

JSS FERC UPDATE

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MISO's Capacity Market Proposal

- MISO recently made a major filing changing the Resource Adequacy (RA) program and adding an annual capacity market auction. JSS filed comments on behalf of MPPA and MSCPA.
- MISO requested an effective date of October 1, 2012, with the changes going into effect for the 2013/2014 planning year.
- The MISO proposal was discussed and debated at length. The filed proposal is much less troublesome than MISO's initial filing.
- MISO's proposal calls for a one year forward capacity market. However, MISO have indicated it will work on a longer-term version (three to five year forward market) once the current filing is approved.

Highlights from the MISO filing

- Every load serving entity and capacity resource owner in MISO will be affected.
- MISO's proposal can affect the development of new combustion turbines and combined cycle units by setting a floor price for them. Other types of resource aren't subject to the floor. More on this later.
- MISO's proposal requires each utility to own or purchase capacity credits for the next planning year.
- The MISO proposal includes an annual Planning Resource Auction (PRA) where any utility that doesn't have enough capacity resources to meet its forecast peak and reserve requirements must buy capacity credits to cover its requirements.
- All capacity resource owners are required to either use active resources to meet their RA requirements or offer the resources' capacity into MISO's auction.

Highlights from the MISO filing

- MISO's proposal also calls for Local Resource Zones or "LRZs"
 - MISO has proposed making lower Michigan one LRZ, with the Upper Peninsula being combined with eastern Wisconsin as another LRZ. MISO is proposing a total of seven LRZ's at this point.
 - Similar to the MISO energy and ancillary services market, there is a single capacity price in each LRZ:
 - Everyone who buys capacity credits in an LRZ pays the same price for those credits.
 - Any resource owner who has an accepted capacity offer gets paid the same amount per kW as all other capacity suppliers in the LRZ
 - A utility that receives capacity from a generator in a different LRZ may be assessed an additional delivery charge for the remote resource's capacity. This creates an incentive to use capacity resources close to your load.

Highlights from the MISO filing



- Each utility is required to submit annual load forecasts, but the forecasts are not the same as now required
 - Load forecast data must be submitted to MISO each year.
 - Forecasts must be projected load at the time of the MISO system peak, not the utility's peak.
 - The forecast is a "50/50" forecast of the most likely load under normal peak weather conditions.
 - Each utility includes distribution losses in its forecast, but not transmission losses.

Highlights from the MISO filing

- MISO will calculate the percentage planning reserve margin for each LRZ
 - The reserve margin for each zone will be calculated based on the forecast peak load in the zone and MISO's reliability criterion of an average of one day of lost load due to insufficient resources in a 10 year period.
 - MISO's zonal reserve margins will also be adjusted up to cover transmission losses to the load in the zone.
- Each load serving entity in the zone must own or purchase enough capacity credits to cover the entity's forecast load and reserves requirement
 - There is no after-the-fact adjustment to a utility's RA requirements based on actual load in the planning year. All charges are based on the forecast.

Highlights from the MISO filing



- MISO will hold a “sealed bid” “auction” to determine the capacity price in each zone
 - MISO will start by accepting the lowest priced offer, then the next lowest priced, and so on until the accepted bids meet the forecast load and reserve requirements.
 - MISO will use zonal transmission import and export limits in accepting bids to recognize deliverability constraints.
 - Loads have no input in the process. Resource owners set the price with their bids, and MISO determines the amount everyone has to buy through the planning reserve margin percentage.

Highlights from the MISO filing



- Load serving entities have three options to meet their RA requirements:
 - File a Forward Resource Adequacy Plan (FRAP)
 - Self Schedule units that are bid into the PRA
 - Purchase capacity credits from the PRA

Highlights from the MISO filing

- File a Forward Resource Adequacy Plan (FRAP):
 - A FRAP can cover all or only part of a utility's load.
 - All load covered under a FRAP is carved out of the PRA and not affected by the PRA.
 - The FRAP will list generating units or supply contracts held by the load serving entity.
 - The resources must be listed from the oldest to the newest in the FRAP.
 - The total capacity listed in a FRAP is limited to the total forecast and reserve requirements of the utility filing the FRAP.
 - If the last resource listed in the FRAP has more capacity than needed to meet the utility's forecast load and reserve requirements, the utility can only claim part of the last unit for the FRAP. The remaining capacity in the unit must be offered into the PRA.

Highlights from the MISO filing



- Self schedule units that are bid into the PRA
 - Self scheduled units are still included in the PRA.
 - Self scheduled units can be bid into the PRA at any price, including zero.
 - The total capacity offered in Self scheduled units can't exceed the resource owner's forecast load and reserve requirements.
 - MISO will net the revenue paid for the self scheduled resources against the cost of capacity credits to meet the resource owners load and reserve requirements. If a resource owner Self schedules enough resources to meet all of its capacity and reserve requirements, the resource owners will be financially whole (no PRA charges) even though it is technically in the PRA.

Highlights from the MISO filing



- Purchase capacity credits from the PRA
 - The LSE must purchase capacity credits from the PRA for any load and reserve requirements not supplied under a FRAP or a Self schedule.

Highlights from the MISO filing

- The MISO proposal includes offer price floor provisions to avoid “buyer side price manipulation”
 - MISO’s Independent Market Monitor (IMM) will review bids to look for signs of price manipulation.
 - The concern is that integrated utilities will offer in capacity at low prices to reduce the price they pay to meet their load’s RA requirements.
 - The IMM will review all proposals to build new combined cycle (CC) or combustion turbine (CT) units.
 - If the IMM determines a proposed CT or CC is surplus for a zone any unlikely to earn enough revenue to be viable, the IMM can file at FERC to require the owner of the new CT or CC to set a high offer price.
 - The IMM review will not apply to units included in a FRAP or a Self schedule.

