

**Organization of MISO States (OMS) Comments on
Midwest ISO & PJM: Joint & Common Market**

- 1. Given the current demand for critical resources (IT, software, internal/stakeholder/consultant) to support all of the projects and initiatives the Midwest ISO is undertaking, how should the Midwest ISO prioritize the JCM initiative versus other projects for 2007/2008?**

The OMS is hesitant to rank the projects or initiatives that are listed. Ensuring reliability of the transmission grid that the Midwest ISO operates should remain the Midwest ISO's highest priority. After that, we do not place one listed project or initiative above the others on a policy basis, as they are all important to the success of the Midwest ISO market and will provide benefits to Midwest ISO stakeholders.

During the Midwest ISO's regular budget process, stakeholders were provided the opportunity to provide input on ranking capital and non-capital budget projects. That is the appropriate forum for the type of ranking due to resource constraints that is being requested in this question. The discussion in the instant forum should be primarily policy-based.

Furthermore, the OMS would like to point out that all of the projects or initiatives that the Midwest ISO has listed are the result of a FERC directive of one form or another to implement each of these projects or initiatives. Accordingly, rather than pursuing a misplaced attempt at ranking, the OMS would urge the Midwest ISO to continue its work on each of the projects and initiatives listed.

However, in the interest of responsiveness, the OMS offers the following observations on these issues in the order listed in the Midwest ISO Board's questions.

- JCM initiative

The OMS does not have consensus on what the Midwest ISO's joint and common market initiative should constitute or how quickly the initiative should be accomplished. The Midwest ISO and PJM are required to implement a JCM that satisfies cost/benefit principles. The OMS urges the Midwest ISO to implement all common market elements satisfying appropriate cost/benefit thresholds.

Some states believe that a vibrant joint and common market throughout the PJM/Midwest ISO footprint requires that this goal be an overarching bedrock principle as critical RTO market policy, design and structural changes are considered. These states believe that the point where the coordination of PJM and the Midwest ISO's individual RTO market design elements such as resource adequacy, FTRs, and ancillary services can be developed to capture the efficiencies of joint development of common market designs is rapidly diminishing and under the best of conditions unlikely to capture the benefits of a single Midwest ISO-PJM market. The more that PJM and the Midwest ISO continue down their individual market design paths, the more difficult it will be for market participants who wish to operate in both PJM and the Midwest ISO markets. Uncoordinated market design processes also perpetuate seams issues that negatively impact the market and some states' retail power procurement strategies.

A subset of state commissions had suggested previously that the Midwest ISO facilitate joint stakeholder proceedings to investigate and develop a common approach for the various market design elements for the combined region, with an option for sub-regional differences where appropriate.¹ Under such an approach, overall market design would be done at the PJM/Midwest ISO level and any individual initiatives pursued by PJM and Midwest ISO would be

¹ See December 2005 comments of the Joint State Commissions to FERC in ER04-375.

developed, analyzed and evaluated in terms of how well the initiative contributed to the development of a joint and common market. Exceptions to this would include a clear explanation of how long any short-term, necessary incompatibility would last. Some state commissions have pointed out that the Midwest ISO's benefit/cost analysis of single combined unit dispatch between PJM and the Midwest ISO has demonstrated benefits in excess of costs and have advocated implementation of single combined unit dispatch between PJM and the Midwest ISO if it is demonstrated to be technically feasible.²

Other states support the Midwest ISO's incremental approach to joint and common market efficiencies to resolve operational and seams problems between the Midwest ISO and PJM. In recognition of the possibility that achieving the benefits of a joint and common market is not a universally held overarching bedrock principle, these states suggest that the Midwest ISO focus the efforts of both the RTO and its stakeholders on JCM initiatives that may produce the largest potential benefits, such as the joint operating agreements, and on areas that one RTO could do rather than two. This latter effort would be similar to the initial mapping of NERC and RTO functions and the more recent determination of balancing authority and RTO functional consolidation done for development of the ASM.

- Ancillary Services Market

One of the five issues included in the OMS' March 9, 2006, *Statement of Common Principles Concerning Midwest ISO and PJM Joint and Common Market Development* is ancillary services. In sum, the OMS supports the optimization of ancillary services across the PJM and Midwest ISO border through coordinated or common market approaches.

