

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Midwest Independent Transmission)
System Operator, Inc.) Docket No. ER09-24-000

NOTICE OF INTERVENTION AND COMMENTS
OF THE ORGANIZATION OF MISO STATES

Pursuant to the Commission's Notice issued October 7, 2008, the Organization of MISO States (OMS) hereby intervenes and files these comments in the above-captioned docket. The OMS continues to support the implementation of an efficient co-optimized Energy and Ancillary Services Market when, as explained herein, the Midwest ISO has conducted further operational tests and demonstrated that its proposed changes are successful via another readiness filing prior to expected market start-up .

Pursuant to Rule 214(a)(2) of the Federal Energy Regulatory Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214(a)(2), the Organization of MISO States files its Notice of Intervention in the above-captioned proceedings. Service of all pleadings, documents, and communications in this matter should be made on the following:

William H. Smith, Jr.
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I. Background and General Observations

On April 1, 2005, the Midwest ISO began operation of a wholesale energy market using locational marginal prices to manage transmission congestion. On September 9, 2008, the Midwest ISO was to begin operation of a centralized and co-optimized Energy and Ancillary Services Market (ASM).

On August 26, 2008, the Midwest ISO filed with the Commission a notification of delay in the launch of the ASM. This was in response to concerns about market testing results and in response to related stakeholder comments and protests. The reason for delay, as stated by Midwest ISO, was “to provide the Midwest ISO the opportunity to resolve any substantive issues and to facilitate a successful ASM launch.”¹

In response to concerns about market testing results and related stakeholder comments and protests, the Midwest ISO filed, on September 26, 2008, with the Commission its Deferral of Effective Dates. The Midwest ISO has facilitated several stakeholder calls, including Market Subcommittee meetings on September 9, 16 and 23, 2008, to explain its findings and proposed improvements to ASM design, including tariff and business practice manual (“BPM”) changes.

On October 2, 2008, the Midwest ISO submitted a filing to the Commission outlining the scarcity price issues experienced in the ASM operational testing and proposing revised tariff provisions. In the filing, the Midwest ISO proposes tariff revisions that involve:

- (1) sharing of ramp capability between Energy and ASM products;
- (2) adjustments to the Tolerance Band to take into account ramp sharing and the amount of offered ramp capability;
- (3) adoption of additional ramp rate eligibility rules and requirements for Real-Time Offer Revenue Sufficiency Guarantee Payment (“RTORSGP”) and Day-Ahead Margin Assurance Payments (“DAMAP”); and
- (4) reduction of the Regulating Reserve Demand Curve price

The OMS supports the proposed tariff modification of the regulation demand curve price. Regarding the other three revisions, the OMS conceptually supports the tariff modifications to allow the sharing of ramp products and other tariff changes intended to reduce disincentives to ramp offers. However, the OMS is concerned that a definitive ramp sharing model could not be identified for tariff filing and that, instead, the Midwest ISO will retain flexibility to modify ramp sharing provisions in operating procedures. In practice this may circumvent transparency regarding offer and pricing issues for market participants, such as through Market Subcommittee discussion, and

¹ Midwest ISO filing dated August 26, 2008.

reduce review of reliability related issues with stakeholders in the Reliability Subcommittee. To address that concern the OMS therefore requests that the Commission direct the Midwest ISO to continue to review anticipated and operational impact of these changes with stakeholders in the Market Subcommittee and Reliability Subcommittee, and evaluate and report on the sufficiency of ramp offers for one calendar quarter following Energy and Ancillary Services Market start.

The OMS supports its recommendation to the Commission with comments on the following issues:

- A. The modification to the Regulation Demand Curve Price is reasonably calculated.
- B. The prevalence of regulation scarcity is artificial; tariff and BPM solutions are not clearly proportional and adequate.

