

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter, on the Commission's own motion,)	
to establish a planning consortium to address)	
Michigan's energy infrastructure opportunities and)	Case No. U-15590
challenges.)	
_____)	

At the July 1, 2008 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. Orjiakor N. Isiogu, Chairman
Hon. Monica Martinez, Commissioner
Hon. Steven A. Transeth, Commissioner

OPINION AND ORDER

Current national electricity infrastructure planning is a mix of regional and local initiatives. For most of Michigan, transmission infrastructure planning is done through the Midwest Independent Transmission System Operator, Inc. (MISO) using a stakeholder process to which transmission owners and others contribute their planning expertise. The regional planning process evaluates plans developed by transmission owners, performs reliability assessments of MISO's integrated transmission system, considers and selects transmission solutions to identified issues, and assesses whether transmission projects qualify for regional cost sharing.

The MISO planning process has continued to evolve, and new sub-regional planning meetings provide an opportunity for more detailed stakeholder participation on planning issues facing MISO and transmission owners. However, a more organized state-level component needs to be developed to consider other infrastructure alternatives that solve an identified problem, examine

costs when evaluating potential solutions, and best serve the interests of Michigan energy consumers.

The public is better served, and the regional planning process is stronger, when there is adequate coordination among different Michigan entities contributing to energy infrastructure planning. Michigan currently has independent transmission-only companies whose focus is on expanding and improving a reliable transmission system. Much of the transmission assets currently operating in Michigan were divested from regulated utilities with experience in managing integrated generation, transmission, and distribution systems. Alternative generation, new technologies, energy efficiency, and demand response provide new forms of energy resources. Pulling all of these planning initiatives and alternative energy solutions into a state-level process would allow for a more effective solution, which could be presented at MISO and the Federal Energy Regulatory Commission (FERC).

Michigan's independent transmission companies currently provide needs assessments and general cost estimates for use in the MISO transmission planning processes. After technical review by MISO planning staff and stakeholders, a plan is presented to the MISO Board of Directors. Costs associated with the constructed transmission projects flow through the MISO energy markets tariff approved by the FERC. Some transmission projects are evaluated by MISO for cost sharing within MISO or among regional transmission organizations (RTOs).

Under the energy markets tariff, the forward-looking formula rate of some companies, such as the International Transmission Company (ITC) and the Michigan Electric Transmission Company (METC), allows annual adjustment of their rates based on the next year's projected costs. Projected cost amounts are subsequently reconciled with actual costs and revenues reported to the FERC on Form 1. The true-up charge or credit is then incorporated into the updated rate. While

administratively efficient, formula rates and true-up adjustments are implemented without a filing requirement or review by the FERC that the costs are reasonable and prudent. Unless a complaint is filed, there is reduced opportunity to question transmission costs at the FERC.¹ Since the divestiture of transmission assets to ITC and METC, transmission costs have been recoverable through the power supply cost recovery process provided under MCL 460.6j rather than through rate cases. Current tariff and rate recovery obligations require a Michigan-specific process to carefully examine costs when evaluating potential infrastructure solutions.

In Order 890², the FERC required coordinated, open, and transparent transmission planning on both a local and regional level. The nine planning principles adopted by the FERC³ require coordination with transmission customers, neighboring transmission providers, affected state commissions, and other stakeholders to develop transmission plans. The FERC clarified in Order

¹ In addition to the MISO planning process, other review processes include the energy markets tariff Attachment O examination of transmission projects expected to be completed in the coming year and, for major transmission lines, Commission certification proceedings.

² *Preventing Undue Discrimination and Preference in Transmission Service*, Order No. 890, 72 Fed. Reg. 12266 (Mar. 15, 2007).

³ The FERC identified nine planning principles in Order 890 that must be satisfied for a planning process to be considered compliant with that order. These nine planning principles are: (1) Coordination – the process for consulting with transmission customers and neighboring transmission providers; (2) Openness – planning meetings must be open to all affected parties; (3) Transparency – access must be provided to the methodology, criteria, and processes used to develop transmission plans; (4) Information Exchange – the obligations of and methods for customers to submit data to transmission providers must be described; (5) Comparability – transmission plans must meet the specific service requests of transmission customers and otherwise treat similarly-situated customers (e.g., network and retail native load) comparably in transmission system planning; (6) Dispute Resolution – an alternative dispute resolution process to address both procedural and substantive planning issues must be included; (7) Regional Participation – there must be a process for coordinating with interconnected systems; (8) Economic Planning Studies – study procedures must be provided for economic upgrades to address congestion or the integration of new resources, both locally and regionally; and (9) Cost Allocation – a process must be included for allocating costs of new facilities that do not fit under existing rate structures, such as regional projects.

