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Before the
FEDERAL ENERGY REGULATORY COMMISSION
1008th Commission Meeting
Thursday, September 18, 2014
Hearing room 2C
888 First Street, N.E.
Washington, D.C.20426

The Commission met in open session, pursuant to
notice, at 10:02 a.m., when were present:

COMMISSIONERS:

CHERYL A. LaFLEUR, Acting Chairwoman
PHILIP MOELLER, Commissioner
TONY CLARK, Commissioner
NORMAN BAY, Commissioner

FERC STAFF:

KIMBERLY D. BOSE, Secretary
JEFF WRIGHT, Director, OEP
MICHAEL McLAUGHLIN, Director, OEMR
MICHAEL BARDEE, Director, OER
JOSEPH McCLELLAND, Director, OEIS
DAVID MORENOFF, General Counsel
JAMIE SIMLER, Director, OEPI
LARRY GASTEIGER, Acting Director, OE

1 Discussion Items:

2 E-5 Draft Final Rule to Incorporate Into The
3 Commission's Regulations by Reference
4 Version 003 of the Wholesale Electric
5 Quadrant Business Practice Standards
6 Adopted by NAESB.

7 PRESENTER:

8 TONY DOBBINS, OEPI

9 Accompanied by:

10 Gary Cohen, OGC

11 Helen Shepherd, OEMR

12 Stan Wolf, OEPI

13 A-3 Update on MISO 2016 Resource Adequacy
14 Forecast (AD14-17-000)

15 PRESENTERS:

16 CLAIR MOELLER, Executive Vice President of
17 Transmission & Technology, MISO

18 COMMISSIONER ERIC CALLISTO, PSC of Wisconsin

19 CHAIRMAN JOHN QUACKENBUSH, Michigan PSC

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25 COURT REPORTER: Jane W. Beach, Ace-Federal Reporters, Inc.

1 P R O C E E D I N G S

2 (10:02 a.m.)

3 (An off-the-record statement was read by Tracey
4 Eno on behalf of the neighborhood of Cove Point, Maryland.)

5 CHAIRWOMAN LaFLEUR: Thank you for bringing your
6 views and coming to our meeting.

7 (Applause.)

8 UNIDENTIFIED PERSON: (Inaudible, off-mike.)

9 THE REPORTER: Excuse me? Is this supposed to be
10 on the record?

11 CHAIRWOMAN LaFLEUR: I'm afraid we're going to
12 have to start with our meeting. Are you about to hand
13 something forward to us?

14 UNIDENTIFIED PERSON: Yes, ma'am.

15 CHAIRWOMAN LaFLEUR: Then I will be happy if you
16 can turn that in to one of these gentlemen, we will take it.
17 Thank you very much. Right there is fine. Thank you, so
18 much.

19 And with that, I am going to call the meeting to
20 order. This is the time and place that's been noticed for
21 the open meeting of the Federal Energy Regulatory Commission
22 to consider the matters that have been posted in accordance
23 with the Government in the Sunshine Act.

24 Please rise for the Pledge of Allegiance.

25 (Pledge recited.)

1 CHAIRWOMAN LaFLEUR: Well good morning, again,
2 everyone, and welcome to the meeting. I particularly want
3 to welcome our outside guests who will be presenting a
4 little later in the meeting. Clair Moeller from the
5 Midcontinent ISO, Commissioner Callisto of Wisconsin, and
6 Chairman Quackenbush of Michigan. And we'll hear from you
7 in a bit.

8 Before we turn to the agenda and Commission
9 business, I have a number of administrative and personnel
10 announcements. And I know some of my colleagues do, as
11 well. So we're going to do a round of those, and then go
12 around the horn again commenting on the agenda.

13 First and foremost, I would like to formally
14 welcome Commissioner Bay to his first open meeting as a
15 Commissioner. Of course Norman is well known to all of us
16 as the former Director of the Office of Enforcement. He's
17 been with us as a Commissioner for about six weeks, and it's
18 a pleasure working with you and look forward to continuing
19 in the coming years.

20 Of course Norman joining the Commission isn't the
21 only turnover we've had. Last month, our friend John Norris
22 left the Commission to take a position in Rome with the
23 Department of Agriculture, serving as the Trade
24 Representative to the United Nations.

25 Given the timing of his departure, we didn't have

1 an opportunity to embarrass him at open meeting, but I do
2 want to say that it was an honor and a pleasure to serve
3 with him for four years. I really valued his passion for
4 the reliability of the system and for customers, and the
5 perspective he brought to the Commission's work. So we wish
6 him a productive and enjoyable tour of duty in his exciting
7 new spot.

8 One benefit to me, side benefit, of Commissioner
9 Norris's departure is that I have had the opportunity to
10 welcome one of his former advisors, Andy Weinstein, as a new
11 legal advisor in my office. Andy has already been
12 contributing to our team, but at the moment he is home with
13 his brand-new daughter. So there's lots of good news all
14 around there.

15 I have a number of other management
16 announcements, some of which are old news but new since the
17 last open meeting, and others are actually news.

18 Last month, David Morenoff became General Counsel
19 of the Commission after nearly two years as Acting General
20 Counsel, and Larry Gasteiger became Acting Director of the
21 Office of Enforcement following Norman's swearing in. So I
22 am very happy to have both of them in their new roles.

23 Moving on to new announcements, much more
24 bittersweet, Mike McLaughlin has announced that on November
25 30 he will retire from the Commission after more than 30

1 years. Mike is the Director of the Office of Energy Market
2 Regulation and has been a major force in the Commission for
3 along time, and his leaving will leave a big hole.

4 We will have an opportunity to give him a proper
5 sendoff--maybe two--

6 (Laughter.)

7 CHAIRWOMAN LaFLEUR: --in further meetings, but
8 I'd like to make a couple of succession announcements.

9 Effective on Mike's retirement on December 1,
10 Jamie Simler, who is now the Director of the Office of
11 Energy Policy Innovation, will become the Director of the
12 Office of Energy Market Regulation. She has led OEPI, the
13 Innovation Office, since 2009 when she set it up, and was
14 previously the Deputy Director of OEMR.

15 And with Jamie moving to OEMR, I've asked Arnie
16 Quinn, who is hiding somewhere--he's tall, so he can't hide
17 too much--

18 (Laughter.)

19 CHAIRWOMAN LaFLEUR: --who is the current
20 Director of the Division of Economic and Technical Analysis
21 within OEPI, to take over Jamie's current position as
22 Director of OEPI effective December 1. He has also been
23 with OEPI since its creation, and before that was in the
24 Office of Enforcement in Market Oversight and Audit for six
25 years.

1 So I hope you will join me in the beginning of
2 the McLaughlin goodbye and wishing Jamie and Arnie well in
3 their new roles.

4 I also want to give a shoutout to Keith O'Neal.
5 This is his last week at the Commission. He's the Director
6 of Reliability Standards, leaving to move to the West Coast.
7 He has been a founding member of the Office of Electric
8 Reliability and a key player on every Order since Order 693.
9 So he will be missed, but we wish him well, moving closer to
10 his family.

11 Finally, last but by no means least--I'm looking
12 for where our colleague is that I want to recognize--I
13 wanted to recognize a colleague--oh, I see--who has attained
14 an absolutely amazing milestone. On August 2nd, Chief Judge
15 Curtis Wagner celebrated his 60th year of federal service.

16 He began in the U.S. Department of Justice in
17 August 1954. He started as an Administrative Law Judge at
18 the Federal Power Commission in 1974, and he served as Chief
19 Judge since 1978.

20 He has presided over everything from the Western
21 energy crisis to the creation of MISO. So it may be timely
22 that they're here. And I hope you will join me in
23 congratulating him.

24 (Applause and a standing ovation.)

25 CHAIRWOMAN LaFLEUR: So with that lengthy

1 opening, I will turn to my colleagues. Commissioner
2 Moeller?

3 COMMISSIONER MOELLER: Thank you, Chairman
4 LaFleur. Sad goodbyes to John Norris, if you're watching in
5 Rome, John.

6 (Laughter.)

7 COMMISSIONER MOELLER: We miss you--

8 CHAIRWOMAN LaFLEUR: Turn off the computer.

9 (Laughter.)

10 COMMISSIONER MOELLER: Exactly. Right. And good
11 luck with those negotiations with the Europeans.

12 It's sad to see Mike be going because he's been
13 such a bedrock of this Commission for so long, but retiring
14 to farming isn't the worst thing you can do. And Keith
15 O'Neal, as well, wishing you the best.

16 And of course greetings and congratulations to
17 the new positions, particularly Norman Bay, Commissioner
18 Bay. It's great to have you beside me and, as you noted, I
19 will kick you if you misbehave.

20 (Laughter.)

21 COMMISSIONER MOELLER: So two other quick items.
22 The first relates to a meeting we're having this afternoon
23 that I called. It's not an official FERC proceeding,
24 although apparently we will get a docket number--thank you,
25 very much.

1 This pertains to the issue related to pricing
2 natural gas in what we call the after-hours, particularly
3 the evenings and the weekends, and at least the perception
4 of a problem that there is not sufficient liquidity and
5 transparency in those prices which of course came to a head
6 during the Polar Vortex events when gas was in tight supply
7 and prices shot through the roof and people were arguably
8 paying more than they thought they should for supplying that
9 gas.

10 We will examine the issues related to that. We
11 don't know if we have solutions or not, but it is at two
12 o'clock today. It will not be webcast or recorded, but it
13 should be a good, thorough discussion of trying to get to
14 the bottom of whether we have a problem and, if so, perhaps
15 how we can solve it.

16 The last item is one that pertains to the court
17 action yesterday denying en banc rehearing on 745. We have
18 a variety of opinions on that across this table. Personally
19 I was sad to see it denied because I did not want our
20 Commission to lose jurisdiction over Demand Response.
21 Although the final chapter has not been written on that
22 subject, from my perspective it was unfortunate.

23 It's not the end of the world. I think if states
24 are the ones now that have to procure Demand Response, it
25 will be real money to real consumers and they will treat it

1 responsibly. But because it's been such a high-profile
2 issue in this Commission for the last several years, I
3 wanted to add those comments.

4 Thank you.

5 CHAIRWOMAN LaFLEUR: Thank you. Commissioner
6 Clark, red-letter day for you, you're not last anymore.

7 (Laughter.)

8 COMMISSIONER CLARK: Thanks. I also lost my
9 train of thought. I was, you know, thinking I had another
10 Commissioner to go before I'd have to speak.

11 (Laughter.)

12 COMMISSIONER CLARK: Of course I would first
13 acknowledge John Norris and his service here at the
14 Commission. It would have been nice if we could have done
15 it in person, but I certainly wish he and Jackie and the kids
16 well on their new assignment. My relationship with John
17 goes back more than a decade, I suppose, when we were both
18 on Midwestern State Commissions and worked closely on a
19 number of transmission issues in the Upper Midwest. So I'm
20 sorry to see him go, but wish him the best in his new
21 assignment.

22 Congratulations to Norman on your confirmation
23 and appointment. It's great to have you onboard in your new
24 role, as well.

