

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter, on the Commission's own motion,)	
to open a docket for load serving entities in)	
Michigan to file their capacity demonstrations as)	Case No. U-20886
required by MCL 460.6w.)	
_____)	

In the matter, on the Commission's own motion,)	
to open a docket for load serving entities in)	
Michigan to file their capacity demonstrations as)	Case No. U-21099
required by MCL 460.6w.)	
_____)	

At the July 2, 2021 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

PRESENT: Hon. Daniel C. Scripps, Chair
 Hon. Tremaine L. Phillips, Commissioner
 Hon. Katherine L. Peretick, Commissioner

ORDER

Public Act 3 of 1939, as amended by Public Act 341 of 2016, MCL 460.6w(8), requires each electric utility, alternative electric supplier (AES), cooperative electric utility, and municipally-owned electric utility to demonstrate to the Commission, in a format determined by the Commission, that each load serving entity (LSE) owns or has contractual rights to sufficient capacity to meet its capacity obligations as set by the appropriate independent system operator

(ISO), or the Commission, as applicable.¹ This is known as a state reliability mechanism (SRM) capacity demonstration. Regulated electric utilities' capacity demonstration filings are due by December 1 each year; AESs', cooperatives', and municipally-owned electric utilities' filings are due by the seventh business day of February each year. MCL 460.6w(8)(a)-(b). In the September 15, 2017 order in Case No. U-18197 (September 15 order), the Commission adopted a format for the capacity demonstration filings required by MCL 460.6w(8), including templates for reporting and for affidavits.² Each year, the Commission opens a docket for the purpose of receiving those filings, and sets due dates for the filings and for the Commission Staff's (Staff's) report providing an analysis of the sufficiency of each LSE's capacity demonstration. In the August 20, 2020 order in Case Nos. U-20590 *et al.* (August 20 order), the Commission opened the docket in Case No. U-20886 for the purpose of receiving the LSEs' capacity demonstrations for the 2024/2025 planning year (PY)³ and directed the Staff to file its analysis no later than March 26, 2021.

¹ MCL 460.6w(12)(a) defines the appropriate ISO as the Midcontinent Independent System Operator, Inc. (MISO). MCL 460.6w(11) also states that "nothing in this act shall prevent the commission from determining a generation capacity charge under the reliability assurance agreement, rate schedule FERC [Federal Energy Regulatory Commission] No. 44 of the independent system operator known as PJM Interconnection, LLC [PJM]."

² The filing requirements have been slightly modified in the intervening years. *See*, the September 13, 2018 order in Case No. U-20154. In the March 17, 2019 order in Case No. U-20154, the Commission also approved a protective order for use with capacity demonstration filings. That protective order may also be used in Case No. U-20886 and Case No. U-21099.

³ MCL 460.6w(8)(a) states that, if an SRM is to be established, the Commission shall require each electric utility to demonstrate by December 1 of each year that, "for the planning year beginning 4 years after the beginning of the current planning year" the utility owns or has contractual rights to sufficient capacity to meet its load obligations. Thus, the statute requires the capacity demonstrations for four years out from the year the capacity demonstrations are required to be filed, i.e., PY 2023/2024 for a demonstration filed in 2019.

On March 26, 2021, the Staff filed the Capacity Demonstration Results Report in Case No. U-20886 (Staff Report), addressing the capacity demonstrations for PY 2024/2025. The Staff states that it held pre-filing consultations with a significant number of LSEs as part of its pre-demonstration process and that all LSEs made timely capacity demonstration filings. The Staff explains that it conducted an audit of each capacity demonstration filed. Several AESs filed letters indicating that they are not currently serving customers in Michigan.

In the report, the Staff provides an overview of zonal adequacy, explaining that Michigan is served by two regional transmission operators (RTOs), MISO and PJM, and that each RTO has different resource adequacy constructs and capacity obligations. The Staff also describes the applicable RTO requirements. Staff Report, pp. 2-3. The Staff makes special note of two key MISO resource requirements: (1) the planning reserve margin requirement (PRMR) and (2) the local clearing requirement (LCR), which is the minimum amount of capacity required to be located within a local resource zone (LRZ) to meet a specified loss of load standard. The LCR is of greater interest, according to the Staff, because:

The MISO LCR is for the zone as a whole, as opposed to a requirement for individual LSEs, and is determined by MISO for the prompt year. Under MCL 460.6w, as upheld by case law, the [Commission] may establish a forward locational capacity requirement for individual LSEs for the capacity demonstration compliance year in order to provide visibility into Michigan's ability to meet the MISO LCR in future planning years. However, there is no LCR requirement applicable to individual LSEs in Michigan pursuant to MCL

460.6w currently.^[4] The LCR is determined by performing a LOLE [loss of load expectation] analysis on each zone individually to determine the Local Reliability Requirement (LRR), which is the amount of resources a zone would need to meet the loss of load standard if it were separated from the rest of MISO. Separately, an import study is performed to determine the Zonal Import Ability (ZIA) for each zone. For LRZ 7, the ZIA is currently (and historically) equal to the Capacity Import Limit (CIL) and the terms are often treated synonymously. The ZIA is then subtracted from the LRR to determine the LCR. If an LRZ doesn't have enough resources to meet its LCR (or PRMR), the PRA [planning reserve auction] clearing price would be set at the Cost of New Entry (CONE) for that year. This occurred in PY 2020/21 for LRZ 7, when it was approximately 125 MW [megawatts] short of its LCR. This resulted in the auction clearing price for LRZ 7 being set at CONE, which was \$257.53/MW-Day or approximately \$94,000/MW-year for LRZ 7. CONE prices vary slightly from zone to zone and year to year. The PRA clearing price being set at CONE

