Getting the bill

U.P. electric consumers could face skyrocketing electric bills soon

Editor's note: Today is the first day of a five-day series of articles on critical electricity cost issues facing the Upper Peninsula.

By JOHN PEPIN
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MARQUETTE — In an ongoing battle over costs of continuing to operate the Presque Isle Power Plant and who should pay for those costs, most Upper Peninsula electric consumers are slated to face skyrocketing electric bills in the near future.

However, there are those trying to stop that from happening.

At the heart of the controversy lays Milwaukee-based We Energies — which owns the aging coal-fired power plant it wants to close — and the Wisconsin Public Service Commission, pitted against the Michigan Public Service Commission and Upper Peninsula ratepayers.

The eventual outcome will be determined by the Federal Energy Regulatory Commission, an independent government agency which regulates interstate transmission of electricity.

For now, there are numerous claims, counter-claims and protests waiting for FERC rulings, which leave several key issues hanging in the balance that will ultimately affect U.P. consumer electricity bills.

"Energy rates are going to go up and they're going to go up substantially and they're going to go up for probably — the way it stands right now — only Michigan ratepayers," said Dale Hemmila, Cliffs Natural Resources' director of public affairs for North America. "And it's all the result of a number of decisions that were pushed by We Energies and made by several quasi-governmental entities that have the power to do that."

Those entities include the Midcontinent Independent System Operator — which oversees the electrical grid in the Upper Midwest and part of Canada — the North American Electric Reliability Council that certifies various entities meet reliability standards and Reliability First, whose primary mission is to ensure reliable operation of the bulk power system within the geographic area it covers.

Cliffs' Empire and Tilden mines stand to be substantially affected by the increased costs because those mining operations represent the largest electric load in the U.P.

"Obviously, Cliffs has a big interest in that because we're going to take a large portion of that, but nonetheless, the ratepayers from the east end to the west end of the Upper Peninsula are also going to be impacted," Hemmila said.

Cliffs told We Energies as of Sept. 1, 2013 the mining company was switching its electric provider service to Integrys Energy Services Inc. to save roughly $25 million annually. Cliffs spent about $120 million with We Energies in 2012.

Michigan Public Service Commission officials said that when Cliffs switched, the mining company was 75 percent of the We Energies' Michigan load. By the end of July 2013, more than 85 percent of the utility's retail customer load in the U.P. had applied to switch to alternative energy suppliers.

In response to those decisions, We Energies filed a request with MISO to suspend operations of the remaining five operating units at the Presque Isle plant from February 2014 until June 1, 2015.

Journal graphic by Bill Harris

In October 2013, MISO concluded the plant should remain operating, at least through 2014, to maintain a reliable electric system for customers in the U.P. We Energies would receive System Support Resource subsidy payments from MISO — derived from electric ratepayers — to keep Presque Isle operating.

In April, the FERC approved an agreement between MISO and We Energies to provide annual subsidy payments to the utility of $52 million. The agreement expires Jan. 31, 2015.

A provision in the MISO tariff states costs of operating an SSR unit located within the transmission footprint of the American Transmission Co. — which includes the entire Upper Peninsula and more than half of eastern Wisconsin — will be allocated to all load serving entities on a pro-rata basis.

That provision does not apply elsewhere within MISO's jurisdiction outside the ATC boundaries. The Wisconsin Public Service Commission said the result is 92 percent of the projected SSR agreement's $52 million annual fixed costs to operate Presque Isle being paid by Wisconsin load serving entity customers with 8 percent paid by Michigan (U.P.) ratepayers.

The Wisconsin commission filed a complaint with FERC saying the subsidy cost allocation was "unjust and unreasonable," because a MISO analysis showed the U.P. is the dominant electric load reliability beneficiary of the agreement, with only 42 percent of the benefitting load located in Wisconsin.

"This 'pro rata' allocation is unjust and unreasonable because it allocates the bulk of the costs of the SSR agreement to ratepayers who do not receive a reliability benefit," the commission said in FERC pleadings. "It is also unduly discriminatory because it applies only to load serving entities in American Transmission Company's footprint."

Michigan officials argued that division of costs was consistent with allocations over roughly the past decade which resulted in Michigan paying a share of costs for development of Wisconsin electric generation and transmission projects. According to Cliffs, Michigan ratepayers paid $27 million last year for Wisconsin We Energies' projects.

We Energies services about 1.1 million electric customers in Wisconsin and 28,000 in Michigan.

The Wisconsin commission said in the rest of MISO's jurisdiction, subsidy costs are allocated based on which entities require operation of the unit for electric grid reliability purposes. The commission argued a "just, reasonable and non-discriminatory" allocation of the costs associated with Presque Isle subsidy payments would apply the alternate method used elsewhere in MISO, resulting in 58 percent of costs borne by Michigan ratepayers and 42 percent by those in Wisconsin.

In April, We Energies told MISO it intended to retire the Presque Isle operating units on Oct. 15.

MISO began working to negotiate a replacement SSR subsidy agreement, which would continue to require the plant remain operating.

In July, FERC issued an order agreeing with the Wisconsin commission costs allocation should change. But instead of ordering the suggested 58 percent for Michigan and 42 percent Wisconsin cost allocation, the agency ordered MISO to complete a load share analysis to determine who benefitted from the plant's operation.

MISO was to allocate SSR costs on a local balancing authority basis, which is like a sub-district a utility uses to allocate certain costs. That analysis resulted in a split of 14 percent for Michigan and 86 percent for Wisconsin.

