

# **OMS Markets and Tariffs Work Group**

## **Feedback to MISO on Market Vision Elements**

**October 4, 2013**

On September 9 2013, MISO presented its MISO Market Enhancement Strategy proposal during the Market Vision Workshop. At the end of the meeting MISO requested comments from stakeholders on the proposal. In response, the OMS Markets and Tariffs Work Group staff (MTWG) respectfully offers these comments.

The proposal's elements are grouped into a Market Vision, four Guiding Principles, and seven Focus Areas. MTWG's first impression of the proposal is that many of the elements can be read to have more than one meaning. Therefore, clarification of concepts and specificity of some of the text would be helpful. Also, in some cases, more precise words are needed to provide clarity of purpose.

### **Market Vision**

**“Foster an economically efficient electric system while maintaining/improving reliability of the bulk electric system”**

A plain reading of the phrase “economically efficient electric system” is overly broad and can include non-FERC jurisdictional components of the electric system. Clearly, FERC has jurisdiction over interstate transmission rates and wholesale energy rates, so it follows that these would be an important part of MISO's vision. However, a broadly defined “economically efficient electric system” can include local distribution facilities, retail rates, and the various types of generation capacity. Use of that phrase leaves the MTWG concerned that MISO's vision may grow beyond FERC's jurisdictional responsibilities. The MTWG suggests revising the vision to say, “Foster a set of economically efficient wholesale electric markets and transmission services while planning for future transmission needs.”

### **Guiding Principles**

- **Support an economically efficient electric system that maximizes value to customers**

In this principle, “electric system” can be read to say MISO's authority and responsibilities include generation, local distribution system facilities, and end use equipment. In order to comply with the vision expressed above, this principle should support an economically efficient wholesale electricity and ancillary services market. Other components of the electric system do not fall within the realm of this vision or MISO's responsibility. Once this principle is more narrowly defined to focus only on wholesale electricity markets, the term “customers” will apply to the market participants. Other end use customers, such as retail customers, benefit from efficient wholesale electricity markets. However, state regulators are tasked with ensuring that their value is maximized.

- **Develop transparent market prices reflective of marginal system cost, and cost allocation reflective of cost-causation and service beneficiaries**

The concept of “transparent market prices” has different meanings depending on the market definition. The MTWG interprets this principle to mean that MISO will work towards price transparency to the extent that it improves the existing markets that it runs. The MTWG notes a perception that MISO-administered centralized markets will improve price transparency for the purchase, sale, and transmission of electric energy and capacity. Centralized capacity markets are not the only means to develop transparent prices. If the market is defined to include only transmission services, day ahead and real time energy and ancillary services, the language is reasonable and appropriate. However, if the principle is meant to apply to MISO’s development of a mandatory centralized capacity market, then this element is a nexus forcing change instead of being a principle, and may go too far if it ignores the necessary interplay with state-based regulation. The MTWG opposes such an extension of this principle.

The MTWG also notes that efficiency and marginal cost pricing of an assumed homogeneous product is not the only objective that was considered in the creation of self-scheduled energy commitments, policy driven intermittent resources, and FRAP in resource adequacy. Therefore, the application of the marginal cost concept should be carefully stated to reflect the constraints. It is important to remember that regulation of markets exists because of limitations (and sometimes flaws) in markets that can undermine achievement of the public interest.

- **Enable market participants to make efficient operational and investment decisions**

MISO’s use of the word “enable” in this principle is puzzling. The MTWG interprets this principle to refer to steps MISO can take to improve transparency and stability in wholesale electricity markets. In other words, market operations should be well understood and should not change drastically over time. This reduces uncertainty and provides market participants with the foundation to make decisions based on current and projected market conditions. MISO does not have an obligation to run any particular market participants’ business or even to help market participants make their business decisions. Rather, MISO’s obligation is to effectively set a foundational structure within which competitors can efficiently run their businesses.

Some MTWG members from the new MISO southern region assume that MISO business practices and markets will not change beyond that represented to them when they elected to join MISO. Alternatively, if the term has some other meaning, does MISO suggest changing its resource adequacy construct to a centralized capacity market such as the one to which the OMS objected? How will MISO use the new resource adequacy construct to “enable” a market participant? The MTWG therefore requests that MISO explain its intent behind this principle and the meaning of the word “enable” as used there.

As an alternative, the MTWG recommends that MISO drop this guiding principle from its Market Vision. The core message of this principle, as the MTWG interprets it, is covered in the previous principle. The MTWG feels that MISO should concentrate on improving its markets and leave the investment decisions of market participants to the market participants.