⁴ MCL 460.6w(8) requires an LCR as part of the SRM capacity demonstrations. In the September 15 order, the Commission indicated that it would open a contested case to establish the LCR for future capacity demonstrations beginning in 2022 and beyond. September 15 order, pp. 40-42. This order was appealed on two grounds: (1) that the Commission lacked the authority to impose an LCR on individual providers, and (2) that if the Commission has the authority, it must implement the LCR pursuant to a rulemaking under the Administrative Procedures Act of 1969 (APA), MCL 24.201 *et seq.* While the September 15 order was on appeal, the Commission issued an order in Case No. U-18444 establishing a methodology to apply the LCR to individual energy providers. June 28, 2018 order in Case No. U-18444, pp. 122-131. On September 13, 2018, the Commission issued an order granting a motion for stay in Case No. U-18444, putting a hold on the implementation of the LCR pending the outcome of the appeal of the September 15 order. September 13, 2018 order in Case No. U-18444, pp. 9-13. The Michigan Court of Appeals subsequently ruled that the Commission did not have the authority under 2016 PA 341 to impose an LCR on individual providers. *In re Reliability Plans of Electric Utilities for 2017-2021*, 325 Mich App 207, 221; 926 NW2d 584 (2018). The Court of Appeals did not address the second point of the appeal, which was that if the Commission did have such authority, the LCR requirement should be implemented through a rulemaking pursuant to the APA. The Michigan Supreme Court reversed the Court of Appeals, finding that the Commission does have the authority pursuant to MCL 460.6w to impose an LCR on individual providers and remanded the case to the Court of Appeals for further review to determine the Commission's compliance with the APA in imposing the LCR. *In re Reliability Plans of Electric Utilities for 2017-2021*, 505 Mich 97, 102; 949 NW2d 73 (2020). On December 3, 2020, the Court of Appeals issued an unpublished per curiam decision finding that the September 15 order (imposing an LCR on alternative electric suppliers individually in Case No. U-18197) did not equate to administrative rules in violation of the APA and did not exceed the Commission's authority granted by the Legislature. *In re Reliability Plans of Electric Utilities for 2017-2021*, unpublished per curiam opinion of the Court of Appeals, issued December 3, 2020 (Docket Nos. 340600 and 340607). As of the date of this order, the stay in Case No. U-18444 remains in effect.

has economic ramifications and can provide a signal to stakeholders with responsibilities regarding resource adequacy within the zone. However, it is important to note that MISO's resource adequacy construct is based on probabilistic determinations and failure to meet the requirements of the resource adequacy construct does not mean that the LRZ in question will experience a loss of load event. It simply means the probability of such a loss of load event would exceed the generally accepted criteria that govern the resource adequacy planning process.

Id., pp. 3-4 (additional footnotes omitted).

The Staff also notes in the report that some LSEs provided, on a voluntary basis, capacity resource data for the interim years in addition to PY 2024/2025, which is the compliance year for this round of capacity demonstrations. This additional data allows the Staff to update zonal resource adequacy projections for the prompt (upcoming) year, the interim years, and the compliance year (2024/2025). *Id.*, p. 4.

Turning to the resource adequacy in each of Michigan's LRZs, the Staff concludes in its report that LRZ 7, consisting of the Lower Peninsula of Michigan (with the exception of Indiana Michigan Power Company's (I&M's) service territory which is part of PJM) will have sufficient resources to meet its LCR for the 2021/2022 prompt year as well as the 2024/2025 compliance year. *Id.*, p. 6. The Staff finds, based on the capacity demonstration filings and the Staff's estimate of 286 MW of additional LRZ 7 not included in the demonstrations, that LRZ 7 will have a surplus of 603 MW compared to the projected LCR in PY 2024/2025. For the interim years, the Staff finds a surplus of 885 ZRCs in PY 2022/2023 and a surplus of 738 ZRCs in PY 2023/2024 with the caveat that this information is current as of the date of the report, is based on several assumptions, and is subject to change. *Id.*, pp. 6-7.

The Staff Report also includes noteworthy comments regarding capacity requirements, historical requirements, and capacity resource changes for LRZ 7. The Staff describes the various methodology components that are considered in determining the capacity requirements

and states that the changes in the calculations and modeling methodologies impact the capacity requirements for LRZ 7. *Id.*, p. 7. The Staff utilizes a data table listing the MISO LOLE study reports for LRZ 7 from 2013 through 2021 and explains that the figures in the table are used to show how capacity requirements change over time. *Id.*, p. 8. The Staff also provides a table showing a MISO LRZ 7 LCR and PRMR comparison from PY 2013/2014 through PY 2024/2025. *Id.*, p. 9. The Staff further notes that the resource changes for this year's report included upgrades to the Ludington Pumped Storage Facility, an increase in utilities' demand response (DR) programs, DR aggregation offerings by AESs, and MISO resource adequacy construct changes in response to the changing resource mix in the MISO footprint. *Id.*, pp. 9-10.