"The reason Michigan's number didn't change markedly is because most of the benefit fell into what's called the Wisconsin Electric Corp. LBA, which covers both a significant portion of the U.P., including this area, as well as Wisconsin," Hemmila said. "And so a lot of Wisconsin

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ratepayers benefitted from the continued operation of the plant when you look at it on an LBA level."

Meanwhile, We Energies had been working since February through Reliability First to separate the U.P. from its WEC local balancing authority.

"Creating a separate BA will enable us to respond more efficiently to reliability emergencies within the Upper Peninsula and increase the reliability of the bulk electric system," said Anthony Jankowski, We Energies manager of Electric Systems Operations, in a May 6 letter to the Michigan Public Power Agency.

In addition to receiving no notice from NERC, MISO, Reliability First or We Energies about creation of the new LBA, Michigan Public Service Commission officials were concerned creating the new LBA had less to do with reliability and more with We Energies segregating costs of the Presque Isle Plant subsidies solely to U.P. ratepayers.

"It is apparent that the main reason is to shift millions of dollars of costs from its Wisconsin service territory to the Upper Peninsula of Michigan," the Michigan commission wrote in August to NERC president and CEO Gerry Cauley.

Gov. Rick Snyder also objected to stakeholders not having had opportunity to comment on the proposal which he said "raises grave concerns for Michigan."

Over those objections, in August NERC certified the LBA split for We Energies, creating the separate U.P. unit (MIUP). The result was the U.P.'s share of the $52 million in Presque Isle subsidy costs increasing from 14 percent to 99 percent, effective Dec. 1.

Hemmila said there are some small exceptions to all Michigan ratepayers being affected, if you're a small municipal generator, and not connected to the grid, you probably wouldn't see that SSR payment.

He said the Marquette Board of Light and Power would still incur some costs to a certain extent.

"They have a lot of distribution behind the meter, which is off the grid, but they do take some power off the grid," Hemmila said.

Among the other utilities affected would be the Upper Peninsula Power Co., Cloverland Electric Cooperative and We Energies customers in the U.P.


QUACKENBUSH

Michigan Public Service Commission Chairman John Quackenbush said another Wisconsin request seeks the increased U.P. percentage refunded retroactive to April.

"So what that would mean is, not only would Michigan not only be stuck with a 99 percent cost allocation going forward on Dec. 1, there also would be a lump sum payment from Michigan to Wisconsin for everything that's been charged between April 2 and Dec. 1," Quackenbush said.

In September, MISO submitted a replacement SSR agreement to FERC negotiated with We Energies for Presque Isle. The agreement, which increases subsidy payments to We Energies from $52 million for one year to $97 million ($117 million through Dec. 31, 2015), is set to take effect Wednesday, pending FERC approval.

The pact includes $7.5 million in environmental modifications to Presque Isle to comply with U.S. Environmental Protection Agency Mercury and Air Toxics Standards by spring April 2016.

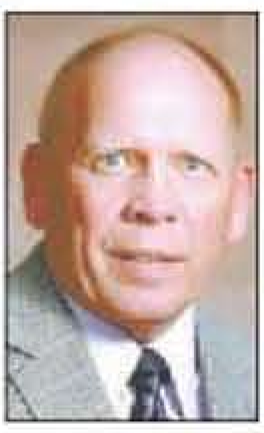
"Not only is Michigan's Upper Peninsula having a larger share of the cost, but the pie is getting a lot larger in the sense that We Energies is asking to be compensated a lot more for the continued operation of Presque Isle," Hemmila said. "We are in a position where Michigan ratepayers are really going to take a huge hit, something that we would certainly characterize as pretty egregious."

The combination of the LBA split and the increased SSR costs would see MIUP customers paying 99 percent of $97 million, beginning Dec. 1.

On Sept. 12, the Michigan Public Service Commission asked We Energies President Gale Klappa to withdraw its application at Reliability First to split the LBA saying the panel had "serious concerns" with the request.

The Snyder administration also sought withdrawal of the request and asked for additional information on justification for the split.

"Given the potentially extreme impact on residential and other ratepayers of this reclassification, it is appropriate and important for the justification for this action to be available publicly," wrote Valerie Brader, Snyder deputy legal counsel and senior policy adviser.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Klappa replied, saying We Energies respectfully must decline to withdraw its application for the recently certified MIUP local balancing authority.

"Wisconsin Electric believes the MIUP BA will enhance the management of reliability in the Upper Peninsula, and its operation should not be impeded; and of course, matters of SSR cost allocations are currently being debated before the FERC," Klappa wrote Sept. 16 letter to the Michigan commission.

Klappa said We Energies' view "is that costs should be allocated to customers who benefit from the continued operation of Presque Isle."

On Sept. 26, MISO filed a proposal to allocate the costs of the Presque Isle SSR payments, using the MIUP balancing authority, effective Dec. 1.

However, last Thursday, We Energies asked the FERC to hold the MISO proposal in abeyance until it can be determined whether MISO's use of LBA's to allocate costs of the Presque Isle SSR units is appropriate.

We Energies said if the cost allocations went into effect Dec. 1 as planned, some load serving entities which do not benefit from continued operation of Presque Isle, including Cloverland Electric, would be harmed. We Energies estimated Cloverland would see an increased annual cost of $20 million for 2015.

"For this reason alone, the instant MISO filing should be held in abeyance," We Energies told FERC.

If the FERC denies the abeyance request, We Energies said it will protest the use of LBA's to distribute Presque Isle costs.

Michigan Public Service Commission and Cliffs officials said they had seen the filing from We Energies and were reviewing its contents.

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