However, the OMS is concerned that the extensive software and IT changes underway for the Midwest ISO's ASM rollout will make the Midwest ISO less able and likely to mesh its ASM design and operations with PJM's. Any future consolidation of PJM and Midwest ISO ancillary services operations will be significantly more difficult and expensive if done later rather than sooner. This potential incompatibility would be less of a concern to the extent that careful joint and common study determines that the approach currently being pursued by the Midwest ISO is a best industry practice and that PJM either adopts or adapts to the Midwest ISO ASM design. The opposite could also be true for future PJM ASM approaches. However, without a commitment from either RTO to use best practices as standard, it is presumptive to assume that either RTO would do so. The OMS also has concerns that the region could be faced with a "who gets there first" situation on critical market design elements. The Midwest ISO shared this concern when it worried that FERC could mandate a PJM RPM-like approach for all of PJM's neighbors, which could have required a standardized capacity approach across the Midwest ISO.

Continuing two distinctly separate markets with coordination agreements in place to address seams problems places much more emphasis on the Joint Operating Agreement and other seams agreements to coordinate ancillary services. The negotiations for these agreements do not take place in the typical RTO stakeholder processes and are therefore less accessible to OMS participation.

- Demand Response

The OMS is very supportive of demand response initiatives at the Midwest ISO and in the states as evidenced by the recent creation of the Commissioner-level Midwest Demand Response Initiative, which is meeting in Chicago, on February 9, 2007.

The OMS believes that demand response can be the fastest way to increase the ability of RTOs to respond to generation outages and transmission constraints. Effective demand

² See September 2006 Comments of the Joint State Commissions to FERC in EL06-97.

response can also buy time for solutions that require much longer lead times to implement, such as siting, building and deploying new generation or transmission lines. Demand response can also prevent power shortages and enhance grid reliability. By using demand response, customers can mitigate their exposure to high energy prices and reduce their energy costs.

As demonstrated in PJM the first week of August 2006, voluntary reductions in electricity use resulted in price reductions estimated to be equivalent to more than \$650 million in payments for energy. At the end of January, The Brattle Group, the Mid-Atlantic Distributed Resources Initiative (MADRI) and PJM released a study that estimated annual savings from electricity demand response in the Mid-Atlantic region that ranged from \$57 million up to \$182 million. The MADRI study shows the value of regional coordination of demand response programs among the Mid-Atlantic states.

Given the benefit that demand response has been shown to provide stakeholders in the PJM region, demand response should be given the opportunity to show that it has the potential to be as reliable as some traditional alternatives in the Midwest ISO region.

- Summer 2007 readiness (incorporating lessons learned from Summer 2006)

This is basically a reliability issue which should be the Midwest ISO's highest priority.

- Resource Adequacy

In its JCM statement of principles, the OMS also stated that PJM and Midwest ISO resource adequacy constructs should not conflict and should not be incompatible. There is an ongoing dialogue on resource adequacy issues in the OMS and at the Midwest ISO. Any joint and common approach to resource adequacy would require careful study and a commitment to use the best practices in the energy industry suitable to the Midwest region.

- Other Initiatives & Projects

2. After reviewing the committed JCM projects for 2007, does your sector believe these are the right initiatives that the JCM initiative should be focused on accomplishing?

The Investigate Loop Flow Across Footprint initiative would be another example of how existing transmission infrastructure can be used more efficiently, delaying the need for immediate investment in new transmission or generation. This investigation should include Ontario.

Are there additional areas that should be considered?

Yes. The alignment of all business practices and procedures, not just OASIS business procedures, is critical to market efficiency and important to market participants. The PJM and Midwest ISO stakeholder work on the Joint Operating Agreement and the various seams agreements should be included as a Committed Initiative.

To underline a point made earlier about aligning Midwest ISO and PJM work at the market design stage, the OMS offers the following example. The activities and milestones included under Committed Initiative, Black Start and Restoration are: compare Midwest ISO and PJM processes; determine tariff, regulatory, reliability issues; obtain stakeholder approval to proceed; make appropriate regulatory filings; modify policies, procedures, applications, systems; and, provide training and implement changes. If those same tasks were included under several new Committed Initiatives for the various market design elements such as ASM, resource adequacy, ancillary services, long-term FTRs, etc., some OMS states would be more assured that the Midwest ISO and PJM are keeping the objective of a robust and beneficial joint and common market firmly in mind as early as possible in the market design process.

Are there current commitments that should not be pursued in light of additional areas of focus?

No.

What specific key issues does your sector feel that can unlock potential value between the two markets?