Turning to MISO's LRZ 2, which encompasses almost all of the Upper Peninsula (UP) of Michigan as well as northern and eastern Wisconsin, the Staff explains that because MISO does not define MW capacity import or export limits between states in the same LRZ, and because Wisconsin LSEs are not subject to the reporting requirements of Section 6w, the Staff did not have access to the data needed to project the capacity position of the entire zone. However, the Staff states that the Michigan LSEs demonstrated sufficient resources to meet their requirements. *Id.*, p. 11.

The Staff also makes some noteworthy comments about LRZ 2, including the need for additional generation availability because of the transmission limitations in the UP. The Staff also comments that Upper Peninsula Power Company (UPPCo) discussed in its capacity demonstration the mechanical failure and subsequent retirement of the company's Portage generating unit (one of the two fuel oil generating units in the UP) and states that UPPCo intends to continue operation of the other fuel oil generator, Gladstone. Lastly, the Staff explains that the Michigan Department of Environment, Great Lakes, and Energy is working with

stakeholders as part of the UP Energy Task Force to identify and evaluate potential changes to the UP's energy supply and plans to meet its future energy needs. *Id.*, pp. 11-12.

A small area of the UP is in MISO LRZ 1, and the Staff explains that LRZ 1 shows a capacity surplus of approximately 1,600 MW for PY 2021 and a similar surplus for PY 2025 according to the 2021 Organization of MISO States (OMS) Survey. Further LRZ 1 is projected to have adequate capacity to meet its PRMR requirements for PY 2021/2022 and the next several years. *Id.*, p. 12.

As noted above, I&M's service territory is a part of PJM, which has a mandatory forward capacity market for LSEs in its footprint. LSEs in PJM can meet capacity obligations through participation in PJM's reliability pricing model (RPM) base residual auction (BRA) or through PJM's fixed resource requirement (FRR) plan. The Staff notes:

As a result of a 2016 complaint, FERC found that PJM's capacity market was unjust and unreasonable due to the Minimum Offer Price Rule's (MOPR) failure to mitigate out-of-market payments that threaten the competitiveness of the PJM's capacity market. After several years and several rounds of proposals, in December 2019 FERC rejected most of the filed solutions in favor of an expanded MOPR and directed PJM to file a compliance filing by March 18, 2020. In a May 21, 2020 order, FERC accepted PJM's proposed replacement market design and directed further clarification on reserve market rules, which PJM provided. On November 12, 2020, FERC accepted PJM's compliance filing and approved PJM's treatment used to establish the minimum offer price.

PJM announced an accelerated schedule for its next five annual capacity auctions following the FERC order to allow the regular cadence to resume. The first of these BRAs for the 2022/23 delivery year opens May 19, 2021 and closes a week later. PJM expects results from that auction in early June of 2021.

Id., pp. 12-13 (footnotes omitted). Because of the multi-year FERC litigation, I&M was unable to update its capacity demonstration in prior years, but the company worked with the Staff to submit a capacity demonstration this year based on its projection of owned and contracted for resources for PY 2023/2024 without the updated BRA, as the results of the auction were not yet

available at the time of submission. This capacity demonstration showed that I&M intends to continue with the PJM FRR plan that allows it to opt out of participation in PJM's capacity market and means that the company's capacity position will likely not be affected by FERC's November 12, 2020 order. However, I&M cannot provide with absolute certainty, at this time, "where future planning year capacity will come from to make up small differences between owned-resources and short-term market purchases until the PJM BRA auction results are known in summer of 2021." *Id.*, p. 13. Also of note regarding I&M's choice customers, should the choice program suppliers choose to self-supply capacity, that capacity must be included in I&M's FRR plan. The Staff Report further shows that I&M's capacity demonstration indicated that it has satisfied PJM's requirement for PY 2021/2022 through PY 2023/2024 and that it expects to meet the requirements for PY 2024/2025. *Id.* Lastly, the Staff reviewed the capacity information of cooperative and municipal utility LSEs in the Michigan portion of PJM's territory and found that these LSEs will meet PJM's capacity obligations with enough of a surplus that if I&M were to experience a shortfall, it could be accommodated through market purchases. *Id.*, p. 14. The Staff indicates that it will continue to monitor resource adequacy in the PJM region and the Michigan LSEs in PJM's territory.

Pursuant to the September 15 order, the Staff Report includes a table that identifies the capacity type (owned, DR, power purchase agreement, ZRC contracts, and auction) for each individual electric provider without revealing the identity of any specific electric provider. The Staff Report also examines DR programs' impacts on capacity, ZRC contracts and ZRC transfers, and AES load switching. *Id.*, pp. 15-16.

The Staff states that all LSEs that filed capacity demonstrations in Case No. U-20886 have met the required level of planning resources for PY 2024/2025. However, the Staff notes three

issues that will continue to be monitored by the Staff; those issues being: (1) compliance with *Participation of Distributed Energy Resource Aggregations in Markets Operated by Regional Transmission Organizations and Independent System Operators*, 172 FERC 61247 (September 17, 2020) (FERC Order 2222); (2) the impacts of the COVID-19 pandemic; and (3) the February 21, 2021 polar vortex in Texas. *Id.*, p. 17.

