UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Midcontinent Independent System Operator, Inc.	)	Docket Nos. ER15-765-000 ER15-767-000 (not consolidated)

PROTEST OF
CLOVERLAND ELECTRIC COOPERATIVE

Pursuant to Rule 211 of the Commission's Rules of Practice and Procedure and the Commission's Combined Notices of Filings #1 issued December 31, 2014, Cloverland Electric Cooperative ("Cloverland") hereby protests (1) the System Support Resource Agreement by and between White Pine Electric Power, LLC ("WPEP") and Midcontinent Independent System Operator, Inc. ("MISO") for White Pine Unit 2 ("SSR Agreement") and (2) the proposed MISO allocation of the White Pine Unit 2 SSR costs pursuant to proposed Rate Schedule 43I under the MISO Open Access Transmission, Energy and Operating Reserve Markets Tariff ("Tariff"), both filed by MISO on December 30, 2014. Cloverland timely filed a docless Motion to Intervene in both dockets on January 12, 2015.[1]

The requested White Pine Unit 2 cost compensation is not reasonable. The Commission approved the cost compensation and allocation of the 20 MW White Pines Unit 1 effective for one year from April 16, 2014.[2] MISO requests cost compensation for the similar gas-fired 20 MW Unit 2 to go into effect for three and a half months, from January 1, 2015 to April 15, 2015. Even though the fixed rate cost recovery sought for White Pine Unit 2 is only for going-forward costs for three and a half months, the imputed monthly costs are 125% of the monthly costs of

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[1] MISO has moved to consolidate the two dockets. *See* MISO Transmittal Letter, ER15-765-000 at 10 n.25. Cloverland agrees.

[2] *Midcontinent Indep. Sys. Operator, Inc.*, 148 FERC ¶ 61,136 (2014).

Unit 1. In addition, the requested costs are undocumented, unverified, at times merely stated, and inaccurately calculated, and so deficient and likely to be unjust and unreasonable. Thus, the SSR Agreement should be suspended and set for hearing.

The allocation of White Pine Unit 2 costs is not reasonable and is unduly discriminatory. It follows the allocation of costs sought in by MISO in ER12-2952-001; that is, most of the cost of the unit is assigned to the artificial and arbitrary Michigan Upper Peninsula Local Balancing Authority ("MIUP LBA") and then pro rata to Load Serving Entities ("LSEs") within the LBA. The allocation sought in this docket should be made subject to the Commission's orders in ER14-2952-001 and the Commission's allocation orders in ER14-2862-000 and ER14-1423-000.

The combined impact of the unjust and unreasonable cost compensation and allocation to Cloverland is significant. White Pine Unit 2 is located in the west of the Upper Peninsula, farther west than even the Presque Isle Power Plant. Cloverland serves around 42,000 customers in the eastern third of the Upper Peninsula, far away from the plant. MISO has not demonstrated any reliability benefit of the White Pine plant to Cloverland, yet allocates 88% of the cost to the MIUP LBA,[3] and, given the same MIUP LSE load ratio shares as in the case of Presque Isle, allocates an estimated 21% of the cost of White Pine Unit 2 to Cloverland.[4]

	$/month	**X 21.25%**
White Pine 1*	264,501	56,206
White Pine 2**	593,936	126,211
TOTAL	858,437	182,418
X 12 months	10,301,244	2,189,014

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[3] MISO Application, ER15-767-000 at Exhibit A2.

[4] MISO proposed to allocate 93.57% of Presque Isle cots to the MIUP LBA in Docket No. ER14-2952-001 resulting in an allocation to Cloverland of 22.6% of the costs. 88% of White Pine Unit 2 costs are allocated to the MIUP LBA in this docket. Thus, 22.6 x (88/93.57) = 21.25%.

* *See Midcontinent Indep. Sys. Operator, Inc.*, 148 FERC ¶ 61,136 at P 25 (2014) for the monthly cost. White Pine 1 is not currently allocated per ER14-2952-001.
** Monthly cost calculated at MISO Application in ER15-765-000, Exhibit E, Walsh Affidavit at ¶ 14.

The White Pines Units 1 & 2 SSR agreements are likely to stay in effect, in successive one-year agreements, until American Transmission Company completes Transmission Project 8090 in 2020. MISO Application, ER15-765-000, Exhibit B, Attachment Y Study Report at 2 and 17.[5] Thus, Cloverland, which receives no documented benefit from White Pine 1 and 2, can be expected to pay $2.2 million a year in addition to the MISO-proposed $21.9 million a year for Presque Isle.

