

## **OMS Staff Comments on the Midwest ISO 2008-2012 Strategic Plan**

The Organization of MISO States (“OMS”) appreciates this opportunity to offer staff comments on the Midwest ISO 2008-2012 Strategic Plan (Plan).<sup>1</sup> The OMS Staff supports the Midwest ISO’s general vision and its moorings in operational excellence, customer service and effective communications. As one of the factors identified in the Plan as influencing the direction of the electric industry and the Midwest ISO specifically, state regulators, through OMS, seek to enhance our role in the positioning of the Midwest ISO to deliver reliable and efficient electricity services to ratepayers. The OMS shares the Midwest ISO’s expectation that state regulatory policy or relationships will not become adverse. Nevertheless, the OMS Staff believes striving for effective modes of engagement should be a continuing and shared goal. Accordingly, the OMS Staff offers the following comments to the Midwest ISO in an effort to help the development of a comprehensive Plan.

### General Comments on the Midwest ISO Strategic Plan

The OMS Staff Comments for the Midwest ISO 2007-2011 Strategic Plan stressed the importance of stating in a clear and precise manner exactly what goals the Midwest ISO intends to accomplish in the next five years and providing an explanation of the rationale for those goals. The 2007 version of the Plan identified a number of interesting concepts but lacked substantive detail. The 2008-2012 version includes some of that detail, i.e., more substantive discussion of Commitments, Strategic Direction, Foundational Focus, and Strategic Elements. However, there are changes that go beyond simple edits and updates. The 2008-2012 version has characteristics of a major overhaul, rather than an annual update of a three year planning cycle (the full strategic planning process took place in 2007). If the industry is evolving such that major changes in strategic policy are warranted on a more regular basis, perhaps the three year process should be revisited.

### Comments on Midwest ISO Edits to 2008 Strategic Plan Update<sup>2</sup>

The modifications to the Strategic Plan for 2008 took the form of edits to the Foundational Focus and Strategic Elements. These appear to be positive refinements to the important topics included in these categories. The following will offer some brief comments on several of these categories.

#### Foundational Focus

**Execution:** The OMS Staff strongly supports Operational Excellence as one of three cornerstones for the Midwest ISO. Carrying that critical goal into a fundamental focus

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<sup>1</sup> The OMS meeting schedule did not permit timely review of these comments by the OMS Board. Therefore the comments represent only the views of the OMS Long-Term Development and Governance Working Group.

<sup>2</sup> Sections included in the 2008 Strategic Plan but not mentioned in this response were sections for which OMS Staff simply had no specific comments.

through the concept of Execution is altogether appropriate. The areas identified for measuring Execution are also appropriate. However, regarding the second bullet point, the OMS Staff would suggest that realization of market-wide *benefits*, in addition to “charges”, be incorporated into the concept.

**Stakeholder Relationships:** The OMS Staff supports the revision to provide access to non-confidential information on an open, unbiased basis. Transparency is critical to effective stakeholder relations. The OMS Staff would add that the Midwest ISO needs to continue to work with state regulators to allow access to all data, non-confidential and confidential, needed for state rate-making and other regulatory requirements. This would include access to stakeholder comments, such as those filed in response to this strategic plan. Also, it is encouraging to see the Midwest ISO’s commitment to “provide correct and timely information” as a component of its Effective Communication cornerstone. In light of the importance of timely and accurate information to effective stakeholder relations, the OMS Staff would boldly underscore the importance of continued attention to this goal.

In addition, the OMS Staff would reiterate our comments from last year about the importance of the Midwest ISO’s role as an informational and educational resource to the region’s policy makers and the need to maintain unquestioned impartiality.

**Product Portfolio:** The OMS Staff believes the reference to “a mechanism for resource adequacy” could be read to mean there is one single “mechanism” by which to achieve resource adequacy. The OMS Staff believes that would be misleading and, therefore, recommends that “a mechanism for resource adequacy” be changed to “achieving resource adequacy needs.”

**Market Design/Model:** The OMS Staff suggests that language should be added to this section to emphasize that the Midwest ISO’s market must involve effective limits on market power. Likewise, the OMS Staff would urge that the Plan expressly state that a truly independent and effective market monitor is critical to the effective operation of the market and to sustaining wide-spread stakeholder confidence.

**Cost Management:** Stakeholders expect the Midwest ISO to maintain an administrative cost structure at or below industry norms, but this statement has been struck from the updated plan. Stakeholders do have this expectation, and the plan should continue to state so.