The Staff ends the report with its conclusions and recommendations stating that all Michigan LSEs required to file a capacity demonstration for PY 2024/2025 have done so and that the Staff finds that all LSEs have satisfied their capacity resources and procured adequate resources for PY 2024/2025. The Staff expects to continue monitoring changes in MISO's resource adequacy construct from annual to seasonal, and, once those changes are finalized, the Staff anticipates working with the Commission and stakeholders to determine the most appropriate way to meet the capacity requirements of MCL 460.6w(8) in light of MISO's changes. *Id.*, p. 18.

Discussion

To begin, the Commission appreciates the efforts of the Staff in obtaining and analyzing the capacity information needed for this year's capacity demonstrations and for drafting the Staff Report. The Commission also appreciates the cooperation of all Michigan LSEs for their timely capacity demonstration filings. The Commission accepts the Staff Report and adopts the recommendations contained therein, including the Staff's recommendation to continue monitoring the expected changes MISO will be making to its resource adequacy construct (from an annual resource adequacy demonstration to a seasonal one) and to work with the Commission and stakeholders to analyze the potential impacts these changes may have.

The Commission takes this opportunity to comment on certain provisions in the Staff Report and to update certain items since the Staff Report was filed. First, the Staff explains that for

LRZ 7 in PY 2020/2021, the PRA clearing price was set at CONE due to an LCR shortfall of approximately 125 MW. The Staff further explained that MISO's resource adequacy model is based on probabilistic determinations and that the shortfall in LRZ 7 did not mean that the zone would experience a loss of load event; rather, it means the probability of such an event exceeded the generally accepted criteria used in the resource adequacy planning process. While the Commission agrees with the Staff's assessment, the Commission also emphasizes that the shortfall in LRZ 7 should serve as an important signal to LSEs of the severe economic consequences that could occur in the event of a loss of load event.

As to FERC Order 2222, the Commission notes that on March 18, 2021, shortly before the filing of the Staff Report, FERC issued an order in response to requests for clarification and rehearing of FERC Order 2222, *Participation of Distributed Energy Resource Aggregations in Markets Operated by Regional Transmission Organizations and Independent System Operators*, 174 FERC 61197 (March 18, 2021) (FERC Order 2222-A). Among other things, FERC Order 2222-A notably found that DR can be aggregated with other distributed energy resources under FERC Order 2222 and declined to allow an opt-out provision that would enable grid operators to deny DR offers if DR participation is not allowed by the state regulator. *See*, FERC Order 2222-A, ¶¶ 22-29, 54. The Staff Report notes that MISO has requested an extension to comply with FERC Order 2222 (and FERC Order 2222-A). However, on June 17, 2021, FERC issued an order setting aside its decision in FERC Order 2222-A that the opt-out requirement would not extend to aggregations that included DR. FERC indicated that it would evaluate whether to permit DR to participate as part of a distributed energy resource aggregate in the context of FERC's broader Notice of Inquiry proceeding considering whether to revise its regulations to remove the DR opt-out established in previous orders. *See*, *Participation in Distributed Energy*

Resource Aggregations in Markets Operated by Regional Transmission Organizations and Independent System Operators, 175 FERC ¶ 61227 (June 17, 2021) (FERC Order 2222-B). The Commission will continue to monitor the impacts of FERC Orders 2222, 2222-A, and 2222-B on MISO's resource adequacy constructs as well as capacity demonstrations made pursuant to MCL 460.6w(8).

As stated in the Staff Report, the Commission has not yet imposed an LCR requirement on individual LSEs pursuant to MCL 460.6w. Subsequent to the August 20 order, the Court of Appeals issued a decision in the remanded proceeding finding that the September 15 order (imposing an LCR on alternative electric suppliers individually in Case No. U-18197) did not equate to administrative rules in violation of the APA and did not exceed the Commission's authority granted by the Legislature. *In re Reliability Plans of Electric Utilities for 2017-2021*, unpublished per curium opinion of the Court of Appeals, issued December 3, 2020 (Docket Nos. 340600 and 340607). While the Court of Appeals has upheld the Commission's authority to impose an LCR individually, litigation regarding the individual LCR is pending at the federal level. Therefore, the stay in Case No. U-18444 remains in effect. The Commission acknowledges the importance of the LCR and its role in ensuring reliability and may revisit the stay in Case No. U-18444, if necessary.

In its report, the Staff notes that some LSEs provided capacity resource data beyond PY 2024/2025 on a voluntary basis and that this additional information was helpful in the Staff's projections for the prompt and interim years. Since March 10, 2020, Michigan has been grappling with and responding to the COVID-19 pandemic. The pandemic has caused significant economic and financial hardship for Michigan residents and businesses, posed challenges to the operations of energy providers, and impacted normal energy consumption

patterns. These impacts necessitate pronounced efforts to ensure reliability within the state and additional data for the years between compliance PYs would be helpful in ensuring reliability. Even with the development and distribution of multiple effective vaccines, the decrease of new infection levels,⁵ and the lifting of COVID-19 restrictions,⁶ the virus and its impacts have not yet completely abated. Therefore, the Commission directs LSEs to provide capacity resource data for the prompt and interim years in addition to the compliance year 2025/2026 data for next year's capacity demonstration filing. The additional data is to be included with the upcoming December 1, 2021 and February 9, 2022 filings in the docket to be opened by this order, Case No. U-21099. The Capacity Demonstration Process and Requirements, attached to this order as Attachment A, shall be used for the December 1, 2021 and February 9, 2022 filings.