25 Mike, we'll have plenty of time to roast you over

1 the next few months, but congratulations on the
2 announcement, Jamie and Arnie, and of course Keith as well
3 on your move to the West Coast.

4 Other administrative announcements, and
5 congratulations I suppose as well. Robbin Lunt, one of my
6 legal advisors, is here today but you won't be seeing much
7 of her over the next four months. She and Scott are
8 expecting a new arrival over the next few days, and so we
9 congratulate them in advance. But she'll be taking some
10 maternity leave, understandably, for a few months.

11 So congratulations, Robbin. And I'd like to
12 welcome Rebecca Blitstein, who was previously in OGC, the
13 Office of General Counsel, and will be on detail assignment
14 for the next few months while Robbin is on maternity leave.
15 So thanks, Rebecca, for that, and thanks to David Morenoff
16 for allowing us to have her in my office for a few months.

17 I would also like to recognize--I saw Katherine
18 walk in at the back. Katherine Scott, who is an intern from
19 GW here in town, and has been helping in my office for the
20 past three or four months, roughly, and is going to be
21 transitioning out as her STARZ internship changes into
22 something a little different, but she is going to continue
23 interning here at FERC in one of the program offices. So,
24 Katherine, thanks for your work in my office over the last
25 several months.

1 CHAIRWOMAN LaFLEUR: Thank you, Tony. I want to
2 turn back to Commissioner Moeller for one more thing.

3 COMMISSIONER MOELLER: Thank you, Chairman
4 LaFleur. Because so much has happened in the last couple
5 months since our open meeting, I need to announce that Terry
6 Berk, who used to be an attorney working Western issues for
7 me, has moved to Houston. We wish him well.

8 Taking his place is already an alumni, formerly
9 of our office, who helped us out for a few months when we
10 needed it a couple of years ago, Jessie Hensley is back now
11 doing Western issues, and thrilled to have him. But it's so
12 seamless that it almost didn't--that I almost forgot to
13 announce it.

14 (Laughter.)

15 COMMISSIONER MOELLER: So, Jessie, we're glad
16 you're onboard. Thank you.

17 CHAIRWOMAN LaFLEUR: And last but not least,
18 Commissioner Bay.

19 COMMISSIONER BAY: Thank you, Chairman LaFleur.

20 I had been told that the view from this seat
21 really is different than the one I previously occupied, and
22 I can tell you that that is true. I don't know if it's
23 better than the view I used to have--

24 (Laughter.)

25 COMMISSIONER BAY: --but it's certainly

1 different. And I did tell Commissioner Moeller that he had
2 license to kick me if I misbehave, but I'm hoping he doesn't
3 exercise that privilege very often.

4 I too would like to join my colleagues in wishing
5 the best to Commissioner Norris. I have the privilege of
6 working with Commissioner Norris for many years as the
7 Director of the Office of Enforcement. I very much enjoyed
8 working with him and have the greatest respect for him, and
9 he was a great Commissioner.

10 So, Commissioner Norris, I hope you're doing well
11 in that hardship posting of Rome, Italy.

12 (Laughter.)

13 COMMISSIONER BAY: One of the most important
14 things you can do as a new Commissioner is to pick your
15 team. And I've put my team together, and I'd like to
16 introduce them to you.

17 I've got Bob Kennedy. Bob, maybe you could raise
18 your hand. I won't embarrass you by making you stand, but
19 maybe you could raise your hand. Bob Kennedy comes to my
20 office from the Solicitor's Office.

21 Ganelle Burdick. Ganelle comes to my office from
22 the Division of Analytics and Surveillance in the Office of
23 Enforcement. Tatiana Crumskrya. Tatiana comes to my office
24 from OEMR East where she was a Branch Chief. My
25 confidential assistant is Laura Vendetta. Laura was

1 previous the confidential assistant to Commissioner Norris.

2 And the final member of my team is Benjamin Williams.

3 Benjamin also previously served with Commissioner Norris.

4 I think my staff is experienced, smart,
5 collegial, and hardworking. I feel very lucky to be working
6 with them, and I hope you enjoy working with them as well.

7 CHAIRWOMAN LaFLEUR: Well thank you, very much.

8 Now onto the actual agenda and Commission
9 business. In the two months since we last met, we have
10 issued 144 Notational Orders.

11 I also want to call your attention to a notice we
12 issued yesterday, which was a Save the Date notice for a
13 joint technical conference with the New York Public Service
14 Commission. It is going to be held in New York City on
15 November 5th to discuss the role of New York's capacity
16 market in attracting investment to ensure reliability. More
17 information to come, but we'll I hope see some of you in the
18 Big Apple at that time.

19 Turning to the items on today's agenda, as usual
20 they include a diverse set of matters. I want to really
21 focus on two items, or two matters.

22 The first is in the area of reliability. In Item
23 E-16, today the Commission will be approving two new
24 reliability standards relating to communications. And I
25 think these are noteworthy because they represent some of

1 the last substantive standards implementing the requirement
2 of the 2003 Blackout Report, and Order 693.

3 They have been a long time in coming in many
4 stages on the process, and I want to thank NERC and the
5 industry and the team that worked on them at the Commission
6 for the efforts to pull them together.

7 What these standards require, among other things,
8 is that operating personnel in a transmission control room
9 have in place three-way communication protocols to confirm
10 and reconfirm during an emergency. And based on my own
11 experience, correct and consistent protocols for switching
12 and other communications is one of the foremost things you
13 can do to ensure reliability and actually safety as well.

14 So I think this is an important action, and I am
15 happy that we're bringing this one to closure.

16 I also want to talk about the Order 1000 matters
17 that are on the agenda this morning, and I know we are
18 issuing a press release also.

19 As observers of the Commission know, we have been
20 working through the compliance filings of the various
21 regions, and today we take up two Western Regions,
22 ColumbiaGrid in the Pacific Northwest, and WestConnect in
23 the Southwest.

24 In these regions, we have faced the difficult
25 question of how public power entities, power marketing

1 administrations and other public power, which are not
2 Commission jurisdictional and required to comply with Order
3 1000, how they can effectively participate in a Regional
4 Transmission Planning process if they're unable or unwilling
5 to accept ahead-of-the-fact cost allocation determinations.

6 And what we've tried to do in today's Orders, and
7 I believe we have achieved, is to manage the task of both
8 ensuring compliance with the bedrock requirements of Order
9 1000 and facilitating the meaningful participation of public
10 power.

11 Today's Orders affirm that cost allocation
12 determinations made through a regional planning process must
13 be binding on enrolled transmission providers that are
14 identified as beneficiaries of a regional project. That was
15 what we had pushback on in the earlier compliance filings.

16 But today's Orders also recognize that Order 1000
17 did not require public power, as opposed to the regulated
18 entities that we oversee, public power entities to enroll in
19 a transmission planning region, and therefore that we can't
20 require them to accept binding cost allocation without their
21 voluntarily choosing to enroll in a region.

22 Given these findings, the Orders ultimately
23 conclude that the planning structure proposed for each
24 region--ColumbiaGrid and WestConnect--in which transmission
25 providers that enroll in the region will be subject to

1 binding cost allocation, and public power entities that
2 choose not to enroll may nonetheless meaningfully
3 participate in the process and be planned for if the
4 enrolled transmission providers choose to, complies with the
5 requirements of Order 1000.

6 I say all the time that we have a very
7 complicated ecosystem in this country of organized markets,
8 bilateral markets, public power, investor-owned, and so
9 forth, and I hope that today's Orders will really allow the
10 benefits of Order 1000 and robust regional planning to be
11 extended to the Pacific Northwest and the Southwest, which
12 are particularly rich in location-constrained renewables
13 that need transmission development.

14 I want to thank the team that worked on those
15 Orders, and all the ones on the agenda. And with that, I
16 will turn it over to Commissioner Moeller.

17 COMMISSIONER MOELLER: Well coming from the
18 Pacific Northwest and having spent a few days there this
19 week, this is obviously a very hot topic. And I think we've
20 balanced the various complicating factors in a way that
21 hopefully the region can move forward. And I thank you for
22 explaining it.

23 CHAIRWOMAN LaFLEUR: Commissioner Clark?

24 COMMISSIONER CLARK: First on Order 1000, thanks
25 to the Chairman and for my colleagues for their work on

1 these particular Orders. As FERC observers know, in some of
2 the original Western Orders I found myself at odds with the
3 majority of the Commission on some of the initial calls, but
4 I am able to support this today. I'm proud to be able to do
5 so, because I think that, as Chairman LaFleur noted, there
6 is now significant flexibility that exists for some of these
7 public power entities, especially, that otherwise would have
8 made forming a meaningful region in the West very difficult
9 to do.

10 I think that exists now in the Order that we
11 have, and it strikes the right balance. So thanks to the
12 rest of the Commission and the hard work of the team for
13 making that happen.

14 With regard to the Order 745 Order, since it just
15 happened, the denial of rehearing en banc came back
16 yesterday, I'll make just a few comments on that.

17 As many of you know, the statements that I've
18 released with regard to that particular Order is I found the
19 majority opinion in the original case to be quite persuasive
20 and a reasonable interpretation of the Federal Power Act.

21 What I would urge us all to consider is I think
22 that this is now an opportunity for us to move forward and
23 to reassess the regime that we have with regard to Demand
24 Response and perhaps move forward into something,
25 importantly along with our state colleagues, because I think

1 we're going to have to work very closely with our state
2 colleagues with regard to the importance that Demand
3 Response can bring into the marketplace in a meaningful way
4 and in a way that moves the ball forward.

5 In my assessment, losing jurisdiction over Demand
6 Response does not mean that we have to ignore Demand
7 Response. In fact, we shouldn't because it plays a very
8 important role in our electricity markets.

9 Rather, Demand Response reductions can still be
10 accounted for if they're measurable and if they're
11 verifiable, and if they work with state-sanctioned programs
12 that allow them to operate.

13 Such Demand Response could be used for planning
14 purposes, and indeed has great potential if it's paired with
15 advanced metering technologies and price-responsive demand
16 products which accurately show the price in the wholesale
17 markets but on the retail side of the equation.

18 So I encourage all of us, FERC, load-serving
19 entities, states, to work very closely going forward to
20 ensure that we can implement these programs in a meaningful
21 way and in a way that is beneficial to the American
22 economy.

23 Thank you.

24 CHAIRWOMAN LaFLEUR: Thank you. Commissioner
25 Bay?

1 COMMISSIONER BAY: Like my colleagues, I am also
2 pleased to support the Order 1000 Orders. I think they
3 strike the right balance. And I also want to thank the team
4 for the very hard work that they put into these Orders.

