

142 FERC ¶ 61,170
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Philip D. Moeller, John R. Norris,
Cheryl A. LaFleur, and Tony Clark.

Midwest Independent Transmission
System Operator, Inc.

Docket Nos. ER13-37-000
ER13-37-001
ER13-38-000

ORDER CONDITIONALLY ACCEPTING TARIFF FILINGS

(Issued March 4, 2013)

1. On October 5, 2012, pursuant to section 205 of the Federal Power Act (FPA),¹ Midwest Independent Transmission System Operator, Inc. (MISO) submitted a proposed System Support Resource (SSR)² Agreement between the City of Escanaba, Michigan (Escanaba) and MISO designated as Original Service Agreement No. 6500 (SSR Agreement) under its Open Access Transmission, Energy and Operating Reserve Markets Tariff (Tariff). Also on October 5, 2012, as revised on October 25, 2012, pursuant to section 205 of the FPA, MISO submitted proposed Rate Schedule 43 (Allocation of SSR Costs Associated with the Escanaba SSR Units) under its Tariff. In this order, we conditionally accept the SSR Agreement and Rate Schedule 43, effective June 15, 2012, subject to a further compliance filing.³

¹ 16 U.S.C. § 824d (2006).

² The MISO Tariff defines SSRs as “Generation Resources or Synchronous Condensator Units [(SCU)] that have been identified in Attachment Y – Notification to this Tariff and are required by the Transmission Provider for reliability purposes, to be operated in accordance with the procedures described in Section 38.2.7 of this Tariff.” MISO, FERC Electric Tariff, Fourth Revised Vol. No. 1, First Revised Sheet No. 288, § 1.643.

³ Section 3.A of the proposed SSR Agreement states that the agreement is effective beginning on the effective date (i.e., June 15, 2012) and that the term of the SSR Agreement is for a period of 12 months (i.e., June 14, 2013).

2. As discussed more fully below, we are accepting MISO's proposed SSR Agreement between MISO and Escanaba and associated Rate Schedule 43, effective June 15, 2012, because MISO has (1) shown that the Escanaba generation units are necessary for reliability purposes; and (2) satisfied the requirements of the Tariff in effect at the time it processed Escanaba's Attachment Y application. However, we also note that for the SSR Agreement and Rate Schedule 43 to be extended beyond the one-year term we are accepting here, MISO will have to make a new filing with the Commission and that filing must conform to the Tariff provisions in effect at the time of such a filing, including the use of a stakeholder process as required by the Commission's September 21, 2012 order conditionally accepting MISO's amended SSR tariff provisions.⁴ Also, as discussed below, we direct MISO to begin the stakeholder process to evaluate alternatives to the SSR Agreement so that such alternatives may be fully evaluated by the June 14, 2013 expiration date of the SSR Agreement.

I. Background

3. On August 6, 2004, the Commission conditionally accepted MISO's proposed Tariff revisions regarding the retirement or suspension of generation resources and SCUs, including provisions regarding the designation and treatment of SSRs.⁵ As accepted in the TEMT II Orders, market participants that have decided to retire or suspend a generation resource or SCU must submit a notice (Attachment Y Notice), pursuant to Attachment Y (Notification of Potential Resource/SCU Change of Status) of the MISO Tariff at least 26 weeks prior to the resource's retirement or suspension effective date. During this 26-week notice period, MISO will conduct a study (Attachment Y Study) to determine whether all or a portion of the resource's capacity is necessary to maintain system reliability, such that SSR status is justified. If so, MISO and the market participant shall enter into an SSR agreement, as provided in Attachment Y-1 (Standard Form SSR Agreement) of the MISO Tariff, to ensure that the resource continues to operate, as needed.⁶ Additionally, the Commission required, among other things, that MISO: (1) submit all SSR Agreements for Commission review; (2) provide a description of alternatives that were evaluated; (3) discuss the estimated earliest termination date for

⁴ *Midwest Indep. Transmission System Operator, Inc.*, 140 FERC ¶ 61,237 (2012) (SSR Order).

⁵ *Midwest Indep. Transmission System Operator, Inc.*, 108 FERC ¶ 61,163, at P 368 (TEMT II Order), *reh'g denied*, 109 FERC ¶ 61,157 (2004) (TEMT II Rehearing Order) (together, TEMT II Orders).

⁶ TEMT II Rehearing Order, 109 FERC ¶ 61,157 at P 293.

the SSR Agreement; and (4) explain how MISO would ensure grid reliability once the resource retires.⁷

4. The Commission determined, among other things, that the proposed SSR provisions were “a reasonable backstop measure to assure reliability in the markets to be operated by [MISO]” and that the “SSR program is a prudent measure for protecting reliability.”⁸ With regard to MISO’s negotiated approach to determining SSR costs, the Commission found that because the Tariff contains no rate mechanism, MISO must file under section 205 of the FPA for cost recovery at the time it seeks to charge customers for SSR costs.⁹

5. On July 25, 2012, MISO filed proposed revisions to its SSR tariff provisions stating that while it had not designated an SSR unit to date, MISO anticipated implementing SSR provisions in the near future due to changing system reliability, regulatory, and economic conditions, including Environmental Protection Agency regulations and renewable portfolio standards.¹⁰ As relevant here, MISO proposed to revise: (1) the treatment of resources that submit Attachment Y Notices, including its disclosure practices; (2) the process for reviewing SSR alternatives; (3) cost compensation for SSR units; (4) recovery of SSR costs; and (5) the terms and conditions for SSR agreements.

6. As noted above, on September 21, 2012, the Commission conditionally accepted the amended SSR tariff provisions in the SSR Order. These provisions were made effective September 24, 2012, subject to two compliance filings due within 90 and 180 days of the date of the order. The Commission reiterated that the evaluation of alternatives to an SSR designation is an important step that deserves the full consideration of MISO and its stakeholders to ensure that SSR agreements are used only as a limited, last-resort measure and required, among other things, that MISO document its process for identifying and screening SSR alternatives.¹¹ Additionally, the

⁷ *Id.* PP 288, 559.

⁸ TEMT II Order, 108 FERC ¶ 61,163 at PP 370, 372.

⁹ *Id.* P 372. This version of the Tariff was in effect during MISO’s evaluation of Escanaba’s Attachment Y Notice and negotiation of the instant SSR Agreement and Rate Schedule 43. This version of the Tariff is referred to in this order as the pre-SSR Order Tariff.

¹⁰ MISO July 5, 2012 Transmittal Letter at 2-3 (Docket No. ER12-2302-000).

¹¹ *Id.* P 36.

Commission directed MISO to insert language into its Tariff articulating that an SSR agreement must not exceed a one-year term except in exigent circumstances.¹²

II. MISO's Filings

7. The SSR Agreement represents the first time MISO has used an SSR agreement in order to forestall the proposed retirement or mothballing of generating units in order to prevent a violation of reliability standards. According to MISO, on December 19, 2011, Escanaba submitted its Attachment Y Notice seeking to mothball Escanaba Units 1 and 2 for the period between June 15, 2012 and June 14, 2015.¹³ MISO states that it completed the analysis of the Attachment Y Notice, consistent with the confidentiality requirements of the pre-SSR Order Tariff, and replied to Escanaba on May 25, 2012. MISO determined that the mothballing of these units, prior to the completion of certain transmission upgrades, would result in reliability violations and designated both units as SSRs (SSR Units). MISO explains that the applicable North American Electric Reliability Corporation (NERC) reliability standards that would result in violation due to the unavailability of the SSR Units are NERC Standard TPL-002-0b and NERC TPL-003-0a.¹⁴ Under NERC Standard TPL-002-0b, MISO indicates that the contingency resulting in violation of the standard is the loss of a single transmission circuit.¹⁵ Under NERC Standard TPL-003-0a, MISO indicates that the contingency resulting in violation of the standard is the loss of any two circuits of a multiple circuit tower line.¹⁶

¹² *Id.* P 106. This version of the Tariff was in effect on the execution and filing date of the instant SSR Agreement, as well as the filing date of Rate Schedule 43. This version of the Tariff is referred to in this order as the post-SSR Order Tariff.

¹³ MISO October 5, 2012 Transmittal Letter at 2 (Docket No. ER13-38-000).

¹⁴ NERC Standard TPL-002-0b addresses the system performance following loss of a single bulk electric system element (Category B contingencies) and NERC Standard TPL-003-0a addresses system performance following loss of two or more bulk electric system elements (Category C contingencies). The NERC glossary of terms defines an element as any electrical device with terminals that may be connected to other electrical devices such as a generator, transformer, circuit breaker, bus section, or transmission line. An element may be comprised of one or more components.