Lastly, subsequent to the Staff filing this year's report, MISO released its 2021 OMS-MISO Survey Results on June 11, 2021.⁷ Among the highlights of the survey are MISO's projections that the MISO region as a whole will have capacity in excess of the summer peak planning reserve margin for 2022, new generation and load modifying resources continue to play important roles in meeting local resource needs, and there continues to be an increasing reliance

⁵ See, *Coronavirus-Michigan Data*, https://www.michigan.gov/coronavirus/0,9753,7-406-98163_98173---,00.html (last accessed July 2, 2021).

⁶ MI Dept. of Health and Human Serv, Recission of Emergency Orders (June 17, 2021), available at https://www.michigan.gov/coronavirus/0,9753,7-406-98178_98455_98456_103043-562057--.,00.html (last accessed July 2, 2021) (noting that the recission of emergency orders took effect June 22, 2021 at 12:01 AM).

⁷ 2021 OMS-MISO Survey Results (June 11, 2021), available at <https://www.misoenergy.org/events/2021-oms-miso-survey-results-workshop---june-11-2021/> (last accessed July 2, 2021).

on natural gas and renewable energy. Additionally, with respect to Michigan's largest zone, LRZ 7, MISO projects committed capacity in excess of the LCR for 2022 through 2026.

The Commission finds that no show cause proceedings are necessary for the 2021/2022 through 2024/2025 PYs, and that, based on the filings in Case No. U-20886, no AES customers will be levied an SRM capacity charge during that period. The Commission again commends the Staff, MISO, and the LSEs for their efforts, which have produced a more streamlined process this year. The Commission looks forward to the continued robust review of capacity resources for future planning years.

THEREFORE, IT IS ORDERED that:

A. The March 26, 2021 Capacity Demonstration Results Report filed in Case No. U-20886 is accepted.

B. Electric utilities required to file capacity demonstrations pursuant to MCL 460.6w(8)(a) for the 2025/2026 planning year shall make that filing no later than 5:00 p.m. (Eastern time) on December 1, 2021, in Case No. U-21099, and load serving entities required to file capacity demonstrations pursuant to MCL 460.6w(8)(b) for the 2025/2026 planning year shall make that filing no later than 5:00 p.m. (Eastern time) on February 9, 2022, in Case No. U-21099, and shall include in their filings capacity resource data for the prompt and interim years as well as the compliance year 2025/2026 as described in this order.

C. The Commission Staff shall file a report analyzing the sufficiency of the capacity demonstrations for the 2025/2026 planning year no later than March 25, 2022, in Case No. U-21099. Any recommended changes to the Capacity Demonstration Process and Requirements shall be attached to the Commission Staff Report filed in Case No. U-21099.

D. The docket in Case No. U-20886 is closed, and the docket in Case No. U-21099 is opened.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, under MCL 462.26. To comply with the Michigan Rules of Court's requirement to notify the Commission of an appeal, appellants shall send required notices to both the Commission's Executive Secretary and to the Commission's Legal Counsel. Electronic notifications should be sent to the Executive Secretary at mpscedockets@michigan.gov and to the Michigan Department of the Attorney General - Public Service Division at pungpl@michigan.gov. In lieu of electronic submissions, paper copies of such notifications may be sent to the Executive Secretary and the Attorney General - Public Service Division at 7109 W. Saginaw Hwy., Lansing, MI 48917.

MICHIGAN PUBLIC SERVICE COMMISSION

Daniel C. Scripps, Chair

Tremaine L. Phillips, Commissioner

Katherine L. Peretick, Commissioner

By its action of July 2, 2021.

Lisa Felice, Executive Secretary

CAPACITY DEMONSTRATION PROCESS AND REQUIREMENTS FOR PLANNING YEAR 2024/25

The Michigan Public Service Commission (MPSC or Commission) will open a docket in 2021 for planning year 2025/26 capacity demonstrations. The Commission order opening the capacity demonstration docket will provide requirements for load serving entities (LSE) to follow in making demonstrations and include the capacity obligations to be applicable for the demonstration year.

The capacity demonstration obligations will be determined in a consistent and transparent manner, based upon the most recently published Loss of Load Expectation (LOLE) study by the Midcontinent Independent System Operator (MISO).

The capacity demonstrations filed in this docket shall include four years of load obligations and owned or contracted resources, similar to the requests that the Commission has made in previous years. The capacity demonstration for year four will be used to determine if the LSE has met its capacity obligations, while the data filed for years one through three will be used for informational purposes only. Each LSE's applicable capacity obligation will be based upon its most recent Planning Reserve Margin Requirement (PRMR), as specified by MISO, and adopted by the Commission.

For the purposes of the capacity demonstrations for the Michigan State Reliability Mechanism (SRM), MCL 460.6w(8), the total capacity obligation to meet for a given LSE shall be the LSEs' PRMR. The PRMR includes a LSE's MISO Coincident Peak Demand adjusted for internal demand response programs netted against load, plus transmission losses and planning reserve margin (PRM) UCAP (unforced capacity) percentage. For LSEs provided a peak load contribution (PLC) value from their Energy Distribution Company (EDC), their capacity obligation to meet shall be their PLC, if it already includes transmission losses, and PRM UCAP percent adjustments.

