

AES Capacity Demonstration

The following questions and answers were prepared by the Michigan Public Service Commission Staff (Staff) based on its interpretation of Section 6w of Public Act 341 of 2016 and the Commission's orders on the topic. These answers represent Staff's opinion only and should not be considered Commission policy. Answers are subject to revision based on future Commission orders and any new state and/or federal legislation.

1. What is the State Reliability Mechanism?

The State Reliability Mechanism (SRM) was created under a new state energy law, [Section 6w](#) of Public Act 341 of 2016 (PA 341), to ensure reliable electric service in Michigan. The Legislature and Governor Snyder were concerned that as older electric generation plants retire there may not be adequate electricity supplies in future years. The SRM establishes a process to ensure adequate supplies will be available to protect electric reliability in Michigan.

2. How does the SRM work?

The SRM requires all electric providers to annually demonstrate to the Michigan Public Service Commission (Commission) that they own or have contractual rights to sufficient capacity resources to serve their retail electric load in Michigan in the planning period four years in the future. If an electric provider is unable to show the Commission that the provider has sufficient capacity resources to serve customers in the future planning period, the law establishes remedies, including a capacity charge to allow the local utility to recover the costs of providing capacity service to certain customers.

3. What is a Capacity Demonstration?

Section 6w of Public Act 341 of 2016 became effective April 20, 2017 and requires all electric providers, including alternative electric suppliers (AES), to annually demonstrate to the Commission that they own or have contracted resources sufficient to serve the needs of their customers four years forward.

4. What happens if an AES does not have sufficient capacity resources to serve its customers?

If an AES does not have sufficient resources, the law requires that the local utility is responsible for providing default capacity service to the AES's customers. When this happens, the customers of that AES pay the utility the same SRM capacity charge as full service customers.

5. What is the SRM capacity charge?

The SRM capacity charge is a retail rate designed to recover the local electric utility's cost of providing capacity service.

6. What does that mean to me, a customer of an AES?

If your AES cannot demonstrate to the Commission that they own or have contractual rights to sufficient capacity resources to serve their customer load, your local utility may bill your pro-rata share of the SRM capacity charge to cover the local utility's provision of capacity on your behalf.

7. How will my AES demonstrate that it has sufficient capacity resources?

Your AES must submit its capacity demonstration filing in the electronic docket in Case No. U-18441 by February 9, 2018. This initial filing will cover four planning years from June 1, 2018 through May 31, 2022. Following the initial demonstration, each AES will annually be required to submit a demonstration for the planning year four years forward.

Capacity Demonstrations for:

- June 1, 2022 through May 31, 2023 planning year will be due in 2019
- June 1, 2023 through May 31, 2024 planning year will be due in 2020
- And so on...

8. How will it be determined whether or not the AES has sufficient capacity?

Once all AESs have filed individual capacity demonstrations, Staff will review the filings and issue recommendations to the Commission for all filings in the docket; the Commission will decide if the initial demonstration of each AES is sufficient.

9. If my AES cannot demonstrate sufficient capacity, can I switch to an AES who can?

If you are already participating in your local utility's electric choice program, you are free to switch to a different AES. Please be aware of your contractual rights and obligations, which may contain terms that govern the contractual consequences of leaving your existing AES during the contract term once a demonstration has been made.

10. If I switch to an AES who can demonstrate sufficient capacity for me, will I still have to pay the SRM capacity charge?

If you switch to an AES who demonstrates sufficient capacity on your behalf by February 9, 2018, as long as that AES can also demonstrate sufficient capacity on behalf of all of its other customers, and the Commission finds the AES' demonstration to be sufficient, you would not be billed an SRM capacity charge by the local utility. Please be aware of your contractual rights and obligations, which may contain terms that govern the contractual consequences of leaving your AES during the contract term once a demonstration has been made.

11. If I become subject to the SRM capacity charge, how long will I have to pay it?

The SRM capacity charge is dependent on your AES' capacity demonstration filing each year. You will only be billed the charge in the years in which your AES has failed to secure sufficient capacity for its load, unless the initial demonstration for the first four years is insufficient. If your AES fails the initial

demonstration that includes the first four planning years, it is possible that you may be billed an SRM capacity charge for all four of those planning years.

12. What should I be doing to make sure my AES has secured sufficient capacity so I am not subject to the SRM capacity charge?