¹⁵ MISO October 5, 2012 Filing Exhibit C at 3 (Docket No. ER13-38-000).

¹⁶ *Id.*

8. According to MISO, an already-planned transmission system upgrade¹⁷ would alleviate the reliability concerns, but that upgrade is not expected to be in service until December 2016.¹⁸ MISO states that it then began working with Escanaba and the MISO Independent Market Monitor (Market Monitor) to negotiate and develop the SSR agreement with Escanaba.

9. MISO notes that, while it is not a party to the proposed transaction, Escanaba has sought and received approval from the Commission to transfer the SSR Units to Escanaba Green Energy, LLC (Escanaba Green Energy).¹⁹ MISO also notes its general understanding that upon completion of the transfer of the SSR Units between Escanaba and Escanaba Green Energy, Escanaba Green Energy will undertake a process of converting the SSR Units from coal-fired to biomass-fired generators. Additionally, MISO states that following a successful conversion, the SSR Units will be able to be economically dispatched, thereby eliminating the need for the SSR Agreement. Finally, MISO notes that the instant SSR Agreement will remain in effect for the remainder of the one-year initial term unless Escanaba Green Energy undertakes a conversion schedule that would render the SSR Units unavailable to fulfill their reliability obligations. In which case, MISO states, the SSR Agreement would be terminated at the time the scheduled conversion process starts.

10. On October 5, 2012, in Docket No. ER13-38-000, MISO submitted the SSR Agreement between Escanaba and MISO for the purpose of providing compensation for the continued availability of the SSR Units until such time as the SSR Units are no longer needed for reliability purposes. MISO states that the SSR Agreement generally conforms to the *pro forma* agreement in Attachment Y-1 of MISO's Tariff conditionally accepted by the Commission in the SSR Order (i.e., the post-SSR Order Tariff).²⁰ MISO requests an effective date of June 15, 2012.

¹⁷ MISO October 5, 2012 Transmittal Letter at 3 (Docket No. ER13-38-000). MISO describes the transmission upgrade as the Holmes-18th Road 138 kV line.

¹⁸ *Id.*

¹⁹ *Id.* at 2. See also *Escanaba Green Energy, LLC*, 140 FERC ¶ 62,217 (2012) (*Escanaba Green Energy*) (approving the transfer of the SSR Units, and the SSR Agreement at issue here, to Escanaba Green Energy).

²⁰ MISO October 5, 2012 Transmittal Letter at 1 (Docket No. ER13-38-000).

11. On October 5, 2012, in Docket No. ER13-37-000, as revised on October 25, 2012 in Docket No. ER13-37-001,²¹ MISO submitted Rate Schedule 43 (Allocation of SSR Costs Associated with the Escanaba SSR Units) under its Tariff. As stated in the filing, section 38.2.7.j of MISO's post-SSR Order Tariff requires that the costs associated with the subject SSR Agreement will be allocated to all load-serving entities (LSE) within the footprint of the American Transmission Company LLC (ATC) on a *pro rata* basis. MISO requests an effective date of June 15, 2012 for Rate Schedule 43 to correspond with Escanaba's requested effective date for mothballing the SSR Units.

III. Notice and Responsive Pleadings

12. Notices of MISO's filings in Docket Nos. ER13-37-000 and ER13-38-000 were published in the *Federal Register*, 77 Fed. Reg. 63,305 (2012) with interventions and protests due on or before October 26, 2012. Notice of MISO's filing in Docket No. ER13-37-001 was published in the *Federal Register*, 77 Fed. Reg. 66,458 (2012) with interventions and protests due on or before November 5, 2012.

13. Xcel Energy Services, Inc., Consumers Energy Company (Consumers Energy) and Wisconsin Power and Light (WP&L) filed timely motions to intervene in Docket No. ER13-37-000. The NRG Companies filed a timely motion to intervene in Docket No. ER13-38-000. WP&L and Madison Gas and Electric (MGE) filed a timely joint motion to intervene and comments in Docket No. ER13-38-000. Consumers Energy filed a motion to intervene and comments in Docket No. ER13-38-000.

14. The following entities made filings in both Docket Nos. ER13-37-000 and ER13-38-000. A notice of intervention was filed by the Public Service Commission of Wisconsin (Wisconsin Commission). Timely motions to intervene were filed by American Municipal Power, Inc., Ameren Services Company, Escanaba, the Coalition of Midwest Transmission Customers (CMTC),²² the Detroit Edison Company, the MISO Industrial Group, WPPI Energy, and the Public Interest Organizations.²³ Consumers

²¹ MISO submitted a correction to the Schedule 43 to correct errors that incorrectly identified certain entities as being included among the responsible LSEs for the subject SSR costs.

²² The CMTC is an ad hoc association of large industrial end-users of electricity.

²³ The Public Interest Organizations consist of the Sustainable FERC Project, the Environmental Law and Policy Center, Earthjustice, Great Plains Institute, Natural Resources Defense Council, Sierra Club, Fresh Energy, and Union of Concerned Scientists.

Energy Company (Consumers Energy) filed a motion to intervene with comments. Motions to intervene and protests were filed by Wisconsin Public Service Corporation and Upper Peninsula Power Company (WPS/UPPCO), Wisconsin Electric Power Company (Wisconsin Electric), and the MISO Industrial Group. A motion to intervene out of time was filed by Dairyland Power Cooperative (Dairyland). The Wisconsin Commission also filed a request to submit late-filed comments and comments.

15. On November 13, 2012, MISO and Escanaba filed answers in Docket Nos. ER13-37-000 and ER13-38-000. On November 27, 2012, in the same dockets, the CMTC and the MISO Industrial Group filed an answer in response to the November 13, 2012 MISO answer. On November 29, 2012, WPS/UPPCO filed an answer in Docket No. ER13-37-000 in response to the November 27, 2012 answers.

16. On December 4, 2012, a letter was issued, informing MISO that the October 5, 2012 filings were deficient and requesting additional information.

17. On January 3, 2013, MISO submitted its response to the December 4, 2012 letter. The documents submitted with the filing included a public and non-public version of the Attachment 3 SSR Study Report as Critical Energy Infrastructure Information under the Commission's rules.²⁴ MISO requests that the Commission accept its response and accept the SSR Agreement and Rate Schedule 43 for filing retaining the June 15, 2012 effective date requested.

18. Notice of MISO's January 3, 2013 letter response was published in the *Federal Register*, 78 Fed. Reg. 2386 (2013), with protests and interventions due on or before January 24, 2013. The Public Interest Organizations filed joint comments and WPS/UPPCO filed a protest to MISO's response in Docket Nos. ER13-37-000, ER13-37-001, and ER13-38-000. In the same dockets, Escanaba filed an answer on February 1, 2013 and, MISO filed an answer on February 8, 2013.

IV. Discussion

A. Procedural Matters

19. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2012), the notice of intervention and timely and unopposed motions to intervene serve to make the entities that filed them parties to the proceedings in which they were filed.

²⁴ 18 C.F.R. §§ 388.112, 388.113 (2012).

20. Pursuant to Rule 214(d) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214(d) (2012), the Commission will grant Dairyland's late-filed motion to intervene, given its interest in the proceedings, the early stage of the proceedings, and the absence of undue prejudice or delay.

21. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2012), prohibits an answer to a protest or answer unless otherwise ordered by the decisional authority. We will accept the answers that have been filed in these proceedings because they have provided information that assisted us in our decision-making process.

B. Substantive Matters

22. As discussed more fully below, we will conditionally accept the proposed SSR Agreement and Rate Schedule 43 effective June 15, 2012 as requested, subject to a further compliance filing, for a term of one-year.

1. SSR Agreement

a. Stakeholder Process, Term, and Compensation

i. Filing

23. MISO states that it has assessed available feasible alternatives to entering into the SSR Agreement.²⁵ MISO states that it looked at transmission operating steps, alternative generation, and demand curtailment.²⁶ However, according to MISO, section 38.2.7.a of the pre-SSR Order Tariff, which was in effect at the time of Escanaba's Attachment Y Notice in December 2011, required MISO to treat Escanaba's request for SSR status as confidential information and thus it was unable to discuss the alternative solutions in its stakeholder process.²⁷ MISO states that this is the reason why MISO stakeholders have not yet been engaged in the evaluation of other possible alternatives to the SSR Agreement. MISO also has proposed, in section 3.A of the SSR Agreement, language that would allow MISO the sole discretion to extend the term of the SSR Agreement beyond its one-year term by giving 90 days written notice to participants (i.e., Escanaba or any subsequent owner of the SSR Units).

