

# Potomac LAW GROUP

Potomac Law Group PLLC

1300 Pennsylvania Avenue N.W., Suite 700 | Washington, D.C. 20004  
T 202.204.3005 | F 202.318.7707 | www.potomaclaw.com

August 16, 2024

Ms. Lisa Felice  
Executive Secretary  
Michigan Public Service Commission  
7109 W. Saginaw Highway  
P.O. Box 30221  
Lansing, MI 48909

Re: **MPSC Case No. U-21534**

Dear Ms. Felice:

Attached for electronic filing in the above-referenced matter, please find the Rebuttal Testimony of Alexander J. Zakem on behalf of Energy Michigan, together with the Proof of Service. Thank you for your assistance in this matter.

Very truly yours,

Timothy J. Lundgren

TJL/srd

Enclosure

c. All parties of record.

**STATE OF MICHIGAN**  
**BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION**

In the matter of the Application of )  
**DTE ELECTRIC COMPANY** )  
for authority to increase its rates, amend )  
its rates schedules and rules governing the )  
distribution and supply of electric energy, and )  
for miscellaneous accounting authority. )  
\_\_\_\_\_ )

**Case No. U-21534**

**REBUTTAL TESTIMONY**  
**OF**  
**ALEXANDER J. ZAKEM**  
**ON BEHALF OF**  
**ENERGY MICHIGAN**

**Q. Please state your name and business address.**

A. My name is Alexander J. Zakem, and my business address is 46180 Concord, Plymouth, Michigan 48170.

**Q. On whose behalf are you testifying in this proceeding?**

A. I am testifying on behalf of Energy Michigan ("Energy Michigan").

**Q. Are you the same Alexander J. Zakem who provided direct testimony in this proceeding?**

A. Yes, I am.

**Q. Are you sponsoring any exhibits in your rebuttal testimony?**

A. No.

**Q. What is the purpose of your testimony?**

A. The purpose of my testimony is to address two proposals of the Michigan Public Service Commission Staff ("Staff") regarding the method of determining the State Reliability Mechanism ("SRM") Capacity Charge:

- I. True-Up -- The first Staff proposal is to include in the new SRM Capacity Charge a reconciliation or "true-up" of projected values that were used in the calculation of the current SRM Capacity Charge.

I will explain why the current true-up method does not work, and as a result, the Staff's proposed true-up of \$168.1 million in the calculation of the SRM capacity charge should be eliminated.

- II. CONE -- The second Staff proposal was to use the Cost of New Entry ("CONE") as the new SRM Capacity Charge.

The CONE concept has merit, depending on the context. However, under the present resource adequacy processes of the Midwest ISO ("MISO"), the CONE concept may no longer be workable, and revisions may be required.

### I. True-Up

**Q. What does the statute governing the SRM say about "truing up" projected quantities that are in the calculation of the SRM Capacity Charge?**

A. While I am not a lawyer, and Energy Michigan will address legal aspects in its brief, I can explain the plain operational words and implications of the SRM statute. The SRM was enacted in PA 341 of 2016, MCL 460.6(w) ("SRM statute"). Regarding a true up, the statute states:

The commission shall provide for a true-up mechanism that results in a utility charge or credit for the difference between the projected net revenues described in subsection (3) and the actual net revenues reflected in the capacity charge. The true-up shall be reflected in the capacity charge in the subsequent year. The methodology used to set the capacity charge shall be the same methodology used in the true-up for the applicable planning year. [MCL 460.6(w)(4). *Emphasis added.*]

**Q. Is this provision clear and practical enough for a fair and accurate implementation?**

A. No, not at all. The SRM statute was a negotiated deal, not a cooperative problem-solving effort. As such, it has a number of flaws that are obstacles to a fair and accurate implementation.

**Q. Would you explain, regarding the true-up provision?**

A. The main operational flaw is that the true-up is supposed to be "reflected in the capacity charge in the subsequent year." This does not make sense if the intent is to adjust the SRM capacity charge already paid by a customer for the current year.

**Q. Could you give an example?**

A. Yes. A simple example illustrates the difficulty.

Suppose Customer A has been deemed to be short of demonstration capacity and consequently owes and pays the SRM capacity charge in Year 1. If the SRM capacity charge in Year 1 contains a true-up (positive or negative) for the previous year's SRM capacity charge, then Customer A gets a true-up for a charge it did not pay. This is contrary to cost-of-service principles.

Further, the SRM capacity charge in Year 1 contains a credit determined by the projected energy market sales and fuel for Year 2, the following year. In the example, assume Customer A pays the charge in Year 1.

