

# State Reliability Mechanism

## 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.

## 2. How does the SRM work?

The SRM requires all electric providers to annually demonstrate to the Michigan Public Service Commission (MPSC) that they have **owned or 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 MPSC that the provider has enough capacity resources to serve customers in the future planning period, the law establishes remedies, including establishing a **capacity charge** to allow electric providers to recover the costs of providing capacity service to certain customers.

## 3. What is capacity?

Electricity service includes both “energy” and “capacity” components. “Energy” is the amount of electricity produced to serve customers, and is measured in megawatt-hours (MWh). “Capacity” represents the potential to produce energy at a specific time, and is measured in megawatts (MW). Having enough capacity resources available to meet anticipated customer needs (known as “resource adequacy”) helps to **provide assurances that there will be adequate supplies of electricity to avoid power outages and keep electric service reliable**. Capacity resources include electric generation facilities powered by natural gas, nuclear energy, and coal; renewable energy resources like wind and solar; and demand response resources, where customers can reduce energy usage at periods of peak electricity demand.

## 4. How does the capacity demonstration process work?

Under the SRM, all electric providers in Michigan, including investor-owned utilities, municipal utilities, cooperative utilities, and alternative electric suppliers, are required to demonstrate annually to the MPSC that the provider has **adequate electric capacity to serve customers** four years in the future. More information can be found [here](#).

## 5. What is an alternative electric supplier?

**Michigan law allows for customers of a local incumbent electric utility to choose to switch to an alternative electric supplier (AES) for the supply of electricity.** Electric choice customers purchase their supply of electricity from an AES, but pay the local electric utility for the delivery of electricity over the utility’s system. No more than 10% of a local electric utility’s customer base may take service from an AES. Customers are placed in a queue when each utility’s 10% cap is fully subscribed. There are five electric utility service territories in Michigan with electric choice today, including Consumers Energy, DTE Electric, Upper Peninsula Power Co., Upper Michigan Energy Resources Corp., and Cloverland Electric Cooperative. Most electric providers arrange for both energy and capacity service over the long term, but some AESs, in order to obtain capacity, choose to rely on a one-year forward annual auction run by the regional grid operator, MISO, where capacity resources are priced and allocated to customer load.

## 6. What happens if an electric provider does not have enough capacity resources to serve its customers?

If an investor-owned utility like DTE Electric or Consumers Energy does not have enough capacity resources to serve customers in the future planning period, then the MPSC is allowed to assess appropriate and reasonable fines, penalties, and customer refunds. AESs, cooperative electric utilities, and municipal electric utilities are not regulated by the MPSC the same way investor-owned utilities are. If a cooperative or municipal electric utility does not have enough resources, the law provides for the Attorney General to take enforcement action. **If an AES does not have enough 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 same capacity charge as full service customers to the utility for providing capacity service.

## 7. 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.**

## 8. How is the SRM capacity charge determined?

Under the law, the SRM capacity charge is required to be set by the MPSC through a **contested case process**, in which AESs, customers, and any other interested persons have the ability to participate. The initial SRM capacity charge is required to be established by December 1, 2017, and annually updated by December 1 each year thereafter. In order to ensure that noncapacity electric generation services are not included in the capacity charge, **the law sets out a methodology to determine the charge**, which takes capacity-related generation costs in the incumbent utility's current rates, and subtracts noncapacity-related generation costs, including projected revenues (net of projected fuel costs) from sales of energy into energy markets or through bilateral contracts.

## 9. What did the MPSC decide?

The MPSC's November 21, 2017 order in Case No. [U-18239](#) requires **Consumers Energy** to implement an SRM capacity charge amounting to \$109,714/MW-year (**\$300.59/MW-day**) beginning June 1, 2018 for full-service customers. The MPSC's November 21, 2017 order in Case No. [U-18248](#) requires **DTE Electric** to implement an SRM capacity charge of \$97,527/MW-year (**\$267.20/MW-day**) beginning June 1, 2018 for full-service customers. If an AES operating in Consumers Energy's or DTE Electric's service territory is unable to demonstrate all or a portion of its forward capacity obligations, then its customers will be required to pay the SRM capacity charge to the company, beginning no earlier than June 1, 2018. The orders also require each company to file, by April 1, 2018, a standalone contested case for the annual review of the SRM capacity charge, if the company does not expect there will be another rate case or PSCR proceeding in which the capacity charge could be considered that is expected to conclude by December 1, 2018.

## 10. Who pays the SRM capacity charge?

The SRM capacity charge is a retail rate set by the MPSC. For **full-service customers of the electric utility**, existing power supply charges will be split into "capacity" and "non-capacity" charges. There will be no difference in the overall amount these customers pay for electricity, but the SRM capacity charge will be included in rates beginning June 1, 2018. For electric choice load, **customers of an AES that is unable to demonstrate it has adequate resources** to serve customers in the future planning period will be required to pay the SRM capacity charge no earlier than June 1, 2018.