²⁵ MISO October 5, 2012 Transmittal Letter at 3 (Docket No. ER13-38-000).

²⁶ MISO October 5, 2012 Filing Exhibit C at 4 (Docket No. ER13-38-000).

²⁷ MISO October 5, 2012 Transmittal Letter at 4 (Docket No. ER13-38-000).

24. Under Exhibit 2 of the SSR Agreement, MISO will pay Escanaba an annual payment of \$3,710,279 for fixed steam generation costs²⁸ and \$71.57 per MWh for each instance that MISO dispatches the SSR Units for system reliability. Through the MISO settlement process, MISO will make applicable make-whole payments in the hours when the applicable market-clearing price is less than the dispatch price and will debit the settlement statements for each hour in which the applicable market-clearing price is above the dispatch rate. In addition, whenever the SSR Units operate in the MISO Market for purposes other than system reliability, any energy market revenues in excess of incremental costs measured by the positive difference between the locational marginal price (LMP) and \$71.57 per MWh, plus any Operating Reserve revenues and revenues from Planning Resource designation, will be debited from Participant's settlement statements. MISO states that the Market Monitor reviewed the operating cost history for the SSR Units and provided comment to ensure that only going-forward costs were included in the rate.²⁹

ii. Comments and Protests

25. WP&L/MGE maintain that more information is needed for affected parties to have a reasonable level of assurance of the prudence of this SSR Agreement.³⁰ WP&L/MGE request that MISO provide to the stakeholders information on which contingencies cause the need for the SSR designation, what issues are caused by these contingencies, and the severity of the issues with and without the SSR Units available. In addition, WP&L/MGE request MISO to provide more details on its consideration of alternatives to the SSR designation, including more specific information as to what exact alternatives were and were not considered and why operating guides, system re-configuration, and generation re-dispatch are not viable alternatives to allow the SSR Units to go into suspension. They also ask that MISO expand on any consideration of near-term upgrades that could be implemented, such as capacitor banks, that would allow one or both of the SSR Units to be suspended until the long-term solution is in place.

26. Wisconsin Electric argues that MISO's filings lack sufficient detail and explanation to serve as precedent for any other MISO SSR cost recovery proceedings.³¹

²⁸ This total amount is composed of \$3,481,515 in operations and maintenance, \$50,000 in management fee, \$178,764 in plant insurance.

²⁹ MISO October 5, 2012 Transmittal Letter at 7 (Docket No. ER13-38-000).

³⁰ WP&L/MGE Comments at 4-5 (Docket No. ER13-38-000).

³¹ Wisconsin Electric Protest at 4-5 (Docket Nos. ER13-37-000 and ER13-38-000).

Wisconsin Electric urges the Commission not create precedent in this individual case concerning Escanaba that would govern MISO's treatment of future SSRs. Wisconsin Electric states that, as the Commission appears to acknowledge in the SSR Order, far more information and transparency are required in nearly every aspect of the SSR process for the Commission and the public to evaluate the justness and reasonableness of MISO's proposed tariff provisions. According to Wisconsin Electric, in the same way MISO's post-SSR Order Tariff requires additional detail, clarification, and transparency, MISO's filings in these proceedings are deficient. Wisconsin Electric notes that SSRs can be extremely expensive, and entities being allocated SSR costs should have the opportunity to perform similar calculations to verify MISO's studies. At a minimum, according to Wisconsin Electric, MISO must provide detailed transmission study assumptions and results sufficient to allow an independent review of the scope of analysis and MISO's conclusions.

27. WPS/UPPCO argue that MISO has not supported its claims that (1) it has explored all alternative options and, in turn, (2) that SSR classification is a last resort measure.³² WPS/UPPCO point out that because MISO did not engage stakeholders in the discussion of possible alternatives, WPS/UPPCO are not sure that an annual SSR agreement is the only viable alternative to ensure reliability in the area. In particular, they allege that MISO has failed to describe whether it considered curtailing load and managing maintenance outages as alternative means to address Category C5 and Category B contingencies, respectively. They also claim that MISO has assessed the risk of transmission failures and loss of load using very conservative assumptions. Further, they state that MISO has not listed which generators were unable to assist in reliability measures, and has not adequately explained the contingencies in which load reduction as high as 102 MW would be required without the operation of the SSR Units. Last, WPS/UPPCO argue that MISO did not assess whether SSR arrangements are required for the full 365 days per year when the reliability contingencies identified would occur only during certain times of the year.³³

28. The Wisconsin Commission states that inadequate information has been supplied to permit stakeholders to assess the evaluation of the purported need for the SSR Agreement, as well as why alternatives were rejected.³⁴ The Wisconsin Commission notes that MISO's assessment of the reliability need justifying the SSR Agreement has

³² WPS/UPPCO October 26, 2012 Protest at 5 (Docket No. ER13-38-000).

³³ *Id.* at 5-8.

³⁴ Wisconsin Commission Comments at 4-5 (Docket Nos. ER13-37-000 and ER13-38-000).

been criticized by several commenters as lacking information sufficient for the stakeholders to reasonably review the reliability need. The Wisconsin Commission states that the stakeholder process appears to have been so abbreviated as to deny any reasonably meaningful participation. They argue that the real parties in interest, the stakeholders who must pay the costs of the SSR Agreement, have been effectively denied the opportunity to advance potentially more cost-effective solutions, including generation solutions such as the potential use of temporary portable generators.³⁵

29. The Wisconsin Commission suggests that a limited one-year term should be allowed to permit approval of MISO's compliance filings in Docket No. ER12-2302-000 and revision of SSR Agreement terms consistent with that filing for any term extension beyond the first year. The Wisconsin Commission proposes that the acceptance of the SSR Agreement be conditioned upon MISO making a filing at the end of the initial term to replace the filed SSR Agreement with a new agreement consistent with Docket No. ER12-2302-000, including, in particular, compliance with established MISO stakeholder processes.

30. MISO Industrial Group also asserts that stakeholders have not had an opportunity to vet the SSR Agreement, nor review MISO's analysis to ascertain whether this agreement is necessary and to determine whether the alternatives were comprehensively evaluated.³⁶ The MISO Industrial Group asks MISO to clarify why 102 MW of load curtailment is needed in lieu of Escanaba's 25 MW plant.

31. According to the Public Interest Organizations, while the SSR Units are comparatively small, the total potential SSR payments are not insignificant and amount to approximately \$15 million over four years if the planned biomass conversion does not occur until after the transmission upgrades scheduled by December 2016 are in service.³⁷ The Public Interest Organizations are concerned (1) that MISO did not sufficiently consider other cost-effective solutions to bridge the gap until longer-term reliability solutions are in place and (2) that the proposed SSR Agreement does not create sufficient incentives for either the SSR Units' owner to complete their proposed biomass conversion as expeditiously as possible, or for MISO to continue to explore less costly interim solutions.

³⁵ *Id.* at 4.

³⁶ MISO Industrial Group Protest at 4 (Docket Nos. ER13-37-000 and ER13-38-000).

³⁷ Public Interest Organizations January 24, 2013 Comments at 1-2 (Docket Nos. ER13-37-000, ER13-37-001, and ER13-38-000).

32. WPS/UPPCO protest not having been able to vet the proposed compensation.³⁸

iii. Answers

33. MISO states that it fully considered alternatives to the SSR Agreement,³⁹ arguing that it conducted an extensive reliability analysis to determine whether the SSR Units are necessary for the reliability of the MISO Transmission System. MISO maintains that the only transmission upgrade that would resolve all of the reliability issues identified was the Holmes to 18th Road 138kV line project. MISO states it determined that capacitor banks would not resolve the issues. According to MISO, the load curtailment amount of 102 MW is the amount required without operation of the SSR Units for the most severe contingency events.

34. In response to the Wisconsin Commission's proposal to require MISO to submit a new SSR Agreement at the end of the initial twelve-month term, MISO states that it would not object to submitting any material changes to the SSR Agreement that may be required in the future to the Commission for approval.⁴⁰ According to MISO, the proposed initial term of the SSR Agreement is twelve months and pursuant to section 38.2.7.i of the Post-SSR Order Tariff, MISO must annually review the SSR Units and grid characteristics to determine whether the SSR Units are qualified to remain as SSRs.

35. Finally, MISO affirms that it negotiated compensation only for going-forward costs, including consideration of cost-based factors, such as the resources' fixed and variable operating and maintenance costs, when MISO negotiated the subject compensation.⁴¹

³⁸ WPS/UPPCO October 26, 2012 Protest at 4-6 (Docket No. ER13-38-000). *See also* Wisconsin Commission Comments at 4-5 (Docket No. ER13-37-000 and ER13-38-000) and MISO Industrial Group Protest at 4 (Docket Nos. ER13-37-000 and ER13-38-000).