5 CHAIRWOMAN LaFLEUR: Thank you.

6 Madam Secretary, I think we're ready for a vote
7 on the Consent Agenda.

8 SECRETARY BOSE: Good morning, Madam Chairman,
9 good morning, Commissioners.

10 Since the issuance of the Sunshine Act Notice on
11 September 11th, 2014, no items have been struck from this
12 morning's agenda. Your Consent Agenda is as follows:

13 Electric Items: E-1, E-2, E-3, E-4, E-6, E-7,
14 E-8, E-9, E-10, E-11, E-12, E-14, E-16, E-17, E-18, and
15 E-19.

16 Gas Items: G-1.

17 Hydro Items: H-1, H-2, and H-3.

18 Certificate Items: C-1.

19 The vote begins with Commissioner Bay.

20 COMMISSIONER BAY: I vote aye.

21 SECRETARY BOSE: Commissioner Clark?

22 COMMISSIONER CLARK: Aye.

23 SECRETARY BOSE: Commissioner Moeller.

24 COMMISSIONER MOELLER: Aye.

25 SECRETARY BOSE: And Chairman LaFleur.

1 CHAIRWOMAN LaFLEUR: I vote aye.

2 SECRETARY BOSE: The first item for discussion
3 and presentation this morning is Item E-5 concerning a draft
4 rulemaking on the standards of business practices and
5 communication protocols for public utilities.

6 There will be a presentation by Tony Dobbins from
7 the Office of Energy Policy and Innovation. He is
8 accompanied by Gary Cohen from the Office of the General
9 Counsel; Helen Shepherd from the Office of Energy Market
10 Regulation; and Stan Wolf from the Office of Energy Policy
11 and Innovation.

12 MR. DOBBINS: Good morning, Chairman and
13 Commissioners. We are here to present a draft Final Rule to
14 incorporate into the Commission's regulations by reference
15 Version 003 of the Wholesale Electric Quadrant Business
16 Practice Standards adopted by the North American Energy
17 Standards Board, NAESB.

18 The draft rule adopts the majority of the Version
19 003 standards as mandatory requirements to reflect policy
20 determinations made by the Commission in the Order Nos. 890
21 series of orders and other orders.

22 In addition to these mandatory requirements, the
23 Commission is for the first time listing informationally
24 several Smart Grid-related standards as guidance. Key
25 highlights of the Version 003 standards include:

1 The Version 003 standards reflect updates to the
2 Version 002.1 standards to support the OASIS functionality
3 associated with Network Integration Transmission Service,
4 NITS.

5 In Order No. 890, the Commission required the use
6 of OASIS to request designation of new network resources and
7 to terminate designation of network resources. The updated
8 standards are designed to provide functionality that:

9 Allows transmission providers to handle requests
10 on a customer-by-customer basis;

11 Allows the option of tracking designated network
12 resource scheduling rights; and

13 Allows a customer to designate an agent to
14 administer OASIS transactions on its behalf.

15 The new and revised standards related to Service
16 Across Multiple Transmission Systems, SAMTS, address the
17 coordination of point-to-point transmission service and/or
18 network transmission service requests across multiple
19 transmission systems.

20 The SAMTS standards were developed based on the
21 Commission's guidance in Order No. 890 for transmission
22 providers to work with NAESB to develop a process for
23 customers to complete cross-regional transactions.

24 The process requires each affected transmission
25 provider to independently evaluate its portion of a linked

1 request with the opportunity for reconciliation by the
2 customer once all evaluations are complete. The customer
3 communicates reconciled information to each of the affected
4 providers.

5 Consistent with today's order denying rehearing
6 in the Entergy proceeding in Docket No. ER05-1065-008, on
7 the issue of redirects, the Commission declines to
8 incorporate certain standards that are inconsistent with
9 that precedent and we request that NAESB review its
10 standards in this area and modify those standards that are
11 inconsistent with the Commission's Dynege precedent.

12 The Commission's Dynege Order held that, when a
13 customer makes a request for a redirect, it doesn't lose its
14 rights on the existing path until the redirect request is
15 both confirmed and has become unconditional.

16 In the draft Final Rule, in addition to the
17 standards the Commission is incorporating by reference into
18 its regulations as mandatory requirements, several NAESB-
19 developed Smart Grid-related standards are being listed
20 informationally.

21 Their use encourages development of new
22 technologies and fosters Smart Grid interoperability by
23 defining a set of business processes that serve as an input
24 into the development of a broader Smart Grid information
25 model.

1 We note that these are building blocks that
2 support ongoing efforts to develop future Smart Grid
3 standards. In consideration of this and other concerns
4 expressed by commenters, this rule does not make compliance
5 with these Smart Grid standards mandatory.

6 This Final Rule calls for public utilities to
7 make compliance filings to update their tariffs and to
8 present any waiver requests by December 1st, 2014. However,
9 compliance with requirements related to NITS OASIS templates
10 is due 16 months after the effective date of the rule to
11 allow time for necessary software changes.

12 We've also given filers the option of making a
13 tariff filing informing customers that they will comply with
14 the version of the business practice standards currently in
15 effect. If this option is used, a public utility will avoid
16 the need for future compliance filings whenever NAESB
17 standards are updated, so long as it is not seeking waivers.

18 This completes our presentation.

19 CHAIRWOMAN LaFLEUR: Well thank you, Tony, and
20 team. We don't often have NAESB standards on our agenda,
21 but it represents one of the most exacting and detailed
22 pieces of our work that makes a lot of the other policies
23 hang together. So I really appreciate your work.

24 My colleague, Commissioner Moeller, asked to call
25 this item so I will turn the floor to him.

1 COMMISSIONER MOELLER: Well thank you, Chairman
2 LaFleur, and thanks to the team and Mr. Dobbins for the
3 presentation.

4 NAESB standards, when we incorporate them by
5 reference, are not necessarily the most glamorous side of
6 our work, but they are vitally important. And sometimes I
7 think it's difficult for people when they read the orders to
8 figure out really what we're doing and what we're
9 referencing. And so I thought it was important at a public
10 presentation to give some background and further detail as
11 to these standards and whether they're applicable to certain
12 entities within the industry.

13 So thank you for honoring my request to call this
14 item.

15 CHAIRWOMAN LaFLEUR: Commissioner Clark?

16 COMMISSIONER CLARK: Thanks to the team for your
17 work. I don't have any questions. Thanks.

18 CHAIRWOMAN LaFLEUR: And Commissioner Bay?

19 COMMISSIONER BAY: Thank you. I want to thank
20 the team for its work on this, as well.

21 CHAIRWOMAN LaFLEUR: Thank you very much,
22 gentlemen.

23 I guess we're ready for our supporting actors,
24 our guest stars--no, we need a vote on this. My mistake.
25 I'm sorry.

1 SECRETARY BOSE: The vote on E-5 begins with
2 Commissioner Bay.

3 COMMISSIONER BAY: I vote aye.

4 SECRETARY BOSE: Commissioner Clark.

5 COMMISSIONER CLARK: Aye.

6 SECRETARY BOSE: Commissioner Moeller.

7 COMMISSIONER MOELLER: Aye.

8 SECRETARY BOSE: And Chairman LaFleur.

9 CHAIRWOMAN LaFLEUR: I vote aye.

10 And now our guest stars.

11 SECRETARY BOSE: The last item for discussion and
12 presentation this morning is on Item A-3. This is
13 concerning the update on MISO and the Organization of MISO
14 States, their 2016 Resource Adequacy Forecast.

15 There will be a presentation by Clair Moeller,
16 MISO's Executive Vice President of Transmission and
17 Technology; Commissioner Eric Callisto from the Public
18 Service Commission of Wisconsin; and Chairman John
19 Quackenbush from the Michigan Public Service Commission.

20 WISCONSIN PUC COMMISSIONER CALLISTO: Good
21 morning. We are pleased to be here. We are going to start
22 off the discussion here with Clair's presentation on the
23 Resource Adequacy Survey.

24 CHAIRWOMAN LaFLEUR: Thank you.

25 (A PowerPoint presentation follows:)

1 MR. CLAIR MOELLER: Thank you. It's a pleasure
2 to again appear before FERC. Thanks for the invitation.
3 Thanks for the opportunity to bring you up to date with
4 where we're at and the trip we've been on as we've added
5 more transparency and more care to the notion of generation
6 resource adequacy.

7 Resource adequacy is a very important thing.
8 From a customer standpoint, it looks like reliability but
9 inside the NERC rule set it's not, strictly speaking, a
10 reliability standard. It's more of a mutual insurance pool
11 around generation to ensure that there's sufficient
12 generation.

13 Technically, if you reduce customer demand by
14 tripping them, turning them off, and you avoid a cascading
15 failure of the electric grid, that's deemed to be reliable.
16 If you're a customer, you don't think that's true. So this
17 other thing that is outside of NERC around resource adequacy
18 talks about how that mutual insurance pool is constructed
19 and what we do to ensure that we don't run out of
20 generation.

21 And if I can make that [screen] go forward, this
22 will work better. Anybody got a clue where I'm supposed to
23 point?

24 (Laughter.)

25 MR. CLAIR MOELLER: There we go. What I'd like

1 to direct your attention to on slide one is the second
2 bullet. As we began to peel back the onion on the resource
3 adequacy question, our first attempt was to look at the
4 various state procedures around how they ensure that their
5 utilities are in fact bringing the right amount of assets to
6 the table.

7 The biggest problem we had in that were both the
8 redacted nature of the filings--because they're commercially
9 sensitive things--but more importantly, they were not
10 synchronized in time. So it was very hard to get a clear
11 picture of what simultaneously all of the utilities'
12 positions were within the entirety of the footprint.

13 So for the first time, with the collaboration
14 between OMS and MISO we were able to get a time-synchronized
15 picture of what the capacity positions were of all the
16 participants that were in our market.

17 Not everyone is state-jurisdictional, obviously,
18 in our market, and yet we had quite good cooperation from
19 the municipal utilities and the co-operatives. We had a 99
20 percent response rate. And the folks that didn't respond
21 were quite small, and actually statistically not significant
22 to our result. So that's a really important thing. This is
23 the first time any mutual insurance reserve-sharing pool has
24 been able to have that kind of clear picture. So it was a
25 very important result from the work.

1 So part of the punchline, which isn't the whole
2 punchline, is when you do all that work and you do all the
3 math, we're still showing that compared to the standard
4 we've set for ourselves, which is a statistical risk factor
5 of 2.4 hours in 8,760 simulations, which is a lot of math
6 behind that that I'm happy to take anybody through maybe
7 with a napkin in a bar someplace, because it gets a little
8 bit esoteric. But the bottom line is, as we set this
9 1-day-in-10 standard, the notion is how much generation do
10 you need to ensure you don't have a bigger risk of load
11 rejection than that?

12 We get to about a 14-1/2 percent requirement. As
13 we look at the firm plans firm plans for 2016, we don't see
14 firm plans for meeting that complete requirement. We see a
15 slight shortfall, 2.3 gigawatts.

16 On this slide I'm also showing a 2.5 gigawatt
17 overage in our newly integrated south region. There is not
18 sufficient transmission to move that 2.5 gigawatts from the
19 south to the north, so you can't just do simple math and
20 make those to go away.

21 We are also experiencing significant industrial
22 growth on the Gulf Coast. And so it's our expectation that
23 that 2.5 gigawatts will be consumed by local customers quite
24 quickly.

25 Why is all this important? I've got to do more

1 engineering on 'ya. The thing to understand about the
2 mutual insurance pool is the nature of the risk is--
3 exponentially grows as you reduce the amount of generation
4 that's available.

5 Frankly, across the last decade we haven't had to
6 care very much because we had such a surplus of capacity
7 that the loss-of-load risk was trivial. A 30 percent
8 reserve margin meant you could mail it in, frankly.

