCs”), and if so, from where? From the MISO auction? Would the utility sell to the other LSEs excess ZRCs from owned resources or ZRC purchases?

The answers to these questions have the potential to affect a reasonable schedule for demonstrating capacity. Yet, the answers will be contested and not resolved until the final orders in the various SRM cases. In addition, the final schedule must be flexible enough – or be revisited by the Commission – to incorporate new capacity products that MISO may implement. Therefore, some assumptions will have to be made to answer Question 1.

Comments

MISO Schedule: The first factor in determining a workable schedule for demonstrating capacity is the current MISO schedule for satisfying MISO capacity requirements. The MISO tariff states:

“The Transmission Provider will impose a Capacity Deficiency Charge on an LSE that has not demonstrated, at the close of the Planning Resource Auction, to the Transmission Provider, through the MECT, that it has

arranged sufficient zonal capacity resources to meets it PRMR.” [Module E-1, 69A.10.a. *Emphasis added.*]

“The PRA offer window shall begin at 12:01 am EST three (3) Business Days before the last Business Day in March and shall end at 11:59 pm EST on the last Business Day in March.” [Module E-1, 69A.7.1.a.]

So from the demonstrating LSE’s perspective, it has until the close of the PRA window to complete any transactions for ZRCs in the marketplace and still satisfy MISO’s requirements. Setting any date earlier than that should have a clear reason.

The utility that has to provide capacity to meet MISO requirements for other LSEs that have not demonstrated sufficient capacity has a different perspective – it needs more time. The open question is, more time for what? That is where the unanswered questions posed above come into play. And thus *reasonable assumptions based on information available at this time* – not theorized “ought to have been in PA 341” proposals – must be made.

Available Information -- CE: Consumers Energy’s plan in the short term is to merely buy additional needed capacity in the auction, which is what it does now to provide for new load. According to Consumers, this could continue for three or four years.

“Once the Company does know how much AES retail load it will need to provide capacity for, Consumers Energy will pursue the best feasible option available for each given year. This could include pursuing new PPAs, increasing its energy optimization or demand response programs, or building new generation capacity. However, those options will take time to effectuate. Building a new generation facility could take three to four years.

During such a gap period, Consumers Energy may have no other option but to buy capacity from the MISO annual PRA.

In particular, the short period of time between AES capacity resource demonstrations in February and the beginning of the first SRM Planning Year on June 1, 2018, would likely leave Consumers Energy with no other option than buying additional needed capacity in the MISO auction, which is not prohibited as an option available to utilities in Section 6w of Act 341, and would be consistent with the Company’s existing practices for serving new load.

[U-18239, David F. Ronk, Jr., direct testimony, page 13, line 19, to page 14, line 8. *Emphasis added.*]

Available Information—DTE: DTE, on the other hand, asserts that some Electric Choice customers may “elect to rely on the Company for their generation capacity needs” [see U-18248, Don M. Stanczak, direct testimony, page 8, lines 11-17.], states that DTE does not have sufficient capacity to do so, and addresses only the situations where there is either a MISO-wide capacity shortage or where DTE decides to build new generation. In the interim, if capacity is available DTE proposes to use the MISO auction, similar to Consumers Energy.

If capacity is not available in the auction, DTE proposes to not actually meet the capacity requirements of other LSEs that do not demonstrate sufficient capacity, but rather to put Electric Choice customers on interruptible service until DTE can build new generation.

“Q. Has DTE Electric made provisions to serve the future capacity needs of customers currently on Electric Choice (Choice)?

A. No. Currently Alternative Electric Suppliers (“AES”) serving Choice customers have the sole responsibility to provide the capacity necessary to serve those customers, therefore, the Company has not made arrangements to provide the required capacity to serve Choice customers.” [U-18248, Mr. Stanczak, direct testimony, page 6, lines 20-25.]