Suppose in Year 2, it turns out that the sales and fuel projections were too low, and so Customer A is due money back, for the true-up. How does Customer A get the true-up money? There are two operational situations for Customer A in Year 2 -- Customer A either satisfies or does not satisfy its capacity demonstration in Year 2:

1. Assume Customer A satisfies its capacity demonstration in Year 2. Thus, Customer A does not pay the SRM capacity charge in Year 2. Since the true-up for Year 1 is "reflected in the capacity charge in the subsequent year" -- subsequent meaning in Year 2 -- and Customer A does not pay the capacity charge in Year 2, Customer A does not receive the true-up amount for the Year 1 charge. Straightforward.
2. Assume Customer A does not satisfy its capacity demonstration in Year 2. Thus, Customer A pays the SRM capacity charge for Year 2. Since the true-up for Year 1 is reflected in the charge for Year 2, Customer A does receive the true-up for Year 1. But at the same time, the Year 2 capacity charge includes projected sales and fuel for Year 3, and so Customer A pays for the projected amounts for Year 3 in the SRM capacity charge for Year 2. To get a true-up for projections that are included in the Year 2 SRM capacity charge, Customer A has to be subject to the SRM charge in Year 3 -- which reflects the true-up for Year 2 but also includes projected sales and fuel for Year 4. And so it continues, such that Customer A never gets the proper true-up.

Eventually, if Customer A satisfies its capacity demonstration in year N, the situation is transformed into #1 above, where Customer A is not charged the SRM capacity charge in Year N, and therefore gets no true-up for the Year N-1 SRM capacity charge that Customer A did pay.

**Q. What does this example illustrate?**

A. This example illustrates that under the present method of implementing a true-up, (a) the first year that a customer pays the SRM capacity charge, the charge is always in error and (b) the last year -- in a sequence of years -- that a customer pays the SRM capacity charge, the charge always is in error. Further, and consequently, if a customer pays the SRM capacity charge for only one year, then the customer is subject to both errors.

**Q. Did DTE propose or include a true-up adjustment?**

A. No. DTE sees no need for a true-up until a customer is charged the SRM capacity charge:

**Q23. How does the Company intend to handle any reconciliation of previous year variance of wholesale energy sales revenue net of fuel costs?**

A23. The Company currently has no electric choice customers being assessed a capacity charge, thus no reconciliation with any customers has been previously done. The Company files a reconciliation exhibit in the annual PSCR Reconciliation case that would be used for any reconciliation adjustment if a customer were to be charged the SRM.<sup>1</sup>

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<sup>1</sup> Direct testimony of Mr. Shaun D. Burgdorf, page 11, line 21, to page 12, line 2.

**Q. Is it possible under present implementation methods to do a fair and accurate true-up to the SRM capacity charge?**

A. No. Under the plain words of the SRM statute and considering the present implementation procedures that have been set up, it is not possible to do a fair and accurate true-up to the SRM capacity charge. There are a number of obstacles:

- a. **One Year:** The true-up does not work if a customer is assessed the SRM charge for only 1 year. There are two errors. Explained above.
- b. **Multiple Years:** The true-up does not work if a customer is assessed the SRM charge for multiple years in a row. The first year and the last year have errors. Explained above.
- c. **Season:** The true-up does not work under the current Midwest ISO ("MISO") resource adequacy process of setting capacity obligations by season, rather than for a year. At present, the SRM charge is for one year, not by season. Consequently, both the calculation of the SRM charge and the annual true-up do not match the capacity demonstration required by the Commission.
- d. **Not a Separate Charge:** The true-up does not work because the SRM charge - although it is a per MW charge -- is not assessed to a customer by MW of shortfall in capacity demonstration, even though the MW are known exactly. Rather, under present implementation procedures, the total dollars in the SRM charge are allocated to rate classes and form part of the price design in those classes. Consequently, to receive the correct true-up dollars, a customer would have to use exactly the same amount of energy at the same times at the same prices for two years in a row.
- e. **Changing Allocations:** The true-up does not work, even if a customer had the same energy characteristics two years in a row, because the allocation factors to rate classes can change from rate case to rate case, and as a result the amount of the total SRM charge that is included as part of any one price can change from year to year. This means that dollars of true-up may not be allocated to customers in the same way that the SRM was charged.

**Q. What is the Staff's proposal regarding the true-up?**

A. Staff proposes that the true-up amount for the difference between (a) the sales and fuel projections that are in the present SRM capacity charge and (b) the actual sales and fuel be put into the new SRM capacity charge. As in the example above, Year 1 would be the

present charge, Year 2 would be the new charge, and the true-up for Year 1 projections would become part of the Year 2 charge. Staff's rationale is:

Staff interprets this section [MCL 460.6w(4), quoted above] as requiring that a reconciliation be performed and included in the capacity charge calculation each year, regardless of whether a charge was administered in that year or not.<sup>2</sup>

In accordance with its rationale, Staff makes a true-up adjustment of \$168.1 million in the calculation of the new SRM capacity charge.<sup>3</sup> Considering that the true-up process is always inaccurate, and until a fair and accurate implementation method is put in place, this \$168.1 million adjustment should be eliminated.

