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## **OMS Comments on the Midwest ISO 2006-2008 Strategic Plan Update**

The Organization of MISO States (“OMS”) appreciates this opportunity to comment on the Midwest ISO 2006-2008 Strategic Plan Update (“Update”). The OMS strongly supports the Midwest ISO’s stated commitments in the Update to improve its existing operations and beneficially expand its operations.

In these comments, the OMS focuses on three critical ways in which the Midwest ISO should improve its Update. First, the Midwest ISO should specify its plans for improving its transmission planning operations. Second, the Midwest ISO should credibly clarify how it will “[embrace] its contractual obligation to maximize transmission owners’ revenue through efficient use of the transmission system” while meeting its obligation to be independent. Third, the Update should explicitly discuss MISO’s commitment to the stakeholder process.

The OMS also would like to use this opportunity to comment more generally on the importance of the Midwest ISO maintaining focus on its core functions and assuring stakeholders of the benefits of its operations. Lastly, the OMS would like to renew its commitment to assisting the Midwest ISO in its efforts to achieve excellence.

### **The Midwest ISO’s Regional Transmission Planning**

The Midwest ISO’s Strategic Plan should convey the Midwest ISO’s commitment at the management level to improve its regional transmission planning operations.<sup>1</sup> To be a leader in energy markets and achieve operational excellence, the transmission system that the Midwest ISO operates should be excellent. As the Joint Board on Economic Dispatch for the PJM-MISO Region stated in its May 24, 2006 Report on Security Constrained Economic Dispatch (“Joint Board Report”), “Because adequate transmission infrastructure is important for the achievement of [security-constrained economic dispatch’s] least-cost and reliability objectives, the RTOs should devote adequate resources and substantial management attention to the transmission expansion planning process.”<sup>2</sup>

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<sup>1</sup> The OMS notes this sentence on page three of the Update: “The strategic goals presented in this document reinforce Midwest ISO’s primary mission of providing its customers valued services; reliable, cost-effective systems and operations; dependable, transparent pricing; open access to markets; and transmission and generation planning for long-term efficiency.” (Emphasis added.) While there are and will be proper roles for the Midwest ISO in generation planning, it is and would not be appropriate for the Midwest ISO to be wholly responsible for generation planning. The Midwest ISO should amend the Update to clarify the intent of this reference to generation planning.

<sup>2</sup> Joint Board Report, p. 40.

The OMS recognizes that the Midwest ISO's transmission planning processes are still under development and that the resource needs will depend on those developments; however, the new planning processes that develop will require more Midwest ISO resources and innovative analytical techniques. MTEP06 falls short of the improvements in regional planning necessary to deliver fully the benefits of market-based central dispatch of generation and other developments in the Midwest ISO's operations. As the OMS suggested in its 2006 Annual Stakeholder Meeting comments, "The Midwest ISO should better integrate its transmission planning function with other functions of the Midwest ISO such as resource adequacy, maintenance, ancillary services markets development, and development of long-term transmission rights."

Further, the Midwest ISO should strive to make its MTEP reports suffice as stand-alone justifications for transmission upgrades. In some states, transmission projects are reviewed by state regulators before the projects are constructed and the costs are ultimately passed through to ratepayers. The documentation of need and examination of alternatives through the MTEP process could serve as useful information in the state's regulatory proceedings. In other states, however, there are limited opportunities for state regulatory review of particular transmission projects before the costs are passed through to ratepayers. As noted in the OMS Transmission Planning and Siting Working Group's comments on the draft MTEP 06 report, "In either case, if state regulators have confidence in the results of the planning process, it may avoid potential disputes in state or federal proceedings regarding specific projects and, ultimately, lead to a more efficient expansion of the transmission system."<sup>3</sup>

### **The Midwest ISO's Independence**

The Midwest ISO's independence from stakeholders is critical for efficient market operations, reliability operations, and transmission expansion. Accordingly, the OMS notes with great interest the first "Supporting Initiative" contained in the Update:

**1. Transmission Owner Revenue Maximization** - The Company embraces its contractual obligation to maximize transmission owners' revenue through efficient use of the transmission system. Midwest ISO has committed to assigning a professional resource to work on revenue maximization opportunities in 2006. At the same time, the Company will pursue the implementation of market mechanisms (e.g., long-term FTRs and Auction Revenue Rights, "ARR") to promote the investment necessary to achieve stated transmission resource requirements by 2009. The Company will target this objective without losing sight of other obligations to its transmission owners, such as:

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<sup>3</sup> Letter to Jeff Webb, p. 3.

