

**From:** [Mckinnie, Adam](#)  
**To:** [Sundermeyer, Susan](#)  
**Subject:** FW: MPSC query on WPPI ARRs for new generation  
**Date:** Tuesday, September 13, 2011 9:41:04 AM

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## Schedule 11

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**From:** Steve Leovy [mailto:sleovy@wppienergy.org]  
**Sent:** Friday, September 02, 2011 12:47 PM  
**To:** Mckinnie, Adam  
**Subject:** MPSC query on WPPI ARRs for new generation

Adam-

This is in response for the voice message you left me on Wednesday. I am leaving early today, but would be happy to answer any further questions you may have next week.

I presume that your Commission's questions pertain to the two new Elm Road Generating Station (ERGS) 600-MW coal units south of Milwaukee, in which WPPI has an ownership share along with We Energies and Madison Gas & Electric. MISO's response is accurate, but I can provide additional detail that may enhance your understanding of all the issues:

1. The two ERGS units required relatively minor transmission upgrades, relative to the size of the added generation.
2. MISO does have a process in its tariff, in Section 46, to allow those who fund network upgrades to receive Financial Transmission Rights (FTRs) or Auction Revenue Rights (ARRs) in exchange.
3. The transmission upgrades in question, however, were all in the American Transmission Company (ATC) transmission zone, in which ATC has a policy to roll the cost of such upgrades into the zonal transmission rate.
4. Accordingly, WPPI was never eligible to seek FTRs under the provision described by MISO, since we did not directly fund these upgrades, and thus we never submitted a request for such FTRs.
5. MISO's current ARR policy dates to June 1, 2008, at which time a number of significant FTR Market changes became effective in MISO, including introduction of firm Long-term Transmission Rights (LTTRs) pursuant to FERC directive, changing from allocation of FTRs to ARRs, and defining Network Customers' ARR Nomination Rights on the basis of historical resources transmission arrangements during 2004-5 rather than then-current Network Resource designations.
6. This final change – using 2004-5 vintage resources as the basis for ARR nomination rights – meant that WPPI would not initially receive transmission rights associated with our share of ERGS (since these did not achieve commercial operation until 2010), but would have to go through MISO's new process for adding ARR Entitlements for new resources (described in 43.6.1 & 43.6.2 of MISO's tariff).
7. In spite of this, WPPI generally supported this change as we saw the previous process as susceptible to gaming that could eventually consume FTR capacity and make it difficult for

Network Customers to receive relatively full allocations.

8. Since 2008, we have identified a number of ways that the process for adding new ARR Entitlements for new Network Resources could be improved and we have worked with MISO through its stakeholder process to propose and implement a number of changes, including increasing the distribution-factor significance threshold used in the addition test, allowing new resources to be added the first full season after commercial operation rather than the first full FTR year, and allowing requesters to specify the minimum replacement ratio for Replacement requests. Perhaps most significantly, we successfully changed the rules to allow any requested baseload resource MW to be added automatically to the Peak Reserved Source Set (PRSS – eligible for nomination in the second but not the first stage of the ARR allocation) in the event that these MW are rejected in the test for addition to the Baseload Reserved Source Set (BRSS), which has higher nomination priority.
9. We have had moderate success in adding ERGS Reserved Source Points (RSPs) to our BRSS set, varying by season and period, and were able to add large amounts to the PRSS set last year.
10. We are still seeking addition of RSPs for baseload resources to our BRSS, though we are beginning to run out of room to add more ARR Entitlements, as the size of this set is capped at 57.5% of forecast peak demand.
11. We continue to see some room for improvement in MISO's process for RSP addition and replacement; however we generally believe that coordination with MISO and working through MISO's existing stakeholder process provide an adequate means to address these issues.

Please call me at the number below should you have questions or want to discuss further.

Best regards,



**From:** [Mckinnie, Adam](mailto:Mckinnie.Adam)  
**To:** [Sundermeyer, Susan](mailto:Sundermeyer.Susan)  
**Subject:** FW: MOPSC - WPPI FTR issue  
**Date:** Tuesday, September 13, 2011 9:41:18 AM

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Schedule 12, part 1

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**From:** Wottreng, James - PSC [mailto:James.Wottreng@wisconsin.gov]  
**Sent:** Wednesday, September 07, 2011 3:37 PM  
**To:** Mckinnie, Adam  
**Subject:** RE: MOPSC - WPPI FTR issue

Adam,

Not sure how much help I can provide. I know little about WPPI's circumstances as it is not subject to rate regulation by the Public Service Commission of Wisconsin. And I have not been following MISO topics for some time now.

Regarding the question, I'm not aware of what, if any, transmission upgrades WPPI paid for. That being said, I was aware that with MISO's adoption of ARRs, which allocation is based on a historical period, Wisconsin Public Service Corporation (WPSC) and others (I believe WPPI) were having difficulty in obtaining ARRs for new generation units (being new units, they were not part of the historical base period). However, that situation was not a situation where they were eligible for ARRs/FTRs by reason of having paid for the transmission upgrades. [Absent the allocation, at zero cost, WPSC would have to buy the desired FTR in the annual or monthly auctions or go without the congestion hedge.]

Regarding MISO's answer, my understanding is as MISO states – one is eligible for FTRs, subject to feasibility, by reason of having paid for the transmission upgrade. The latter part of the answer that is specific to WPPI is beyond my knowledge.

After I send this, I'll take a look at the other email you forwarded and give you feedback on Leovy's response.

Jim Wottreng  
608-267-3598

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**From:** Mckinnie, Adam [mailto:adam.mckinnie@psc.mo.gov]  
**Sent:** Wednesday, September 07, 2011 2:23 PM  
**To:** Wottreng, James - PSC  
**Cc:** McClowry, Meghan; Dottheim, Steve  
**Subject:** MOPSC - WPPI FTR issue

Thanks very much for returning my call today, Jim, and sorry that this information was put in front of you before now.