“If there is insufficient time for the Company to build, develop, or acquire sufficient capacity for Electric Choice customers returning for the interim planning years of 2018, 2019, and 2020, the Company plans to participate in MISO’s PRA for those planning years to attempt to meet the capacity obligation of those Electric Choice customers. If MISO’s PRA results in insufficient capacity, the Company will provide interruptible service (as explained by Witness Stanczak) to serve the capacity obligation of those customers in the capacity queue.”

[U-18248, Angela P. Wojtowicz, direct testimony, pages 12, line 21, to page 13, line 2. *Emphasis added.*]

Analysis: Energy Michigan is certainly not conceding any of the many assumptions and assertions in DTE’s case testimony – which will be contested and resolved through the full proceedings in Case No. U-18248 – only showing what DTE has proposed to satisfy its obligations under PA 341.

DTE has omitted an important component in the MISO tariff on satisfying MISO capacity obligations – “self-scheduling” of ZRCs that an LSE owns. And both CE and DTE attempt to tie the Fixed Resource Adequacy Plan (“FRAP”) provisions in the MISO tariff to the establishment of a local capacity obligation component of demonstration of capacity. Energy Michigan will address these issues in its comments to Question 3, herein.

Conclusions: Both CE and DTE have stated that they would use the MISO auction over the next few years – and maybe longer – to meet the capacity obligations of LSEs who do not demonstrate sufficient resources under PA 341. Exactly how they propose to do so via the auction is not clear, and Energy Michigan will address that issue in its full filing of testimony in the SRM cases for CE and DTE, U-18239 and U-18248, respectively.

Nevertheless, if CE and DTE intend to use the MISO auction, then they need sufficient time to submit load requirements into the auction process. While the LSE can submit ZRCs up to the end of the auction window (cited above), the utility should have the full three-day auction window available to communicate to MISO any additional load that the utility must cover.

Working backwards, the utility should have the load requirement in hand on the first day of the opening of the auction window. The day prior to that should be used for the evaluating entity (for example, MISO Staff or outside expert) to assemble the responses from LSEs. This will be a very simple task under Energy Michigan’s recommendation for Question 2. Thus, the day prior to that would be the latest day that should be the deadline for demonstrating capacity. Energy Michigan suggests an additional business day be added, for communication contingencies. The result is that the deadline for demonstration of capacity should be the third day prior to the opening of the window for MISO’s annual Planning Resource Auction. This deadline offers an optimal balance of ample flexibility for LSEs and ample time for utility action.

Recommendation

The dates for demonstration of capacity – December 1 for electric utility [Section 6w(8)(a)] and seventh business day of February for AES, cooperative utility, and municipal utility [Section 6w(8)(b)] – should be changed to “the end of the third business day prior to the opening of the offer window for the MISO annual Planning Resource Auction” for all electric providers – utility, AES, cooperative utility, and municipal utility.

Subsequently, utilities will have until the end of the auction window, six business days later, to modify the amount of load that they intend to acquire in the MISO auction, as CE and DTE have stated they intend to do.

Energy Michigan believes this is a reasonable balance between flexibility for LSEs to procure ZRCs in the marketplace and the time needed for utilities to meet – in the manner of procurement they have specified, which is purchasing via the MISO auction – obligations for other LSEs who do not demonstrate sufficient capacity.

Six days prior to the close of the auction window the utility will know how much load, additional to its full-service load, has to be covered. Thus, the utility will have six days to communicate to MISO any changes in responsibility for capacity. Decisions about the auction are immediate: (a) If the utility already has extra ZRCs, those ZRC have to be offered into the auction anyway; (b) If the utility does not have sufficient ZRCs at that time, CE and DTE intend to acquire the additional capacity via the auction, which will be done automatically once MISO knows which LSE is responsible for which load.

MISO sees all resources and all LSE loads in the auction process. The utility action during the six days serves only to adjust the financial settlement of capacity costs, not to acquire capacity from resources that would otherwise not be available to MISO, because all resources are already available to MISO.