**Q. Is it possible for a true-up to the SRM capacity charge be implemented fairly and accurately?**

A. There are three factors necessary in implementing a fair and accurate true-up. The basis for these factors is for the Commission to recognize that the cost-of-service statute, MCL 460.11(1)<sup>4</sup>, supports charging the SRM fairly. The true-up process exists to protect both

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<sup>2</sup> Direct testimony of Mr. Mark J. Pung, page 8, lines 5-7.

<sup>3</sup> Mr. Pung, direct testimony, page 8, lines 15-21.

<sup>4</sup> "Except as otherwise provided in this subsection, the commission shall ensure the establishment of electric rates equal to the cost of providing service to each customer class. In establishing cost of service rates, the commission shall ensure that each class, or sub-class, is assessed for its fair and equitable use of the electric grid. If the commission determines that the impact of imposing cost of service rates on customers of an electric utility would have a material impact on customer rates, the commission may approve an order that implements those rates over a suitable number of years. The commission shall ensure that the cost of providing service to each customer class is based on the allocation of production-related costs based on using the 75-0-25 method of cost allocation and transmission costs based on using the 100% demand method of cost

customer and utility from errors in forecasting energy market revenues and fuel costs. The Commission can use the cost-of-service statute to implement the true-up process in a fair and accurate way that works for both customer and utility.

It has been almost seven years since the initial orders implementing the SRM capacity charge, six utilities presently have SRM capacity charges, and 937 customers are on Electric Choice.<sup>5</sup> Not one customer has paid an SRM capacity charge. The SRM true-up as presently implemented does not and cannot work. A more straightforward, cost-based approach is needed.

Going forward, starting with this proceeding, the Commission could use the following process for the true-up of the SRM capacity charge.

*True up only if charged* -- First, true-up to energy sales and fuel projections should be considered by the Commission if, and only if, a customer actually pays an SRM capacity charge, which so far has never happened. True-up dollars should not automatically become part of the next SRM charge calculation.

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allocation. The commission may modify this method if it determines that this method of cost allocation does not ensure that rates are equal to the cost of service." [MCL 460.11(1). Emphasis added.]

<sup>5</sup> "Status of Electric Competition in Michigan," Michigan Public Service Commission, February 1, 2024, page 21, Figure 2.

*Apply the SRM charge the same way it is determined, by MW* -- Second, the SRM capacity charge should be applied to a customer according to the MW capacity deficiency that triggered the charge, rather than included in price design in a rate. Customer MW are known.<sup>6</sup> For example, if a 2 MW customer is deemed short according to the capacity demonstrations, then that customer should be charged the SRM capacity charge -- which is on a per MW basis -- times 2 MW.

*True up the same way the SRM charge is applied, by MW* -- Third, if a customer pays the SRM capacity charge, the amount paid that is attributed to projected energy sales and fuel is known exactly, on a per MW basis. For true-up, the difference in the SRM capacity charge between the calculation using the projections and the calculation using actual energy sales and fuel is known exactly, also on a per MW basis, and that difference should be charged or paid to the customer using the same MW number for which the customer paid the SRM capacity charge.

It is important to note that a true-up adjustment could go either way -- either money owed by the utility to the customer or money owed by the customer to the utility. Neither the customer nor the utility should be harmed by, or benefit by, errors in projections of energy

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<sup>6</sup> In retail choice areas, such as Michigan, MISO requires that each customer be assigned a peak load contribution ("PLC") in MW. The Planning Reserve Margin Requirement ("PRMR") used in the capacity demonstration process is the sum of the PLCs for all customers that a supplier serves, and so each customer is assigned its PLC in MW as part of the total MW requirement of the supplier for the capacity demonstration.

sales and fuel compared to the eventual actual outcomes. The method described above works fairly and exactly for both customer and utility.

## II. Use of CONE as the SRM Capacity Charge

**Q. Is the Staff presenting a different way to determine the SRM capacity charge, versus the present method of using a utility's embedded production costs?**

A. Yes. The Staff is recommending that the Commission consider setting the SRM capacity charge to the cost of new entry ("CONE").<sup>7</sup>

**Q. What is the cost of new entry, or CONE?**

A. CONE is an economic term meaning the minimum cost for a new supplier to enter a market. In the electric industry, in this discussion, the term refers to the minimum cost to provide MISO with only "capacity," meaning without any additional costs that would provide some other benefits such as low priced energy or ancillary services, and without any running costs. In the electric industry, it is common to use the annual fixed costs associated with building a simple peaker, such as a combustion turbine or CT, to calculate CONE. The Midwest ISO ("MISO") uses a CT as a model for CONE, and the Staff's presentation does the same. The CT model is a reasonable estimate for CONE.