- **Maintain/improve reliability within the MISO footprint and interconnection**

The MTWG supports MISO's efforts to fulfill its obligations as reliability coordinator for the MISO footprint. However, the MTWG requests MISO to explain what it means by "improve reliability." Is this in the context of NERC reliability standards, or does it include something else? Does the use of the word "improve" imply that MISO intend to establish reliability levels above that which is required by the NERC reliability standards? If so, will MISO study the costs of such a change, and the net cost benefit to ratepayers? If MISO does intend to pursue reliability in excess of that which is required by NERC, the MTWG questions whether the cost would be beneficial to ratepayers. The MTWG therefore recommends that MISO also consider as part of this principle the economic considerations such as cost consequence or net benefits to ratepayers of excess reliability above that required by the NERC reliability standards.

## **Focus Areas**

- **Enhancing Unit Commitment and Economic Dispatch**

The MTWG interprets the word "enhancing" in this focus area to mean MISO's continuing efforts to develop concepts and products such as the proposed initiatives in the September 6<sup>th</sup> Draft Focus Area document. If this interpretation is correct, the MTWG is generally supportive of this objective. The MTWG recognizes that some OMS states have concerns with MISO's use of legacy state demand response programs as a market product.

- **Maximizing the Value of Existing Transmission Infrastructure**
- **Maximizing the Reliable and Efficient Use of Existing Transmission Infrastructure**

The MTWG notes the two versions of this Focus Area from the September 6<sup>th</sup> Draft Vision document and Draft Focus Areas document. As a general rule, the MTWG supports reliable and efficient use of the current transmission infrastructure.

The MTWG prefers "reliable and efficient use" instead of "value" to clearly distinguish the MISO societal objective (a 501(c)(4) non-profit organization that is tax exempt on the basis that it exists to provide a public or societal benefit) from what value means to others, such as transmission companies' profit maximization objective. The term "maximizing the value" could be interpreted by other stakeholders as maximizing some companies' revenues. Maximizing MISO transmission owners' revenues is not an appropriate goal for MISO management and is contrary to the characteristics and functions specified for RTOs in FERC Order 2000.<sup>1</sup>

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<sup>1</sup> RM99-2-000 (December 20, 1999), Order No. 2000, 89 FERC ¶ 61,285.

- **Increasing Efficiency of Prices during Scarcity Events**

As a general rule, the MTWG supports MISO's efforts to increase efficiency of prices. The MTWG also appreciates MISO's efforts to address momentary real time shortages (that are arguably not scarcity events) via improved resource commitment and dispatch using pricing algorithms such as ELMP and ramp capability enhancement.

The MTWG notes diversity in stakeholder views regarding exactly how to increase efficiency of pricing during true scarcity events. Some OMS states, for example, have concerns with how MISO might use legacy state demand response programs as a wholesale market product.

- **Increasing Efficiency of the Energy Market Seams**

The MTWG interprets this focus area to promote increasing energy market efficiency at the seams. If MISO's intent goes beyond energy markets, then the MTWG requests a more detailed explanation from MISO as to its intent. Additionally, the MTWG encourages MISO to take into consideration congestion and coordination discussions with its neighbors in pursuing seams efficiencies.

- **Streamlining Market Processes to Reduce Transaction Costs**

As a general proposition, the MTWG supports streamlining market processes to reduce transaction costs. However, if MISO intends to include supporting a specific market expansion (such as marketizing additional products) as part of the focus areas, the MTWG would urge MISO to provide a more detailed explanation as to its intent in that regard.

- **Enhancing the Efficiency of Investments in Renewables and Supporting Infrastructure**

The MTWG recommends that this vision element be deleted in its entirety. The other vision elements provide a comprehensive set. If it is not deleted, the MTWG offers the following comments.

The MTWG is supportive of MISO's efforts to enhance the efficiency of renewables particularly improving their dispatchability and general integration in MISO's markets. However, such an objective should not be used by MISO to provide rationale for regional integrated resource planning or to justify mandatory centralized capacity markets.

Similarly, MISO does not always need to take on the responsibility and collectivize the pursuit of transmission infrastructure to enable individual load serving entities to meet their individual obligations to purchase renewables. Efficiency can often be achieved by allowing infrastructure costs to be factored into commodity and capacity contracts between willing buyers and willing sellers.

- **Enhancing the Efficiency of Investments for Resource Adequacy**

The MTWG recommends that this vision element be deleted in its entirety. The other vision elements provide a comprehensive set. If it is not deleted, the MTWG offers the following comments.

If this focus area is intended to help the states with their resource adequacy responsibility, then the MTWG appreciates the support. However, the MTWG questions whether such support necessitates a separate focus area.

The MTWG interprets this vision element as MISO working towards favoring certain types of resources over other resources, or certain competitors over other competitors, which would compromise MISO's independence and conflicts with MISO's role as an independent administrator. The MTWG recommends that MISO concentrate on getting the market right, and leave the efficiency of investments to the market participants.