

CAPACITY DEMONSTRATION PROCESS AND REQUIREMENTS

The Michigan Public Service Commission (MPSC or Commission) will open a new docket annually for capacity demonstrations filings. The Commission order opening the capacity demonstration docket will provide updated requirements for load serving entities (LSE) to follow in making demonstrations. The capacity demonstration filings shall include four years of load obligations and capacity resources. 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. For the demonstration year, each LSE's capacity obligation will be equal to its most recent capacity obligation as specified by the applicable Independent System Operator (ISO).

For LSEs in the Midwest Independent System Operator (MISO), the capacity obligation will be based on the MISO seasonal resource adequacy construct. LSEs will be obligated to demonstrate enough capacity (owned or contracted) to meet the LSE's capacity obligation for each season. The specific capacity obligation for each season will be the LSE's prompt year (upcoming year) Planning Reserve Margin Requirement (PRMR) for each respective season. According to the MISO Tariff, the Peak Load Contribution (PLC) for each retail customer in the Electrical Distribution Company's (EDC) area – including the EDC's own LSE – includes the retail customer's demand at the time of MISO's peak demand for each prior season, transmission losses, planning reserve margin %, and an adjustment factor for the prompt year seasonal EDC forecasts. The PRMR for each LSE for a season consists of the sum of the PLCs for the retail customers assigned to that LSE¹. MISO LSEs will be obligated to demonstrate enough capacity for the demonstration year to meet its prompt year PRMR MISO requirements².

For LSEs in PJM, the capacity obligation will be based on the PJM Reliability Pricing Model (RPM). LSEs in the PJM service territory can meet their Independent System Operator capacity obligations either through participation in PJM's (RPM) Base Residual Auction (BRA) or through PJM's Fixed Resource Requirement (FRR) capacity plan. 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 BRA. The capacity demonstration should include the FRR capacity plan 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.

LSEs shall provide documentation to Staff verifying the applicable capacity obligation from the LSEs ISO.³

¹ The PRMR determination for all LSEs, including the EDC's own LSE, shall be made according to the MISO tariff. See MISO tariff Module E-1, Section 69A.1.1.e and Section 69A.1.2.1.b.

² LSEs that develop their load forecasts based on forward year values may use these values instead of prompt year values for capacity demonstration requirements if they are higher than the prompt year requirements. LSEs obligations should not be reduced to an amount less than the prompt year requirements due to declining forecasts for forward years.

³ Documentation could be included in the filing or shared in a meeting (virtual or in person) with Staff, similar to how resource contracts are shared.

Individual Locational Requirement

The individual locational requirement adopted by the MPSC in the June 28, 2018 Order in Case No. U-18444 remains stayed⁴. There is currently no individual locational requirement applicable to capacity demonstration filings.

Resource Demonstrations

As a default, resources shall be accredited as they are in their respective ISO.

For MISO LSEs, resources should be counted at the same seasonal accredited capacity value that they will receive in the prompt year for each season. If prompt year capacity value is not finalized, resources shall be counted at the seasonal accredited capacity level from the most recent information available.

For PJM LSEs, resources shall be based on the credited UCAP capacity value that they are credited within the PJM RPM for the demonstration year.

New resources (in either ISO) shall receive capacity credit they would reasonably receive within the various resource adequacy constructs. LSEs should provide documentation supporting the capacity accreditation of new resources.

Resource accreditation may vary from ISO accreditation if the LSE is able to provide reasonable support that the resource will be valued at a different capacity amount when the demonstration year becomes the delivery year. These variations will be evaluated by Staff on a case-by-case basis.

The minimum acceptable support for all resources submitted as part of a capacity demonstration is based upon the type of resource and is outlined below:

Existing Generation (Owned)

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 demonstration year.,
- 2) A copy of the existing resource qualification of the unit(s) from the applicable ISO, such as a MISO Module E Capacity Tracking Tool (MECT) screenshot in the MISO region, and;
- 3) If there are Michigan retail tariffs or customer contracts associated with the resources, copies shall be provided.

Existing Demand Response or Energy Efficiency Resources (that have not been netted against load)

⁴ Stayed by the September 13, 2018 Order in Case No. U-18444.

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 resource qualification of the resource(s) from the applicable ISO, such as a MISO MECT screenshot, and;
- 3) If there are Michigan retail tariffs or customer contracts associated with the resources, copies shall 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 plans for the new generation including resources outlined in the utilities' most recent IRP,⁵ milestones such as planned in-service date, expected regulatory approval date(s), planned date to enter the generator interconnection queue, expected date for generator interconnection agreement, construction timeline, etc.,
- 2) Documentation supporting the expected resource qualification from the ISO for the new unit(s), and;
- 3) If there are Michigan retail tariffs or customer contracts associated with the resources, copies shall be provided.