³⁹ MISO November 13, 2012 Answer at 5 (Docket Nos. ER13-37-000 and ER13-38-000).

⁴⁰ *Id.* at 12-13.

⁴¹ *Id.* at 4.

iv. **December 4, 2012 Letter and MISO's January 3, 2013 Letter Response**

36. The December 4, 2012 letter required, among other things: (1) a general description of the transmission system and local area generation in and around Escanaba; (2) a complete SSR Study Report evaluating the reliability impacts of the Attachment Y Notice; (3) the assumptions behind, and causes of, the violations of the NERC Transmission Planning Standards mentioned by MISO in its initial filing; (4) the amount of overload relief attributable to the SSR Units; and (5) a description and evaluation of the specific transmission switching operations and operating procedures that MISO evaluated in relation to this proceeding and why each operation or procedure was determined to not be feasible.

37. In its response, MISO provides a SSR Study Report finding that the SSR Units are necessary to mitigate NERC Category B and Category C contingencies in the local area and that the SSR Units will continue to be necessary until either planned transmission upgrades are put into service in December 2016 or the prospective new owner of the SSR Units, Escanaba Green Energy, is able to complete the fuel conversion from coal to biomass, whichever is sooner. MISO also explains that the network configuration of transmission lines supplying Escanaba load and limited local area generation preclude any possible transmission switching alternatives; that generation re-dispatch is not an option because all available generation commitment options were modeled; that special protection schemes are not viable alternatives because the network supply configuration precludes the use of generator trips, run-back schemes, or automatic line switching; and that demand response is not a viable replacement because no LSEs have identified contractually arranged voluntary load curtailments that could mitigate any involuntary load curtailments.⁴²

v. **Comments and Protests to MISO's January 3, 2013 Letter Response**

38. Public Interest Organizations raise four issues with respect to MISO's January 3, 2013 letter response. First, Public Interest Organizations state that a number of the potential reliability violations that MISO's SSR Study Report identifies are linked to voltage violations. However, Public Interest Organizations argue that none of the reinforcement projects discussed or selected in the SSR Study Report involve typical

⁴² MISO January 3, 2013 letter response at 4-6 (Docket Nos. ER13-37-000, ER13-37-001, and ER13-38-000).

voltage support reinforcements.⁴³ Specifically, Public Interest Organizations state that the SSR Study Report does not consider other near-term solutions such as capacitors or shunts, which could be more reliable and cost-effective than SSR payments.⁴⁴ Thus, Public Interest Organizations request that the Commission order MISO to evaluate whether voltage support options could (1) reduce or eliminate the need for one or both of the SSR Units; (2) decrease the length of time for one or both of the SSR Units; and (3) decrease the cost and/or scope of the transmission upgrades needed to prevent reliability issues that could occur if one or both of the SSR Units retire.⁴⁵

39. Second, Public Interest Organizations state that MISO's claim that 102 MW of demand response would be needed to prevent any loss of load under the outages contemplated in the SSR Study Report may exceed NERC and MISO minimum transmission planning requirements and therefore overstates the need for demand response to permit suspension of the SSR Units. Public Interest Organizations request that the Commission direct MISO to: (1) identify the "three worst contingencies" and the amount of demand response needed to eliminate each of those contingencies separately; (2) explain if the 102 MW demand response target and the other demand response targets discussed in the SSR Study Report are to prevent any loss of load, and, if not, identify the amount of loss of load that MISO allowed after the outage of the identified multiple system components; and (3) if voltage support is added to address the voltage criteria reliability issues, identify the three remaining "worst contingencies" and how much demand response would be required to eliminate each of the three contingencies separately.⁴⁶

40. Third, Public Interest Organizations remain concerned that the SSR Agreement does not encourage the proposed conversion of the SSR Units to be completed as expeditiously as possible and that the SSR Agreement vests too much discretion in MISO to extend the term of the agreement without seeking more cost-effective interim solutions. Therefore, Public Interest Organizations request that the Commission order

⁴³ Public Interest Organizations January 24, 2013 Comments on MISO's January 3, 2013 letter response at 2 (Docket Nos. ER13-37-000, ER13-37-001, and ER13-38-000).

⁴⁴ *Id.* at 3.

⁴⁵ *Id.* at 4.

⁴⁶ *Id.* at 5.

MISO to develop language for the SSR Agreement to encourage the plant owners to complete the biomass conversion as quickly as possible.⁴⁷

41. Finally, Public Interest Organizations question why MISO did not study the SSR Units separately to determine whether only one unit, either alone or in combination with other solutions, would satisfy reliability requirements. Public Interest Organizations request that the Commission direct MISO, on compliance, to (1) for each unit separately, evaluate whether the length of the SSR Agreement could be reduced, or eliminated, if the other unit remained in service; and (2) if MISO concludes that both SSR Units are needed, explain why such an approach is needed, the specific reliability concerns that justify this conclusion, and why shortening the length of, or eliminating, one of the SSR Units would not satisfy reliability concerns at a lower cost.⁴⁸

42. WPS/UPPCO assert that MISO's analysis of the SSR Units is overly conservative and even then, under those conservative assumptions, the use of the SSR Units would still not fully address the reliability issues identified by MISO. Additionally, WPS/UPPCO argue that MISO failed to consider: (1) the use of emergency generation in the local area; (2) use of Load Modifying Resources in the local area; and (3) any ability to modify/cancel or re-schedule planned transmission outages and maintenance.⁴⁹ Thus, WPS/UPPCO argue that MISO has failed to meet its obligations under its Tariff and request that the Commission find that the SSR Agreement and Rate Schedule 43 are unjust and unreasonable.⁵⁰

vi. Commission Determination

43. We find that MISO has adequately studied the proposed mothballing of the SSR Units and has reasonably determined that these units are necessary for system reliability, and therefore, should be designated as SSRs. MISO has justified its need for the units and has provided sufficient evidence demonstrating that the SSR Units are necessary to mitigate NERC Category B and Category C contingencies to ensure system reliability and that the units will continue to be necessary until either planned transmission upgrades are put into service in December 2016 or the prospective new owner of the SSR Units is

⁴⁷ *Id.* at 6-7.

⁴⁸ *Id.* at 7.

⁴⁹ WPS/UPPCO January 24, 2013 Protest of MISO's January 3, 2013 letter response at 8 (Docket Nos. ER13-37-000, ER13-37-001, and ER13-38-000).

⁵⁰ *Id.* at 9.

able to complete the fuel conversion from coal to biomass, whichever is sooner. As such, MISO has shown that it considered alternatives to executing the proposed SSR Agreement and fulfilled its obligations in accordance with the pre-SSR Order Tariff.

44. Several parties argue that stakeholders were not given adequate time to review, present alternatives to, and to challenge the results of MISO's determination that the proposed SSR Units are necessary for reliability and present the only viable option for mitigating those reliability issues. However, MISO was not able to consult stakeholders in its determination of alternatives to the SSR Agreement because the pre-SSR Order Tariff under which Escanaba's Attachment Y Notice was made for the SSR Units in December 2011 required that such notice remain confidential.⁵¹ Thus, the Commission finds that MISO and Escanaba are in compliance with the provisions of section 38.2.7.a of the pre-SSR Order Tariff that required that confidentiality be maintained. Therefore, the lack of a more rigorous stakeholder process prior to MISO's filing of these agreements, is not a basis for the Commission to reject the current filing.

45. However, if MISO requires an extension of the designation of the SSR Units after the initial one-year term of the SSR Agreement, MISO will be required to follow the SSR study and review process in accordance with the post-SSR Order Tariff, including the requirement to include stakeholders in the process of evaluating alternatives. We expect that this process will provide stakeholders with the opportunity to raise their concerns and provide potential alternatives for MISO to thoroughly evaluate and consider. Accordingly, we direct MISO to begin the stakeholder process to evaluate alternatives to the SSR Agreement so that such alternatives may be fully evaluated by the June 14, 2013 expiration date of the SSR Agreement.

46. With respect to the duration of the SSR Agreement, we will accept MISO's proposal to have the SSR Agreement expire on June 14, 2013 (i.e., twelve months after the June 15, 2012 date Escanaba requested that the SSR Units be mothballed). However, in proposed section 3.A of the SSR Agreement, MISO has proposed language that would allow MISO the sole discretion to extend the term of the SSR Agreement by giving 90 days' notice to Participants.⁵² We direct MISO, in a compliance filing, to revise

⁵¹ Pre-SSR Order Tariff section 38.2.7.a ("The Transmission Provider shall treat Attachment Y as Confidential Information until the Attachment Y reliability analysis is completed and the study results are disclosed to the Market Participant....").

