

Organization of MISO States Revised Principles for Resource Adequacy August 12, 2010

INTRODUCTION

The Organization of MISO States (OMS) Resource Adequacy Principles were adopted by the OMS Board March 12, 2004 and revised May 10, 2007 (with the ICC dissenting) in light of changes in the Midwest ISO market structure. These principles are being updated in 2010 to reflect the current environment.

The Energy Policy Act of 2005 recognizes the States' primary role regarding resource adequacy, and the jurisdiction of the Federal Energy Regulatory Commission (FERC) over reliability standards development and enforcement by the North American Electric Reliability Corporation (NERC) and the regional reliability entities.

PURPOSE

The OMS Resource Adequacy Principles are meant to facilitate future OMS comments to the Midwest ISO and the FERC relevant to a range of complex interrelated resource adequacy issues in organized regional energy markets. The interrelated issues include long-term resource adequacy, system reliability, planning activities, and market price signals.

As evidenced by its earlier principles for resource adequacy¹, the OMS has long recognized the continuing need to ensure that adequate resources, including generating capacity and demand resources, are developed and maintained and secured by all load serving entities (LSEs) so that their load can be reliably served.² To this end, the OMS' revised principles in non-ranking order are as follows:

OMS Revised Principle Number 1:

The Midwest ISO should continue to work on developing and improving the competitiveness and transparency of energy and ancillary services market design and to coordinate that market design with the resource adequacy program to improve efficiency. Such market design should seek to minimize, where possible, uplifts and other out-of-market payments that distort efficient market prices.

¹ Adopted March 12, 2004 and May 10, 2007

² The Illinois Commerce Commission (ICC) does not support inclusion of the phrase "and secured by all load serving entities (LSEs)" in this sentence. The ICC would support this sentence if it was revised as follows: As evidenced by its earlier principles for resource adequacy, the OMS has long recognized the continuing need to ensure that adequate resources, including generating capacity and demand resources, are developed and maintained ~~and secured by all load serving entities (LSEs)~~ so that their load can be reliably served.

OMS Revised Principle Number 2:

All LSEs should maintain sufficient resources to meet resource adequacy standards.³

New OMS Principle Number 3:

The Resource Adequacy Program should include a means to trade capacity among entities that serve load. The Midwest ISO products may include a locational requirement component, as long as the product remains standardized and tradable.

New OMS Principle Number 4:

Revenue generation or cost recovery for prudent investment in cost-effective resources should be a by product of efficient market design, and not a specific goal of resource adequacy.

New OMS Principle Number 5:

The OMS, at this time, does not see the need for nor endorse a mandatory, centralized forward-based market for all capacity operated by the Midwest ISO.

OMS Revised Principle Number 6:

The Midwest ISO should provide non-discriminatory opportunities for all verifiable resources to provide resource adequacy. The Midwest ISO should support, recognize, and encourage the use of forward period bilateral capacity contracts from within and outside of the Midwest ISO footprint to meet resource adequacy requirements.

OMS Revised Principle Number 7:

The Midwest ISO should continue to refine capacity certification/accreditation test procedures and deliverability verification and apply them periodically to establish capacity ratings for resources being relied upon to meet Midwest ISO resource adequacy requirements.

OMS Revised Principle Number 8:

The OMS recognizes and supports the efforts of the NERC, its Regional Entities and the Midwest ISO to ensure regional resource adequacy. States may choose to rely on such requirements and procedures when setting any state reserve requirement.

³ The ICC does not support this principle as written. The ICC would support this principle if it was revised as follows, “~~All LSEs should maintain~~ Sufficient resources must be maintained to meet resource adequacy standards.”

New OMS Principle Number 9:

The Midwest ISO should explore the development of centralized load forecasting for total reserve requirements when establishing reserve margins. The Midwest ISO should continue to use bottom-up load forecasts from LSEs to inform the centralized forecasting process and results and to ensure that each LSE's forecasts meet their allocated share of the centralized forecast. The OMS supports reasonable forecasts and forecast adjustments made by the Midwest ISO as needed for diversity when it sets planning reserve requirements. The OMS supports and urges the Midwest ISO to work with stakeholders to determine an appropriate process for introducing and using centralized forecasting and to use such information to verify or revise LSEs load forecasts if allowed retail load switching occurs during the planning period.

New OMS Principle 10:

Regardless of the load forecasting approach selected for resource adequacy program purposes, it should incorporate the verifiable impact of price responsive demand on the system need for capacity.

OMS Revised Principle Number 11:

The OMS continues to support a before-the-fact demonstration of adequate planning reserves for a forward planning period. The length of the forward planning period should consider the needs and abilities of both traditional utility LSEs and retail choice supplier LSEs who can experience frequent load switching.

OMS Revised Principle Number 12:

Each entity responsible for serving load should be periodically and independently audited by the Midwest ISO to ensure compliance with the Midwest ISO resource adequacy requirements.

OMS Revised Principle Number 13:

The Midwest ISO should assess the consequences of non-compliance with resource adequacy requirements to protect the adequacy of the system and to prevent jeopardizing system reliability or forcing other parties that are compliant with resource adequacy requirements to subsidize non-complying parties.

OMS Revised Principle Number 14:

Ensuring resource adequacy requires regional transmission planning that considers the deliverability, security and coordination of generating capacity resources and their alternatives, as well as the capacity needs of all load serving entities, including those who are transmission dependent on a non-discriminatory basis.

OMS Revised Principle Number 15:

Decisions regarding generation resource planning shall be left to the states. The Midwest ISO has a unique comprehensive view and analysis of the region regarding the location of transmission constraints, market prices and the queues of generation and transmission projects. Therefore, if the Midwest ISO develops regional data in the planning process, it can be very helpful to the states in developing their respective resource adequacy policy and generation siting decisions.

OMS Revised Principle Number 16:

Resource adequacy requirements must be forward-looking and allow consideration of new capacity additions of all fuel types and technologies, as well as firm contracts and qualified demand response, as resource options if such additions are conducive with state practices, programs or policies. Annual forward-looking load and capability reports should include long-term load forecasts that allow either adjustment by or the participation of demand response and load reduction and a supply plan for meeting resource adequacy requirements with existing accredited and deliverable capacity resources.

ADOPTED BY THE OMS BOARD OF DIRECTORS BY VOICE VOTE
AUGUST 12, 2010