Be sure to communicate with your AES regarding your capacity requirements. Extending your existing contracts to a period of at least four years should help your AES secure sufficient capacity four years in advance to meet the demonstration to the Commission, which is necessary to avoid SRM capacity charges. Be aware, however, that even if your AES secures sufficient capacity to cover your load, you may still be billed an SRM capacity charge if your AES does not secure sufficient capacity to cover all of its customer load.

13. As a customer of an AES, will I be responsible for communicating with my local utility regarding my specific capacity obligations?

No, the local utility will have all the information they need as a result of the capacity demonstration case each year, and will make adjustments, if necessary, based upon orders from the Commission. However, you may still need to notify your local utility if you intend to return to utility tariff service.

14. What if an AES customer switches from Supplier A to Supplier B before the February 9, 2018 filing date for the 2018-2021 planning year?

Both Supplier A and Supplier B should inform the incumbent utility, the Midcontinent Independent System Operator (MISO) and the Commission of the resulting changes to its 2018 peak load contribution (PLC). If the PLC adjustments are accepted by the incumbent utility and MISO prior to the capacity demonstrations on February 9, 2018 and the AESs otherwise meet the capacity demonstration requirements, Staff will recommend the Commission approve the demonstrations.

15. What if an AES customer switches from Supplier A to Supplier B between February 9, 2018 and June 1, 2018 for the 2018 planning year?

If an AES customer switches suppliers after February 9, 2018, the customer may be at risk of being billed the SRM capacity charge if Supplier A did not meet its capacity demonstration obligations.

16. If an AES customer has a planned switch from Supplier A to Supplier B after February 9, 2018, which Supplier is responsible for that customer's capacity demonstration?

For example, a customer's contract expires in 2020, and the customer has contracted with the new supplier prior to February 9, 2018. The customer's AES as of February 9, 2018 – Supplier A – is responsible to demonstrate capacity for the customer for the entire initial four-year period. If Supplier B is willing to voluntarily demonstrate in 2018 on behalf of the customer for June 2020 through the end of the planning period, the customer would need to work with both Supplier A and Supplier B to ensure that both suppliers submit sufficient capacity demonstrations that include that customer's load for the appropriate planning years. Supplier A would acknowledge that it is losing X amount of MWs in 2020 and therefore is not including this amount of load in its demonstration and Supplier B would acknowledge that it is gaining X amount of MWs in 2020 and therefore is including this amount of load voluntarily in

its demonstration for June 2020 through the end of the planning period, in addition to its current PLC. Supplier B will need to provide an affidavit to Supplier A for Supplier A to include in its demonstration. The affidavit should state how many MWs of Supplier A's load Supplier B will be assuming responsibility for, as of what date, and that Supplier B will be demonstrating for that load in its current demonstration.

17. What if an AES customer has a contract with Supplier A through June 2020 but the customer has not yet contracted with a new supplier?

The customer's AES as of February 9, 2018 is responsible to demonstrate capacity for the customer for the entire four-year period. If the AES customer does not renew its contract with Supplier A after June 2020 and has not indicated which supplier it will be switching to, Supplier A is still responsible for securing sufficient capacity for the customer for the entire initial four-year period.

18. What if an AES customer has a contract with Supplier A through June 2020 but the customer has not yet contracted with a new supplier? Suppose Supplier A does not demonstrate sufficient capacity in February 2018, and after the contract with Supplier A expires in 2020 the customer contracts with Supplier B who had met its demonstration in February 2018. Does the SRM capacity charge move with the customer to Supplier B or does it stay with Supplier A to be distributed pro-rata between Supplier A's remaining customers?

The SRM capacity charge remains with Supplier A and continues to be billed pro-rata by the utility to Supplier A's remaining customers. The customer who takes service from Supplier B will no longer be billed by the local utility for Supplier A's deficiency beginning in 2020. Please be aware of your contractual rights and obligations, which may contain terms that govern the contractual consequences of leaving your AES during the contract term once a demonstration has been made.

19. What if a supplier challenges the 2018 PLC data the local utility provides to MISO on December 15, 2017?

Differences in PLC data should be settled between the AESs and the utilities by January 15, 2018. In the event that the differences are not settled by January 15, 2018, when the AES makes its demonstration on or before February 9, 2018, the AES should include in its accompanying narrative information regarding the substance of the challenge it has made to the utility's PLC data.

December 15, 2017