⁵² MISO October 5, 2012 Filing Exhibit A (Docket No. ER13-38-000) (Proposed SSR Agreement Section 3.A(2) reads: The "Term" of this Agreement is a period of 12 months; provided, however, that ~~the Midwest ISO~~ MISO, in its sole discretion, may terminate or extend this Agreement prior to the end of the Term by giving ninety (90) days advance written notice to Participants.).

section 3.A to remove “or extend” from the SSR Agreement. We find that this language is inconsistent with the Commission’s previous finding that SSRs should be limited and of short duration.⁵³

47. However, the circumstances surrounding the need for this SSR Agreement indicate that the SSR Units may be needed after June 14, 2013. We agree with the Wisconsin Commission that, if MISO determines that the SSR Units are needed beyond June 14, 2013, MISO must file a revised SSR Agreement with the Commission. This revised agreement would be subject to the current, post-SSR Order Tariff requirements including compliance with established MISO stakeholder processes. Moreover, we require that any material change must be submitted to the Commission for review.

48. We will accept the proposed compensation as being consistent with the existing pre-SSR Order Tariff. We note that compensation under the SSR Agreement is reduced by any energy market revenues in excess of incremental costs measured by the positive difference between the LMP and \$71.57 per MWh, plus any Operating Reserve revenues and revenues from Planning Resource designation. However, we note that compensation of costs, similar to evaluation of SSR alternatives, must be subject to full consideration by stakeholders for any proposed extension of the existing SSR Agreement.

49. We deny Public Interest Organizations’ request that the Commission order MISO to develop language for the SSR Agreement to encourage the plant owners to complete the biomass conversion as quickly as possible, because it is outside the scope of this proceeding.

b. Section 9.G of the SSR Agreement

i. Filing

50. Section 9.G of the SSR Agreement addresses potential compensation for unanticipated repairs.⁵⁴ According to MISO, this section provides a mechanism for Escanaba to receive cost recovery for unanticipated repairs to maintain system reliability. According to MISO, it also provides MISO with the ability to terminate the SSR Agreement rather than fund the unanticipated repairs, and requires MISO to make an FPA section 205 filing before any such costs could be incurred, except in the case of emergency repairs.

⁵³ TEMT II Rehearing Order, 109 FERC ¶ 61,157 at P 288.

⁵⁴ MISO October 5, 2012 Transmittal Letter at 6 (Docket No. ER13-38-000).

ii. Comments

51. Consumers Energy maintains that it does not object to section 9.G's requirement of an FPA section 205 filing before the costs of any unanticipated repairs to the SSR Units are incurred, except in the case of emergency repairs. However, Consumers Energy argues that MISO should not be permitted to terminate the SSR Agreement based on its unilateral determination that an unanticipated repair is too costly. Consumers Energy notes that SSR agreements are intended to ensure system reliability, as short term back-stops that are put in place until alternative solutions to such system reliability issues can be completed, and SSR units are so designated because they are the only feasible solutions to system reliability issues.

52. Therefore, Consumers Energy states that if the need for unanticipated repairs arises after an SSR agreement is negotiated, filed with the Commission, and approved by the Commission, the appropriate remedy for the recovery of costs associated with such repairs is an FPA section 205 filing. Consumers Energy argues that allowing MISO to terminate an SSR agreement, without having another feasible reliability solution in place, would violate the SSR Order. Finally, Consumers Energy argues that if the Commission accepts section 9.G, as proposed, the Commission should make clear that such approval is premised on the existence of novel legal issues or other unique factors that justify a departure from the Attachment Y-1 *pro forma* SSR Agreement, and that such an amendment will not be permitted on a generic basis.

53. WPS/UPPCO maintain that the SSR Agreement must be modified to limit the recovery for unexpected repairs.⁵⁵ WPS/UPPCO argue that MISO should be ordered to include language in the SSR Agreement that makes it clear there is no incentive for the SSR Units to maximize their revenues at the expense of the LSEs in the ATC zone.

iii. Answers

54. MISO agrees that an SSR unit owner's failure to properly maintain equipment should not allow an SSR unit owner to recover the costs associated with any eventual unexpected repairs.⁵⁶ MISO notes that SSR unit owners must maintain the SSR Units in accordance with good utility practice. MISO also notes that improper or neglected maintenance would fall outside the scope of good utility practice and therefore would not be subject to cost recovery under the SSR Agreement. According to MISO, the SSR

⁵⁵ WPS/UPPCO October 26, 2012 Protest at 7-8 (Docket No. ER13-38-000).

⁵⁶ MISO November 13, 2012 Answer at 11 (Docket Nos. ER13-37-000 and ER13-38-000).

Agreement requires MISO to make an FPA section 205 filing to amend the SSR Agreement to provide additional compensation for repairs, and LSEs are not bound to pay for such repairs if the SSR Units are no longer needed for reliability. MISO maintains that the prudence of any such repairs, and the need for additional compensation, should be addressed in response to any such FPA section 205 filing.

iv. Commission Determination

55. We agree with protestors that section 9.G of the SSR Agreement, which would give MISO sole discretion to determine whether it will fund unanticipated repairs to the SSR Units or that it will not fund such upgrades and will terminate the agreement, is inconsistent with the need to have the SSR Units available for reliability purposes. In both the TEMT II Orders and the SSR Order, the Commission found that the owner of SSR Units must be fully compensated for reasonably and prudently incurred costs that are necessary to ensure continued availability.⁵⁷ We anticipate that these repairs would usually be routine and ordinary; however, this does not preclude unanticipated repairs or significant repairs from being reasonable and prudent in certain cases in order to maintain availability. Therefore, we direct MISO to revise section 9.G, within 60 days of this order, to eliminate the language allowing MISO to unilaterally determine whether or not it will fund unanticipated repairs to the SSR Units or to terminate the SSR Agreement if the unanticipated repairs are of such a scope that they would preclude the SSR Units from fulfilling their contractual obligations. We note that the SSR Agreement already contains language that contemplates the inability of the SSR Units to fulfill their obligations in section 10.A (Default) and section 10.B (Remedies for Default).

c. Potential Sale of the Escanaba Generation Units

i. Filing

56. MISO's filing explains that the Commission approved, in Docket No. EC12-126-000, the transfer of the SSR Units and the SSR Agreement at issue here to Escanaba Green Energy, which plans to convert the units from coal to biomass.⁵⁸ MISO also explains that the successful conversion would resolve the need for the SSR Agreement, as

⁵⁷ SSR Order, 140 FERC ¶ 61,237 at P 126.

⁵⁸ MISO October 5, 2012 Transmittal Letter (Docket No. ER13-38-000) at 2 (citing *Escanaba Green Energy*, 140 FERC ¶ 62,217).

the SSR Units will no longer be uneconomic to dispatch.⁵⁹ MISO's filing did not address the anticipated timeline for the potential conversion to biomass.

ii. Comments

57. WP&L/MGE ask for an anticipated timeline for the potential sale of the SSR Units and greater detail about the potential conversion to biomass.⁶⁰ WP&L/MGE maintain that LSEs, such as themselves, who are bearing the costs of this SSR Agreement, need some indication of when the conversion may take place and the SSR Agreement terminated for internal planning efforts.

iii. Answers

58. MISO states that it is not a party to the potential sale of the SSR Units.⁶¹ According to MISO, that transaction is addressed in Docket No. EC12-126-000 and shall not affect the SSR Units except to ensure that all rights and responsibilities transfer to the new owner.

59. Escanaba states that the purpose of its' Attachment Y notice was to take the units out of service because they were no longer economic, not to facilitate a conversion to biomass.⁶² Escanaba states that the conversion of the plant at this time is nothing more than a plan by a third party who has not yet closed on the purchase of the plant.

iv. Commission Determination

60. The proposed SSR Agreement is a bilateral one-year contract between MISO and Escanaba. WP&L/MGE's request for information regarding the timeline for the potential sale of the SSR Units and/or details about the potential conversion to biomass is premature. If these SSR Units are required after the existing term expires, MISO will propose to extend the term of the SSR Agreement with the Commission, and that

⁵⁹ *Id.* at 5 (stating that once this conversion is completed, the SSR Agreement will no longer be needed and MISO will terminate the SSR Agreement because the SSR Units will be able to economically provide energy without an SSR Agreement).