9 Between the economic reactions to the Mercury and
10 Air Toxins, we've seen a retirement of nearly 18 percent of
11 the coal in the MISO fleet. And that will be bringing us
12 down to these minimum reserve margins. So it's time to
13 sharpen the pencil and make sure we're not making
14 assumptions within our math that are too risky.

15 As we talk about on staff, I encourage them to
16 not make the wrong mistake. These are statistical and
17 forecast kinds of numbers, so you're not going to be right.
18 But you want to be wrong in a direction that saves the
19 consumer, doesn't cost the consumer; so, two things. There
20 are two ends to that.

21 Spectrum one is, over-investing costs a lot of
22 money for not much value. Under-investing causes a loss-of-
23 load risk. So making sure that we're real tight on doing
24 that math is what we believe is in the consumer's best
25 interests.

1 Another important thing to note from this graph,
2 you see the 2016 projected operating range without emergency
3 procedures. And you'll see that that's three days a year.
4 Let me talk to you a little bit about what emergency
5 procedures are.

6 This probably came up in your price formation
7 conversation earlier. We have about 10,000 megawatts of
8 resources that don't set price but are dispatchable by the
9 ISO in times of emergency. That includes Demand Response,
10 an emergency-only kind of Demand Response. That includes a
11 behind-the-meter generation that could be something as
12 simple as an emergency stand-by generator at a hospital, a
13 small diesel at a municipal, those sorts of things.

14 Those types of resources have never participated
15 in the market. So when things are tight, we ask for those
16 emergency procedures. They're outside the market. It does
17 a weird thing. In some places, those emergency procedures
18 actually will lower price, which is a market problem that we
19 need to work on. But the reality is, that 10,000 megawatts
20 is a normal part of what we have always counted as an
21 industry. It's not a new thing. It's just newly
22 transparent.

23 So that's an important thing also for us to
24 appreciate.

25 I'm going to skip that slide. We can talk about

1 it, come back to it if you'd like. Kind of the punchline
2 is, it's tight all over and it's more tight in Indiana and
3 Michigan than it is elsewhere.

4 People are working diligently to close these
5 gaps, and we'll hear from the Commissioners later about the
6 process we go through to do that. And that's one slide too
7 far. That's a different slide than I thought was the last
8 slide, so I'm going to have to make up stuff.

9 So as we look forward, things that we're trying
10 to do that you'll see coming from us include tightening the
11 definitions of resources, and what years, and what time of
12 year they might apply.

13 The Polar Vortex taught us that capacity risk can
14 happen all year long. For example, the demand side
15 management, if it's a water heater program it works fine in
16 February. If it's air conditioning, not so much, right?
17 Currently we define our resource stack against the summer
18 months only, and so finding a way to tighten that down to
19 make sure we're not taking inadvertent risk because we
20 simply don't understand the definition of the resource are
21 things that you'll see us doing over time.

22 We're also looking to make sure any capacity that
23 is in the market can participate in the market. There are
24 things that happen like a generator might have had an outage
25 and they rewind the generator. And when they put it back

1 in service, it has 54 megawatts more capacity than it had
2 before the rewind.

3 But if the owner didn't ask for that 54
4 megawatts of interconnection service, technically it's not
5 available to the market to buy. We have almost 1,000
6 megawatts of that kind of generation that we're--that we've
7 found and that we're working to make sure is available to
8 the market.

9 There's other kinds of trapped generation that
10 would require transmission investments to make available.
11 It will be up to the load-serving entities to make that
12 request and go through our tariff as it's constructed and
13 pay for those network upgrades in order to free that up.

14 So we're pretty confident that we haven't missed
15 any of the resource mix. The fact that we've caused all of
16 our load-serving entities to go on record we believe has
17 increased their urgency at making these decisions, and we're
18 seeing those gaps close substantially.

19 And with that, I'd turn the microphone over to my
20 colleague, Mr. Callisto.

21 WISCONSIN PUC COMMISSIONER CALLISTO: Thank you.
22 And thank you, Commissioners and Chairman, for giving us the
23 opportunity to speak. Thanks, Clair, for the intro.

24 With the Chair's indulgence, I would like to read
25 a substantial portion of the prefiled testimony. It's not

1 my usual model. It will keep me on point. I promise to go
2 way off point as soon as we get involved in the Q&A.

3 Before I start, I do want to note, as all of you
4 did, a shoutout to Commissioner Norris. The Chair did not
5 mention the fact that he was the OMS president, as well.
6 I'm sure that is somewhere on his resume. I don't know it's
7 on page 1 or page 3, I won't speculate, but congratulations
8 to him as well.

9 Reserve margins are tightening across the
10 footprint, the result of aging infrastructure, environmental
11 regulation, and decisions made by legislatures, utilities,
12 and regulators to diversify the generation fleet.

13 As an industry, and regardless of our role in
14 ensuring resource adequacy, the erosion of excess reserves
15 understandably is of great concern to us all. And
16 consistent with our relative roles in the industry, I
17 believe there's been an appropriate response in the MISO
18 footprint to this challenge.

19 I want to spend the remainder of my time
20 discussing how the states are responding to this challenge,
21 the role played by the OMS/MISO Resource Adequacy Survey,
22 and helping to focus the states on 2016, and some next
23 steps.

24 Chairman Quackenbush will focus his comments
25 specifically on the Michigan response.

1 The resource adequacy situation is different in
2 each of the 15 states that comprises a part of MISO.
3 Indeed, a strength of this region is its ability to bring
4 different resources and regulatory models to bear on the
5 problems it faces.

6 And while not a problem year after year, resource
7 adequacy has been at the forefront of state regulators'
8 minds since the creation of the regulatory compact. It is
9 that compact that drives the resource adequacy construct in
10 MISO because keeping the lights on its the most fundamental
11 obligation of vertically integrated utilities.

12 In return for making sure they maintain a system
13 of adequate generation and distribution, the primarily
14 vertically integrated utilities in MISO receive the
15 opportunity to earn a reasonable return and a unique service
16 territory.

17 None of you of course needs a history lesson in
18 this arrangement, but I raise it because there re
19 stakeholders before this body who argue that state
20 regulators and the utilities they oversee are going to fail
21 the ratepayers in this most foundational of utility and PUC
22 responsibilities. Their concerns do not take into account
23 the public interest, nor are they based on any evidence of
24 shortcomings in the current construct.

25 State commissions, and those they regulate, have

1 analyzed the situation in 2016 and have taken--and more
2 importantly--will continue to take steps to address it.

3 Many of the states in the footprint have an
4 integrated resource plan and require the utilities to bring
5 generation plans to them years in advance for approval.
6 Others have different processes to ensure that generation or
7 its proxy will match load.

8 Wisconsin, for example, has a capacity planning
9 reserve margin requirement of 14.5 percent, but requires
10 annual compliance by its utilities with MISO's one-day-in-
11 ten years loss-of-load expectation figure.

12 Iowa has advanced ratemaking principles in place
13 to encourage generation as needed. Regardless of the
14 state-specific process, states continue to monitor resource
15 adequacy, particularly under the challenges being faced by
16 the fleet in the short term, and have the knowledge and
17 authority to ensure the public's needs are met.

18 This model has demonstrable success in MISO.
19 Since 1998, more than 26,000 megawatts of generation has
20 been put in service, with another 6,600 under construction.
21 More than 150 generation projects are in various states of
22 study at the RTO.

23 Wisconsin alone in the face of brownouts more
24 than a decade ago has iowan investments in the state or on
25 behalf of state utilities of almost \$7 billion in new,

1 upgraded or purchased generation capacity.

2 MISO has been an active and responsive partner in
3 this area. Its existing residual market, as well as other
4 stakeholder processes, has been invaluable in allowing load-
5 serving entities to benefit from the breadth of resources in
6 the region.

7 As an example, it is because of the MISO
8 generation and transmission planning process, as well as its
9 wholesale markets, that the Wisconsin Commission lowered its
10 state-specific planning reserve margin in 2008 from 18
11 percent to the 14.5 percent I previously noted.

12 Importantly, MISO has been receptive to input
13 from all stakeholders as it has developed its resource
14 adequacy construct, and it very clearly responded to the
15 vast majority of stakeholders in MISO who advocated
16 against a long-term, mandatory forward capacity market.
17 State regulators believe the common ground reached between
18 us, MISO, and most of the LSEs in MISO will continue to
19 exist.

20 Because of this good history with MISO and for
21 the very reasons that state regulators are concerned about
22 tightening reserve margins, we agreed last year to work with
23 MISO on the Survey, a 10-year forward look in the region.

24 We are not so beholden to jurisdictional
25 boundaries to ignore the great value MISO brings to this

1 important dialogue. It has substantial analytical
2 strengths, and an ability to objectively gather data on
3 behalf of the footprint as a whole.

4 OMS member state regulators have the ability
5 through our direct oversight of the utilities to ensure that
6 LSEs are fully engaged in the Survey and to respond when
7 objective data shows resource adequacy deficiencies.

8 There were certainly some challenges presented by
9 the Survey process, and many questions from the LSEs to both
10 MISO and the state commissions. But with a 99 percent
11 response rate, as Clair noted, we believe the Survey
12 provides a needed window--from a footprint-wide perspective--
13 on the short-term resource adequacy situation. Some
14 highlights from the survey:

15 The most recent results from June show that the
16 MISO footprint as a whole does not have a forecasted
17 capacity shortfall in 2016. It forecasts a modest 0.2
18 gigawatt surplus.

19 Even if the shortfall in MISO North and Central
20 persists through 2016--which I don't think will happen--the
21 reserve margin would be at 12.5 percent. That only suggests
22 a probability of a loss-of-load event in the range of two
23 days every decade.

24 The June 2014 forecast shows a small forecasted
25 gap in only 3 zones in the footprint.

1 It is the combination of established state
2 planning processes and the new information provided by the
3 Survey on state and regional resources that has helped
4 provide state regulators the widest array of solutions for
5 2016 and beyond.

6 We will work with MISO, our transmission owners,
7 LSEs, and other MISO stakeholders on important internal
8 efforts to MISO and at the RTO seams that may help make
9 additional needed capacity available.

10 We will continue our state-specific actions
11 informed by the Survey and the pressing need to respond to
12 the other challenges facing the industry. I believe the
13 Survey should continue to be an important part of that
14 effort and the OMS Board later today will be discussing my
15 recommendation that OMS continue this important
16 collaboration with MISO for the next planning year.

17 While OMS remains convinced that the current
18 resource adequacy construct in MISO is best for customers,
19 we remain open to a dialogue with stakeholders who may have
20 suggestions for reasonable--reasonable--modifications to the
21 construct.

22 As an example, OMS has been supportive of MISO's
23 analysis relating to a potential addition of a seasonal
24 component to the tariff.

25 OMS appreciates the real concerns FERC has with

1 resource adequacy across the country. The causes of the
2 challenge are largely known, and 2016 is a time period that
3 rightly is getting attention.

4 As the Commission has recognized, the responses
5 by RTOs and their stakeholders can be varied, but the result
6 needs to be the same: resource adequacy.