The applicable MISO PRM UCAP percentages reported in the MISO 2021-2022 LOLE Study are as follows:

Planning Year	2024/25
PRM UCAP	9.4%

The PRM UCAP percentages will be updated annually, or as released by MISO in future LOLE Studies. The PRM UCAP percentages applicable for each demonstration year will be included in the order that opens the capacity demonstration docket and will be updated by MPSC Staff memo to the docket if applicable PRMR updates are published by MISO subsequent to the Commission Order.

The PLC determination for Retail Open Access (ROA) customers should be made through a cooperative process which is consistent with current MISO rules for dispute resolution. These PLC determinations will ultimately drive the total amount of capacity obligation that an Alternative Electric Supplier (AES) will be required to meet in its annual demonstration before the Commission.

Forward Locational Requirement Methodology¹

¹ The September 13, 2018 Order in Case No. U-18444 granted a stay to the effect of the June 28, 2018 order in the same case establishing an individual forward locational requirement.

The process used to determine the forward locational requirements is as follows:

1. Use the methodology from Staff's August 1, 2017 report and MISO's comments in Case No. U-18197 to project the Local Resource Zone's (LRZ) Locational Clearing Requirement (LCR) six years forward using the data provided in the 2018-2019 MISO LOLE Study Report.²
 - a. Extrapolate/Interpolate the Peak Demand and Local Reliability Requirement (LRR) UCAP per-unit of LRZ Peak Demand to find values for the needed year (not necessary in this iteration because 2023/24 values were included in the MISO LOLE Study Report).
 - b. Determine the LRZ's LRR by multiplying the zone's peak demand by the LRR UCAP per-unit of LRZ Peak Demand percentage.
 - c. Calculate the forward LCR by subtracting the Capacity Import Limit (held constant from the prompt year) from the LRR.
2. Analyze previously filed confidential and public LSE resource data to project any changes to the amount of existing resources in the zone six years forward.
3. Subtract the projected existing resources in the zone from the zone's LCR to determine the forward locational incremental need.
4. Divided the forward locational incremental need by the zone's Peak Demand. This percent is the forward locational requirement for each LSE for the two year period.
5. Split this percentage evenly to determine the annual percentage applicable to each of the two planning years; 2023/24 and 2024/25.
6. The forward locational requirement applicable to each LSE is the annual percentage multiplied by its respective prompt year peak demand applicable for the demonstration.

Zonal Locational Requirements for Planning Years 2022/23 and 2023/24:³

MISO Zone 2					
Planning Year	Peak Demand (MW) {A}	LRR UCAP per-unit of LRZ Peak Demand {B}	LRR (MW) {C}={A}*{B}	Capacity Import Limit (MW) {D}	LCR (MW) {E}={C}-{D}
2023/24	13,054	118.7%	15,495	2,317	13,178

MISO Zone 7					
Planning Year	Peak Demand (MW) {A}	LRR UCAP per-unit of LRZ Peak Demand {B}	LRR (MW) {C}={A}*{B}	Capacity Import Limit (MW) {D}	LCR (MW) {E}={C}-{D}
2023/24	21,650	115.3%	24,971	3,200	21,771

The zonal locational requirements for future planning years 2024/25 and beyond will be addressed in a future filing as determined by the Commission.

² <https://www.misoenergy.org/api/documents/getbymediaid/80578>.

³ The source for the data in columns {A} through {E} is the MISO 2021 – 2022 LOLE Study Report, <https://www.misoenergy.org/api/documents/getbymediaid/80578>.

Zone 7 Incremental Need and Forward Locational Requirement

The total projected resources in Zone 7 in 2024/25 is based on the capacity demonstration filings in Case No. U-20886 which covered planning years 2021/22 through 2024/25. Adjustments were made to remove behind the meter generation (BTMG) not in the MISO Resource Adequacy Construct, reported retirements, zonal resource credit (ZRC) purchases, resources located outside of the zone, and any double counted units. The resulting total projected resources in Zone 7 for 2024/25 is 31,809 MW or 39 MW less than the projected MISO LCR in 2024/25⁴.

The forward locational requirements for Zone 7 for planning years 2024/25 and beyond will be re-evaluated going forward based upon future directives set by Commission Order.

Zone 2 Forward Locational Requirement

Unlike Zone 7, which is entirely located in the Lower Peninsula of Michigan, Zone 2 includes the Upper Peninsula of Michigan and a large portion of eastern Wisconsin. The MPSC does not have the same level of detail regarding the generation sited in Wisconsin as it does for generation sited in Michigan.

Without making any assumptions regarding the future retirement of Zone 2 resources, the 2017-2018 MISO Planning Resource Auction Results show the Total Offers Submitted in Zone 2 of 15,149 ZRCs, which exceeds the projected Zone 2 LCR (13,178 MW) in 2023/24 by 15%. Utilizing the same method as applied to Zone 7 results in an incremental need of zero for Zone 2. Based upon the current surplus of existing resources in Zone 2, the forward locational requirement for LSEs in Zone 2 is zero for planning years 2022/23 and 2023/24. Although the current forward locational requirement is zero for LSEs in Zone 2, the adequacy of resources in Zone 2 will continue to be monitored. The PRMR capacity obligations still apply to LSEs in Zone 2 on a four-year forward basis as required by MCL 460.6w. The forward locational requirements for Zone 2 are not subject to biennial reevaluation unless the Commission directs otherwise in a future order.

