

Comments of OMS Staff on Midwest ISO's Presentation Materials

From the April 7 & 8, 2011 SAWG meeting

The OMS staff appreciates the opportunity to comment on the draft tariff and other materials presented at the April 7 & 8 Supply Adequacy Working Group (SAWG) meeting.

In the presentation by Rick Drom (Summary of Proposed Modifications to Midwest ISO Tariff to Address RAR Enhancements)¹, the Midwest ISO suggested that LSEs in a Load Resource Zone can meet their Resource Adequacy Requirement through "Self-Scheduling" as a price taker and clear all of the declared capacity. The Drom presentation states further, that "Self-Scheduling will effectively allow Market Participants to financially net out of the Planning Resource Auction (69.7)" where 69.7 cites the draft tariff section.

Assurance that self-scheduling resources through ownership and bi-lateral contracts will relieve the state regulated, vertically integrated utilities of any additional financial burden through the auction process is a critical issue. Self-scheduled resources through vertically integrated utilities are paid for by utility customers, and it is essential to assure that they do not end up paying additional amounts through any subsequent auction process for those resources. The resource adequacy construct may appropriately require LSEs to inform the Midwest ISO of their supply plans (sources and sinks) in order to ensure locational resource compliance with the reliability targets for the entire footprint of the reserve pool, which are determined by the Midwest ISO and/or any state commission. However, the Midwest ISO must provide clear assurance that LSEs with self-supply will not be burdened with additional costs, for existing resources, nor for new resources as state commissions may choose to require and/or approve in the future.

At the SAWG meeting on April 7th and 8th, 2011, the Midwest ISO acknowledged a need for those LSEs that own their resources to be able to self-supply in a manner that holds their load harmless. Our continued concern stems from: (1) a sense that the Midwest ISO lacks the

¹ <https://www.midwestiso.org/Events/Pages/SAWG20110407.aspx>

authority to realize such assurances; (2) the recent FERC Order on the minimum offer pricing rules in PJM; and (3) draft tariff language provided by the Midwest ISO's Independent Market Monitor (IMM). These instances highlight the fact that a regional transmission organization's planned market design might end up being substantially modified by the Federal Energy Regulatory Commission, either on its own volition or in response to the comments of the Midwest ISO's IMM or other Midwest ISO stakeholders. In other words, whatever the intentions of the Midwest ISO's planned approach, a different approach might end up being imposed, in order to better serve different policy ends than those contemplated here. OMS staff joins other stakeholders in urging the Midwest ISO to provide design details on exactly how it intends to assure that LSEs can effectively remain hedged regardless of the outcome of their mandatory participation in an auction and associated actions of market monitoring and mitigation rules. After reviewing such a design, it would be important for the IMM to offer his reaction and position. The Midwest ISO should review proposed measures by the IMM to guarantee that self-supply assurances would not be taken away once a mandatory auction construct were in place.

The OMS staff acknowledges the willingness of the Midwest ISO to move to a "prompt" (one year) resource adequacy construct. With a one year construct, by the time the auction occurs, most load serving entities will have the vast majority of their capacity in place, either through ownership or contract.

States have exclusive jurisdiction over whether, how, where, and when new generating resources are constructed. Capacity exists for their jurisdictional load serving utilities. States retain jurisdiction over how load will meet any capacity requirement that may be implemented in a regional transmission organization which serves its state. Although all load located in the Midwest ISO may not be under state regulatory jurisdiction, an overwhelming percentage is under state jurisdiction. States typically carry out this authority through integrated resource planning and certificate of need cases. New generating facilities and transmission projects undergo thorough analysis by the sponsoring utility, and are subject to analysis and testimony from all interested stakeholders in a state. When a state issues a certificate of need, it has

determined the best way for a utility to meet its resource needs. This includes the needs of electric generating capacity, energy production and transmission of that energy. The ability of states to determine their future needs, and their ability to address those needs by determining the way that seems best to them, is a fundamental aspect of their jurisdictional authority. It is essential that any new resource adequacy construct not be set up to allow market participants, any market monitoring authority, or the Federal Energy Regulatory Commission to impinge on state jurisdictional authority by imposing offer floors or any other limitation on such new resources. The OMS will not support a resource adequacy construct that hampers the states' ability to determine how their future energy needs will be met.