7 OMS and its 17 members have this among their
8 highest priorities. We would be happy to continue to
9 provide information to FERC on our progress on short- and
10 long-term actions that will ensure that we, and those you
11 regulate, are meeting this important obligation.

12 Thank you.

13 CHAIRWOMAN LaFLEUR: Chairman Quackenbush's
14 slides? There we are.

15 (A PowerPoint presentation follows:)

16 MICHIGAN PUC CHAIRMAN QUACKENBUSH: Thank you,
17 very much. Good morning, and thank you for the opportunity.
18 I've been asked to take a deeper dive into Michigan, so I'd
19 like to give you a flavor for how we're thinking about these
20 issues and addressing them in Michigan.

21 But before I do that, I'd like to be among the
22 first to pile on and add my congratulations to Mike
23 McLaughlin. I had the privilege of working with Mike before
24 any of you did.

25 (Laughter.)

1 MICHIGAN PUC CHAIRMAN QUACKENBUSH: Thirty-plus
2 years ago, we were on the staff of the Illinois Commerce
3 Commission together, and so it's great to hear when good
4 things happen to good people. So congratulations, Mike.

5 All right. In Michigan we think of it as
6 three--we have to think of Michigan in three pieces, and
7 here we go. I put this map up there, which kind of
8 demonstrates this. You can see Zone 7 constitutes most--
9 this is MISO Zone 7--constitutes most of the Lower Peninsula
10 of Michigan. And then we have our Upper Peninsula, which
11 shares Zone 2 with the eastern half of Wisconsin. And then
12 finally, the white section that you see in the southwestern
13 corner of Michigan is part of PJM.

14 And so I'd like to touch on all three of these
15 zones as we go through this.

16 First, the Lower Peninsula. We have some data
17 here--I won't go through it all--but it shows the electric
18 generation, the transmission infrastructure--almost 10,000
19 miles of transmission infrastructure that's reliable, very
20 reliable in our Lower Peninsula.

21 We have connections to PJM, to the Upper
22 Peninsula into Ontario. And with seven 345 kV lines to PJM,
23 we do have significant interties with them.

24 The capacity import limit is almost 4,000
25 megawatts. A lot of the constraints there are due to seams'

1 issues between PJM and MISO, but these are just kind of the
2 facts that we're starting with current conditions.

3 Let's also talk about--I'll go to the Upper
4 Peninsula next. Here we go. And so in Zone 2, there's 163
5 electric generating units in the Upper Peninsula, which
6 sounds like a lot, but it really isn't. There's only one
7 large baseload facility, and there's a lot of small hydro
8 facilities and so forth.

9 The Upper Peninsula constitutes 36 percent of the
10 land mass of Zone 2, but only 8 percent of the load. It has
11 transmission connections to Wisconsin, as well as the Lower
12 Peninsula. And those are detailed here.

13 We don't specifically have numbers for capacity
14 import limit and capacity export limit, primarily because
15 it's part of a shared zone and a small part at that.

16 We have in the MISO study, in the appendix to the
17 slides that MISO went through earlier, it shows you some
18 zonal information. You can see that Zone 7 is one of the
19 shortest zones, or the shortest zone as MISO's measured it;
20 and Zone 2 actually has a slight surplus according to the
21 numbers.

22 However, we are very concerned about this and
23 we're addressing it, and I'll get to some things we're doing
24 to address it. But just to set the groundwork here, we have
25 greater concerns about Zone 2, or our Upper Peninsula, than

1 we actually do our Lower Peninsula because it has a unique
2 geography. It has a rural nature. We have the only
3 baseload plant that's up there that is scheduled for
4 retirement, and we also have contentious relationships
5 between parties up there.

6 So with that, I'd like to go on to some--these
7 resources. Consumers Energy, which is one of our largest,
8 one of our two large utilities, has the capacity that you
9 see on the slide.

10 One of the assets I'd like to highlight is the
11 Ludington hydro pump storage facility, which is currently
12 1,871 megawatts. It's currently undergoing an uprate. We
13 are replacing the turbines. There are six turbines. We're
14 replacing them at a rate of one a year. The first one's in
15 service this year, all the way through 2019. And there will
16 be an uprate of 420 megawatts through that process by the
17 time we get to 2019.

18 This facility is jointly owned by Consumers
19 Energy and DTE. It's shown here under Consumers Energy
20 because it is the operator and the majority, slight majority
21 owner.

22 We also have coal generation that is expected to
23 be--I'll amend this slightly due to recent events. It's
24 anticipated to be suspended, and two days ago there was an
25 agreement announced with the EPA and the DOJ that changed

1 this to a retirement. So we expect that these classic seven
2 coal plants of about 1,000 megawatts will be retired rather
3 than suspended in April of 2016.

4 There's a small level of SSR contract, but one of
5 the big things that's happening here is there is a Jackson
6 Plant that Consumers Energy is purchasing. It's currently
7 an IPP and they're looking to purchase it and close that in
8 2016.

9 For DTE, they have about 1,100 megawatts of
10 capacity, a small amount of coal expected to retire in 2016.
11 They're able to comply with their MATS obligations with dry
12 sorbed injection, which economically keeps those coal plants
13 operating beyond 2016 for a good number of them. And this
14 avoids premature retirement. But they do have some coal
15 retirements coming potentially later in the decade.

16 We also have a fair amount of cooperatives in
17 municipalities in the state that are part of the picture.
18 And then of course a key ingredient is our Independent Power
19 Producers.

20 This is an important but volatile and
21 unpredictable component in the context that they can choose
22 to participate in the PJM market if they choose, or they can
23 participate in the MISO market.

24 So we know that some of the shortfall that MISO
25 report can be filled by IPPs that perhaps return from

1 obligations to PJM back to MISO, or vice versa. We can also
2 prevent the shortfall from growing by retaining some that
3 are currently committed to MISO.

4 Again, just the Upper Peninsula mix. We have--I
5 won't dwell on this slide, but it does mention that there
6 are three units that are mentioned there that are operating
7 under SSR contracts. So approximately 50 percent of the
8 Upper Peninsula generation is operating under an SSR
9 contract. And we are exploring long-term solutions, both on
10 the transmission side and the generation side.

11 MISO has been helping us with data to determine
12 what a transmission solution might look like, as well as
13 what a generation solution might look like, both the side,
14 the location, and the number of units that would be
15 required.

16 We suspect that the better long-term solution for
17 reliability in the Upper Peninsula is a generation solution,
18 and we welcome a level playing field between generation and
19 transmission. And there currently is a letter of intent
20 signed for a new generating plant up in the Upper
21 Peninsula.

22 Moving on to just talk about our next steps in
23 general, I already talked a little bit about the IPP issue.
24 I won't dwell on that. Consumers Energy has the deal struck
25 already for the Jackson Plant.

1 DTE has an RFP out currently to do something
2 similar. That's in the midst of the process. It's
3 anticipated that there would be a filing at FERC if their
4 process bears fruit and they're successful; that they would
5 ask for approval by year-end as something they could close
6 in 2015.

7 I mentioned the uprates at Ludington already. I
8 should also mention that Consumers Energy has a capacity
9 auction that will be taking place later this month for 500
10 megawatts of zonal capacity, credits for 2016. So these are
11 all steps we're taking.

12 Beyond that, the final slide shows potential new
13 resources. We have been on a path to study energy
14 efficiency and renewable energy towards potential 2015
15 legislation in our state. We have been doing a lot of work,
16 a lot of reports. We have a potential study. We think we
17 have a 10-year runway of energy efficiency projects we can
18 undertake, at least.

19 And so we're working towards that and anticipate
20 legislation that would take a view towards 2025.

21 On top of that, we have new gas generation that
22 we can build. Consumers Energy has a Thetford project that
23 was proposed, and it's currently on the shelf, but that can
24 be dusted off at any time.

25 DTE can also build some new natural-gas fired

1 generation. We also have Demand Response. We're doing I
2 think a significant number--or amount of Demand Response
3 today. We are looking forward to doing some more, enabled
4 by advanced meters, which will largely be in place in the
5 core areas of our state by late 2015. Subsequent to that,
6 we can do even more.

7 And we haven't taken nuclear off the table. We
8 still have an existing application at the NRC that's moving
9 ahead and only about a year away from completion for
10 Fermi 3. Once that application, if that process is fruitful
11 and that's approved, there's still a decade for us to make
12 use of that license once it's acquired. And we wouldn't
13 anticipate doing it till the latter half--at the earlier--of
14 the decade, but it is an option that we really would like to
15 keep on the table at minimal cost.

16 So with that, I'll just say one brief word about
17 PJM. Our Indiana/Michigan Power Company that serves both
18 Michigan and Indiana historically has been long generation.
19 They have two nuclear units in Michigan, and a lot of small
20 hydro, and they own coal in Indiana, which will be shutting
21 or retiring.

22 So we think that they'll come out with a--they'll
23 have a short position, but with between energy efficiency,
24 demand response, and some new renewables built, they can
25 close that gap.

1 So we know there's work to do in Michigan. It's
2 challenging, but we think it's attainable. We think of all
3 three parts of our state as important, with our Upper
4 Peninsula perhaps being the most challenging. The level of
5 difficulty there is the highest. But we appreciate your
6 support as we work through it.

7 Thank you.

8 CHAIRWOMAN LaFLEUR: Well thank you very much to
9 all of you. That was really interesting, and I appreciate
10 your--we all appreciate your travelling to be here and
11 sharing that with us.

12 Obviously both federal and state regulators have
13 as our core responsibility to ensure that the lights stay on
14 at just and reasonable rates. We do that primarily through
15 our oversight of the regional markets and reliability
16 standards. And the states, particularly in the vertically
17 integrated states--all states have a role, but the states
18 have a particularly strong role, state regulators, in
19 resource adequacy and generation decisions.

20 We've been following the Midcontinent ISO,
21 particularly MISO Classic, for awhile because of all the
22 filings we've had on market changes in SSRs, as well as Mike
23 Bardee and colleagues who have regular calls with the EPA
24 and others on what's happening with MATS. And this has been
25 an area that's been under the microscope for a bit.

1 I guess I would like to address my first question
2 to Clair. As you think of everything that you've heard--and
3 thank you for doing the excellent Survey, and all those
4 Monte Carlo simulations that I'm sorry all your charts
5 didn't come up--do you plan any other, putting aside stuff
6 that's already pending, do you plan any changes to your
7 markets, or changes to your assigned risk pool, or changes
8 to our rules for your seam with PJM, as a result of any of
9 this?

10 Or do you think you have the structures in place
11 now?

12 MR. CLAIR MOELLER: So I'll answer the last part
13 of the question first.

14 In terms of our relationship with PJM, we've been
15 working for quite awhile to ensure that we don't have
16 administrative barriers to capacity transactions back and
17 forth across that seam.

18 Both organizations are interested in an efficient
19 capacity market. We got off to a bumpy start on that, but
20 in more recent weeks we're getting to some similar kinds of
21 ideas on how to work our way through this. So we're working
22 hard to make sure that we don't have any administrative
23 problems, and that any capacity transactions that can't
24 happen can't happen because of actual technical, not enough
25 wiring in the air kind of problem.