Jim, here is the question my commission asked:

13. Contact the Wisconsin Public Service Commission and WPPI, Inc. and provide an opinion as to the veracity, truthfulness, and completeness of

MISO's answer to question 12(b) on page 8 of their response dated June 16, 2011.

MO PSC Staff believes they mean 13(b) – here's the entirety of MISO's response to question 13:

**13. (a) Wisconsin Public Power, Inc. (WPPI) paid for transmission upgrades from a new coal plant and thought they would be receiving a corresponding amount of financial transmission rights to transmit baseload generation to their customers. Please describe what happened, whether WPPI received any financial transmission rights and what MISO did to fairly compensate WPPI?**

Answer: MISO understands this question to ask whether WPPI qualified for and received incremental Financial Transmission Rights pursuant to Section 46 of the MISO Tariff.

Section 46 affords market participants that fund (i.e., pay for the construction of) network upgrades and elect not to receive credits under Attachment FF of the MISO Tariff to request Financial Transmission Rights (FTRs) and Long-Term Transmission Rights (LTTRs), which are

a subset of Auction Revenue Rights (ARRs). If a market participant funds a network upgrade and does not recover its costs under Attachment FF, it may submit a formal request to MISO to

initiate a study for FTRs and LTTRs pursuant to Section 46. In this case, WPPI did not submit a

formal request to initiate the study and, therefore, did not receive specific FTRs and LTTRs for

the upgrade.

**(b) How is MISO remedying these problems going forward in similar situations?**

Answer: MISO is not aware of any problems with Section 46 that require a remedy. MISO's FTR Business Practice Manual describes the eligibility rules and process for acquiring

FTRs and LTTRs associated with funding a network upgrade.

Thanks again for returning my call. If it would be possible to get back to us by the end of the week with a short opinion we'd really appreciate it.

Adam McKinnie  
Chief Utility Economist  
Missouri Public Service Commission  
Voice: (573)522-8706  
Fax: (573)751-1847  
<mailto:adam.mckinnie@psc.mo.gov>

**From:** [Mckinnie, Adam](mailto:Mckinnie.Adam)  
**To:** [Sundermeyer, Susan](mailto:Sundermeyer.Susan)  
**Subject:** FW: MPSC query on WPPI ARR for new generation  
**Date:** Tuesday, September 13, 2011 9:41:29 AM

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## Schedule 12, part 2

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**From:** Wottreng, James - PSC [<mailto:James.Wottreng@wisconsin.gov>]  
**Sent:** Wednesday, September 07, 2011 4:16 PM  
**To:** Mckinnie, Adam  
**Subject:** RE: MPSC query on WPPI ARR for new generation

Adam,

Regarding Leovy's responses:

- I generally agree with Leovy's responses on #2 through #6. I say generally, because I don't remember the specific dates and have not re-checked the dates included in his statements.
- On #7, I don't know/remember whether WPPI supported the change or not. At the time of the change, I thought about the shortcomings of MISO's proposal to use a historical period as the basis for the allocation. I was also aware of the shortcomings of the existing "network resource" designation for FTR allocations and "capacity swaps" that were being used by some to obtain desirable FTR paths and congestion rents.
- On #8 through #11, I know that Leovy has worked with MISO to improve the ARR process for new resources, but can't really speak to the success of that effort or WPPI's recent experience.  
[MISO treats participants' ARR allocations as confidential, but a quick look at the 2011-2012 ARR allocation for the WEC.WPPI\_1.AZ sink indicates some ARRs from the WEC.ERG1 and WEC.ERG2 sources, which is supportive of Leovy's statements.]

Jim Wottreng  
608-267-3598

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**From:** Mckinnie, Adam [<mailto:adam.mckinnie@psc.mo.gov>]  
**Sent:** Wednesday, September 07, 2011 2:24 PM  
**To:** Wottreng, James - PSC  
**Subject:** FW: MPSC query on WPPI ARR for new generation

Here's what Steve had to say - AMcK

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**From:** Steve Leovy [<mailto:sleovy@wppienergy.org>]  
**Sent:** Friday, September 02, 2011 12:47 PM  
**To:** Mckinnie, Adam  
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Schedule ACM-13-1  
Part 2

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Best regards,



## GLOSSARY

ARRs	Auction Revenue Rights
ATX	Ameren Transmission Company
CRA	Charles River Associates is a consulting firm that offers economic, financial, and business management expertise to major law firms, corporations, accounting firms, and governments around the world.
FERC	Federal Energy Regulatory Commission
FRAP	Fixed Resource Adequacy Plan
FTRs	Financial Transmission Rights
ICT	Independent Coordinator of Transmission
IMM	Independent Market Monitor
IRP	Integrated Resource Plan
ISO	Independent System Operator
JOA	Joint Operating Agreement
LRZ	Local Resource Zone
LSE	Load Serving Entity
MISO	Midwest Independent Transmission System Operator
MOPR	Minimum Offer Price Rule
MVP	Multi-Value Project
NPV	Net-Present Value
PJM	PJM Interconnection LLC is a RTO which is part of the Eastern Interconnection grid operating an electric transmission system serving all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.
PRA	Planning Resource Auction
PRMR	Planning Reserve Margin Requirement
RAC	Resource Adequacy Construct
RECB I Project	Specific type of transmission project built for reliability purposes in the MISO region
RECB II Project	Specific type of transmission project built for economic purposes in the MISO region
RTO	Regional Transmission Organization
SPP	Southwest Power Pool
ZDC	Zonal Deliverability Charge
ZRC	Zonal Resource Credit