**Q. What is capacity, in plain language?**

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<sup>7</sup> Direct testimony of Mr. Nicholas M. Revere, page 8, line 21 to page 12, line 19.

- A. Capacity is the *rate* at which energy can be converted from one form to another, ending with electricity, such as from coal to heat to mechanical energy to electricity. The rate at which energy is converted is called *power*, and electric power is expressed in Watts. A megawatt (MW) is one million Watts.

Capacity is not the energy itself, or the physical facility, but a measure of the *ability* to convert the energy into electricity.

**Q. Does MISO need or use capacity?**

- A. Yes. MISO needs sufficient capacity -- rate of energy conversion -- to provide sufficient electric energy to customers in the time frame that customers want to use that energy, in short, "demand" energy, at specific times. MISO's "resource adequacy" label refers to the principle of satisfying that demand, subject to a standard of performance. MISO controls the dispatch of all physical capacity in the region and uses all resources to serve all demand in the region. How that capacity is provided and who pays for it is the issue that the SRM capacity charge addresses.

**Q. Is capacity sold and bought in the MISO region, and if so, how?**

- A. Actual physical capacity is not sold or bought. Instead, financial rights to the market value of capacity are sold and bought. MISO awards a qualified capacity resource a Zonal Resource Credit ("ZRC"), which is a financial instrument that represents one MW of capacity dedicated to MISO for a specified time period. The owner of a Zonal Resource Credit has the following rights:

1. The right to set the price for the ZRC that is offered into the MISO auction.
2. If the ZRC "clears" (is selected in) the auction, the right to receive the Auction Clearing Price from MISO.
3. The right to sell the above two rights to another party.

**Q. Why is the Staff proposing CONE as an alternative method to determine the SRM capacity charge?**

A. The Staff lists several issues with the current method of determining the SRM capacity charge from embedded utility cost and its related adjustments:

Since the initial approval of the current method of calculating the SRM capacity charge and associated rates, Staff has become aware of several potential issues with that method.

For example, the required reconciliation of projected energy sales revenue net of fuel costs to the actuals, calculated as the value of the Company's generation at the locational marginal price (LMP), has the potential to drive the capacity charge unreasonably low or high depending on the relationship between the Company's costs to produce that energy and both actual and projected LMPs. In addition, the current capacity charge method produces increasingly questionable results the more a utility relies on purchased power agreements for the provision of power to its customers.

For these reasons, Staff is presenting an alternative method for calculating the SRM capacity charge and revenue requirement, consistent with its proposal in the initial set of SRM cases.<sup>8</sup>

**Q. Do you agree with these issues?**

A. Yes, and there are many more issues with the current implementation of the SRM capacity charge:

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<sup>8</sup> Mr. Revere, direct testimony, page 9, lines 1-11. Emphasis and spacing added.

- (a) Correct reconciliation of projected to actual costs is impossible, as discussed in section I previously;
- (b) The SRM current implementation ignores the multiple methods (geared to the economics of the MISO auction) by which a supplier can satisfy its capacity obligations to MISO;
- (c) Illogically, utilities are allowed to meet an AES's capacity obligation to MISO using the identical process that AESs are barred from using -- simply paying MISO's capacity charge;
- (d) The SRM statute and current implementation disregard the MISO tariff rules that do not allow assigning one supplier's obligations to a different supplier.
- (e) The SRM statute was obsolete when enacted in 2016, because it ignored the fact that MISO began dispatching all generation to serve all load in April, 2005, and thus it is not true that a supplier serves its own load with physical capacity that it owns;
- (f) The statute became further obsolete with the creation of the MISO annual auction in 2013, which effectively set the price (Auction Clearing Price) which suppliers pay and owners of capacity rights receive. The SRM statute erroneously assumes that MISO requires suppliers to own capacity.
- (g) After its enactment in 2016, the SRM statute has become further obsolete with the creation of the MISO seasonal capacity obligations in the 2022/2023 planning year. Auction prices are now seasonal, CONE is seasonal, and MISO may charge multiples of CONE for a season, not a year.

(h) Finally, the latest of events that has made the current implementation of the SRM statute obsolete, on July 2, 2024, MISO received FERC approval for a Reliability Based Demand Curve ("RBDC"), which is a different method of setting auction prices on July 2, 2024; plus, there is an RBDC "opt out" provision.

The SRM statute itself has no effect on reliability/resource adequacy -- the statute does not affect supply, does not affect demand, does not improve the performance of generating units or reduce the volatility of demand fluctuations over time. Current implementation methods are sinking the SRM implementation under its own weight, so to speak, from the complexities of compensating for the flaws in the statute.

It is time for the Commission to take a fresh look at the implementation of the SRM statute and create a fair and workable implementation method based on the cost-of-service statute, MCL 460.11(1).