1 So we think we've got that worked through. We
2 are concerned in that as we move through the next tranche of
3 environmental regulation we expect this tight capacity
4 situation to persist for a long time. And that is causing
5 us to relook at some of our rules, Commissioner Clark's
6 earlier note around making sure that we have demand side
7 management that we can measure the response of so we know
8 how much we can count on, and when; what seasons we can
9 count on it. So we would expect to be back with this
10 Commission to talk about those definitional things as we
11 move to a more seasonal construct.

12 The other thing that there is a little
13 conversation about has to do with if a participant comes to
14 the marketplace knowingly short, so they're not making their
15 contribution to the resource pool, should we get into an
16 uncomfortable event where we need to curtail load, we would
17 expect that the person who knows that they don't have enough
18 capacity to participate in the risk pool should be the first
19 one off.

20 It's very important that we ensure that who
21 benefits is who pays. It would be illogical for an
22 organization to come 1,000 megawatts short. We have 1,000
23 megawatt shortfall and we share that 1,000 megawatt load
24 interruption with the 100,000 megawatt market. That's a
25 small risk, but it's an important thing in terms of the

1 politics of keeping the risk pool together.

2 So that would be another thing that we may be
3 back at this Commission to adjust those market rules around
4 how we would curtail. There's some conversation whether
5 that's a market rule or a business practice, and a bunch of
6 that stuff, but we think those, the seasonality and making
7 sure that it's more than just a financial penalty if you
8 show up short are the two things that are on our radar at
9 the moment now.

10 CHAIRWOMAN LaFLEUR: Thank you. In terms of the
11 penalty structure that you talked about, is that intended to
12 provide an incentive for investment to not come up short? I
13 mean, obviously making sure that if the unthinkable happens
14 it's done fairly is one thing.

15 But are you comfortable with the investment
16 signals that are being sent?

17 MR. CLAIR MOELLER: The dominant investment
18 signals in our market happen at the retail rate regulator.
19 It is our expectation that, should a load-serving entity
20 have to pay that cost of new entry as a result of showing up
21 short, it's probably going to be hard to get that from your
22 ratepayers, and that's probably going to your shareholders.

23 So we think that that, the fact that that is an
24 earnings risk, has a substantial motivator in terms of
25 incenting people to act in appropriate timeframes. But

1 again, we do think that adding the physical penalty, the
2 politics of a load-shed, would also clarify one's thinking
3 around deciding to make an investment.

4 CHAIRWOMAN LaFLEUR: Thank you.

5 My second question is about the Mercury and Air
6 Toxins compliance. As I'm sure you know, in I believe it
7 was February 2012, May 2012, we put out a Policy Statement
8 on how we would handle requests to give feedback on
9 applications for a fifth year to comply.

10 We've heard of a couple that are in the pipeline
11 where plants are looking for a fifth year to comply. None
12 in the MISO footprint. Are you expecting that there are
13 resources that will be looking for that extra time?

14 MR. CLAIR MOELLER: We are aware of a couple of
15 projects that are retiring and replacing--so retiring a coal
16 facility and replacing it with a gas facility. They're
17 still talking about their construction schedule.

18 And if the construction schedule looks like we've
19 got a gap there, we have told those two projects that we
20 would support their request for a fifth year.

21 CHAIRWOMAN LaFLEUR: Well of course the earlier
22 we have identification, and we'll be looking in a specific
23 case for guidance from our state counterparts and the ISO as
24 well.

25 I think I'm going to yield the floor for a minute

1 to Commissioner Moeller.

2 COMMISSIONER MOELLER: Well thank you.

3 Clair, let's go to slide 2, your 2016 resource
4 requirement. That really kind of sets the bar for the
5 entire discussion. Can you elaborate as to what went into
6 that, particularly load-growth projections?

7 MR. CLAIR MOELLER: Yeah. We've had kind of a
8 circuitous path to a consensus load forecast.

9 COMMISSIONER MOELLER: I'm sure you have.

10 MR. CLAIR MOELLER: The load forecast that we use
11 is an amalgam of 142 individual load-serving entity
12 forecasts where those individual entities tell us when they
13 think they will be coincident peak demand on our system.

14 That's got some risk in it because of 142
15 different forecasts. So for a long time we had an aggregate
16 forecast that looked like about a positive point eight net
17 load growth projection.

18 COMMISSIONER MOELLER: Per year?

19 MR. CLAIR MOELLER: Per year. Slightly larger in
20 the West. Substantially larger in the South. Less robust
21 in the Central, but in aggregate about point eight.

22 As we were working our way through the Survey,
23 we'd get answers, and then we'd do the math, and the answers
24 we got didn't match the math. And so we had a lot of back
25 and forth that says when we do the math, based on what you

1 gave us, and we hear what you tell us, we've got this gap we
2 need to close.

3 There was a period of time in that back and forth
4 where the load forecast appeared to be moving from a
5 positive point eight per year to a minute point eight per
6 year. We thought maybe people should look at that again.
7 As we went back through that process, now it has reset back
8 on that point eight positive load growth, which is
9 consistent with the last four or five years of history.

10 So we're pretty okay with where that is. During
11 the pendency of the turbulence around the forecast, we also
12 took the step to hire an independent party to do an
13 additional forecast to add more data to this. That forecast
14 was released probably today.

15 It shows a little more growth than anticipated in
16 the Central and South, and a little less growth than was
17 turned in in the Southern Region, but it's also a year
18 newer.

19 So it's really hard to compare those two
20 forecasts because there's 12 months different economic data,
21 all those things. So we think that between those processes,
22 getting the--you know, two or three forecasts for the load-
23 serving entities to then choose what their load is, we think
24 that will tighten up our ability to forecast.

25 One of the biggest attributes in our risk pool

1 calculation is load forecast uncertainty. We have a higher
2 reserve margin because it's so difficult to forecast load,
3 particularly in a flat economy. So we're working real hard
4 to make sure we don't make any mistakes in that.

5 COMMISSIONER MOELLER: Good. Well it's so
6 crucial to the entire discussion.

7 MR. CLAIR MOELLER: Yes. That's where I keep
8 saying let's not make the wrong mistake.

9 COMMISSIONER MOELLER: We're clearly seeing an
10 industrial renaissance in MISO South. The numbers are
11 really kind of stunning when we hear about 7 to 8 percent
12 load growth per year in certain areas.

13 I'm curious--for the entire panel--are you
14 sensing an impending industrial renaissance in the Upper
15 Midwest? Or is it still just too tentative?

16 WISCONSIN PUC COMMISSIONER CALLISTO: At my own
17 peril do I say we're not seeing that in Wisconsin.

18 (Laughter.)

19 WISCONSIN PUC COMMISSIONER CALLISTO: But we're
20 certainly not seeing that kind of load growth, the number
21 that Clair mentioned, the point eight that came out of the
22 Survey is actually echoed by the independent analysis, he
23 also mentioned, that they released today, I think a point
24 eight two on demand growth.

25 So I just want to comment that there is some

1 consistency between what we got from the LSEs for their 10-
2 year look and what we're seeing from the independent
3 consultant as well.

4 Certainly I hope we see that kind of load growth,
5 Commissioner, but we're not going to see that, I don't
6 think, in the short or medium term in MISO North and
7 Central.

8 From a capacity perspective, the irony of course
9 is that at some level it's good, but I think we're not going
10 to see that where we're coming from.

11 I would like, while I have the mike, if I may, I
12 just want to respond to ne or two things Clair said. I
13 promise I'm not going to contradict him. At my own peril
14 would I do that, but I do think there are things that are
15 important when the Chair asked about changes to rules in
16 MISO.

17 And some of the things I think we're on the same
18 page with MISO on, and I want to make sure I have the
19 opportunity to say that. The relationship with PJM. When I
20 was here at the Polar Vortex hearing, we heard a lot of
21 things out of that hearing, right, but one of the things I
22 thought was really nice to hear was the collaboration
23 between the RTOs in these dire moments.

24 So energy coming to MISO from PJM when MISO
25 needed it, and as the coal moved its way to the East Coast,

1 then MISO's helping out PJM. So in emergency situations,
2 they're doing what they have to do. They're cooperating.

3 On the seasonal construct, I mentioned this in my
4 prefiled testimony and I want to mention it again, I think
5 we are open to measured changes that are supported by data
6 that would both keep the lights on and keep rates
7 reasonable. And the seasonal construct is one of those that
8 so far OMS has been supportive of the review.

9 Load curtailment, making sure that you curtail
10 load and penalize those who are not there to begin with,
11 we're very supportive of that--I'm very supportive of that.
12 I don't want to speak for OMS.

13 Wisconsin in the past has been a jurisdiction
14 that from my perspective has dropped its load when asked by
15 MISO in support of other states that have not put generation
16 in place. So we have had a very dynamic industrial sector
17 and commercial sector in Demand Response that has been
18 effective when needed.

19 So I would like to see a little more correlation
20 between the cause and effect, and we would support that kind
21 of action by MISO. So there is a lot of cooperation on
22 these fronts between the two.

23 MICHIGAN PUC CHAIRMAN QUACKENBUSH: In terms--I'm
24 sorry--

25 COMMISSIONER MOELLER: Go ahead, please.

1 MICHIGAN PUC CHAIRMAN QUACKENBUSH: I'd be happy
2 to answer about Michigan for industrial load growth. We are
3 cautiously optimistic that we are seeing a turn here.

4 We have--you know, Michigan is often tied to
5 heavy manufacturing, particularly in the auto industry.
6 There's been some kind of a rebound. Arguably, Michigan was
7 in the recession deeper and earlier than most states, and we
8 have come back from that.

9 We've done three things in the state where we're
10 working on a third thing, but we had a tax policy that
11 changed significantly for industrial customers. We've had
12 labor situation changes recently.

13 And finally, we've been directed by our
14 legislature to work on electricity cost allocation rate
15 design in between classes. And we have pending cases open,
16 and that may be falling into place to create an environment
17 that shows Michigan is open for business.

18 COMMISSIONER MOELLER: Well we certainly hope
19 that that happens, but to the extent that load growth of
20 electricity increases, it makes that resource adequacy
21 baseline so critical. I've been concerned for a long time
22 about the summer of 2016, and I sure hope we have a mild
23 winter that year, or mild weather that year.

24 Staying with you, Chairman Quackenbush, I'm glad
25 you could focus on the UP, eh, and--

1 (Laughter.)

2 COMMISSIONER MOELLER: Some people have been
3 there.

4 (Laughter.)

5 COMMISSIONER MOELLER: The question, though, is
6 the IPPs that you mentioned and the amount of megawatts, and
7 maybe this is for the whole panel, but why would they stay
8 in MISO when--and this is not a shot at MISO--they get more
9 generous capacity payments by participating in PJM? Or why
10 would they come back?

11 MICHIGAN PUC CHAIRMAN QUACKENBUSH: Well I think
12 that's a great question. There are--you know, we've
13 certainly seen interest in that for particularly in the
14 2016-17 auction, and then the 2017-2018 auction.

15 I think, you know, they get to follow their
16 economic incentives. You know, IPPs, they certainly are
17 entitled and have every right to do that, and they have the
18 incentive to do that now. I mean, there's changes that may
19 come, and certainly if our utilities which are still owned
20 and regulated generation, if they purchase them at
21 attractive prices, if they're available, then they will come
22 back through that means, but certainly if it's a Jim Voll
23 and the IPPs can select where they choose to market their
24 product.