⁶⁰ WP&L/MGE Comments at 6 (Docket No. ER13-38-000).

⁶¹ MISO November 13, 2012 Answer at 12 (Docket Nos. ER13-37-000 and ER13-38-000).

⁶² Escanaba February 1, 2013 Answer at 3 (Docket Nos. ER12-37-000, ER13-37-001, and ER13-38-000).

extension may or may not be informed by further developments on the sale or the conversion of the SSR Units. However, we note that MISO has stated that material changes to the SSR Agreement would be submitted to the Commission for approval.⁶³ For example, if MISO was to plan an extended outage which makes the SSR Units unavailable to fulfill their operational obligations, such as to effectuate a fuel conversion or otherwise, this would be a material change and MISO would have to amend and re-file the SSR Agreement here.

2. Rate Schedule 43

a. Filing

61. In Rate Schedule 43, MISO proposes to allocate, on a *pro rata* basis, the SSR Agreement costs among those LSEs that benefit from the operation of the SSR Units.⁶⁴ According to MISO, the post-SSR Order Tariff requires that the costs associated with the subject SSR Agreement will be allocated to all LSEs within the footprint of ATC on a *pro rata* basis.

b. Comments and Protests

62. The MISO Industrial Group asks MISO to clarify its cost allocation methodology.⁶⁵ The MISO Industrial Group argues that MISO will charge the LSEs that benefit from operation of the subject SSR Units in accordance with Rate Schedule 43, where all LSEs in the ATC footprint are allocated the SSR-related costs on a load ratio share basis. However, the MISO Industrial Group maintains that the current analysis suggests that only Escanaba and other Upper Michigan load will likely benefit from this SSR arrangement.

63. WPS/UPPCO claim that, as filed, Rate Schedule 43 is devoid of any details governing the derivation and assessment of the rates that will be applicable to LSEs in the ATC footprint.⁶⁶ According to WPS/UPPCO, there is no indication how MISO determined the LSEs that are included and that there is no information identifying how

⁶³ MISO November 13, 2012 Answer at 12-13 (Docket Nos. ER13-37-000 and ER13-38-000).

⁶⁴ MISO October 5, 2012 Transmittal Letter at 4 (Docket No. ER13-37-000).

⁶⁵ MISO Industrial Group Protest at 5-7 (Docket Nos. ER13-37-000 and ER13-38-000).

⁶⁶ WPS/UPPCO October 26, 2012 Protest at 4-6 (Docket No. ER13-37-000).

the allocation percentages were derived. WPS/UPPCO state it cannot tell whether the allocations include all LSEs within the ATC footprint, whether these LSEs are utilizing network service or point-to-point transmission service, and that there are no provisions to adjust these allocation percentages to reflect changes in load or re-allocations of load to reflect migration of customers. In addition, WPS/UPPCO argue that Rate Schedule 43 is deficient in that MISO does not describe how the charge will be collected.

64. Wisconsin Electric maintains that the cost allocation reflected in MISO's filings is unjust, unreasonable, and unduly discriminatory.⁶⁷ Wisconsin Electric notes that the Commission, in the SSR Order, required MISO to submit substantial additional explanation of its SSR cost allocation proposal.⁶⁸ While Wisconsin Electric believes the appropriate allocation methodology is more appropriately determined in Docket No. ER12-2302-000, it protests the methodology that has been used in these proceedings. In the event that the Commission determines it will review the cost allocation for the SSR Agreement in the instant dockets, Wisconsin Electric argues that the cost allocation for the SSR Agreement should be the same as that used to allocate Voltage and Local Reliability costs.⁶⁹

65. The Wisconsin Commission maintains that the cost allocation should clarify whether both network and point-to-point transmission customers are allocated SSR Agreement costs. The Wisconsin Commission states that fundamental to the reasonableness of the imposition of the SSR Agreement's costs is that they are correctly calculated and appropriately assigned to benefitting entities.

c. Answers

66. MISO notes that stakeholders have proposed cost allocation methodologies that differ from that provided in the current, post-SSR Order Tariff. Additionally, MISO notes that the methodology used in this proceeding is required by section 38.2.7.j of the

⁶⁷ Wisconsin Electric Protest at 5-7 (Docket Nos. ER13-37-000 and ER13-38-000).

⁶⁸ *Id.* (citing SSR Order, 140 FERC ¶ 61,237 at P 153).

⁶⁹ Wisconsin Electric Protest at 6 (citing MISO Voltage and Local Reliability BPM Updates Presentation (available at <https://www.midwestiso.org/Library/Repository/Meeting%20Material/Stakeholder/RSC/2012/20120320/20120320%20RSC%20Item%2008%20Voltage%20and%20Local%20Reliability%20Commitment%20Update.pdf>)) (Voltage and Local Reliability costs are spread on a *pro rata* basis to load in affected Local Balancing Authorities).

Tariff.⁷⁰ MISO states that it is not proposing to alter the Tariff's required *pro rata* methodology and that the Commission should approve the proposed percentage allocations of SSR Unit costs as proposed in Rate Schedule 43. MISO also clarifies that SSR charges should be demand-based, as opposed to energy-based charges as argued by WPS/UPPCO, and that a LSE's firm point-to-point transmission service is not part of the allocation.

67. The CMTC and the MISO Industrial Group support a demand-based charge and are concerned that MISO's answer does not provide adequate support and justification for a demand-based charge for transmission upgrades to serve reliability needs.⁷¹ According to the CMTC and the MISO Industrial Group, SSR Agreements are used in lieu of reliability-based transmission to maintain system reliability. As such, the need to commit SSR Units should be recognized as a transmission service with cost allocated to network load just like other transmission reliability charges (i.e., a demand-based charge).⁷²

68. The CMTC and MISO Industrial Group maintain that MISO did not respond to the MISO Industrial Group's request for MISO to address the disparate treatment resulting from the *pro rata* allocation within the ATC footprint or its intentions on the SSR Order compliance filing. According to the CMTC and MISO Industrial Group, rather than address these issues, MISO relies on the language in Section 38.2.7.j of the post-SSR Order Tariff. According to the CMTC and MISO Industrial Group, cost allocation associated with local reliability issues should be directed to cost causers and provide appropriate pricing signals to consider alternative options that are less costly rather than relying on a transmission solution because the latter is subsidized.

69. Thus, the CMTC and MISO Industrial Group continue to oppose MISO's *pro rata* approach of allocating costs to all entities in the ATC footprint when the reliability issue is localized to Escanaba and Michigan's Upper Peninsula. At a minimum, they argue that, should the Commission accept the limited information provided in the MISO Answer as sufficient, any order approving MISO's interpretation of Section 38.2.7.j should be limited to this proceeding.

⁷⁰ MISO November 13, 2012 Answer at 8 (Docket Nos. ER13-37-000 and ER13-38-000) (citing Tariff section 38.2.7; SSR Order, 140 FERC ¶ 61,237 at P 154).

⁷¹ CMTC and MISO Industrial Group Answer at 4 (Docket Nos. ER13-37-000 and ER13-38-000).

⁷² *Id.*

70. WPS/UPPCO filed a limited answer to correct what they term CMTC and the MISO Industrial Groups' factual misstatement of its position on the proper allocation of costs under new Rate Schedule 43.⁷³ WPS/UPPCO filed the answer to make clear that they did not suggest that the Rate Schedule 43 charge should be allocated based on energy. WPS/UPPCO state they only suggested that the Rate Schedule 43 demand-based charge should be recovered through settlements as an energy market-related cost. WPS/UPPCO state that CMTC's Answer is irrelevant to this proceeding, raises an issue that does not exist, and should be rejected.

71. Escanaba notes that, since June 15, 2012, it has been operating its power plant at a continuing loss in order to satisfy its obligations to MISO and to system reliability.⁷⁴ According to Escanaba, if the Commission determines that MISO's decision to enter into the SSR Agreement was imprudent or otherwise not in accordance with its tariff, the proper remedy is to consider a more equitable cost allocation of Rate Schedule No. 43 in Docket No. ER13-37-000.

iv. Commission Determination

72. We will conditionally accept MISO's proposed Rate Schedule 43 for the *pro rata* allocation of SSR costs to LSEs throughout the ATC footprint. We find that such allocation is just and reasonable. The language in the pre-SSR Order Tariff did not specify a particular basis upon which MISO would allocate costs to all Market Participants, i.e., there is no specification of the billing determinants that MISO would use. Therefore, we find that the tariff language in the pre-SSR Order Tariff permits MISO to allocate SSR costs to Market Participants in ATC based on their physical loads in the ATC footprint, because such allocation is just and reasonable and is also consistent with the cost allocation accepted in the post-SSR Order Tariff.

