

Forward Locational Requirement

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 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, by requiring electric providers to annually demonstrate they have adequate supplies to serve customers four years into the future.

2. What are previous actions the Michigan Public Service Commission (MPSC) has taken to implement the SRM?

In September 2017, the MPSC issued an order in Case No. U-18197 **establishing the capacity demonstration process, consistent with PA 341**. In November 2017, the MPSC issued orders in several cases establishing SRM capacity charges for electric providers with electric choice customers in their service territories. Issue Briefs related to the [capacity demonstration process](#) and to [SRM capacity charges](#) can be found on the MPSC's [website](#).

3. How did the MPSC treat the “forward locational requirement”?

In Case No. U-18197, the MPSC determined that it had the authority under PA 341 to establish a forward locational requirement, requiring that electric providers demonstrate that a portion of the electric supplies they procure to serve customers in the future are located in Michigan, but declined to set a forward locational requirement at that time. Instead, the MPSC opened Case No. U-18444 in October 2017 as **a contested case to establish the methodology used to determine the forward locational requirement**. On June 28, 2018, the MPSC issued an order in Case No. U-18444 adopting a methodology to determine the forward locational requirement.

4. What is the incremental need methodology adopted by the MPSC in this order?

The incremental need methodology determines a future incremental capacity need and then allocates that incremental need to an electric provider as a forward locational requirement.

There are five steps in this process:

1. Project the local clearing requirement, i.e., the minimum amount of local resources need to meet customers' electric supply needs, for a selected future year.
2. Determine the expected changes in the existing planning resources between a starting date and the selected future year.
3. Determine the incremental need in the selected future year by calculating the difference between the projected local clearing requirement and the projected amount of the existing resources.
4. Allocate the incremental need to an electric provider as a forward locational capacity obligation.
5. Reevaluate the incremental need and forward locational capacity obligations on a regular basis.

5. What are the advantages of this methodology?

The incremental need approach provides a **straightforward, transparent, objective and verifiable method based on readily available information that can be easily repeated in future proceedings**. This procedure both minimizes the costs of potential oversupply of local generation resources that ratepayers must cover while ensuring that sufficient local resources exist to ensure local reliability four years in the future and ensures that all electric providers are contributing to local reliability.

6. Will the MPSC reevaluate this methodology in the future?

Yes. The incremental need will be reevaluated and reassessed in a contested case proceeding every two years. This will also allow for the revised numbers to reflect periodic changes in load levels. Additionally, the MPSC will review the percentage of non-auction purchases in future planning years beginning with 2024.

7. In what areas of the state will forward locational requirements be applicable?

These requirements will apply only in the portion of Michigan's Lower Peninsula that is part of MISO, one of two regional grid operators in which Michigan utilities participate. The MISO portion of the Lower Peninsula is experiencing a significant number of plant closures, and new resources are likely necessary to meet reliability needs going forward. Due to current projections of adequate resources available to serve Michigan's Upper Peninsula, the forward locational requirements will be zero for planning years 2022/23 and beyond, subject to reevaluation in future proceedings. The portion of Michigan's Lower Peninsula that is part of PJM, the other regional grid operator in which Michigan participates, is not impacted by this order because forward locational requirements have not been set for Michigan electric providers in the PJM territory.

8. What is the start date for determination of forward local capacity obligations?

The MPSC has adopted **April 20, 2017**, the effective date of PA 341, as the start date to determine the incremental need.

9. How is planned and new electric generation capacity accounted for in determining the forward locational requirement?

All planned and new resources through planning year 2021/22 that were included in electric provider resource adequacy filings included in Case No. U-18197 will be included in the calculation of the incremental need. New and planned resources included in Case No. U-18197 were already in process when the new law became effective. All new resources proposed after the filings in U-18197 were not far enough along in the planning process to be considered firm when the new law took effect, therefore new resources planned after the U-18197 filings will not be included in the calculation.

10. How are electric generation plant retirements accounted for in determining the forward locational requirement?

In calculating the incremental need, planned retirements will only be removed from the resource total if the generation owner has **filed for retirement of the resource at MISO** (known as an "Attachment Y" filing) **or a public announcement of the planned retirement has been made** by the resource owner.

11. How will new electric generation capacity additions count towards meeting the forward locational requirement in a capacity demonstration?

To count towards meeting the forward locational requirement, **capacity demonstrations must include documentation supporting the zonal location of the resource**, or evidence from MISO supporting the claim that the resource will meet the MISO local clearing requirement for a particular MISO zone. All new planned capacity additions will be allowed to meet capacity requirements as long as they are properly demonstrated by providing the minimum requirements:

1. An affidavit from an officer of the company outlining the detailed plans for the new generation
2. Documentation supporting the expected zonal resource credit (ZRC) qualification from MISO for the new unit(s)
3. Copies of tariffs or customer contracts associated with the resources

12. What are the forward locational requirements established for the MISO portion of the Lower Peninsula in this order?

Based on the MPSC's order adopting the incremental capacity methodology, an electric provider must demonstrate a minimum level of local resources equivalent to **1.5% of its peak demand for planning year 2022/23 and 3.0% of its peak demand for planning year 2023/24**. However, this order also directs MPSC Staff to update the minimum level, by August 1, 2018, to incorporate Consumers Energy's recently announced retirements for Karn Units 1 and 2, consistent with the methodology adopted in the order, which will likely raise the minimum level by a percentage point or two.

13. What are the next steps?

By December 1 of each year, **electric utilities are required to file with the MPSC demonstrations that they have owned or contractual rights to sufficient capacity resources to serve their electric load in Michigan, including planning reserve and forward locational requirements**, four years into the future. **Alternative electric suppliers, cooperative electric utilities, and municipally-owned electric utilities shall do the same** by the 7th business day in February of each year. Case No. U-20154 has been opened for the planning year 2022/23 capacity demonstrations. A separate docket will be opened in 2019 for the planning year 2023/24 capacity demonstrations. With respect to the forward locational requirement, the incremental need will be reevaluated and reassessed in a contested case by the MPSC every two years, with a decision expected in the next case reviewing the forward locational requirement in the spring of 2020.

For more information, visit:

[MPSC Website](#)

[MI's New \(2016\) Resource Adequacy Law
State Reliability Mechanism](#)

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