MISO Multi-value Project (MVP) update

- This is MISO's plan to build major transmission upgrades to move wind power from remote locations to load centers.
- ITC's Thumb Project is one of the MVP projects.
- FERC approved MISO's MVP proposal, including the provision that the cost of the MVPs will be spread over all the load in the MISO footprint on a \$/MWh basis.
- A large number of entities have protested and asked for FERC to rehear (reconsider) parts or all of its ruling on MISO's MVP proposal. This includes the Northeast MISO Coalition, that includes both MMEA and MPPA in its membership. Several members of the US Congress have also filed letters with FERC voicing concern about the ruling.
- There is no way to know when FERC will address the requests for rehearing for the MVP program.

Other MVP-related actions at FERC

- FirstEnergy left MISO to join PJM. FirstEnergy, along with its transmission subsidiary, ATSI, filed several motions claiming FirstEnergy and its customers should not be required to pay any MVP costs.
 - FirstEnergy made a filing that specifically asks FERC to rule FirstEnergy and its customers don't have to pay any costs related to the Thumb Project
 - ITC estimated that FirstEnergy would pay about 15% of the cost of the Thumb Project
 - If EnergyFirst does not pay that portion, loads in MISO must absorb it
 - This matter is pending before FERC
 - There is no way to predict when FERC will rule on any of the EnergyFirst or ATSI motions

Other MVP-related actions at FERC

- MISO is working to have the Entergy Companies join MISO
 - As part of that effort, MISO filed to exempt the Entergy companies from paying MVP charges during a multi-year transition period
 - The Northeast MISO Coalition filed to request that a part of MISO's testimony for Entergy be added to the record in the MVP proceeding
 - That portion of the MISO testimony discusses why Entergy should be exempted from MVP charged because it would not see any benefits from the MVPs for some time
 - Some of the comments filed in response to MISO's proposal attack the MVP concepts as well as commenting on the proposal regarding Entergy

Holland BPW Appeal of NERC Registration

- Holland BPW has been involved in a dispute with *ReliabilityFirst* over whether Holland BPW should or should not be included on the NERC Compliance Registry as a Transmission Owner and Transmission Operator.
- The dispute started after a compliance audit of MPPA and Holland BPW in 2009.
- *ReliabilityFirst* registered Holland BPW as a TO and TOp over Holland BPW's objection.
- Holland BPW appealed its registration to NERC on several grounds, primarily that Holland is exempt because it is involved in local distribution and because Holland BPW doesn't have a material impact on the Bulk Electric System.
- NERC upheld *ReliabilityFirst* and let Holland's registration stand.
- Holland BPW has now appealed NERC's decision and Holland BPW's registration to FERC.

FERC Order No. 1000: Transmission Planning and Cost Allocation



- Four Mandates within Order No. 1000
 - Planning Requirements
 - Nonincumbent Developer Requirements
 - Interregional Coordination
 - Cost Allocation Requirements

FERC Order No. 1000: Transmission Planning and Cost Allocation



- Planning Requirements:
 - Region must be well-defined
 - It will list which entities are in and which are out
 - Each Region must produce a regional plan
 - Planning process must satisfy principles established in FERC Order No. 890
 - Plan will identify and evaluate transmission needs driven by state and federal laws and regulations
 - May be a separate class of facilities, but not required

FERC Order No. 1000: Transmission Planning and Cost Allocation

- Nonincumbent Transmission Developer Requirements
 - Elimination of Federal Right of First Refusal from Commission-Jurisdictional Tariffs and Agreements
 - Does not apply to transmission facilities that are not selected in a regional transmission plan for purposes of cost allocation
 - Does not apply to upgrades to transmission facilities
 - Allows, but does not mandate, the use of competitive bidding to solicit transmission projects or project developers
 - Has no effect on state or local laws or regulations regarding the construction of transmission facilities, including siting or permitting transmission facilities

FERC Order No. 1000: Transmission Planning and Cost Allocation



- Interregional Coordination
 - Each pair of neighboring planning regions must:
 - Share information regarding respective needs of each region and potential solutions to those needs
 - Identify and jointly evaluate interregional transmission facilities that may be more efficient or cost-effective solutions to those regional needs
 - Order No. 1000 requires development and implementation of information sharing procedures as well as an exchange of planning information between neighboring transmission regions

FERC Order No. 1000: Transmission Planning and Cost Allocation

- Cost Allocation Requirements
 - Develop a regional cost allocation and an interregional cost allocation
 - Develop a common method or set of methods for allocating costs of regional transmission facilities
 - Cost allocation must satisfy principles in Order No. 890
 - Each region may develop separate methods for different types of projects
 - Only facilities selected in a regional plan to be eligible for interregional cost allocation
 - Different interregional facilities may have different methodologies
 - If a region cannot agree on a cost allocation method, FERC will decide based on the record
 - Participant funding is permitted, but it cannot be the regional cost allocation method

FERC Order No. 1000: Transmission Planning and Cost Allocation



- FERC issued Final Rule on July 21, 2011
 - Currently on Rehearing before FERC
- Compliance with Regional Transmission Planning Requirements begins on October 11, 2012
- Compliance with Interregional Planning Requirements begins on April 11, 2013