With respect to the three cost areas, State Commissions must approve the pass through of costs, so it is imperative that the Midwest ISO work with state regulators and other stakeholders to identify “industry norms,” and establish a process whereby the cost implications of changes to “market rules” must be fully vetted before they can be implemented.

**Compliance:** The OMS Staff agrees with the importance of not only complying with regulations and standards but also the need to provide convincing evidence that compliance is occurring. The OMS Staff suggests alternative language for the first bullet point; i.e., “Contributing to the formation of external compliance requirements” instead of “Shaping external compliance requirements.”

#### Strategic Elements:

**Support Integrated Infrastructure Investment:** The OMS Staff endorses the focus the Midwest ISO places on well planned, designed and executed infrastructure investment, as long as the need for such investment has been demonstrated. A change in focus from enabling investment to supporting it presumes a need with no underlying data. The OMS Staff recommends retaining the term “enable” in both the heading and the second paragraph.

Under “Expected activities include:” the OMS Staff suggests changing “Supply and Demand” to “Coordinating Supply and Demand.” The Staff believes the latter is more descriptive of the sub-points included. The OMS Staff agrees with the sub-points included, especially those dealing with demand response, renewable generation, and the generation interconnection queue.

For “Transmission Expansion,” the OMS Staff would suggest substituting “Tailoring Transmission Expansion to Identified Need.” Again, Staff believes this is more descriptive of the strategic element.

**Promote the Value Proposition:** The OMS Staff believes the important theme here is not the Value Proposition itself, but the need to continuously and objectively evaluate benefits resulting from Midwest ISO operations. Having as clear a picture of this as possible is critical to state regulators who are responsible for the rate changes that allow the recovery of the Midwest ISO’s costs of operation. The intent to “leverage the Value Proposition in addressing anti-market messages focused on regulators, legislators and end use consumer” will not contribute to this end, and sounds more like propaganda than policy.

The initiative to pursue industry cost leadership and to manage and control costs was struck in this draft. The “value” of any services, including those offered by the Midwest ISO, cannot be adequately assessed without taking into account the cost of such services. The cost initiative should remain an explicit part of the Value Proposition.

**Sustain and Grow the Membership:** The OMS Staff agrees with the modifications to this section. However, the Staff would suggest adding language to define beneficial expansion, such as membership *that enhances the operation of the market*. In other words, be careful to avoid suggesting that “all expansion is good.” To some degree, adding and maintaining new services should be a logical consequence of meeting the other strategic elements, and not a goal itself.

**Support and Foster Technology Introduction and Innovation:** The OMS Staff agrees that stressing the importance of technology assessment and use is critical to the Midwest ISO. The Staff believes the section could be bolstered by some mention of Smart Grid technologies. The Staff also has a minor suggested edit under “Expected activities include.” Regarding “Develop an Information Technology Roadmap,” the fourth bullet point probably should read “Incorporates known strategic initiatives.”

**Enhance Products and Performance:** The Midwest ISO struck the word “Core” in this section. The role of the Midwest ISO is different from a purely private entity and a focus on *core* functions is critical. Any new products or services should only be created if there is significant net value added, with emphasis on net. The Midwest ISO must pay special attention to the stakeholder community it serves. Should that stakeholder group not want to go in some direction, there is a presumption that the Midwest ISO should follow that directive absent an overwhelming and persuasive imperative. Given its non-profit status, the Midwest ISO should not assume that expanding the RTO’s size or scope of activity is implicitly an organizational objective. Moreover, the Midwest ISO management and its Board should always be in lessons-learned mode, ready to change matters or issues promptly when adverse impacts from the RTO’s operations are clearly apparent.

**Prepare for RTO Model Evolution:** This Element is important and the changes to it appear to be reasonable. The OMS Staff would simply note that in its presentation for the 2007 Midwest ISO Stakeholder meeting representatives of the OMS stressed the importance of the Midwest ISO’s independence and the unique dynamic between it and state regulators. The following issues were stressed:

- That the OMS expects the Midwest ISO to be an operator and not a policy maker, but that the Midwest ISO also needs to help states resolve relevant policy issues with clear market roles and streamlined information.
- That the Midwest ISO needs to help the region’s decision-makers to reach consensus on resource adequacy.
- That the Midwest ISO maintain its role as an informational and educational resource to the region’s policy makers and must maintain unquestioned impartiality.

Conclusion:

The OMS Staff appreciates the opportunity to offer these staff observations on the Midwest ISO’s 2008-2012 Strategic Plan. As before, the OMS stands ready to assist the Midwest ISO to deliver benefits to customers – especially in areas subject to or heavily dependent on state jurisdiction.