## 11. How is the SRM capacity charge assessed on electric choice load?

**Electric choice customers required to pay the SRM capacity charge will pay the same rate that full service customers of the local electric utility pay for capacity.** This is similar to the distribution rates that are paid by both AES and full service customers to electric utilities, which provide the same distribution service to all customers. AES customers that pay the SRM capacity charge still pay an unregulated price to their alternative electric supplier for the energy supply portion of the bill.

Some AESs and AES customers argued that the AES (not the customer) should pay the SRM capacity charge; the MPSC rejected this argument since the MPSC sets retail rates for customers, not prices for wholesale transactions between providers. Some electric utilities proposed that, in situations where an AES can demonstrate it has capacity procured to cover some, but not all, of its load, the AES should identify individual customers that would be assessed the SRM capacity charge (while other AES customers would not); the MPSC did not agree with this proposal and instead required that charges be levied on all of an AES's customers on a pro rata basis.

### 12. How often is the SRM capacity charge reviewed and updated?

The capacity charge is required to be reviewed and updated **annually** in a contested case proceeding, whether through a rate case, power supply cost recovery (PSCR) case, or separate proceeding for that purpose, by December 1 each year. The law also requires a true-up each year of projected versus actual costs of the capacity charge. This true-up will occur in each utility's annual PSCR reconciliation filing.

### 13. How long is the SRM capacity charge effective?

The MPSC provided that if an SRM capacity charge is levied on electric choice customers at the conclusion of a show cause proceeding **for planning years 2018 through 2021 it shall be for the first four consecutive planning years**, and **any charge levied thereafter** at the conclusion of a show cause proceeding shall be levied and applicable for **a single year**.

### 14. How does the SRM capacity charge impact electric choice customers?

For customers whose AES has not secured adequate capacity, it is possible that an SRM capacity charge will be assessed. Even if a customer's supplier acquires capacity resources, **AES customers are likely to pay more for capacity than they have in the past**, since these resources will be acquired four years in advance. This is required under the new energy law, and promotes reliable electric service for all customers.

Some electric utilities proposed that electric choice customers paying an SRM capacity charge but continuing to purchase energy from an AES should count against the utility's electric choice cap, that capacity service supplied to electric choice customers under the SRM should be interruptible, or that return to service requirements for choice customers paying a capacity charge should be more stringent than under current rules. The MPSC rejected these proposals as being unnecessary to achieving the reliability goals of PA 341.

### 15. How do the SRM capacity charges compare with other capacity prices?

	DTE Electric	Consumers Energy
<b>MISO Planning Resource Auction</b>	\$1.50/MW-day	
<b>MISO Cost of New Entry</b>	\$260/MW-day	
<b>PURPA Avoided Cost of Capacity</b>	TBD	\$320.55/MW-day
<b>SRM Capacity Charge</b>	\$267.20/MW-day	\$300.59/MW-day
<b>Company-proposed SRM Charge</b>	\$381.82/MW-day	\$514.67/MW-day

### 16. What other SRM-related dockets are there at the Commission?

Dockets exist for three other Michigan utilities related to SRM, with final orders to be issued by December 1, 2017:

- Case No. [U-18253](#): Upper Michigan Energy Resources Corp. (UMERC)
- Case No. [U-18254](#): Upper Peninsula Power Company (UPPCO)
- Case No. [U-18258](#): Cloverland Electric Cooperative

## 17. What are the next steps?

**The MPSC will provide notice to the public of the SRM capacity charge as determined for each service territory.** Capacity charges set in the November 21, 2017 orders for Consumers Energy and DTE Electric (and those that will be set for UMERG, UPPCO, and Cloverland) set the “price to beat” for AESs, who will have to decide whether to procure capacity resources for less, or have their customers pay a SRM capacity charge to the utility. Investor-owned electric utilities are required to make their capacity demonstrations to the MPSC by December 1, 2017. All other providers, including AESs, cooperative electric utilities, and municipal electric utilities, are required to make their capacity demonstrations by February 9, 2018. If an AES is unable to demonstrate it has adequate capacity to serve its customers, the MPSC may initiate a show cause proceeding. If, by the end of that proceeding, the AES has not demonstrated adequate capacity to serve its customers, a capacity charge will be assessed on its customers consistent with Section 6w of PA 341 and the MPSC’s orders in cases establishing SRM capacity charges.

For more information, visit:

[www.michigan.gov/energylegislation](http://www.michigan.gov/energylegislation)

MPSC Case No. [U-18197](#): Capacity Demonstration Process Establishment

MPSC Case No. [U-18441](#): Capacity Demonstration Docket for 2018-2021 Planning Period

MPSC Case No. [U-18444](#): Docket to Establish Methodology for Locational Requirement

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