- Planning activities
- Custodial and trust relationship
- Prudent asset operation<sup>4</sup>

In its comments at the Midwest ISO's 2006 Annual Stakeholder Meeting, the OMS stressed the importance of MISO independence, stating that MISO must be careful not become an advocate for any one position or sector and that it needs to be a neutral operator of the market and an impartial information resource to all. The OMS also notes that the Joint Board Report states:

RTO independence is critical for the RTOs' ongoing credibility. Accordingly, PJM and MISO are encouraged to continue to strive for independence as a bedrock principle. Both state and federal regulators have a role in the oversight of RTO independence.<sup>5</sup>

On its face, it is unclear how the Midwest ISO can be independent of transmission owners (many of which have generation interests) while “[embracing] its contractual obligation to maximize transmission owners’ revenue.” Importantly, the Joint Board Report also points out that the assurance of RTO independence is an important foundation for confidence that RTOs will operate the grid and the markets in a manner fully consistent with the goal of maximizing the economic benefit to the public.<sup>6</sup> Efficient use of the transmission system requires pricing the use of the transmission system at or near marginal cost (given separate mechanisms for recovering capital costs of transmission infrastructure). With relatively price-inelastic demand for use of the transmission system, however, maximizing transmission owners’ revenue likely requires pricing the use of the transmission system well above marginal cost. Accordingly, it is unclear how MISO can promote efficient use of the transmission system while meeting its fiduciary obligation to transmission owners.

Therefore, it is not enough for the Midwest ISO to assert simply that it will “[embrace] its contractual obligation to maximize transmission owners’ revenue through efficient use of the transmission system.” The Midwest ISO should clearly and credibly explain how it intends to (or can) do so.

### **The Midwest ISO's Commitment to the Stakeholder Process**

The OMS notes that the Update does not address the Midwest ISO's commitment to fostering robust, effective stakeholder processes. The OMS greatly values fair and efficient stakeholder participation in the Midwest ISO's governance and development.

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<sup>4</sup> Update, p. 14.

<sup>5</sup> Joint Board Report, p. 43.

<sup>6</sup> *Ibid.*

Accordingly, the Midwest ISO should explicitly express its commitment to its stakeholder processes in the Update.

### **Expansion of the Midwest ISO's Functions**

As the OMS suggested at the 2006 Annual Stakeholder Meeting, the Midwest ISO should not lose focus on its core functions as it expands its products and services into areas such as independent transmission coordination for individual utilities or operating a renewable energy credit exchange. Achieving excellence in reliability, market, and transmission planning operations should remain in the forefront of the Midwest ISO's mission.

### **Demonstrating Benefits**

As the OMS stated in its comments at the 2006 Annual Stakeholder Meeting, the OMS values clear explanations and understandable measurements of the benefits and costs of Midwest ISO services. Specifically, the OMS supports a transparent and participatory ongoing granular evaluation of economic and reliability benefits, where state- or control area-level analyses are most useful to state regulators.

The Midwest ISO should rely on the best available objective measures to demonstrate benefits and, when relying on computer modeling, make assumptions and other model parameters explicit to stakeholders. Such analyses are critical for strong support of the Midwest ISO and the services it provides to stakeholders. As stated in the Joint Board Report:

An ongoing demonstration of benefits from PJM and MISO managed SCED is important for sustaining market participant and state regulator confidence in the RTOs. The RTOs should establish a clear benchmark to assess the degree to which the reliability and least cost objectives of optimal SCED, as described in EPA's SCED definition, are being captured.<sup>7</sup>

### **The OMS' Commitment to Assist**

The OMS stands ready to assist the Midwest ISO in endeavors expected to deliver benefits to customers – especially in areas subject to or heavily dependent on state jurisdiction. The OMS has already demonstrated its commitment to assist MISO with regard to developing demand-side market participation as well as coordinating and streamlining permitting and siting processes for new transmission facilities.

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<sup>7</sup> Joint Board Report, p. 35.