73. Because SSRs are related to transmission system reliability, it is reasonable for MISO to use a demand-based cost allocation methodology as is used to allocate the cost of transmission facilities built to maintain reliability. Thus, we find that MISO's proposed cost allocation is just and reasonable because the demand-based methodology is correlated to the reliability issues that underlie the SSR process. As described in its answer, MISO allocated the costs to LSEs by taking the actual monthly peak demand

⁷³ WPS/UPPCO Answer at 1 (Docket No. ER13-37-000).

⁷⁴ Escanaba February 1, 2013 Answer at 3 (Docket Nos. ER13-37-000 and ER13-38-000).

values for 2011 (as provided by ATC), dividing them by 12 and then allocating the monthly costs on a *pro rata* basis.⁷⁵

74. With regard to the concern of whether LSEs taking point-to-point transmission service are allocated SSR Agreement costs, we note that MISO has clarified that point-to-point transmission service was not a factor in determining the cost allocation under Rate Schedule 43. Because there is no information in the record indicating whether there are any LSEs taking point-to-point service, we cannot make a determination as to whether MISO has appropriately allocated costs to all LSEs in ATC. Thus, we will require MISO, in a compliance filing due within 60 days of this order, to explain either that there are no LSEs in the ATC footprint taking point-to-point service or that there are LSEs in the ATC footprint taking point-to-point service and revising Rate Schedule 43 as necessary to include such LSEs.

75. Also, we reject Wisconsin Electric's proposal that MISO adopt a Voltage and Local Reliability-type cost allocation where costs are assigned to the affected/benefitting load.⁷⁶ Having found MISO's proposal to be just and reasonable, we need not address the merits of an alternative proposal to allocate costs.⁷⁷ Therefore, we decline to require MISO to consider other alternatives at this time.

⁷⁵ MISO November 13, 2012 Answer at 8-9 (Docket Nos. ER13-37-000 and ER13-38-000).

⁷⁶ Wisconsin Electric Protest at 6.

⁷⁷ See *Oxy USA, Inc. v. FERC*, 64 F.3d 679, 692 (D.C. Cir. 1995) (finding that, under the FPA, as long as the Commission finds a methodology to be just and reasonable, that methodology "need not be the only reasonable methodology, or even the most accurate"); cf. *City of Bethany v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1984) (when determining whether a proposed rate was just and reasonable, the Commission properly did not consider "whether a proposed rate schedule is more or less reasonable than alternative rate designs"). See also *Cal. Indep. Sys. Operator Corp.*, 128 FERC ¶ 61,282, at P 31 (2009) (finding that, because the Commission found the ISO's proposal to be just and reasonable, it need not assess the justness and reasonableness of an alternative proposal); *Louisville Gas & Electric Co.*, 114 FERC ¶ 61,282, at P 29 (2006) (finding that "the just and reasonable standard under the FPA is not so rigid as to limit rates to a 'best rate' or 'most efficient rate' standard. Rather, a range of alternative approaches often may be just and reasonable"); *Entergy Servs., Inc.*, 116 FERC ¶ 61,275, at P 32 (2006) (finding that "[a] proposal does not need to be perfect, or the most desirable way of doing things, it need only be just and reasonable"); *Cal. Indep. Sys. Operator Corp.*, 106 FERC ¶ 63,026, at P 57 (2004).

3. Proposed Effective Date for the SSR Agreement and Rate Schedule 43

a. Filings

76. MISO requests a June 15, 2012 effective date for the SSR Agreement and Rate Schedule 43, which is Escanaba's requested effective date in its Attachment Y notification submitted to MISO on December 19, 2011. If the June 15, 2012 effective date is not granted, MISO requests that the Commission either: (1) treat the SSR Agreement as a late-filed service agreement, limiting Escanaba's revenue recovery to variable operations and maintenance costs from June 15, 2012 to September 5, 2012, the date on which the service agreement would be effective under the 30-day rule for service agreements, so that Escanaba would not be required to provide this reliability service at a loss; or (2) grant an effective date of September 5, 2012, consistent with the Commission's rule that service agreements must be filed within 30 days of commencing service. MISO maintains that the SSR Agreement is a *pro forma* agreement included in the Tariff, the executed versions of which are therefore service agreements.⁷⁸

77. MISO states that very good cause exists to grant the waiver of the prior notice rule because the delay in filing the proposed SSR Agreement was a consequence of the negotiations for the agreement not being able to be completed before the requested shutdown date. Additionally, MISO states that the Tariff required the SSR Units to remain available and that Escanaba has maintained the SSR Units such that they have been available to MISO for reliability purposes.⁷⁹

b. Comments

78. According to WP&L/MGE, the date the SSR Agreement was executed was September 5, 2012, and, as such, there is no basis to provide compensation to Escanaba prior to this execution date.⁸⁰ WP&L/MGE maintain that MISO's alternative request

⁷⁸ MISO October 5, 2012 Transmittal Letter at 11 (Docket No. ER13-38-000). *See also* MISO October 5, 2012 Transmittal Letter at 3-4 (Docket No. ER13-37-000).

⁷⁹ MISO October 5, 2012 Transmittal Letter at 8 (Docket No. ER13-38-000). *See also* MISO October 5, 2012 Transmittal Letter at 3 (Docket No. ER13-37-000).

⁸⁰ WP&L/MGE Comments at 6-7 (Docket No. ER13-38-000) (WP&L/MGE misstate the execution date of the SSR Agreement. The SSR Agreement was executed by MISO on October 4, 2012 and by Escanaba on October 5, 2012. September 5, 2012 is 30 days prior to the actual execution date).

effective date of September 5, 2012 is the appropriate effective date and is consistent with the Commission's rule that service agreements must be filed within 30 days of commencing service. The MISO Industrial Group agrees with the September 5, 2012 date.⁸¹

79. WPS/UPPCO argue that they expect MISO to comply with its Tariff and the Commission's *Prior Notice* policy statement⁸² and file agreements on a timely basis.⁸³ WPS/UPPCO state that the waiver of the 60-day notice period should be denied, and if not denied, MISO must confirm that Escanaba will not be compensated both for participating in the MISO Market as a Generation Resource and as an SSR Unit.⁸⁴ WPS/UPPCO note that the Commission requires that in order to obtain waiver, MISO must show extraordinary circumstances support the request and MISO did not attempt to make such a showing, instead arguing that very good cause exists. WPS/UPPCO note that MISO offers scant support for failing to file the SSR Agreement until four months after the June 15, 2012 effective date of the service. According to WPS/UPPCO, MISO's only explanation for its delay in filing the SSR Agreement is a stated need to consult with the Market Monitor and negotiate with Escanaba. WPS/UPPCO maintain these reasons are insufficient to explain such significant delays in putting the SSR arrangements in place. Without further support of waiver, according to WPS/UPPCO, including assurances that Escanaba will not double recover for both the SSR costs and its market activities, waiver should be denied.

80. Wisconsin Electric argues that the Commission should deny MISO's request for an effective date of June 15, 2012.⁸⁵ Wisconsin Electric notes that in both filings, MISO seeks an effective date of June 15, 2012, either through waiver of the Commission's 60-day notice requirements or by treating its agreement with Escanaba as a late-filed

⁸¹ MISO Industrial Group Protest at 7-8 (Docket Nos. ER13-37-000 and ER13-38-000).

⁸² WPS/UPPCO October 26, 2012 Protest at 1 (Docket No. ER13-38-000) (citing *Prior Notice Filing Requirements Under Part II of the Federal Power Act*, 64 FERC ¶ 61,139 (1993)).

⁸³ WPS/UPPCO October 26, 2012 Protest at 6-7 (Docket No. ER13-37-000); WPS/UPPCO October 26, 2012 Protest at 8-9 (Docket No. ER13-38-000).

⁸⁴ WPS/UPPCO October 26, 2012 Protest at 5 (Docket No. ER13-38-000).