Zone 1 Forward Locational Requirement

The individual forward locational requirement for LRZ 1 is zero and is not subject to biennial reevaluation unless the Commission directs otherwise in a future order. The PRMR capacity obligations still apply to LSEs in Zone 1 on a four-year forward basis as required by MCL 460.6w.

Resource Demonstrations

The minimum acceptable support for all resources submitted as part of a capacity demonstration include:

- 1) Documentation supporting the MISO zonal location of the resource, and;
- 2) The minimum acceptable support based upon the type of resource that is outlined in the sections below.

Existing generation (owned)

⁴ The total projected resources has been updated to include the publicly announced retirements of Karn 1 & 2 as directed by the Commission in its June 28, 2018 order in Case No. U-18444

The minimum acceptable support for existing generation that is included in a capacity demonstration include:

- 1) An affidavit from an officer of the company claiming ownership of the unit(s), including a commitment of the unit(s) to LSE load in the applicable Michigan zone four years forward,
- 2) A copy of the existing ZRC qualification of the unit(s) from the MISO Module E Capacity Tracking Tool, and;
- 3) If there are retail tariffs or customer contracts associated with the resources, copies should be provided.

Existing demand response or energy efficiency resources (that have not been netted against load)

The minimum acceptable support for existing demand response resources or energy efficiency resources that have not already been netted against load include:

- 1) An affidavit from an officer of the company outlining the resource(s), including a commitment to maintain at least that same level of resources four years forward,
- 2) A copy of the existing ZRC qualification of the resource(s) from the MISO Module E Capacity Tracking Tool, and;
- 3) If there are retail tariffs or customer contracts associated with the resources, copies should be provided.

New or upgraded generation (owned)

The minimum acceptable support for proposed new generation include:

- 1) An affidavit from an officer of the company outlining the detailed plans for the new generation including milestones such as planned in-service date, expected regulatory approval date(s), planned date to enter the MISO generator interconnection queue, expected date for MISO generator interconnection agreement, construction timeline, etc.,
- 2) Documentation supporting the expected ZRC qualification from MISO for the new unit(s), and;
- 3) If there are retail tariffs or customer contracts associated with the resources, copies should be provided.

For new generation submitted as part of a capacity demonstration, the Commission finds that all of the above data be updated and submitted on an annual basis with each subsequent capacity demonstration until the unit(s) are in service.

New demand response or energy efficiency resources (that have not been netted against load)

The minimum acceptable support for new demand response resources or energy efficiency resources that have not already been netted against load included in a capacity demonstration include:

- 1) An affidavit from an officer of the company outlining the plans for the resource(s), including a commitment to achieve and/or maintain at least that same level of resources four years forward,
- 2) Evidence that the customer's distribution utility has been notified of specific customers participating in the resource,
- 3) Specific plans to have the resource(s) qualified by the independent system operator, and;
- 4) If there are retail tariffs or customer contracts associated with the resources, copies should be provided.

For new demand response or energy efficiency resources submitted as part of a capacity demonstration, the Commission finds that all of the above data be updated and submitted on an annual basis with each subsequent capacity demonstration until the resource(s) are in service. Final qualification / approval from the independent system operator should be submitted in a subsequent demonstration.

Existing generation (capacity contract)

The minimum acceptable support for capacity contracts with existing generation include:

- 1) An affidavit from an officer of the company including a copy of the contract that specifies the unit(s) or pool of generation that is the source of the contract, including the location of the unit(s) or pool. The affidavit should include a commitment to maintain the contracted amount four years forward regardless of any early out clauses in the contract, and;
- 2) A copy of the existing ZRC qualification of the unit(s) or pool from the MISO Module E Capacity Tracking Tool that the LSE obtains from the asset owner and includes with the demonstration filing.

Forward ZRC contracts

The minimum acceptable support for forward ZRC contracts include an affidavit from an officer of the company including a copy of the contract that specifies the zonal location of the ZRCs. The affidavit should include a commitment to maintain the contracted amount four years forward regardless of any early-out clauses in the contract. A forward ZRC contract that does not specify the zonal location of the ZRCs will be deemed insufficient towards meeting any portion of a locational requirement, unless the LSE provides other alternative support for the location of the ZRCs.

Any LSE that utilized a ZRC contract as part of their previous capacity demonstrations must provide prompt-year ZRC transfer documentation (MECT Module E screenshot) or provide Staff with the ability to confidentially review ZRC transfers in person at the Commission office.

Resources submitted in an LSE capacity demonstration to meet forward locational requirements must be located within the same LRZ as the LSE. Evidence demonstrating that a resource located outside of the LSE's zone would count towards meeting the LCR of the LSE's zone should be provided by the demonstrating LSE if applicable. Existing contracts with resources outside of an LSE's zone will count towards meeting forward locational requirements if they are for a period of at least twenty years and the contracts were entered into prior to MISO's implementation of local resource zones on June 1, 2013.