Further, the Commission has the ability to review this deadline annually, if the MISO schedule or the market for capacity changes.

Question 2: Should there be a uniform methodology for capacity demonstration, both among types of providers (investor-owned utilities, rural electric cooperatives, municipally-owned utilities, and AESs) and among service territories?

Energy Michigan Response

Considerations

Objective: PA 341 specifies what has to be demonstrated. The excerpt from the law quoted in the response to Question 1 above is repeated here for the convenience of the reader:

“A capacity charge shall not be assessed for any portion of capacity obligations for each planning year for which an alternative electric supplier can demonstrate that it can meet its capacity obligations through owned or contractual rights to any resource that the appropriate independent system operator allows to meet the capacity obligation of the electric provider. The preceding sentence shall not be applied in any way that conflicts with a federal resource adequacy tariff, when applicable.”
[MCL 460.6w(6). *Emphasis added.*]

Guidance: First, the only resource under the current MISO tariff that MISO allows to meet the capacity obligations of an LSE is a Zonal Resource Credit (“ZRC”). ZRCs are created by conversion from a MISO-qualified Planning Resource. Each ZRC is identified with its underlying Planning Resource. A Planning Resource is a specified capacity resource that has been qualified and

tested by MISO, discounted for performance history, and, when converted to a ZRC, dedicated by the owner to be offered in to MISO every day of the Planning Year. ZRCs are created and exist for one Planning Year ahead.

Second, MISO currently allows an LSE four ways to meet its capacity obligations:

“LSEs will meet their PRMR by:

- (i) submitting a Fixed Resource Adequacy Plan;
- (ii) Self-Scheduling ZRCs;
- (iii) purchasing ZRCs through the Planning Resource Auction process; and/or
- (iv) paying the Capacity Deficiency Charge.” *[Module E-1, section 69A]*

Methods (i) and (ii) require the LSE to own ZRCs. Method (iii) entails the auction process. Method (iv) is effectively a penalty charge for not providing the required capacity.

Third, the principles that Energy Michigan put forth at the Technical Conference on April 26 can provide a reasonable set of conditions from which to develop a workable process for demonstrating capacity, particularly “contractual rights.” The document that Energy Michigan distributed, “Principles of Demonstration of Capacity,” is below:

Principles of Demonstration of Capacity

1. **Confidentiality** – The local utility is a competitor of the AES. For competitive reasons, contracts that an AES offers to demonstrate capacity should not be seen by any other LSE, including the local utility. Also, such contracts should not be subject to discovery in regulatory cases.
2. **Neutrality** – The evaluation of contracts offered to demonstrate capacity should be done by a neutral party – either the Commission Staff or an outside expert.
3. **Commercial Viability** – Contracts offered to demonstrate capacity that are structured as commonly used in commercial practice should meet the definition of “demonstration.”
4. **Fit with MISO Rules** – A resource that MISO allows to meet the AES’s capacity obligations to MISO should be allowed as “demonstration.”
5. **Applicability of PA 341** – No conditions not specifically authorized by PA 341 should be included in the evaluation of “demonstration.”
6. **Due Process** – An AES or an Electric Provider should be accorded reasonable due process if it disagrees with the determination of whether or not it owns or possesses contractual rights to a resource.

Comments

When an LSE acquires capacity in the form of ZRCs in the commercial market, there are a number of common aspects that virtually all LSEs use. For example, the product has to be defined, and since Zonal Resource Credit is a specifically defined MISO product, a transaction would specify the product as ZRCs. Since MISO defines a ZRC for a specific Planning Year, the Planning Year of the purchase is identified. Since MISO credits a ZRC to an LSE via its Module E Capacity Tracking (“MECT”) system, the transaction specifies “delivery” as the ZRC being transferred from the seller’s account to the buyer’s account in the MECT, according to MISO protocols. Finally, since a ZRC is created by and identified with a Planning Resource, the Planning Resource to which the ZRC is tied is identified in the MECT also.