⁸⁵ Wisconsin Electric Protest at 7-8 (Docket Nos. ER13-37-000 and ER13-38-000).

service agreement. Wisconsin Electric opposes the June 15, 2012 effective date on either of the bases MISO asserts, stating the requested effective date would violate the rule against retroactive ratemaking for the Commission to grant an effective date prior to the date affected customers had notice of an increase.⁸⁶ With respect to MISO's request for an alternate effective date of September 5, 2012, as a late-filed service agreement, Wisconsin Electric notes that as MISO itself recognizes, Escanaba is a non-jurisdictional seller, so it is not clear that the prior notice rule applies to its provision of SSR service to MISO. Moreover, Wisconsin Electric argues that the September 5, 2012 date is inappropriate since the Commission's policy on late-filed agreements is predicated on the existence of a *pro forma* agreement that places customers on notice of the rates, terms, and conditions of service. In this case, according to Wisconsin Electric, many aspects of the *pro forma* agreement on which the Escanaba agreement is based are in flux, so the earliest date on which the proposal may properly become effective is October 5, 2012. Wisconsin Electric argues that its effectiveness should be subject to refund and the outcome of Docket No. ER12-2302-000.

81. According to the Wisconsin Commission, the need for retroactive rate recovery to June 15, 2012 is not justified in the filing.⁸⁷ The Wisconsin Commission notes that the transmittal letter indicates that Escanaba submitted its Attachment Y notice on December 19, 2011, with a request therein for a shutdown date of June 15, 2012, and MISO advised Escanaba on May 25, 2012, of its conclusion that an SSR agreement was needed and not until September 5, 2012 did the parties agree to an SSR agreement. The Wisconsin Commission states that backdating the agreement to June 15, 2012 requires payment for a reliability insurance policy that may not have been needed. The Wisconsin Commission suggests that Escanaba pursue its remedies against MISO for MISO's untimely performance. The Wisconsin Commission maintains that Wisconsin utilities are disproportionately impacted by the rate recovery and may be impaired in their ability to recover increased costs. Retroactive rates proposed for the SSR represent a form of arbitrage, according to the Wisconsin Commission, in that the cost recovery problems of the delayed MISO federal filing are sought to be imposed on a small group of LSEs, including a number of utilities whose retail rates for 2012 were in fact authorized at the state level by the Wisconsin Commission prior to January 1, 2012.

⁸⁶ *Id.* (citing *Consolidated Edison Co. of NY, Inc. v. FERC*, 347 F.3d 964, 969 (D.C. Cir. 2003)).

⁸⁷ Wisconsin Commission Comments at 2-3 (Docket Nos. ER13-37-000 and ER13-38-000).

c. Answers

82. MISO states the circumstances leading to this SSR Agreement were unique insofar as this was the first and only SSR agreement executed under the pre-SSR Order Tariff, which did not provide additional time beyond the review period for negotiation and execution of the SSR Agreement.⁸⁸ According to MISO, it is essential to recognize that Escanaba has maintained the subject generating units since the planned retirement date of June 15, 2012 in order to preserve system reliability in the MISO region. Moreover, according to MISO, the Commission has ordered that MISO cannot require a generator, such as Escanaba, to absorb the going-forward costs of continued operation as an SSR unit.⁸⁹ Finally, MISO argues that the preservation of system reliability should drive cost assignment.⁹⁰

83. Escanaba argues that it should be compensated for providing SSR service since June 15, 2012.⁹¹ According to Escanaba, regardless of how the Commission treats Rate Schedule No. 43, Escanaba should be appropriately compensated for providing a critical reliability service to MISO, at MISO's request, by maintaining its units beyond the notice period required by the MISO Tariff. According to Escanaba, (1) it submitted its Attachment Y notices because it was losing money by continuing to operate the two steam turbines that are the subject of the SSR Agreement and once MISO determines that a unit is needed for reliability, the MISO Tariff requires the unit to maintain its availability in return for SSR compensation, (2) the filed rate requires fully compensating Escanaba for its SSR service as does the Commission's holding that SSR Units should be fully compensated and nothing in the SSR program would require a generator to absorb any uncompensated going-forward costs,⁹² and (3) general equitable principles require

⁸⁸ MISO November 13, 2012 Answer at 9-10 (Docket Nos. ER13-37-000 and ER13-38-000).

⁸⁹ *Id.* at 10 (citing TEMT II Rehearing Order, 109 FERC ¶ 61,157 at P 293).

⁹⁰ *Id.*

⁹¹ Escanaba November 13, 2012 Answer at 3 (Docket Nos. ER13-37-000 and ER13-38-000).

⁹² *Id.* at 4-5 (citing *Michigan Public Power Agency v. Midwest Indep. Transmission System Operator, Inc.*, 118 FERC ¶ 61,083, at P 31 (2007) (stating that the filed rate doctrine generally forbids a regulated entity to charge rates for its services other than those properly filed with the appropriate federal regulatory authority); TEMT II Rehearing Order, 109 FERC ¶ 61,157 at P 293).

compensating Escanaba for its service since Escanaba has maintained its SSR Units since June 15, 2012, continuing to operate at a loss, at the request of MISO and under the full understanding that it would be compensated for the service. In response to WPSC/UPPCO's concern about double-recovery, Escanaba agrees that implementing the June 15, 2012 effective date will require netting out any market revenues received since that date from any compensation under the SSR Agreement so that Escanaba does not double-recover.⁹³ Indeed, according to Escanaba, such netting would be required by operation of the SSR Agreement, which requires the netting out of market revenues during the term of its SSR service, regardless of whether the SSR Units were dispatched for reliability or market economics.

d. Commission Determination

84. Escanaba has maintained the subject SSR Units since the planned retirement date of June 15, 2012 in order to preserve system reliability in the MISO region and thus must be compensated. We have determined that all SSR Units should be fully compensated for any costs incurred because of their extended service.⁹⁴ Further, we have determined that nothing in the SSR program would require a generator to absorb any uncompensated going-forward costs.⁹⁵

85. Thus, we will grant waiver of the prior notice rule and allow the proposed SSR Agreement and Rate Schedule 43 to be effective June 15, 2012, as requested. In doing so, we note that MISO's pre-SSR Order Tariff and post-SSR Order Tariff, both clearly state that, "[d]uring the period that a Generation Resource or SCU is subject to an executed Attachment Y-1 agreement, it shall qualify as an SSR Unit."⁹⁶

86. Here, Escanaba has been providing reliability service subject to this SSR Agreement since June 15, 2012. Therefore it is appropriate and consistent with MISO's pre-SSR Order Tariff and post-SSR Order Tariff that Escanaba be made whole for the costs it has incurred while providing SSR service. Additionally, we note that Escanaba states that implementing the June 15, 2012 effective date will require netting out any

⁹³ *Id.* at 6.

⁹⁴ TEMT II Rehearing Order, 109 FERC ¶ 61,157 at P 293.

⁹⁵ *Id.*

⁹⁶ MISO Tariff section 38.2.7.c.

market revenues received since that date from any compensation under the SSR Agreement so that Escanaba does not double-recover.⁹⁷

The Commission orders:

(A) The SSR Agreement and Rate Schedule 43 are hereby conditionally accepted, subject to a further compliance filing, as discussed in the body of this order.

(B) MISO is hereby directed to submit a compliance filing, within 60 days of the date of this order, as discussed in the body of this order.

By the Commission. Commissioner Norris is concurring in part with a separate statement attached.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

⁹⁷ Escanaba November 13, 2012 Answer at 6 (Docket Nos. ER13-37-000, ER13-37-001 and ER13-38-000).

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Midwest Independent Transmission System Operator, Inc. Docket Nos. ER13-37-000
ER13-37-001
ER13-38-000

(Issued March 4, 2013)

NORRIS, Commissioner, *concurring in part*:

As the resource mix in MISO's footprint undergoes significant change in response to drivers such as Environmental Protection Agency regulations and renewable portfolio standards, I encourage MISO to thoroughly explore all of its options to maintain a reliable grid. By working with its stakeholders to evaluate transmission *and* non-transmission alternatives, MISO will be best prepared to select the most efficient and cost-effective outcomes that provide reliable service to consumers in its region.

Today's order is an example of how stakeholder participation in the planning process can bring forth potentially innovative solutions to a reliability need created by a generator retirement. Stakeholder suggestions in this proceeding have included the use of a converted biomass generator, demand response or capacitor banks, as well as operational procedures such as transmission switching and outage coordination. Giving stakeholders a seat at the table helps ensure that the region does not merely default to an SSR Agreement plus an eventual transmission solution unless this option is more efficient and cost-effective.

Today's order rightly directs MISO to begin an open and transparent evaluation of alternatives to the Escanaba SSR Agreement with its stakeholders in anticipation of the Agreement expiring in June 2013. This is a relatively short amount of time, particularly when considering the timelines associated with some of the alternative solutions. I challenge MISO and its stakeholders to think creatively in evaluating how to best respond to the reliability challenges presented by generator retirements in Escanaba, Michigan and elsewhere that will confront the region.

For these reasons, I respectfully concur in part.

John R. Norris, Commissioner