25 COMMISSIONER MOELLER: Thank you. The Ludington

1 facility, the uprate is significant and kind of exciting.
2 But presumably each one of those turbines has to be
3 subtracted each year of roughly four hundred and--well, 312
4 megawatts, while the other ones are being increased by 70
5 megawatts each. So you're actually going to be short of
6 your stated capacity until 2019, I presume, at least in the
7 Northwest when we rewire generators, they're basically out
8 of service.

9 MICHIGAN PUC CHAIRMAN QUACKENBUSH: I believe
10 we're able to do it with minimal out-of-service time.

11 COMMISSIONER MOELLER: Okay. Great. That's very
12 encouraging.

13 Final question, a little off-topic but related.
14 Yesterday's stakeholder meeting that really focused a little
15 bit more on 1.11(d), were any of you there?

16 MR. CLAIR MOELLER: No, sir, I was on an
17 airplane.

18 COMMISSIONER MOELLER: Okay. Well that will be
19 a--

20 MR. CLAIR MOELLER: My staff kind of was, though.

21 COMMISSIONER MOELLER: Well that's our next big
22 set of issues. And you combine that with the Ozone rule,
23 which by the way is county by county. So it's not
24 necessarily something where we can suddenly plot new gas
25 generation in subject to the Ozone rule. It's going to be

1 real complicated going forward. And let's brace for it.

2 Thank you.

3 WISCONSIN PUC COMMISSIONER CALLISTO:

4 Commissioner Moeller, if I just may respond, as well, to add
5 a few thoughts to what John has said in terms of why
6 wouldn't the capacity follow the money, and I don't disagree
7 at all with the comments he made. It will follow the
8 money.

9 I think what you're going to see, and you have
10 seen, is that bilaterals in the MISO market are going to
11 start to reflect prices that are closer to the seam. I also
12 just want to remind the Commission, as you well know, that
13 you approved a capacity import limit from MISO to PJM, and I
14 believe that limit's almost fully subscribed. So a whole
15 lot more can't go that way, at least in the current frame.

16 MR. CLAIR MOELLER: And as long as we won't let
17 you up on that question, I'll answer a little bit of it,
18 too. It's important to remember that duration of the
19 contract is really important.

20 We have a substantial amount of Independent Power
21 Producers that are wind farms, but those were financed
22 because they were 20-year off-take agreements. Most of the
23 Independent Power Producers inside MISO have those sorts of
24 long-term off-take agreements where the fixed-cost for those
25 units are in those longer term contracts. And the capacity

1 market isn't where they're trying to recover their fixed
2 costs.

3 So that's essentially that bundled model that
4 reflects itself in the bilateral market that, you know, if
5 the IPP can make that longer term contract they're very
6 successful.

7 CHAIRWOMAN LaFLEUR: Thank you. Commissioner
8 Clark?

9 COMMISSIONER CLARK: Thanks.

10 CHAIRWOMAN LaFLEUR: Another former MISO OMF.

11 COMMISSIONER CLARK: An OMF person. Thanks for
12 being here. If we go, Clair, to your slide 3, because I
13 think Phil went exactly where I was going to go with my
14 first question, which is the underlying assumptions to the
15 load growth especially, but other assumptions that can be
16 taken into consideration.

17 This is one that I know MISO has been showing for
18 the past year or so, which is one of the scarier slides that
19 keeps me up at night, which is this exponential issue with
20 regard to reliability events. Maybe if you want to speak a
21 little bit more to it, but it's always one that concerns me
22 when I think about the assumptions that are underlying it
23 and how being just a little wrong isn't a linear effect on
24 reliability, it's an exponential effect on reliability.

25 And if I'm reading it right, from about 15

1 percent where we're at today to just 12.5 percent where
2 we're looking at heading, doubles the number of reliability
3 events. So it becomes effectively a two-day in ten year
4 standard. And if that projection slips a little more down
5 into that about 5 percent range, you're not looking at two
6 reliability events in every ten years, you're looking at
7 three days every year in terms of reliability. Is that--

8 MR. CLAIR MOELLER: That is exactly correct. One
9 of the reasons we constructed this graphic was to help folks
10 understand that exponential nature of the risk. That's why
11 we put so much pressure on the load forecast. That's the
12 biggest variable in terms of how much risk we're taking is
13 what's it really going to be.

14 There's so much volatility in the load that is
15 due to weather, it's very difficult to predict, especially
16 when the economy is so flat, because your base is so uneven.
17 So it's exactly that exponential nature that has caused us
18 to talk about and put pressure on things like the definition
19 of reliability--excuse me, the definition of resource.

20 How much of the demand side management is
21 actually there in any given day? If you've got an air
22 conditioner program for Minneapolis and it's 100 degrees,
23 and you poke the button and you get all 100 percent of it,
24 if it's 86 you get less than that because not all the air
25 conditioners are saturated.

1 So having a better understanding of how all that
2 works is what we're trying to do in terms of making sure we
3 don't take inadvertent risk, and instead we've got a clear
4 eye to understanding what the risk profile really is.

5 COMMISSIONER CLARK: Moving to a little bit
6 different question, we spend a lot of time talking about
7 overall capacity within the region, but there's this second
8 issue of looking at overall capacity needed to meet regional
9 needs, and then there's the granular analysis that takes
10 place.

11 We may have capacity adequate region-wide, but as
12 we hit that 2015-2016 timeframe, as we all know there are
13 certain units that can't be done when other units are down.
14 And you have staging issues with regard to labor and the
15 timelines that each of them have to be in.

16 How comfortable are you with the granularity of
17 analysis that needs to take place in very complex modeling
18 questions as we look at the number of plants that are going
19 to be retrofitted, or just retired?

20 MR. CLAIR MOELLER: Sure. The notion of retrofit
21 against a Mercury and Air Toxin rule is what led us on the
22 path to worry about some of those definitional things.

23 So as we saw the reserve margin potentially
24 overnight going from 35 to 12, that's what kind of woke us
25 up and put us to work on some of these issues. We

1 essentially do two sets of simulations around the loss-of-
2 load expectation.

3 We do one which is the system in aggregate. And
4 we do a second one based on the local resource zones that
5 we've identified. So we essentially say it's got to be one-
6 day-in-ten for the entire footprint, and you have to have
7 enough transmission in these local zones plus generation
8 located within those zones to make sure that the zone
9 doesn't have a risk profile that is higher than the one-day-
10 in-ten.

11 So it's both how much generation and what's the
12 physical distribution of the generation. And then what the
13 transmission transfer capability is between those locations.
14 We take all three things into account as we first define the
15 reserve margin, and second define the local clearing
16 requirements to ensure that there's enough physical
17 generation distributed across the entire market to keep that
18 safe.

19 COMMISSIONER CLARK: I'll ask a question similar
20 to one I asked earlier this week at a--or maybe it was last
21 week, at a NERC meeting that I was at. It has to do with
22 modeling pipelines as almost a big contingency factor,
23 almost like we've modeled transmission lines in the past.

24 To what degree is MISO active in that sort of
25 analysis where you may have a string of very important power

1 plants dependent on one pipeline?

2 MR. CLAIR MOELLER: We're talking our lead from
3 New England where they face that problem today. Currently
4 we haven't relied on gas to the degree where that is a
5 sizeable risk. But as the fleet transitions from coal to
6 gas, we have to think about two things in terms of the gas
7 supply.

8 One is the contingency that is the pipe. And the
9 other is the change in the risk because there's typically no
10 storage. So at a coal plant you can look out the window and
11 see 30 days' worth of energy. If it's a gas-fired plant,
12 typically there's not on-site storage and so it's a just-in-
13 time fuel delivery. So the risk around pipeline is very
14 different going forward than it's been in the past.

15 The rule set that we use, and the rule set that
16 NERC uses has to do with assessing your future best-offer
17 historic performance. So things like the increasing
18 reliance on the gas pipeline aren't in the statistics. So
19 we're beginning that evaluation to make sure that one large
20 pipeline that serves us, we have almost 9,000 megawatts of
21 generation on that pipeline. It's a very reliable pipeline.
22 They've got multiple sources. They've always been a good
23 supplier. But that's 9,000 megawatts on one pipeline.

24 How should we think about the potential for that
25 big a contingency because today we consider our largest

1 contingency about 1,500 megawatts, which is our intertie
2 with (unintelligible).

3 COMMISSIONER CLARK: John, a question for you.
4 Both you and Eric talked about the overwhelming nature of
5 the MISO Region is vertically integrated, state-regulated
6 utility companies.

7 Michigan is one of those sort of odd ducks in
8 that regime. Illinois would really be the outlier, but
9 Michigan has a rather unique regulatory regime in terms of
10 caps, and some access to retail choice, but not entirely.
11 And I know Michigan has been undergoing analysis of that
12 regulatory structure.

13 To the degree that these discussions have been
14 doing on with regard to resource adequacy, has that impacted
15 those discussions? And what is the status of Michigan's
16 current structure of its regulatory environment?

17 MICHIGAN PUC CHAIRMAN QUACKENBUSH: Yes. It's
18 part of the same legislative package that I referred to
19 earlier for 2016 when I was mentioning energy efficiency and
20 renewable energy.

21 The electric choice market is also the third leg
22 of that stool, so to speak, that will be addressed. There's
23 been many commenters that, you know, we're kind of a hybrid,
24 we're kind of caught in the middle. Some would argue we
25 should go all in on choice. Some would argue we should

1 fully retrace on choice. Some would argue for the status
2 quo.

3 It's all on the table, and I believe 2015 is the
4 year that Michigan will address that.

5 (Laughter.)

6 COMMISSIONER CLARK: Okay. Thanks. We anxiously
7 await.

8 And, Eric, thanks for your comments as well that
9 you made on the record with regard to this issue of state
10 regulation. If there is something that gives me a big of
11 comfort, and maybe a silver lining, is the fact that we're
12 dealing with some of these really enormous challenges in the
13 Midcontinent Region, it is that I think we have a regulatory
14 structure that's in place that has the ability to deal with
15 some of these things in a fairly well-trodden way and that
16 we understand the nature of the traditional regulatory
17 compact in ways that we sometimes struggle with some of the
18 emerging structures.

19 And so thanks to all of you for the work that
20 you've been doing on the state level, because I know well
21 how much of the burden of that falls on the shoulders of
22 state regulatory commissions in states that are structured
23 as you are. So thanks.

24 CHAIRWOMAN LaFLEUR: Thank you. Commissioner
25 Bay?

1 COMMISSIONER BAY: Thank you. I particularly
2 want to thank Chairman Quackenbush and Commissioner Callisto
3 and Mr. Moeller for coming here today. And, echoing
4 Commissioner Clark for all the work that you're doing in
5 this important area to ensure that the lights stay on.

6 My first question deals with slide 3,
7 Mr. Moeller. And so is that risk curve--and it was up on
8 the screen just a second ago--I believe you said that that
9 was the projected operating range without emergency
10 procedures being invoked? Is that correct?