Energy Michigan believes that a uniform method of demonstrating capacity offers advantages of (1) simplicity of implementation, (2) ease of verification, and (3) flexibility for various LSEs in their commercial procurement of capacity.

The Commission in the past has allowed summary reports and affidavits of company officers to attest to various actions. Energy Michigan believes that process offers a number of benefits, given the requirements of PA 341, the MISO tariff and capacity procedures, and the principles of a workable “demonstration” of capacity. A report of (a) owned and contracted capacity, (b) attested to by an affidavit, and (c) subsequently verified by including the latest data from MISO on ZRCs (or any other future resource that MISO allows to meet the capacity obligation of the electric provider) owned by an LSE, provides a good-faith demonstration of “owned or contractual rights” to ZRCs, which currently is the only resource that MISO “allows to meet the capacity obligations of the electric provider.” And, it protects the confidentiality of the LSE’s contracts, similar to how utility fuel contracts are protected.

Recommendation

There should be a uniform method of demonstrating and communicating how the provider has planned to meet its capacity obligations. Energy MI recommends a method consisting of three parts. The LSE that is demonstrating owned or contractual rights must:

1. Submit a list of the owned resources, ZRC contracts, and any other resource that MISO allows to meet the capacity obligations of the electric provider for the applicable three-year period. Energy Michigan has developed an example reporting form in Attachment A.
2. Submit a certification or affidavit from an officer of the provider attesting that the listing is accurate.

3. At the due date for each year (the third business day prior to the opening of the MISO auction), submit a report of the provider's capacity for the upcoming Planning Year from the MISO Module E Capacity Tracking system ("MECT").

See also Attachment A.

Question 3: Should there be a "locational requirement" for resources used to satisfy capacity obligations, and if so, should individual load serving entities ("LSEs") be required to demonstrate a share of the overall locational requirement?

Energy Michigan Response

Considerations

PA 341 Plain Meaning: At first it may seem a mystery why CE and DTE have come up with the idea that Alternative Electric Suppliers ("AESs") should meet some type of "locational requirement" with their demonstration of capacity in spite of there being no obligation in either PA 341 or the MISO tariff to do so in order to demonstrate or meet MISO capacity requirements. PA 341 does not impose a locational requirement. Looking back, earlier drafts of PA 341 did impose a location requirement, but the language was removed by the time the final version of PA 341 was negotiated. So it appears that CE and DTE are trying to reinsert something into the law as passed that is not only obsolete but also was specifically intended by lawmakers to be excluded.

Energy Michigan maintains that the Commission cannot write a significant, additional obligation into the law and impose such an obligation on LSEs simply on the basis of a utility proposal for "implementation." CE and DTE have to come to terms with the fact that the PA 341 negotiation is finished.

Section 6w(8)(c) speaks to MISO assisting in "determining the local clearing requirement and planning reserve margin requirement." The Local Clearing Requirement ("LCR") is an aspect of the location of Planning Resources that MISO uses in calculating clearing prices in the Planning Resource Auction. The Planning Reserve Margin Requirement ("PRMR") is the number of ZRCs that an LSE must acquire or pay for to meet its capacity obligation to MISO.

Section 6w(8)(c) states that the Commission shall:

"in order to determine the capacity obligations, request that the appropriate independent system operator provide technical assistance in determining the local clearing requirement and planning reserve margin

requirement. If the appropriate independent system operator declines, or has not has not made a determination by October 1 of that year, the commission shall set any required local clearing requirement and planning reserve margin requirement, consistent with federal reliability requirements. [MCL 460.6w(8)(c). *Emphasis added.*]

Thus, the law does not allow the Commission to impose an obligation that is not required by the MISO tariff – i.e., not “consistent with federal reliability requirements.”