I. THE WHITE PINE 2 COST COMPENSATION IS NOT REASONABLE

A. The Fixed Rate Request is Insufficiently Supported

Cloverland requests the SSR Agreement application be suspended and set for hearing. The fixed rate components requested are undocumented, unverified, at times merely stated, and calculated incorrectly. FERC does not allow insufficiently supported rates even for a short period of time.

First, the one page cost of service[6] is described in the affidavit of Steven L. Walsh, the chief executive office of WPEP's parent corporation. The cost of service figures are unaudited, undocumented, and not verifiable. They are nothing more than what Mr. Walsh says they are.

Second, some of the cost figures are not even discussed or defined. Maintenance Supplies, Utilities, Property Tax, Depreciation, and Financing are merely labels. Some labels have an intuitive meaning, but what could "Utilities" mean and what does "Financing" entail?

[5] MISO's discussion of the Portage CT Unit as a generation alternative, MISO Application, ER14-765-000, Transmittal Letter at 7 and Exhibit B, Attachment Y Study Report at 15-16 seems largely illusory given that the same alternative generation was discussed for White Pine Unit 1 and dismissed. *Midcontinent Indep. Sys. Operator, Inc.*, 148 FERC ¶ 61,136 at P 22 (2014).

[6] MISO Application, ER14-765-000, Exhibit E, Attachment 1.

There is not even a hint of what constitutes these line items or why a portion would not be shared with White Pine Unit 1. Further, Mr. Walsh's discussion of "Other fixed costs" at p. 3 and the associated $682,833.94 cost does not correspond to anything on the cost of service.

Using an average of three years of historic costs is a reasonable way to project costs for items that have relatively stable costs. When a line item shows a marked trend, however, some explanation is needed to justify using the average. "Salary Labor" dropped 56% and financing dropped 51% from 2012 to 2014, but there is no explanation as to why the costs will not continue to drop and or why the average figure is a reasonable projection. The undefined "Maintenance Supplies" increased 155% and the undefined "Utilities" increased 77% from 2012 to 2014, but there is no explanation for the increase or the expectation that the average over the period is reasonable.

Finally, the Cost of Service is inaccurately calculated. For example, given the figures in the cost of service, the 3-year average of "Administrative Labor, Overhead is $641,302 not the stated $784,919, a difference of $143,617. The sum of 2014 non-capital costs is $5,701,107 not the stated $5,730,594, a difference of $29,487. There are other errors in the cost of service calculation where the stated costs are less than the calculated costs, but rather than balancing inaccurate calculations, the calculations should be correct in the first place.

MISO's Application is deficient. The Commission requires "rates and charges … [and] the classifications, practices, rules and regulations affecting such rates, charges, classifications, services, rules, regulations or practices" to be clearly and specifically set forth. 18 C.F.R. § 35.1(a). As the Commission explained in *Southern Company Services, Inc.*, 101 FERC ¶ 61,309 at P 19 (2002) (footnotes omitted):

> The Commission requires public utilities to include *sufficient information* in all filings for the Commission to determine the reasonableness of any costs proposed

> to be charged and to determine that any direct assignment of costs is appropriate, including a clear and separate identification of all direct costs, all indirect costs and any associated carrying charges as well as *detailed cost support* for all proposed services. Identification of broad cost categories is not sufficient. [emphasis added].

MISO's application does not meet this standard. Thus, the Commission should suspend the rate and set the application for a hearing to allow an adequate investigation of the SSR compensation.

B. Some Cost Of Service Items Are Overstated

Recovery of SSR unit costs "should not exceed a resource's full cost-of-service." *Midcontinent Indep. Sys. Operator, Inc*. 148 FERC ¶ 61,057 at P 82 (2014). On its face, something is wrong with the White Pine 2 cost of service. The gas-fired 20 MW White Pine Unit 2 generator monthly costs are 125% of the nearly identical gas-fired 20 MW White Pine Unit 1 generator monthly costs. There is no indication why costs should be so disparate.

Further, many of the costs listed for Unit 2 are shared with Unit 1, yet those costs are not shared 50-50, contrary to Mr. Walsh's claims at p. 2 ¶ 13.a.