II. Specific Issues and Analysis

A. Regulation Demand Curve Price

When regulation scarcity occurs, an administrative demand curve price is established. In the Midwest ISO's October 2, 2008 filing, Richard Doying concluded that scarcity price had previously been inappropriately determined based on the value of lost load (VOLL); however, loss of load is, in fact, not a logical outcome under the circumstances present.² Instead, if any action were taken during regulation scarcity, the most likely action for Midwest ISO would be a fast combustion turbine (CT) unit start or deployment of supplemental reserves. Therefore, the Midwest ISO proposes that the regulation demand curve price should be calculated from an all-in (incremental, startup and no load) CT cost. This price is to be derived from a Chicago city gate gas index price for three (3) weeks of the previous month and an average annual heat rate for a CT. This methodology proposed in Midwest ISO's October 2, 2008 filing results in approximately a 2/3 or more reduction in the scarcity price for regulating reserves.³

² Testimony of Richard Doying, page 15.

³ Based on previous filing \$1000/MWh demand curve price and Midwest ISO Mr. Richard Doying's estimate of a \$250-350/MWh calculated CT proxy price, as stated at the September 16, 2008, Market Subcommittee meeting.

The OMS believes the logic to use a CT start proxy price is sound. Further, while other calculations of a CT proxy price may be offered by stakeholders, the OMS believes that several could be reasonable and Midwest ISO's methodology here is reasonable.

B. Prevalence of Regulation Scarcity

The OMS generally concurs with the proposed calculation of regulation demand curve price to be used when legitimate regulation scarcity exists. However, the OMS remains concerned about the separate issue of the frequency of occurrences of regulation scarcity.

The OMS believes the frequency of regulation scarcity and conditions under which regulation scarcity has been observed during testing illustrate that this scarcity is not due to actual resource shortages. Instead, it is due to the commitment and dispatch instructions to the various units offered for either energy or the reserve products. In short, this scarcity is artificial and is due to the dispatching algorithm. As noted in multiple places in the October 2, 2008 filing, the Midwest ISO acknowledges that "there were over 3000 MW of unloaded, online generation while, at the same time, prices observed in the dispatch were inaccurately indicating scarcity of Regulating Reserves."⁴

Midwest ISO proposes multiple changes in its tariff to improve the offers of regulation and spinning reserve. The major change proffered is the ability to share ramp capability between ASM products. In addition, the Midwest ISO proposes to make other modifications that comport with the ramp sharing provision and also tend to remove disincentives to offering ramp or offering ramp at less than a unit's capability. The Midwest ISO proposes to increase the tolerance band during ramp to provide an incentive to market participants to not be unduly conservative with their offers. The Midwest ISO proposes to eliminate Excessive or Deficient Energy Charges to a unit that has been dispatched for more than one product, to eliminate the penalty that could result when its dispatched ramp may be greater than its physical capability. Lastly, the Midwest ISO proposes changes to the Real-Time Offer Revenue Sufficiency Guarantee Payment (RTORS GP) and Day-Ahead Margin Assurance Payment (DAMAP) eligibility rules to

⁴ Supplemental Direct Testimony of Roger C. Harszy at 4.

encourage market participants to maintain real-time ramp capability at or above their Day-Ahead offers. The OMS highlights three concerns with these changes.

First, OMS concurs with the Midwest ISO that the over-relaxation of requirements may lead to gaming opportunities by market participants.⁵ The Midwest ISO reports that the IMM advised on the market design and, in particular, on the approach selected by the Midwest ISO.⁶ The OMS is particularly concerned with the lack of a formalized approach that the IMM will implement to monitor the offer parameters; such as ramp rates of generating units, and whether the proposed IMM approach is sufficient. The OMS is also concerned that the greater offer flexibility inherent in the Midwest ISO's proposal will increase opportunities to exercise market power. Accordingly, the OMS reserves the right to comment further on this issue after the IMM has officially submitted his position for the record. In any event, the OMS encourages the IMM to develop a formalized approach for monitoring ramp rate offers. Further, the OMS encourages the IMM to state clearly if he has all the necessary tools to fulfill the duty noted by Midwest ISO to "monitor and/or audit Offers or changes in Offer parameters, including ramp rates, that could constitute economic or physical withholding."⁷

Second, some provisions, such as the RTORSGP and DAMAP eligibility may come with additional cost that is not estimated. It is assumed these costs would be negligible compared to cooptimized energy and ancillary service market efficiency benefits. Nevertheless, having in hand a firmer estimate of these costs would improve confidence in the cost-effectiveness of the Midwest ISO's proposal.