**Q. Is the Staff's proposal to use CONE as the SRM capacity charge a reasonable solution?**

A. Until MISO switched to a seasonal resource adequacy construct in the 2022/2023 planning year, the CONE concept would have been workable, providing the total context was tended to. As the Staff notes, it proposed a CONE option in the original SRM cases in 2017: "an alternative method for calculating the SRM capacity charge and revenue requirement,

consistent with its proposal in the initial set of SRM cases."<sup>9</sup> Now, however, the circumstances are different, as explained later in my testimony.

**Q. What was the context for Energy Michigan's proposal in the initial SRM case?**

In DTE's initial SRM case, U-18248, Energy Michigan also proposed that the SRM capacity charge be set to CONE, in the context of its total recommendation. The discussion at the time was how to apportion costs if new capacity had to be built with Michigan. Both CONE and the auction price were part of Energy Michigan's proposed solution.

A critical part of Energy Michigan's solution was to allow AESs -- or any supplier -- to use the same methods of satisfying the MISO requirement as the utility would be able to use if the utility were required, under the SRM statute, to satisfy the AES's obligations to MISO. Namely, as DTE testified to at the time, if DTE were short of capacity, it would use the MISO auction. However, the current implementation process is that AESs are barred from using the MISO auction in demonstrating sufficient capacity under the SRM statute, and so consequently AESs could pay the utility the SRM capacity charge only to have the utility use the MISO auction to satisfy the AES's obligation to MISO. It did not, and does not, make sense.

Energy Michigan's proposal was this: If a supplier could use any of the MISO options in the MISO tariff to meet its capacity obligations -- including use of payment of the auction

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<sup>9</sup> Mr. Revere, direct testimony page 9, lines 10-11.

price -- then Energy Michigan proposed that the SRM capacity charge be set to CONE as an incentive for a supplier to fully participate in the MISO process. CONE was an incentive because at that time the auction price could be no higher than CONE. Essentially, why pay CONE to a utility when the MISO auction price could never be greater than CONE and could well be less than CONE?

**Q. Could a utility use its extra capacity to satisfy an AES's capacity obligation to MISO?**

A. Since all capacity has to be offered into the MISO auction, MISO is already paying the Auction Clearing Price ("ACP") per MW to the utility for the utility's extra capacity. "Using" extra capacity to satisfy an AES's capacity obligation to MISO simply means taking the ACP money from MISO and then giving the ACP money back to MISO to satisfy the MW of the AES's obligation, which MISO charges at the same ACP price per MW. It is not the extra physical capacity that is being used, it is the money foregone from getting paid the ACP by MISO for the extra capacity.

**Q. Could setting the SRM capacity charge to CONE work, and in what context?**

A. Setting the SRM capacity charge could work, in theory, if an AES could use any of the MISO options in the MISO tariff to meet its capacity obligations -- including payment of the auction price, which is the same option as the utility to which the AES pays the SRM capacity charge has. The SRM statute appears to allow this.<sup>10</sup> Further, the utility and the

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<sup>10</sup> "A capacity charge shall not be assessed for any portion of capacity obligations for each planning year for which an alternative electric supplier can demonstrate that it can meet its capacity

AES are on equal terms in the definition of "electric provider,"<sup>11</sup> so if the utility is able to participate in the MISO auction to satisfy an AES's capacity obligation to MISO, then the AES should also be able to participate in the MISO auction. I realize that this is different from the present implementation process.

**Q. If suppliers were able to use the MISO auction, would that negate the intent of the SRM statute?**

A. The SRM statute was a negotiated deal, not a solution to a visible and mutually acknowledged problem. I am not addressing the intent; I am addressing the practical and real consequences and ramifications of the statute. As explained previously, the SRM statute has no practical effect on reliability/resource adequacy. If all suppliers -- not just the utility -- were able to use the MISO auction, that fact would not change. Reliability/resource adequacy would remain the same.

**Q. You qualified your previous answer on the workability of CONE with "in theory." Could setting the SRM capacity charge at CONE work in practice at this time?**

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obligations through owned or contractual rights to any resource that the appropriate independent system operator allows to meet the capacity obligation of the electric provider. The preceding sentence shall not be applied in any way that conflicts with a federal resource adequacy tariff, when applicable." [MCL 460.6w(6). Emphasis added.]

<sup>11</sup> "Electric provider" means any of the following:

- (i) any person or entity that is regulated by the commission for the purpose of selling electricity to retail customers in this state.
  - (ii) a municipally owned retail utility in this state.
  - (iii) a cooperative electric utility in this state.
  - (iv) an alternative electric supplier licensed under section 10a.
- [MCL 460.6w(12)(c). Emphasis added.]

- A. At this time, with the recent changes in how MISO imposes capacity obligations and runs the auction, setting the SRM capacity charge to an annual CONE would create a number of complexities that didn't exist a few years ago.