MISO already determines the LCR for each zone and the PRMR for each LSE every year, through methods prescribed in the MISO tariff. The Commission is limited to imposing only obligations that are “consistent with federal reliability requirements” – meaning consistent with the MISO tariff, which Energy Michigan will explain below.

Local Clearing Requirement: MISO defines LCR as:

“Local Clearing Requirement (LCR): The minimum amount of Unforced Capacity that is physically located within an LRZ that is required to meet the LOLE while fully using the Capacity Import Limit for such LRZ. [Module A, Section 36.0.0, Definitions L.]

PA 341 defines LCR as:

“Local Clearing Requirement” means the amount of capacity resources required to be in the local resource zone in which the electric provider’s demand is served to ensure reliability in that zone as determined by the appropriate independent system operator for the local resource zone in which the electric provider’s demand is served and by the commission under subsection (8).” [MCL 460.6w(12)(d). *Emphasis added.*]

The only situation in which MISO requires an LSE to acquire a specified amount of LCR ZRCs is if the LSE submits a Fixed Resource Adequacy Plan (“FRAP”). The purpose of a FRAP is to keep an LSE’s resources and a matching amount of load out of the MISO auction. Normally, an LSE pays MISO the Auction Clearing Price (“ACP”) for its load (the PRMR load) and MISO pays the LSE the ACP for the LSE’s ZRCs that are offered into the auction. Financially, it is a wash, and so in effect the LSE covers its PRMR obligation with its ZRCs. But for some entities, such as some municipalities, offering assets into an auction is technically putting assets at market price risk, which is not allowed under some municipal charters. MISO developed the FRAP process to allow such entities to remain financially neutral outside of the auction, without having to report market risk. The FRAP process has no other benefits.

MISO defines a FRAP as:

Fixed Resource Adequacy Plan (FRAP): A plan submitted by an LSE through the MECT to the Transmission Provider that is approved by the Transmission Provider which demonstrates that the LSE has sufficient ZRCs to meet all or part of its PRMR for one or more LRZs. *[Module A, Section 41.0.0, Definitions F.]*

Analysis: A FRAP is optional. A Local Clearing Requirement is not imposed on LSEs that do not submit a FRAP. To be “consistent with federal reliability requirements,” a share of LCR cannot be imposed on LSEs as part of a demonstration of capacity. Only if an LSE chooses to submit a FRAP will the LSE have an LCR obligation – and its obligation is to MISO, not to the local utility.

Comments

Because a FRAP is optional and offers only specific and limited benefit, CE and DTE exhibit some difficulty in explaining the rationale for imposing a local requirement in the demonstration of capacity.

CE cites the process correctly:

“The tariff rules governing the MISO PRA only require LCR to be met on a zone-wide basis. However, if a Load Serving Entity (“LSE”) in MISO submits a Fixed Resource Adequacy Plan (“FRAP”), rather than purchasing capacity through the PRA, then it must meet its load-ratio share of the zone-wide LCR in that FRAP.” *[U-18239, Mr. Ronk direct testimony, page 9, lines 8-11.]*

However, the rationale in using the FRAP concept to support a location requirement in the demonstration of capacity is a mere assertion that two concepts that are not in fact connected are connected: “The SRM is more similar to the FRAP than to the PRA . . .” *[U-18239, Mr. Ronk direct testimony, page 9, lines 11-12.]*

DTE leaves out a crucial part of how MISO capacity obligations can be satisfied:

“MISO LSEs must meet their PRMR by submitting a Fixed Resource Adequacy Plan (an LSE’s plan showing rights to sufficient resources to meet its PRMR), purchasing capacity through MISO’s Planning Resource Auction (PRA), or paying a capacity deficiency charge.” *U-18248, Ms. Wojtowicz direct testimony, page 6, line 24 to page 7, line 2.]*

Thus, according to DTE, there are only three ways to satisfy MISO capacity obligations: (1) submit a FRAP – which would include a LCR obligation; (2) purchase capacity in the auction; and (3) pay the capacity deficiency charge –

which does not provide capacity. From this, DTE implies that there is only one course of action for an LSE to demonstrate capacity – submit a FRAP.