As mentioned earlier, there is potential value that can be unlocked by aligning business practices and procedures between PJM, the Midwest ISO and by stakeholder work on joint operating and other seams agreements to achieve efficiencies. Some OMS states believe that the Midwest ISO should continue its incremental path to manage market differences and seams issues. Other OMS states believe that a study of markets, projects and pricing, and a careful assessment of costs and benefits, could recommend that a single common dispatch is the best way to unlock the significant potential value of a joint and common market between PJM and the Midwest ISO, resolve seams issues and hold customers harmless from RTO membership choices. They do not want a single dispatch solution to be taken off the table. Other states believe that the Midwest ISO's study of single combined unit dispatch has already demonstrated that the benefits of single dispatch across the Midwest ISO and PJM exceed the costs.

3. How should the Midwest ISO, PJM and their Stakeholders address the issue of physical constraints between the two markets and what key factors should be considered?

The OMS understands that the Midwest ISO and PJM have begun this task in the Coordinated System Plan for future joint expansion planning. This process should continue. For current constraints, procedures for coordinated flowgates and reciprocal coordinated flowgates are in place and should continue. Some states believe that physical constraints could best be addressed through a single combined RTO transmission expansion planning process.

4. Does your sector's definition of "Joint & Common Market" constitute the development and implementation of a single dispatch engine?

The OMS does not have consensus on this issue. Joint and common market issues for some states in the OMS are of a market to nonmarket nature. Other OMS states support MISO's current incremental approach to the JCM with support for coordination of the MISO and PJM markets with a continued showing of costs and benefits. These states do not support a single dispatch engine for PJM and the Midwest ISO.

A subset of states with the highest levels of trade between PJM and the Midwest ISO continue to believe that the lack of a joint and common market, including joint dispatch or a single dispatch engine, is both contrary to previous FERC orders and prevents market participants from achieving the full benefits of a regional electricity market. These states do not think that FERC's idea of a single market spanning both the Midwest ISO and PJM is the same as two separate markets with RTO-managed efforts at coordination. These states think that the artificial, bizarre, crazy-quilt geographical configuration of PJM and the Midwest ISO is contrary to natural electricity trading patterns and must be bridged with a common market to achieve a successful regional market for electricity in the Midwest. Indeed, these states believe that a single common market between PJM and the Midwest ISO would resolve many of the market problems that the Midwest ISO is currently experiencing.

If so, please describe how you believe the Midwest ISO can address some of the challenges currently being experienced in the JCM Stakeholder process (specifically cost constraints and tariff/business rules convergence).

The OMS wishes to reinforce the concept of looking at the JCM challenges currently being experienced from a much higher level, rather than the specifics of cost constraints and the convergence of tariffs and business rules.

Some states support FERC's deference to the Midwest ISO's and PJM's decision to use the Joint and Common Market Initiative's incremental and coordinated approach. Other states think that the Midwest ISO should address these challenges by taking a leadership role by implementing the common market vision that FERC adopted when first authorizing Commonwealth Edison Company and American Electric Power to join PJM rather than the Midwest ISO. Not only do these seams make it more difficult for market participants to operate, but they also obscure an accurate view of the functioning of the Midwest market.

If not, how does your sector define the JCM?

What are the key characteristics?

In no particular order, the OMS lists the following characteristics of a joint and common market:

- One stop shopping over the combined PJM/Midwest ISO footprint
- The elimination of rate pancaking
- Price convergence at the border between PJM and the Midwest ISO, eliminating gaming at the seams
- Common FTR allocation process
- Joint independent transmission expansion planning

Some states also believe that key JCM characteristics include:

- Single security coordinator
- Single joint dispatch of resources
- Single, combined transmission expansion planning process
- Single market for regulation and operating reserves
- Single FTR definition and allocation methodology

How should the Midwest ISO and PJM measure a successful implementation of the JCM and how will we know when we have jointly achieved it?

The criteria to measure a successful implementation of the JCM should be determined at the time the work is begun. The OMS offers the following suggestions:

- The PJM/Midwest ISO seam (if any remains) becomes transparent and market participants are easily able to transact across the RTOs as easily as transacting within one of the RTOs.
- Resources located in the combined PJM/Midwest ISO footprint are economically accessible in both markets.
- Price convergence at the border between PJM and the Midwest ISO is reflective of costs and has eliminated gaming at the seams.
- Best practices for the region are determined and implemented in both PJM and the Midwest ISO.
- Access and visibility of information is equivalent across the PJM and Midwest ISO footprint.

Short of that, for the initiatives included in the current incremental JCM approach, metrics should be determined now in the JCM Stakeholder process. MISO should continue its timely

reporting and information sharing, and continue to keep all stakeholders informed of its incremental approach.

Adopted by the OMS Board of Directors
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