



Fact Sheet: Prevailing State Compensation Mechanism

Prevailing State Compensation Mechanism Process Steps:

1. Michigan Public Service Commission (MPSC) holds contested proceeding, scheduled for completion not later than the Dec. 1 prior to the Midcontinent Independent System Operator (MISO) 3-year forward resource auction (FRA) to determine:
 - a. Whether it should elect the Prevailing State Compensation Mechanism (PSCM) for any or all territories of investor-owned utilities and for what time period (tariff will require election to remain in place for set number of years to allow orderly administration);
 - b. If so, a capacity charge determination will be made for each territory.
2. If MPSC declines to elect the PSCM, MISO will administer the FRA.
3. If MPSC elects the PSCM, it will:
 - a. Provide notice of the election to MISO and to the public;
 - b. Provide MISO a list of investor-owned utilities that are ultimately responsible for capacity purchases for all load if Forward Fixed Resource Adequacy Plans (FFRAPs) are not submitted by any alternative electric supplier (AES);
 - c. Provide notice to the public of the determined capacity charge for each territory.
4. Under PSCM, neither investor-owned utilities nor alternative electric suppliers can participate in the FRA.
 - a. Alternative electric suppliers can elect to submit a FFRAP or not by deadline (current draft proposal is 7th business day in February).
 - i. If an AES submits a FFRAP, and MISO determines it meets tariff requirements, it will not be subject to the state determined capacity charge.
 - b. If an AES does not submit a FFRAP for 100% of its load, or if an FFRAP is not found to meet tariff requirements, the AES must pay the utility that bears ultimate responsibility for procuring that resource the capacity charge for whatever portion of its requirement is not met by an approved FFRAP. MPSC rates allow



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- payment of capacity charges to flow through bills much as charges for year-ahead Planning Resource Auction (PRA) payments do now.
- d. MISO will inform utilities required to procure capacity of final amount they will be required to cover in Planning Resource Auction (PRA) which occurs ~ 6 weeks prior to the Planning Year (i.e. results of FFRAP determinations for AES load in their territory)
5. Utilities will be required to submit a Fixed Resource Adequacy Plan in the PRA for the amount they are required to cover (see Section 4 above). . Utilities cannot procure the capacity in the PRA to fulfill requirements.
- a. Will be approximately three year time period during which utility knows amount of payment received via capacity charge and amount of capacity it has responsibility to procure. This requirement identified in advance allows needed time and funding to procure necessary capacity.
 - b. MPSC uses existing authority in intervening years to ensure utility obligation to procure capacity resources is met prior to the PRA. Additionally, failure to FRAP the obligation would constitute violation of MISO tariff.

Next Steps

State of Michigan and MISO will work cooperatively to identify any needed adjustments to proposed tariff language prior to submission to FERC to effectuate above steps. By including the Prevailing State Compensation Mechanism language in the MISO filing, Michigan supports approval of the MISO proposal at FERC.