First, MISO now imposes capacity obligations by season, four seasons per year, not annually. The obligations extend only three months. Zonal Resource Credits now have a 3-month term, not a 12-month term. Therefore, the demonstration of capacity sufficiency under the SRM statute now can be done only by season.

Second, since 2022, the auction is now run by season, and therefore each zone in MISO sees four auction prices per year, not one. Therefore, a single annualized CONE does not fit a utility's cost of satisfying a supplier's capacity obligations to MISO.

Third, it is possible for the Auction Clearing Price for a single season to be CONE, or 1-1/3 times CONE, or two times CONE, or four times CONE, depending on the clearing prices for the other seasons. CONE is approximately \$350 per MW-day. Therefore, a utility could be placed in a position of collecting \$350 per MW-day from a supplier yet paying MISO \$1,400 per MW-day (4 x CONE) for 90 days to satisfy the supplier's capacity obligations to MISO. This does not fairly follow cost-of-service principles. Plus, it would open the door to gaming by a supplier to play the cost of its obligation to MISO against the cost of paying an SRM capacity charge of CONE to the utility.

Fourth, in July 2024, a month ago, MISO received approval for a new method of running the auction, using what economists call a "sloped demand curve," which MISO labels a "Reliability Based Demand Curve," or RBDC. This will result in auction clearing prices that are higher than the highest priced capacity that is needed to meet the total MISO region capacity requirement. Further, there is choice to "opt out" of the RBDC in return for paying a higher price for a number years.

In short, while CONE is still the "cost of new entry" in economic terms, figuring out the cost of a supplier's obligation to MISO -- and how long that obligation will endure -- is not a task that can be compared to CONE in a straightforward and easily visible way, under MISO's current processes. Applying an annualized CONE value to MISO capacity obligations now determined, valued, and paid by season does not reflect cost-of-service principles and may conflict with the cost-of-service statute MCL 460.11(1).

**Q. Is there a specified cost, similar to the CONE concept, that can work for an SRM capacity charge?**

A. Yes. The specified charge would be the MISO zonal charge per MW for the applicable season. In light of the current complexities of determining an SRM capacity charge calculation that somehow reflects the present MISO price of satisfying capacity obligations -- if such is possible at all -- the Commission can go to straight cost reimbursement -- cash out the door, so to speak -- supported by the cost of service statute MCL 460.11(1) cited previously. It would work as follows:

- a. The Commission still would require suppliers to demonstrate capacity per the current SRM statute, but the demonstration would be changed from annual to four seasons.
- b. If an AES does not demonstrate sufficient capacity -- for example is 10 MW short in the 90-day winter season -- then the Commission would use the MISO zonal charge per MW for the winter season to determine the AES's capacity obligation to MISO. In this example, if the MISO winter zonal price were \$15 per MW-day, then the charge for 10 MW would be:  $10 \text{ MW} \times 90 \text{ days} \times \$15 = \$13,500$ .
- c. The AES would pay the utility \$13,500.
- d. The utility would satisfy the AES's obligation to MISO. Although at present the mechanics of exactly how the utility would do this is unclear, if the Commission sees it can be done under the present implementation process then it can be done in the same way in the process described above. Regardless, the cost to the utility -- cash out the door or foregone cash in the door -- is \$13,500.

**Q. What are the benefits of Energy Michigan's proposal?**

A. There are several benefits:

1. The proposal resolves the conflict between the SRM statute, which in many parts does not make sense, and the cost-of-service statute, which can look to actual and visible cash costs, not just allocations or estimates or imputed costs, or illogical costs such as true-up adjustments.
2. The utility is made whole for costs it has expended to satisfy the AES's obligations.
3. AESs (and other suppliers) pay exactly for the benefits they receive. Potential gaming is eliminated.
4. Utility bundled customers are neutral. They neither benefit from extra money coming in or make up any additional costs that the utility does not receive from the AES.
5. Utility stockholders are neutral.
6. No adjustments are needed. No offsets, no reconciliations, no differences over the scope of energy market sales, no contest over proper fuel expenses, etc.
7. Efforts and time spent to set the SRM capacity charge, and the present contests and debate over such setting, annually for six utilities, are

eliminated. Further, a need to set the SRM capacity charge for each of four MISO seasonal capacity obligations -- four times the current effort -- is also eliminated. Nothing would have to be done unless and until a supplier became subject to the SRM capacity charge, which has never happened in seven years. If so, then the Commission would merely apply the MISO zonal charge per MW for the season.

