

Strategic Direction for Midwest ISO

Advisory Committee Hot Topic Discussion, St. Paul, Minnesota
August 18, 2010

An OMS Viewpoint

The OMS supports the Midwest ISO's initiative to gather ideas from all stakeholders regarding the Midwest ISO's future strategic direction. The Midwest ISO must continually re-assess the continued relevance of its functions, its position in the institutional and organizational framework, and how it can bring additional value to its participants and serve the public interest.

Strategic Elements:

The OMS generally supports the Midwest ISO's focus on the seven strategic elements described in Question 1 of the hot topic outline. However, OMS would like further discussion with MISO on how each strategic element is weighted and how they could be weighted in the future. Currently, sustaining existing membership and encouraging membership growth appears to be ranked in importance far above the other elements. While addressing membership issues is important, it must not compromise other goals; e.g., independence. OMS would also add that investment in transmission, product enhancement, and RTO services should be done when estimated benefits exceed the estimated costs.

MISO must also continually work to improve the clarity of price signals in its markets. Efficient price signals in wholesale markets are important to all market participants and critical for market participants in restructured states where participants are "all in" the market. A goal of efficient market design must be the inclusion of all costs in the price of relevant products. When some costs are hidden in uplifts or otherwise socialized, the resulting price signal is not efficient. This issue is important because price signals drive consumer behavior—inefficient price signals will drive inefficient behavior.

Important Projects:

The OMS generally agrees with the list of "important projects" listed in Question 2 of the hot topic outline. The OMS' viewpoint is that the Midwest ISO Management and Board of Directors pursue these projects in a way that factors in the competing interests of customers, generators, and transmission owners, and results in an outcome that serves the public interest. In reaching such an outcome, three questions should be considered: 1) Is the Midwest ISO strengthened as an organization? 2) As a goal, was the Midwest ISO's choice determined independently? and 3) Are the needs of the public cost-effectively served?

However, the OMS would suggest one addition to the list of important projects for the next three years. The OMS foresees the possibility that utilities in the Eastern Interconnection serving states with limited renewable energy resources may have a strong incentive to purchase wind Renewable Energy Credits (RECs) issued as a result of generation in the Midwest

as an alternative to paying for transmission to deliver renewable energy to their load centers. OMS believes it would be important at this juncture to analyze the effect of such a possible future scenario on MISO's transmission operations and market implications.

The basis for OMS's concern stems from the potential effects of separating the renewable attribute ("green tag") from the actual flow of energy. Certified renewable generation creates a REC as a joint product of the generation. Each of these components, the REC and the energy, have value but in different ways. In areas where both the renewable attribute and actual energy are readily needed and sold, there should be little detrimental impact to transmission or market operations (other than the administrative work of tracking the RECs). However, an issue can arise when the components are split; specifically, when buyers seek only the green tags of the RECs but have little or no interest in the generation that produced those RECs. In that situation, the basic energy, *sans* the green tags, is essentially "stranded" on the grid and would have to be managed. In fact, this stranded generation could require significant modifications to transmission operations and markets. In other words, the effects of stranded non-renewable energy could create transmission and market externality costs that should be studied and quantified to ensure it is fully understood.

A critical part of such an analysis would be to determine whether the market value of a REC reflects the full costs of creating the REC. For example, does the REC reflect the costs of backing down other non-renewable (base-load) resources in the Midwest that are displaced by formerly-renewable energy because the load is not sufficient in the Midwest to absorb stranded formerly-renewable energy? Does the REC reflect added congestion costs and/or the need for additional new transmission prompted by the renewable development needed to satisfy renewable standards in states choosing not to develop their own resources or actually import generation from elsewhere. A study to identify and quantify the costs of such externalities would help to inform market design going forward to ensure that price signals are accurate and full costs are included in the cost of the REC.

External Forces:

The OMS generally agrees with the list of drivers/external forces set out in Question 3 of the hot topic outline. We understand that MISO is pushed and pulled from many sides and must remain alert and ready to respond to numerous external forces.

Value Proposition:

The OMS generally supports the attention to value creation highlighted in Question 4 of the hot topic outline. The OMS urges the Midwest ISO to focus on creating value and illuminating the value that may not always be readily observable.

Additional comments:

The OMS also recommends extension of efforts to facilitate initiatives among state regulatory members to coordinate transmission planning and permitting processes to account for issues extending beyond the boundaries of single states.

The OMS Cost Allocation and Regional Planning (CARP) process, in which the Midwest ISO played a critical supporting role, created significant value by, *inter alia*, forging a focused working relationship among participating states on the transmission cost allocation issue. But in a broader sense, CARP highlighted the value of bringing together the states to gain insights into the challenges faced in specific areas and to discuss long-range issues affecting the delivery of energy services. Another example is the Upper Midwest Transmission Development Initiative, which had different origins than CARP, but also demonstrates the value of state-to-state dialogue on these issues.

While most of the impetus for these efforts must come from the states, their cross-border, regional nature means that the states will be reliant on the Midwest ISO for assistance. The OMS hopes the support demonstrated by the Midwest ISO in CARP and UMTDI will be sustained as the states continue their dialogue on multi-state issues, e.g., alignment of states' planning and permitting processes for multi-state projects, next steps for states in implementing infrastructure needs identified in RGOS, coordination with other Regional State Committees. In addition, the Midwest ISO should work with the advice of the states and other stakeholders to modify its processes to accommodate states' efforts. For example, the Midwest ISO should consider developing a template for environmental review of projects that affect more than one state. Macro-environmental attributes and impact mitigation practices can affect implementation feasibility and costs, as well as state and federal permitting efficiency and outcomes.

The OMS endorses the continued use of the St. Paul facility and encourages the Midwest ISO to expand operations there when strategic goals call for it or greater efficiencies can be achieved. The St. Paul facility affords existing economies as well as strategic location as remote sources of generation become more important in the nation's energy profile.

Finally, the OMS commends the Midwest ISO for its recent efforts before the FERC to point out the inherent structural flaw in the current configuration of FERC approved RTOs that has led to "RTO shopping" driven by generation economics.¹ The OMS welcomes the Midwest ISO's efforts to bring this issue to full disclosure and supports efforts to bring greater stability to the operation of regional transmission organizations.

¹ *In Re* Duke Ohio, Federal Energy Regulatory Commission (Docket No. ER10-1562-000).