	Yearly Amount allocated to Unit 1 under Prior SSR	Monthly Amount allocated to Unit 1 under Prior SSR	Unit 2 cost estimate (Prorated to 3.5 month) stated	Stated Unit 2 cost /3.5 months	% Unit 2 costs of total monthly costs
Hourly Operating Labor	327,763	27,314	202,262	57,789	68%
Hourly Maintenance Labor	124,428	10,369	76,797	21,942	68%
Salary Labor	-	-	31,032	8,866	100%
Administrative Labor Overhead	261,640	21,803	132,521	37,863	63%
Operating Supplies	45,759	3,813	17,202	4,915	56%
Maintenance Supplies	107,922	8,994	35,367	10,105	53%
G&A	158,543	13,212	117,758	33,645	72%

If shared costs were allocated to White Pine 1 at 50%, then the shared costs sought for White Pine 2 seem excessive, for the total of shared costs would be more than 100% for each line item.

C. Immediate Recovery Of All Capital Expenditures In Current Rates Is Unreasonable

The MISO Application is clear that the SSR Agreement should remain in place for at least five years and perhaps more if transmission Project 8090 is delayed. The Commission is clear that an SSR Agreement may recover the capital costs *because* it expects "SSR Agreements will be necessary on an infrequent, short-term basis and, therefore, the overall capital costs borne by MISO market participants should not be excessive." *Midcontinent Indep. Sys. Operator, Inc*. 140 FERC ¶ 61,237 at P 136 (2014). Given the Harbor Beach, White Pine, Escanaba, Edwards, and Presque Isle SSR Agreements, SSR Agreements are not infrequent in MISO. Given the multi-year life span expected for the White Pine Unit 2 SSR Agreement, it is not short-term. Thus, recovery of White Pine Unit 2 capital costs, some $653,000 over three and a half months, or 31% of the total recovery, is excessive and unreasonable.

Instead of immediately recovering capital costs in current rates, MISO should use the usual and well-established accounting and rate treatment: capital additions should be capitalized and included in WHP's plant investment as they are completed, and then should be depreciated over the expected remaining lives of the units. The depreciation, along with a return on the undepreciated investment (rate base less accumulated depreciation), may then be properly charged to customers that receive service from the units during those future years.

This traditional treatment of capital investment is based on fundamental principles of accounting and ratemaking. First, accepted depreciation accounting practices allocate by depreciation the costs of capital additions with useful lives of more than a year over the useful lives of the facilities. Second, as a matter of generational equity, today's ratepayers should pay for the costs of service they receive now, while future ratepayers should pay for the costs of service they receive in the future. Generational equity is a special case of the broader matching principle between costs of benefits that which this Commission has applied throughout its history to determine just and reasonable rates.

The Commission should reject the proposed treatment of capital costs under the proposed SSR Agreement and require the traditional treatment of all such new plant investment.

II. THE WHITE PINE 2 COST ALLOCATION IS NOT REASONABLE

MISO's allocation of the costs of White Pine 2 in this docket should be made subject to the Commission's allocation orders in ER14-2952-001, which specifically includes an allocation to White Pine 1, and the Commission's allocation orders in ER14-2862-000 and ER14-1423-000,[7] which, as a matter of principle, ought to apply to all MISO SSR Agreements. Cloverland objects to an LBA-based instead of a LSE-based allocation scheme. MISO proposes an LBA-based scheme in ER14-2952-001 (dividing the old WEC LBA to allocate most SSR costs to a new MIUP LBA), used in the present docket, and an LBA-based scheme in ER14-2862-000 and ER14-1423-000 (LBA-based allocation to the old WEC LBA). Rather than rehash Cloverland's arguments in those dockets, briefed in detail to the Commission, Cloverland will summarize.

MISO's justification for the allocation scheme in ER14-2952-000, and certainly in the present docket, is patiently deficient. MISO has not explained how the allocation it deemed just and reasonable in ER14-2862-000 and ER14-1423-000 is now unjust and unreasonable and how the radically different allocation in ER14-2952-001 is just and reasonable. MISO has provided

[7] *See Midcontinent Indep. Sys. Operator, Inc.*, 149 FERC ¶ 61,114 at P 78(2014) (holding open cost allocation issues for further order).

no analysis of the actual allocation to customers, the dollar impacts of its allocations, or the rate shock to customers caused by its allocation. MISO's circular logic on benefits—customers benefit in proportion to their cost allocation, because the cost allocation is a measure of their benefit—is no explanation of how a customer benefits or whether the costs allocated to that customer are proportionate to that benefit.

The proposed cost allocation is not just and reasonable and is unduly discriminatory. As the allocation in ER14-2952-000 so vividly reveals, allocating costs to LBAs however much LBAs may change, especially in response to the prior allocation, causes costs to shift dramatically without any change in system operation. Such an allocation scheme, considered in its totality instead of docket by docket, cannot allocate the cost of assuring reliability to the customers that actually benefit from that reliability. LBA boundaries play no role in determining which customers receive the reliability benefits associated with SSR units.