Third, the sharing of ramp across multiple products could be considered less conservative and potentially have a reliability impact. While the Midwest ISO says that the sharing of ramp will not have an adverse impact on system reliability, Mr. Roger Harszy's statement that "increased ramp rates will have a positive impact on system reliability" is true only if the generator capability is improved.⁸ In this case, the proposed tariff changes eliminating disincentives serve only to produce increased offered ramp

⁵ Midwest ISO filing October 2, 2008 at 12.

⁶ Testimony of Richard L. Doying at 16.

⁷ Midwest ISO filing October 2, 2008 at 13.

⁸ Supplemental Direct Testimony of Roger C. Harszy at 6.

rates. The OMS questions whether there is any direct reliability benefit from the tariff changes such as increasing the tolerance band during ramp, provision for make whole payments to incent more aggressive real-time offers of ramp capability, and elimination of Excessive and Deficient Energy Charges when dispatch bands are disabled.

While proposals would all appear to result in more offers and lower prevalence of scarcity, the OMS believes the Midwest ISO did not quantify the frequency of this artificial scarcity or clearly explain that the proposed solutions are proportional and will correct the problem.

The initial recognition of the problem was defined as a price volatility issue.⁹ The OMS is concerned that this indicates major changes to the cooptimized dispatching algorithm, i.e. separate clearing of all reserve products was determined close to the scheduled launch date and only after clearly inappropriate market clearing prices were seen. To address these concerns, the OMS recommends that the Commission direct the Midwest ISO to conduct further operational tests to demonstrate, quantitatively, the impact of its proposed tariff changes on business practices and market design, and to submit another readiness filing no later than 45 days prior to expected market start-up. Testing should allow stakeholders to assess whether the unexpected and artificial scarcity conditions that were observed during open/closed loop testing will be sufficiently mitigated under the proposed changes, and that each of the proposed tariff and BPM changes is individually and in sum reasonable and appropriate.

The OMS also requests that the Commission direct the Midwest ISO to continue to review anticipated and operational impact of these changes with stakeholders in the Market Subcommittee and Reliability Subcommittee, and to file results and analysis, for one calendar quarter following ASM market launch, of the frequency and duration of events in which the regulation scarcity demand curve price is invoked.

III. Conclusion

The Organization of MISO States (OMS) continues to support the implementation of an efficient co-optimized Energy and Ancillary Services Market when, as explained herein, the Midwest ISO has conducted further operational tests and demonstrated that its proposed changes are successful via another readiness filing prior to expected market

⁹ Midwest ISO filing October 2, 2008 at 5.

start-up. The OMS anticipates that with further operational testing and review, the Midwest ISO can demonstrate that its proposed modifications will clearly and quantifiably address the anomalous scarcity seen during testing to date. The OMS requests that the Commission direct Midwest ISO to continue to review anticipated and operational impact of these changes with stakeholders in the Market Subcommittee and Reliability Subcommittee, and to file results and analysis, for one quarter following ASM market launch, of the sufficiency of ramp offers and the frequency and duration of events in which the regulation scarcity demand curve price is invoked. The OMS reserves the right to further comment on market design and market power issues after the IMM submits his position on the record of this case.

The OMS submits these comments because a majority of the members have agreed to generally support them. Individual OMS members reserve the right to file separate comments regarding the issues discussed in these comments. The following members generally support these comments.

Iowa Utilities Board
Kentucky Public Service Commission
Michigan Public Service Commission
Minnesota Public Utilities Commission
Montana Public Service Commission
Nebraska Power Review Board
North Dakota Public Service Commission
Public Utilities Commission of Ohio
South Dakota Public Utilities Commission
Wisconsin Public Service Commission

The Illinois Commerce Commission and the Pennsylvania Public Utility Commission abstained from the vote on this pleading.

The Indiana Utility Regulatory Commission, the Manitoba Public Utilities Board, and the Missouri Public Service Commission did not participate in this pleading.

The Indiana Office of Utility Consumer Counselor, the Iowa Office of Consumer Advocate and the Minnesota Office of Energy Security, as associate members of the OMS, participated in these comments and generally support these comments.

Respectfully Submitted,
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Dated: October 23, 2008

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Des Moines, Iowa, this 23th day of October 2008.

William H. Smith, Jr.
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