For new generation submitted as part of a capacity demonstration, the LSE shall update and submit the above information 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 Michigan retail tariffs or customer contracts associated with the resources, copies shall be provided.

⁵ If including resources included in the utility's most recent approved IRP, the utility shall also file a status update in the next capacity demonstration docket.

For new demand response or energy efficiency resources submitted as part of a capacity demonstration, the LSE shall update and submit the above information 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.

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 shall 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 resource qualification of the unit(s) or pool from the applicable ISO, such as a MISO MECT screenshot.

Forward ZRC contracts

For MISO LSEs that use ZRC contracts to meet capacity obligations. The minimum acceptable support for forward ZRC contracts includes an affidavit from an officer of the company including a copy of the contract that specifies the zonal location of the ZRCs. The affidavit shall 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 (such as a MECT Module E screenshot) or provide Staff with the ability to confidentially review ZRC transfers in person at the Commission office.

If the Commission were to implement an individual locational requirement, ZRC contracts submitted in an LSE capacity demonstration to meet this forward locational requirement must clearly designate that the resources are coming from the applicable zone. LSEs must provide evidence to support this. For resources currently located outside of the LSE's zone that will (by the demonstration year) count towards meeting the Local Clearing Requirement of the LSE's zone should be supported by evidence provided by the demonstration LSE. Existing contracts specifically with resources outside of an LSE's MISO 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 the ISO showing resource accreditation in the prompt-year for the resource(s), such as a MISO MECT screenshot, and;
- 3) If there are Michigan retail tariffs or customer contracts associated with the resource(s), copies shall be provided.

MISO PRA Purchases

The amount of ZRCs planned to be purchased through the MISO Planning Resource Auction (PRA) process⁶ that will be deemed prudent in an approved capacity demonstration will be limited to 5% of the LSE's total requirement. 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 5% 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.

Interim Years⁷

Once the Commission has determined that the capacity demonstration made by an LSE is 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 outage at one of its generation assets, or has variation in its total load obligations, these matters will be settled in the capacity auctions of the respective ISO. 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, was insufficient.

In the case where a demonstration filing is deemed insufficient by Staff, 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 Statewide Reliability Mechanism capacity charges to Retail Open Access customer load as well as a respective increase in capacity obligations assigned to the

⁶ Since 2012, LSEs do not literally purchase ZRCs in the PRA. The current terminology in the MISO tariff of "purchase through the PRA process" means that MISO is charging an LSE more for capacity to satisfy the LSE's PRMR than it is paying the LSE for ZRCs submitted into the PRA.

⁷ Year 1 (prompt year), Year 2, and Year 3 of the demonstration.

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.

Filing Timeline

Section 6w of Public Act 341 of 2016 gives specific filing dates for LSEs to make capacity demonstrations but gives the Commission the authority to adjust the dates if needed to properly align with the ISO procedures and requirements. The timeline below better aligns with the MISO PRA, allowing capacity obligations and resource accreditation to better match the values used by MISO in the prompt year.

For Demonstration Year 2027/2028	
Docket Opened by Commission	Summer/Fall 2023
Larger Investor-Owned Electric Utilities ⁸ Filing Due	February 15 th , 2024
Smaller Investor-Owned Electric Utilities ⁹ Filing Due	March 1, 2024
All Other LSEs Filing Due	March 15 th , 2024
Staff Report on Capacity Demonstration Findings	May 10 th , 2024
Commission Order	Summer/Fall 2024

The specific filing dates will be established by the Commission in each subsequent capacity demonstration docket and will generally align with the filing timeline above. LSEs will be allowed to supplement filings after the filing date and prior to Staff's report, if changes at the ISO level, for capacity obligation or resource accreditation, necessitate updated filings¹⁰.

Demonstration Format

In addition to all of the items outlined above, Staff shall provide updated capacity demonstration documents (Reporting Templates and Sample Affidavits)¹¹ to be utilized by each LSE when filing its demonstration.

⁸ A large investor-owned utility is considered to be an electric utility with one million or more customers.

⁹ A smaller investor-owned utility is considered to be an electric utility with less than one million customers.

¹⁰ In this event, LSEs should notify Staff as soon as practicable that a supplemental filing is imminent and make the filing with sufficient time to allow Staff to review and incorporate those changes into the report.

¹¹ Documents will be posted to the MPSC Capacity Demonstration webpage (<https://www.michigan.gov/mpsc/commission/workgroups/2016-energy-legislation/capacity-demonstration>).