Aggregated EERs, Aggregated Storage, Aggregated DERs

The minimum acceptable support for aggregated energy efficiency resources (EERs), aggregated storage, and aggregated distributed energy resources (DERs) include:

- 1) An affidavit from an officer of the company outlining the resource(s), including a commitment to achieve and/or maintain at least that same level of resource(s) four years forward,
- 2) Documentation from MISO showing ZRC credit in the prompt-year for the resource(s), such as a MISO MECT screenshot, and;
- 3) If there are retail tariffs or customer contracts associated with the resource(s), copies should be provided.

PRA Purchases

The amount of ZRCs planned to be purchased in the MISO Planning Resource Auction (PRA) that will be deemed prudent in an approved capacity demonstration will be limited to the following percentage of the LSE's total PRMR requirement.

Planning Year	2022/23	2023/24	2024/25
PRA Purchases (%)	5%	5%	5%

Utilization of the MISO PRA in interim years

A capacity demonstration filed by an LSE that includes a plan to purchase ZRCs in the PRA four years in the future in excess of the allowable amounts outlined above, will not constitute a demonstration that the LSE owns or has contracted resources to meet its future capacity obligations, unless those ZRCs are tied to specific identified resources that are committed to be offered in the PRA, by contract, on behalf of the LSE for the applicable planning year.

Once the Commission has determined that the capacity demonstration made by an LSE is deemed to be sufficient, it shall not be re-litigated or "trued-up" in the interim years. If, subsequent to its initial satisfactory capacity demonstration, an LSE experiences an unforeseen significant outage at one of its generation assets, or has an unforeseen variation in its total load obligations, these matters will be settled in the PRA. The LSE's initial capacity demonstration will not be re-examined to reconcile projected interim year load obligations or generating resource capacity ratings with actual values that are experienced in that interim year.

Additional Considerations for Capacity Demonstrations

Other types of documentation submitted as part of a capacity demonstration will be evaluated on a case by case basis. Because some of the documentation that is required to be filed in these proceedings is commercially sensitive, competitive information, it shall continue to be treated in a confidential manner, as has been done in the past. The Staff shall file a memo in the docket as directed by the Commission,

outlining its findings from the demonstration filings, including a listing of any entities whose demonstration, in Staff's opinion, did not completely pass muster.

In the case where a demonstration filing does not pass Staff's muster, Staff would recommend that the Commission open a contested case docket, whereby the LSE in question could attempt to prove that its capacity demonstration should be deemed acceptable. The outcome of that case would be a Commission order potentially authorizing SRM capacity charges to ROA customer load as well as a respective increase in capacity obligations assigned to the incumbent utility as the Provider of Last Resort for capacity service. Any contested demonstration cases will be opened as soon as practicable following the issuance of the Staff memo and be completed within six months.

If an LSE has met the capacity demonstration requirements, no contested case will be opened, and no further action will be taken regarding any capacity demonstration that has been deemed sufficient by Staff and accepted by the Commission.

Capacity Demonstrations for LSEs in PJM service territory

PJM Interconnection LLC (PJM) has a mandatory forward capacity market for LSEs in its service territory. LSEs in the PJM service territory meet their Independent System Operator capacity obligations either through participation in PJM's Reliability Pricing Model (RPM) Base Residual Auction (BRA) or through PJM's Fixed Resource Requirement (FRR) capacity plan. The PJM capacity market is a three year forward market with the calendar aligned slightly differently than what exists with the MISO capacity market. PJM's tariff requires FRR entities (those that self-supply capacity as Indiana Michigan Power has done since the inception of the RPM construct in 2007) to prove capacity for the 2022/23 delivery year (June 2022 through May 2023) in April 2019. The BRA will be completed in in May 2020 for the 2023/24 delivery year.

The timing of PJM LSEs capacity demonstrations to the Commission will remain the same as those expected of MISO LSEs, however, PJM LSEs will be allowed to file an amended capacity demonstration two weeks after the completion of the PJM RPM BRA if the LSE participates in the BRA. The capacity demonstration should include the FRR capacity plan and/or BRA results. Meeting PJM's capacity obligations, including any applicable Percentage Internal Resources Required for the delivery year will constitute a satisfactory demonstration, and the demonstrating LSE should provide evidence that it has met PJM's capacity obligations.

Demonstration Format

In addition to all of the items outlined above, the following forms shall also be utilized by the LSE in filing its demonstration.

PROOF OF SERVICE

STATE OF MICHIGAN)

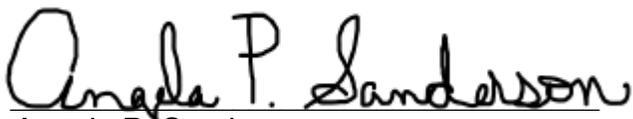
Case No. U-20886 *et al.*

County of Ingham)

Brianna Brown being duly sworn, deposes and says that on July 2, 2021 A.D. she electronically notified the attached list of this **Commission Order via e-mail transmission**, to the persons as shown on the attached service list (Listserv Distribution List).


Brianna Brown

Subscribed and sworn to before me
this 2nd day of July 2021.



Angela P. Sanderson
Notary Public, Shiawassee County, Michigan
As acting in Eaton County
My Commission Expires: May 21, 2024

Service List for Case: U-20886

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