However, a fourth way, Self Scheduling ZRCs – by far the most common way that LSEs fulfill their capacity obligation to MISO – is shown in the quote from the MISO tariff above under Question 2, repeated here for the reader’s convenience:

“LSEs will meet their PRMR by:

- (i) submitting a Fixed Resource Adequacy Plan;
- (ii) Self-Scheduling ZRCs;
- (iii) purchasing ZRCs through the Planning Resource Auction process; and/or
- (iv) paying the Capacity Deficiency Charge.” *[Module E-1, section 69A]*

“Self-Scheduling ZRCs” means that an LSE owning ZRCs submits them into the MISO auction at zero price, which cannot affect the Auction Clearing Price, and so the LSE is a “price taker,” meaning it receives whatever the ACP turns out to be.

Self-Scheduling ZRCs does not entail any local capacity requirement for the LSE. A Local Clearing Requirement is not imposed on any LSE, except for an LSE submitting a FRAP. MISO serves all load using all resources, and consequently imposing an LCR obligation on an LSE that does not submit a FRAP does not affect reliability unless the utility hoards excess local capacity, in which situation Michigan will end up with too much local capacity in the state, at a substantial cost to customers.

Although asserting a number of beliefs about the role of a local requirement in the demonstration of capacity – which Energy Michigan intends to address in the full case filing later, DTE sums up with the statement:

“The resource adequacy provisions of MISO’s tariff do not conflict with the MPSC’s role in setting and enforcing compliance with its standards for resource adequacy.” *[U-18248, Ms. Wojtowicz direct testimony, page 14, line 24, to page 15, line 1. Emphasis added.]*

The conflict is not with a Commission’s “role.” There is no conflict between (a) the MISO tariff which does not require an LCR obligation for Self-Scheduled ZRCs and (b) PA 341’s condition that the Commission’s setting of “any required local clearing requirement” be “consistent with federal reliability requirements.” From Energy Michigan’s explanation above, the conflict is between the MISO tariff that does not require an LCR obligation and any proposed Commission implementation rule that would require a LCR obligation.

Finally, as Energy Michigan will explain in the full case filing later, the MISO calculation of the Local Clearing Requirement overstates Michigan Zone 7's LCR by several hundred MW. The Commission should not impose any type of local requirement based on LCR unless and until the LCR calculation is corrected.

Recommendation

There should not be any "locational requirement." A locational requirement or any obligation related to MISO's Local Clearing Requirements:

- Is not specified in PA 341 and therefore not allowed to be imposed.
- Was in fact removed from earlier drafts of PA 341, so it is clear that the intent of the state was to eliminate any locational requirement.
- Is not required by MISO in satisfying capacity obligations to MISO.
- Does not affect reliability, since MISO uses all resources to serve all loads.
- Has the potential to force Michigan customers to overpay for excess local capacity.

Respectfully submitted,
Varnum, LLP
Attorneys for Energy Michigan, Inc.

May 26, 2017

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517/482-6237

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**Example
Demonstration of Capacity
Owned & Contractual Rights**

LSE: _____

Date: _____

Planning Year	Owned Resource	Contract Code	ZRCs	ZRCs Pln Yr Total	PRMR Planning Year	Diff
2018-19	Unit Apple #1		225			
	Unit Apple #2		195			
		A-27	50			
		A-42	25			
					495	480
2019-20	Unit Apple #1		225			
	Unit Apple #2		195			
		A-27	20			
		A-42	25			
		B-57	40			
				505	480	<u>±25</u>
2020-21	Unit Apple #1		225			
	Unit Apple #2		195			
		A-42	25			
					445	480

Attested by:
 Signature: _____
 Name: _____
 Title: _____
 Date: _____