**Q. Under this process, would utility full service customers and AES customers be charged the same for capacity?**

A. Yes. The relevant clause in the SRM statute states, "the commission shall . . . ensure that the resulting capacity charge does not differ for full service load and alternative electric supplier load."<sup>12</sup> Utility full service customers pay both capacity and non-capacity costs, while AES customers that the SRM capacity charge would pay only capacity costs. The Staff's proposed method would make the capacity costs the same for both full service and AES customers by using a percentage in allocating costs to full service customer such that the amount of costs apportioned to full service customers are equal to CONE -- the same charge that AES customers would pay. The Staff explained:

**Q. What costs would be identified as capacity-related under this method?**

A. Costs currently allocated using the production cost allocator and other capacity-related costs would be the starting point for this determination. Then the percentage applied to determine which of those costs are capacity-related would be set at the percentage necessary to make the resulting amount equal to CONE or some other measure of the value of capacity, as determined by

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<sup>12</sup> MCL 460.6w(3).

the Commission. This would treat all costs in excess of CONE (or the Commission's chosen value of capacity) as non-capacity-related costs.<sup>13</sup>

**Q. How would this apply to a specified cost other than CONE?**

A. Thus, if instead of CONE, the percentage target were simply changed to a different specified cost, namely, "the percentage necessary to make the resulting amount equal to [CONE] the MISO zonal charge per MW for the season," then the same result would be achieved -- both utility full service and AES customers would pay the same charge for capacity.

**Q. What is your conclusion?**

A. Given the changes to MISO's resource adequacy process since 2022, it is time to recognize those changes by implementing a simpler, more accurate, more efficient, and transparent way of compensating the utility for taking on the capacity obligations to MISO of another supplier. If the Commission does not believe that such sweeping changes can or should be made in this proceeding or on this record alone, then I would encourage the Commission to reopen the SRM docket in order to fully vet this and any other proposals to address the issues with the current SRM process identified in the testimony and rebuttal in this proceeding.

**Q. Does that complete your direct testimony?**

A. Yes, it does.

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<sup>13</sup> Mr. Revere, direct testimony, page 11, lines 1-7. Emphasis added.



<p><b><u>Administrative Law Judge</u></b>  Honorable Sally L. Wallace  <a href="mailto:Wallaces2@michigan.gov">Wallaces2@michigan.gov</a></p> <p><b><u>The City of Ann Arbor</u></b>  Valerie Jackson  Valerie J.M. Brader  <a href="mailto:vjackson@a2gov.org">vjackson@a2gov.org</a>  <a href="mailto:valerie@rivenoaklaw.com">valerie@rivenoaklaw.com</a></p> <p><b><u>Attorney General Dana Nessel</u></b>  Joel B. King  <a href="mailto:Kingj38@michigan.gov">Kingj38@michigan.gov</a>  <a href="mailto:ag-enra-spec-lit@michigan.gov">ag-enra-spec-lit@michigan.gov</a></p> <p><b><u>DTE Electric Company</u></b>  Jon P. Christinidis  Andrea E. Hayden  Paula Johnson-Bacon  John A. Janiszewski  Breanne K. Reitzel  <a href="mailto:Jon.christinidis@dteenergy.com">Jon.christinidis@dteenergy.com</a>  <a href="mailto:Andrea.hayden@dteenergy.com">Andrea.hayden@dteenergy.com</a>  <a href="mailto:Paula.bacon@dteenergy.com">Paula.bacon@dteenergy.com</a>  <a href="mailto:John.janiszewski@dteenergy.com">John.janiszewski@dteenergy.com</a>  <a href="mailto:Breanne.reitzel@dteenergy.com">Breanne.reitzel@dteenergy.com</a>  <a href="mailto:mpscfilings@dteenergy.com">mpscfilings@dteenergy.com</a></p> <p><b><u>Michigan Environmental Council (MEC)</u></b>  <b><u>Natural Resources Defense Council (NRDC)</u></b>  Christopher M. Bzdok  Tracy Jane Andrews  <a href="mailto:chris@tropospherelegal.com">chris@tropospherelegal.com</a>  <a href="mailto:tjandrews@tropospherelegal.com">tjandrews@tropospherelegal.com</a></p> <p><b><u>Great Lakes Renewable Energy Association</u></b>  Don L. Keskey  Brian W. Coyer  <a href="mailto:donkeskey@publiclawresourcecenter.com">donkeskey@publiclawresourcecenter.com</a>  <a href="mailto:bwcoyer@publiclawresourcecenter.com">bwcoyer@publiclawresourcecenter.com</a></p>	<p><b><u>MPSC Staff</u></b>  Amit T. Singh  Heather M.S. Durian  Michael J. Orris  Monica M. Stephens  Lori Mayabb  <a href="mailto:Singha9@michigan.gov">Singha9@michigan.gov</a>  <a href="mailto:durianh@michigan.gov">durianh@michigan.gov</a>  <a href="mailto:orrism@michigan.gov">orrism@michigan.gov</a>  <a href="mailto:stephensm11@michigan.gov">stephensm11@michigan.gov</a>  <a href="mailto:mayabbl@michigan.gov">mayabbl@michigan.gov</a></p> <p><b><u>Michigan Energy Innovation Business Council</u></b>  <b><u>Institute for Energy Innovation</u></b>  <b><u>Advanced Energy United</u></b>  <b><u>The Foundry Association of Michigan</u></b>  <b><u>Energy Michigan, Inc.</u></b>  Laura A. Chappelle Timothy  J. Lundgren  Justin K. Ooms  <a href="mailto:lochappelle@potomaclaw.com">lochappelle@potomaclaw.com</a>  <a href="mailto:tlundgren@potomaclaw.com">tlundgren@potomaclaw.com</a>  <a href="mailto:jooms@potomaclaw.com">jooms@potomaclaw.com</a></p> <p><b><u>PROTEC</u></b>  Michael J. Watza  <a href="mailto:Mike.watza@kitch.com">Mike.watza@kitch.com</a></p> <p><b><u>Walmart, Inc.</u></b>  Melissa M. Horne  <a href="mailto:mhorne@hcc-law.com">mhorne@hcc-law.com</a></p> <p><b><u>UWUA Local 223</u></b>  Benjamin King  <a href="mailto:bking@michworkerlaw.com">bking@michworkerlaw.com</a></p> <p><b><u>The Kroger Co.</u></b>  Kurt J. Boehm  Jody Kyler Cohn  Justin Bieber  <a href="mailto:kboehm@bkllawfirm.com">kboehm@bkllawfirm.com</a>  <a href="mailto:jkylercohn@bkllawfirm.com">jkylercohn@bkllawfirm.com</a>  <a href="mailto:jbieber@energystrat.com">jbieber@energystrat.com</a></p>
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**EVgo Services, LLC**