Furthermore, following the LBA borders wherever they may lead for MISO cost allocation purposes is unreasonably unstable and unduly discriminatory. Costs may shift drastically as LBAs are created, shrink, split up or move their borders in order to avoid SSR costs. Only large utilities can afford the expense of creating or modifying an LBA to avoid SSR cost allocation. Smaller utilities, such as Cloverland, cannot afford to create an LBA just to avoid SSR costs.

The proposed cost allocation violates the Commission's cost causation principle. The Commission and reviewing courts have long held that approved rates must reflect to some degree the costs actually caused *by the customer* who must pay those costs.[8] Nonetheless, MISO

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[8] *Midwest ISO Transmission Owners v. FERC*, 373 F.3d 1361, 1368 (D.C. Cir. 2004) (citing *KN Energy, Inc. v. FERC*, 968 F.2d 1295, 1300 (D.C. Cir. 1992)).

persists in using a methodology that assumes that (i) any LSE located within a benefiting LBA will also receive benefits from the studied SSR unit, and (ii) the benefits received by that LSE will be in proportion to its pro rata share of the LBA's coincident peak. In particular, MISO has failed to provide *any* evidence that Cloverland receives *any* system reliability benefit from White Pine Unit 2 or that the 21% cost allocation to Cloverland is proportionate to that benefit. MISO's raw assumptions yield exactly the kind of blind cost allocation the Commission may not approve. *See Illinois Commerce Comm'n v. FERC*, 756 F.3d 556, 562 (7th Cir. 2014) ("[E]ven the modest goal of rough commensurability requires *some* effort … to quantify the benefits").

MISO's proposed cost allocation contradicts the Commission's explicit directives to assign costs to LSEs. In its *July 29 Order*, the Commission required MISO to remove the ATC "*pro rata*" cost allocation language from its Tariff and replace it with the general SSR cost allocation Tariff provision that allocates SSR costs to "*the LSE(s)* which require(s) the operation of the SSR Unit for reliability purposes."[9] The Commission reasoned that "[u]nder this general SSR cost allocation language, MISO has flexibility in how it will identify *the particular LSEs* that require the SSR Unit for reliability."[10] Indeed, the Commission reiterated its intent that SSR costs be assigned to beneficiary LSEs in its August 12, 2014 decision concerning the Escanaba SSR Units[11] as well as in its August 2, 2014 decision concerning the *White Pine Unit No. 1* SSR costs.[12] MISO's allocation methodology gives no consideration to whether an individual LSE *actually* receives any reliability benefit from the particular SSR unit for which it is being assigned a share of the costs. Instead, MISO assumes it.

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9 *Midcontinent Indep. Sys. Operator, Inc., et al.*, 148 FERC ¶ 61,071 at P 66 (2014) (emphasis added).

10 *Id.* (emphasis added).

11 *Midcontinent Indep. Sys. Operator, Inc.*, 148 FERC ¶ 61,116 (2014).

12 *Midcontinent Indep. Sys. Operator, Inc.*, 148 FERC ¶ 61,136 (2014).

MISO's cost allocation methodology violates its own Tariff. Specifically, Section 38.2.7.k provides that: "[t]he costs pursuant to the SSR Agreement shall be allocated *to the LSE(s)* which require the operation of the SSR Unit for reliability purposes, and shall be specified in the SSR Agreement." [emphasis added] MISO's claim that it must follow the contradictory provisions of Section 6.2 of its Business Practices Manual ("BPM") is wrong. Rather, "[i]n all cases the Tariff is the governing document and not the BPMs."[13]

III. CONCLUSION

Cloverland respectfully requests that the Commission accept this protest and require MISO to allocate the reasonable costs of the SSR Agreement to those LSEs that actually receive the associated system reliability benefits. If the Commission does not reject MISO's filing as patently deficient, the Commission should suspend the proposed rate schedule, and establish hearing and settlement procedures through which the parties can determine the reasonable costs of White Pine Unit 2 and the proper allocation of those costs.

Respectfully submitted,

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13 MISO Transmission Planning Business Practices Manual, BPM-020-R10, at 2.

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January 20, 2015

CERTIFICATE OF SERVICE

I hereby certify that I have this day caused a copy of the foregoing document via the official electronic list serve established by the Federal Energy Regulatory Commission for the above referenced proceeding.

Dated at Washington, D.C., this 20th day of January 2015.

/s/ A. Hewitt Rose, III
A. Hewitt Rose III

Document Content(s)