890-A⁴ that a regional transmission organization (RTO) or an independent system operator (ISO) transmission plan would not satisfy the requirements of Order 890 if the underlying plans developed by its transmission owning members, and relied upon by the RTO/ISO, did not also satisfy these requirements. The FERC went on to describe how local planning issues may be critically important to some transmission customers.

However, there have been challenges for the MISO, regulatory commissions, and others in obtaining timely, comprehensive information about the stated need for and the anticipated costs of transmission projects. Also, at this early stage of development, the frequency and timing of regional planning meetings have not allowed for adequate consideration of the need satisfied by the recommended transmission improvements, details of proposed transmission solutions, evaluation of project benefits, or development of viable cost-effective alternatives, particularly when reported planning information is incomplete.

The Commission finds that these unique circumstances require careful coordination and balance to ensure that decisions to develop essential electricity infrastructure are fully supportable, and that those decisions serve Michigan's energy needs at the most reasonable cost to ratepayers. The Commission's intent is to assure the public that any rate increases required to fund energy infrastructure investments and to improve reliability are necessary, the best solution, and just and reasonable.

For these reasons, the Commission finds that the public interest would best be served by the establishment of a Michigan Planning Consortium (Consortium) led by the Commission. The purpose of the Consortium is to be the forum to collect needed information and to work toward consensus recommendations among its participants for energy infrastructure development in

⁴ *Order on Rehearing and Clarification*, Order No. 890-A, 73 Fed. Reg. 2984 (Jan. 16, 2008).

Michigan. Most importantly, to avoid duplication of effort, the Consortium will recommend how its work complements ongoing state and regional processes as they develop. To this end, the Commission directs the Operations and Wholesale Markets Division Staff (Staff) to work with stakeholders, including, but not limited to, representatives from RTOs, transmission owners, generators, distribution companies, independent power producers, alternative energy suppliers, and consumer groups. While the Commission may not have the authority to direct entities outside of its jurisdiction to participate in the Consortium, the Commission believes that the value of the planning activities, Order 890 requirements, and the benefits of integrated Consortium action on future infrastructure development should encourage these parties to participate in the process.

The Consortium will function in the existing patchwork of regional and local transmission planning initiatives and will represent a Michigan perspective. It will coordinate as necessary across East (Lower Peninsula) and West (Upper Peninsula) MISO planning regions and across RTOs such as the MISO and PJM Interconnection. The Consortium shall be policy and implementation oriented. Policy issues will be addressed by creating and maintaining a Michigan forum for the Consortium to identify and make recommendations to the Commission for improvements to the planning process for electricity infrastructure. Implementation issues will be addressed through consideration of energy infrastructure solutions to an identified need, including details of specific proposed transmission projects.

The Consortium shall consider, evaluate, and integrate transmission; generation (utility-owned, alternative, renewable, distributed, and redispatched); distribution upgrades and construction; energy efficiency; and demand side alternatives. The Consortium shall submit energy infrastructure recommendations to the Commission. These recommendations could

include results of negotiations between customers and resource providers, suggested Commission, MISO, or FERC action, or proposed Consortium action in these forums.

The Commission finds that the initial goals of the Consortium should include the following:

1. Ensure adequate sharing of information throughout the planning process on a local and detailed level.
2. Evaluate energy infrastructure alternatives, including proposed transmission projects.
3. Examine cost effects of various alternatives on Michigan customers.
4. Recommend the most effective ways for Michigan stakeholders to participate in regional planning processes and related state and FERC proceedings, including 1995 Public Act 30 (Act 30) certification proceedings.

The Staff shall take the lead in establishing the Consortium structure, meeting schedules, and agendas with input from Consortium members. The Commission recommends that the Consortium meet at least every month for the first year, with the first meeting to be held within a month of this order. The Consortium will report to the Commission by July 31, 2009 on its accomplishments, its efficacy in developing electricity infrastructure, and whether or how the Consortium should continue. At the end of a year, the Consortium may recommend to the Commission that it continue, that it fold into the evolving regional transmission planning processes, or another alternative.

THEREFORE, IT IS ORDERED that:

- A. The Michigan Planning Consortium is established, according to the above provisions.

B. The Michigan Planning Consortium shall report to the Commission by July 31, 2009 on its accomplishments, the efficacy of the Consortium in impacting electricity infrastructure improvements, and whether or how the Consortium should continue.

The Commission reserves jurisdiction and may issue further orders as necessary.

MICHIGAN PUBLIC SERVICE COMMISSION

Orjiakor N. Isiogu, Chairman

Monica Martinez, Commissioner

Steven A. Transeth, Commissioner

By its action of July 1, 2008.

Mary Jo Kunkle, Executive Secretary