UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Offer Caps in Markets Operated by Regional Transmission Organizations and Independent System Operators	)))	RM16-5-000

COMMENTS OF THE ORGANIZATION OF MISO STATES

The Organization of MISO States, Inc. (OMS) is a non-profit, self-governing organization of representatives from each retail regulator with jurisdiction over entities participating in the Midcontinent Independent System Operator, Inc. (MISO) and serves as the regional state committee in the region. The purpose of the OMS is to coordinate regulatory oversight among the states, including recommendations to MISO, the MISO Board of Directors, the Federal Energy Regulatory Commission (Commission), other relevant government entities, and state commissions as appropriate to express the positions of OMS member agencies. The OMS appreciates the opportunity to provide comments on the subject proposed rulemaking.

I. Background

On January 21, 2016, the Commission issued a Notice of Proposed Rulemaking (NOPR) seeking comment on whether the current incremental energy offer caps continue to be just and reasonable.[1] The Commission raises concerns that the current offer cap may result in resources not offering supply into the market if they are prevented from recovering their marginal costs even when the market is willing to pay above the offer cap to secure needed supply.[2] Further,

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[1] *Offer Caps in Markets Operated by Regional Transmission Organizations and Independent System Operators*, 154 FERC ¶ 61,038, at P 2.

[2] *Id*.

when multiple resources are willing to provide supply at a price above the offer cap, the Regional Transmission Organization (RTO/Independent System Operator (ISO) cannot dispatch the most efficient resources because it lacks access to the underlying costs.[3]

As such, the Commission has proposed requiring each RTO/ISO to cap incremental energy offers at the higher of $1,000/MWh or the resource's cost-based incremental energy offer, if the offer above $1,000/MWh can be verified before it's used for calculating Locational Marginal Prices (LMP).[4] Such costs would be required to be verified by the Market Monitoring Unit or RTO/ISO, as appropriate under the applicable tariff.[5] The Commission also proposes to make the change applicable to all RTOs/ISOs to avoid issues between the seams if offer caps are substantially different between neighboring regions.[6]

II. Comments

The OMS generally supports the Commission's proposal to remove the $1000/MWh energy market offer cap that is part of most RTO market mitigation plans, including MISO. The offer cap was intended to serve as a rough market power mitigation device. However, in certain situations, usually when incremental energy input costs (primarily natural gas) are unusually high, a $1000/MWh energy market offer cap can limit the willingness of generators to offer into the day ahead and real time market. The offer cap could prevent generators whose marginal costs are reflective of high incremental energy input costs from recovering their marginal cost.

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[3] *Id*.

[4] *Id*. at P 3.

[5] *Id*.

[6] *Id*. at P 4.

This sends an inaccurate cost signal to generators, especially during extreme times, when the need for electricity is greatest.

OMS considers it appropriate to remove the offer cap in instances when a resource's verified cost based incremental energy offer is higher than the $1000/MWh. OMS recognizes the most important part of ensuring that retail consumers are protected from unlimited and unjustified wholesale price increases is to require up front or ex ante verification of all cost-based energy offers. OMS recommends that both MISO and its Independent Market Monitor (IMM) share the responsibility to verify these offers prior to the calculation of LMPs in the energy market (ex-ante). In instances where the IMM and MISO are unable to conduct that verification in the needed time frame (particularly in extreme periods when multiple unusual events are likely to be simultaneously occurring) resources submitting unverified cost based energy offers above $1000/MWh should not be used to calculate LMPs. A resource whose costs are verified after it has cleared the energy market (ex-post) should be eligible for an uplift payment.[7]

III. Conclusion

For the foregoing reasons, the OMS supports the Commission's efforts to provide appropriate price signals to provide incentives for adequate generation, while at the same time ensuring that retail consumers are protected from unreasonable wholesale energy prices.

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[7] The Public Utility Commission of Texas (PUCT) agrees that it is important for energy markets to send the right price signals. A simpler, more effective solution would be to raise the MISO offer caps significantly, as the PUCT believes that higher offer caps would improve operational reliability, provide greater assurance of resource adequacy, reduce administrative complexity, and minimize uplift charges which are difficult to hedge. The proposed rule's focus on the "cost verification", whether ex-ante or otherwise, makes the rule needlessly cumbersome. The PUCT notes that in recent years the offer cap in ERCOT was gradually increased to a level of $9,000/MWh.

Additionally, OMS appreciates the Commission addressing these issues for all RTOs in order to reduce seams issues across RTO boundaries.

The OMS submits these comments because a majority of the members have generally support them.[8] Individual OMS members reserve the right to file separate comments on the matters discussed herein.

Respectfully submitted,

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[8] The Manitoba Public Utilities Board abstains.