11 MR. CLAIR MOELLER: Yes. So what--that's
12 correct. So in 2016, if the 10,000 megawatts of emergency
13 procedures were not invoked, that would be the number. That
14 also says that we can expected three times in 2016 to use
15 the emergency procedures.

16 COMMISSIONER BAY: I see. So that curve reflects
17 what would happen on the assumption that the 10,000
18 megawatts of emergency reserves are not being called upon?
19 Or does it?

20 (Pause.)

21 MR. CLAIR MOELLER: Just let me think for a
22 second to formulate my--yes. So what this indicates is if
23 the emergency procedures were not available to us, then we
24 would expect three times in a year you would have a loss--

25 COMMISSIONER BAY: Including that 10,000

1 megawatts of resources that would be associated with the
2 emergency procedures if they were implemented?

3 MR. CLAIR MOELLER: If the 10,000 megawatts of
4 emergency procedures are available--and we believe they will
5 be--we'd move the line back to the point two days per year.

6 COMMISSIONER BAY: I see. Okay. That's helpful
7 clarification.

8 This is a general question, but I hope it's
9 helpful. And that is, so from your respective perspectives,
10 how would you characterize your comfort level on resource
11 adequacy over the next few years?

12 WISCONSIN PUC COMMISSIONER CALLISTO: I'll take a
13 first crack at that. I'm very comfortable with the
14 construct. So I think, as I've talked about probably to
15 everybody's dismay at length here, we have a long-term
16 construct that has worked in MISO.

17 We have just in the last few years put before
18 this Commission and had it approved the residual market
19 construct that's only been in place now really for two
20 cycles. But the bedrock piece of that are the utility build
21 and bilaterals that undergird almost all of the capacity in
22 the footprint.

23 So I'm very comfortable with the model we have
24 that will lead to resource adequacy in the short term and
25 medium term, including 2016. I'm not objecting to or taking

1 issue with any of the numbers that you have seen before you
2 from MISO; there's no doubt that we've gotten into a spot
3 here that is tight. It absolutely is tight. You can't
4 contest that.

5 And I think, using Clair's terminology, you can't
6 phone it in anymore. But what I do want to suggest is that
7 if we get to the 14.5 reserve margin, and I think we will,
8 we are very close to that now. And if there's a FERC medal
9 for resource adequacy, the LSEs and MISO should get it at
10 that point in time. Because what you want them to do is to
11 hit the 14.5. Anything above and beyond that is expensive.

12 And so for years we've had this excess lumpy
13 capacity that perhaps state regulators should take some
14 blame for because we've been in that situation for a long
15 time, but now because we're getting close to the margin is
16 when the construct comes into play. And I'm going to
17 encourage the Commission to continue to let that construct
18 play, and I believe it will ultimately result in adequacy in
19 2016.

20 We're not going to be in a long situation like we
21 have been for a period of time, but regardless of the policy
22 underpinnings of why we're at that spot, having your numbers
23 get very close to the reserve margin and actually nailing
24 it, that's rocket science and it'll be great if we do that,
25 and if we do then I think kudos to us.

1 MICHIGAN PUC CHAIRMAN QUACKENBUSH: I think in
2 Michigan we are concerned, but we are optimistic that we
3 have enough tools in the toolbox to pull through,
4 particularly in the Lower Peninsula both in MISO Zone 7 and
5 in PJM.

6 Our lowest level of confidence would be in the
7 Upper Peninsula where it's a more challenging circumstance
8 for us.

9 MR. CLAIR MOELLER: And my confidence springs
10 from the answers that these two gentlemen rendered.

11 (Laughter.)

12 MR. CLAIR MOELLER: As we worked our way through
13 this, we saw the Mercury and Air Toxin rules causing
14 retirements. We started to be concerned that the fairly
15 easy job we'd had around resource adequacy was behind us.

16 The organization of MISO states, and each state
17 individually, answered the call to vigilance, and between
18 they and their load-serving entities are working diligently
19 to keep these gaps closed. So I am quite confident that in
20 the end they'll be successful.

21 COMMISSIONER BAY: So my last question is very
22 open-ended, and it is: What can FERC do to help state
23 authorities and MISO as you seek to address the resource
24 adequacy challenges in the years to come? What can we best
25 do to help you?

1 WISCONSIN PUC COMMISSIONER CALLISTO: I'll take a
2 first shot at that. I think certainly remain diligent, as
3 you are. And obviously, you know, this is an area of joint
4 responsibility. We do appreciate the role that FERC plays
5 in this, and obviously you have given great discretion to
6 the various RTOs and the various states across the country
7 for different models that have worked effectively to date.
8 And so we do appreciate that discretion in allowing what we
9 have in place to work.

10 And where problems arise, as you are doing here
11 today, you know, shine the light on it and bring to bear
12 whatever tools you have at your disposal. As I've already
13 suggested, I don't think we're at that spot where you need
14 something more intrusive in the MISO region, but obviously
15 we have to continue to walk down this path together in the
16 short term between now and 2016. And we're open to
17 anything that FERC wants in terms of information or guidance
18 from us.

19 MR. CLAIR MOELLER: So help us work with the gas
20 industry to improve our coordination and how things work.
21 The gas industry grew up very differently than the electric
22 industry.

23 Their needs, their customer's needs, are very
24 predictable. And as a result, things like the question for
25 this afternoon around the liquidity of the market, it hasn't

1 been a problem for gas based on gas load-serving entities.

2 The requirements of the electric generators are
3 much more volatile and flexible than what the gas industry,
4 administratively and technically, has been designed around.

5 So as we asked for them to be more flexible, we
6 need to find ways to pay them to achieve that to ensure
7 their historic customers aren't somehow subsidizing the new
8 users. So there would be a lot of conversations around who
9 benefits and who pays the pricing models and those sorts of
10 things as we move to transition the fleet from dominantly
11 coal to dominantly gas across the next couple of decades.

12 So that's really important. Other things that
13 I'm aware the Commission staff at least is focused on is the
14 ability to provide transparency to other risks. We are
15 flirting with coal delivery issues in the Midwest.

16 That could be really important. We've got this
17 implicit, there's a coal pile that's good for 30 day kind
18 of idea that's embedded in all of our math. If suddenly
19 coal transportation to Minnesota Power's Boswell Station is
20 at risk, that's 1,000 megawatts.

21 Just-in-time coal delivery doesn't work as good
22 as just-in-time gas delivery. So those kinds of issues, and
23 the transparency that this Commission can provide on them I
24 think is very valuable.

25 It's been my experience that when this Commission

1 shines a flashlight on a problem like that, people take that
2 seriously and move to rectify those kinds of situations. So
3 I would encourage both that transparency and the help to
4 keep pushing the two gas and electric industries closer
5 together.

6 MICHIGAN PUC CHAIRMAN QUACKENBUSH: And I would
7 mention four specific things. The first one kind of echoes
8 the first part of what Clair mentioned related to gas
9 infrastructure.

10 In Michigan, we have pipeline diversity and we'd
11 like to have more diversity rather than less. As the Utica
12 and Marcellas production grows, there are three pipeline
13 proposals out there that would move it to the Michigan
14 market, Michigan and Ontario market.

15 There's other pipeline options. I'm sure all
16 three of the proposals won't get built, but some combination
17 of them likely will. And so, you know, particularly when
18 we're focused on building some gas-fired generation in the
19 state, having additional pipeline diversity helps.

20 We already have gas production in the state. We
21 are the number one state for gas storage, which gives us
22 some capabilities that other states may not. So as we, you
23 know, build toward some gas-fired generation, you know,
24 pipelines fit in there very well.

25 Also, I know the Commission has been very focused

1 on seams issues. Continued work on that would be beneficial
2 for the states, as well as supporting transmission projects
3 that are aimed at resource adequacy. And encouraging
4 decision-making situations where generation gets treated on
5 an equal footing with transmission.

6 COMMISSIONER BAY: Thank you.

7 CHAIRWOMAN LaFLEUR: Thank you, very much. I
8 believe Commissioner Clark has a--

9 COMMISSIONER CLARK: I just have a quick follow-
10 up with Clair. I have a question in my mind, that came to
11 my mind in your discussion with Norman about the emergency
12 procedures.

13 Does emergency procedures, is that synonymous
14 with load-shed? Is that the issue that you were talking
15 about at the beginning where you, quote/unquote "maintain
16 reliability through load-shed"? Or are there other
17 emergency procedures? Just define what the "emergency
18 procedures" means.

19 MR. CLAIR MOELLER: So emergency procedures are
20 the things you do to avoid load shed.

21 COMMISSIONER CLARK: Okay.

22 MR. CLAIR MOELLER: Right? So for example, a
23 retail rate in state X may be designed in terms of its rate
24 characteristics that it can only be utilized in a defined
25 emergency. We've defined "emergencies" as when we run out

1 of generation in the market so we can access that emergency
2 definition. So that's a voluntary, contractual reduction in
3 load. It's not an involuntary load-shed. It's after that
4 10,000 megawatts of emergency procedures that the
5 involuntary curtailment might incur.

6 COMMISSIONER CLARK: Got it. Thank you.

7 CHAIRWOMAN LaFLEUR: I just want to give all of
8 our guests an opportunity, if there's anything they wanted
9 to say that they didn't get a chance to say?

10 Otherwise, I will thank you all very much for
11 your--oh, yes. Chairman Quackenbush.

12 MICHIGAN PUC CHAIRMAN QUACKENBUSH: I just would
13 briefly like to mention the rail issue because it was
14 brought up in a recent question. You know, we have a
15 problem in Michigan that's a challenge for us of having low
16 coal inventories.

17 Our utilities have had to substitute some more
18 Central Appalachian coal rather than Powder River Basin
19 coal. They're in daily communications with the rail lines,
20 and they've been adding trainsets. But when you look at the
21 core problem, I think it's very addressable.

22 When you look at the rail network as a network
23 just like the electric grid, or gas pipeline, and when you
24 think of the amount of economic activity that's taken in one
25 spot on that network that's caused congestion that's led to

1 this problem, it takes capital to dig your way out of.

2 I mean, the Northern Corridor, 25 percent of all
3 the rail volume growth in the Nation has come in one state,
4 that being North Dakota. And that's where a lot of the
5 traffic is. And so there's rail sidings, there's double
6 tracking, there's signalling systems being invested in
7 there, a billion dollars being thrown at it during 2014.
8 We're optimistic that by 2015--we'll end 2014 with low coal
9 inventories, but we anticipate that with the 2014
10 infrastructure that's being invested in, that during 2015
11 half of the shortfall will be made up with the remainder in
12 2016.

13 So again it's something we're vigilant on. We're
14 following it, and we will continue to monitor.

15 CHAIRWOMAN LaFLEUR: Well thank you for that
16 reminder. I know that some of us have met with the
17 railroads when they've come around and tried to be engaged
18 with our fellow regulators, but it's a good reminder.

19 And I want to thank all of you for coming. And
20 my colleague's workshop will resume in this room at two
21 o'clock. And otherwise, this meeting is adjourned.

22 (Whereupon, at 11:53 a.m., Thursday, September
23 18, 2014, the 1008th open meeting of the Federal Energy
24 Regulatory Commissioners was adjourned.)

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