Nikhil Vijaykar  
David Nacht  
Alicia Zaloga  
Lindsey Stegall  
Michael G. Oliva  
[nvijaykar@keyesfox.com](mailto:nvijaykar@keyesfox.com)  
[dnacht@nachtlaw.com](mailto:dnacht@nachtlaw.com)  
[azaloga@keyesfox.com](mailto:azaloga@keyesfox.com)  
[lindsey.stegall@evgo.com](mailto:lindsey.stegall@evgo.com)  
[moliva@fosterswift.com](mailto:moliva@fosterswift.com)

**Association of Businesses Advocating Tariff**

**Equity (ABATE)**

Stephen A. Campbell  
Michael J. Pattwell  
[scampbell@clarkhill.com](mailto:scampbell@clarkhill.com)  
[mpattwell@clarkhill.com](mailto:mpattwell@clarkhill.com)

**Environmental Law & Policy Center (ELPC)**

**Union of Concerned Scientists, Inc.**

**Vote Solar**

**The Ecology Center**

Nicholas N. Wallace  
Daniel Abrams  
Alonda Estrada  
[nwallace@elpc.org](mailto:nwallace@elpc.org)  
[dabrams@elpc.org](mailto:dabrams@elpc.org)  
[aestrada@elpc.org](mailto:aestrada@elpc.org)

**Soulardarity**

**We Want Green, Too**

Amanda Urban  
Mark N. Templeton  
Jacob R. Schuhardt  
D. Samuel Heppell  
Madison S. Wilson  
[t-9aurba@lawclinic.uchicago.edu](mailto:t-9aurba@lawclinic.uchicago.edu)  
[templeton@uchicago.edu](mailto:templeton@uchicago.edu)  
[jschuhardt@uchicago.edu](mailto:jschuhardt@uchicago.edu)  
[heppel@uchicago.edu](mailto:heppel@uchicago.edu)  
[madisonwilson@uchicago.edu](mailto:madisonwilson@uchicago.edu)

**Electrify America, LLC**

Jennifer Morante  
Stephen Bright  
Krystal D. Hermiz  
[jmorante@grsm.com](mailto:jmorante@grsm.com)  
[steve.bright@electrifyamerica.com](mailto:steve.bright@electrifyamerica.com)  
[khermiz@grsm.com](mailto:khermiz@grsm.com)

**Michigan Cable Telecommunications**

**Association**

Sean P. Gallagher  
[sgallagher@fraserlawfirm.com](mailto:sgallagher@fraserlawfirm.com)

**International Transmission Company**

Richard J. Aaron  
Olivia R.C.A. Flower  
Hannah E. Buzolits  
Courtney F. Kissel  
[raaron@dykema.com](mailto:raaron@dykema.com)  
[oflower@dykema.com](mailto:oflower@dykema.com)  
[hbuzolits@dykema.com](mailto:hbuzolits@dykema.com)  
[ckissel@dykema.com](mailto:ckissel@dykema.com)

**Intervenor EVgo Services LLC**

Michael G. Oliva  
[moliva@fosterswift.com](mailto:moliva@fosterswift.com)