

OMS Markets and Tariffs Work Group Feedback to MISO on Market Vision Focus Areas

November 18, 2013

As part of the Market Vision Update presented to the October 29, 2013, Market Subcommittee meeting, MISO asked for feedback on three questions regarding Focus Areas evaluation. In response, the OMS Markets and Tariffs Work Group staff (MTWG) respectfully offers these comments.

• For each Focus Area, what specific information, cost-benefit estimates, or other analyses do stakeholders need to review before deciding what initiatives are the most valuable to pursue within each Focus Area?

In general, when making decisions for initiatives in all the Focus Areas, MISO should conduct theoretical analysis first and present it to stakeholders. If stakeholders agree on the validity of the MISO's analytical work, MISO should then conduct or cause to be conducted a quantitative/qualitative analysis supported by stakeholder agreement. If MISO can clearly show that there is quantitative/qualitative NET benefit, then MISO can prioritize the issues based on the analysis. The initiatives that are most valuable are those that result in a net benefit to ratepayers. If the analysis cannot clearly show such a benefit, MISO should bring the issue back to the stakeholder process for further discussion.

The MTWG has an interest in responding specifically to this question for Focus Area 4: Increasing Efficiency of the Energy Market Seams. When addressing seams issues, MISO and its seams partners should focus on pursuing initiatives that strive for greater coordination on the seams whenever possible, specifically focusing on areas that would clearly improve the operational efficiency of the markets and attempt to mitigate negative impacts created by market inefficiencies between the seams.

MISO and its seams partners have previously asked the same question posed here, and requested stakeholder input to prioritize these seams efforts through surveys. The prioritization surveys have been highly contentious and in some cases have been utilized to focus more effort on certain areas, while depriving others areas of effort that would otherwise be warranted. In addition to the net benefits standard described above, some additional consideration should be given to issues addressing the public interest and recommendations coming from the Regional State Committees, consumer advocates, and State regulators located on, or near the seams, who represent those who will be most impacted by seams issues. More attention should also be provided to seams issue recommendations from the region's Independent Market Monitors.

Once areas of potential seams improvement are identified, MISO and its seams partners should apply the public interest standard to analyze the costs and benefits to determine which initiatives are the most beneficial to their combined regions' customers and rate payers, and

prioritize their work on issues accordingly. The MTWG believes that one such issue that should be given a higher priority based upon the urging of those representing public interests as well as the IMMs, is the interchange optimization effort between MISO and PJM. Interchange optimization is a highly beneficial effort to undertake as expeditiously as possible, but MISO and PJM have balked at prioritizing the effort and accelerating its implementation due to some stakeholders' strong opposition. However, if MISO and PJM gave more weight to closely representing the public interest and the IMMs, the beneficial effort of interchange optimization would be much further along than it is currently.

Where there is disagreement amongst parties as to the validity of seams initiatives that MISO and its seams partners are attempting to prioritize, then those parties in disagreement should provide other stakeholders with questions that ought to be considered on that specific topic. Then the parties should work to answer those questions thoroughly to provide a full record on the subject that can be used to analyze the impacts and benefits, that can help to ultimately conclude if the issue should be prioritized and work towards implementation.

A prime example of this method for working on contentious seams issues where many parties disagree is the capacity deliverability fact-finding effort advocated by OMS and OPSI, and supported by other stakeholders, as a way to ultimately determine the need, or lack thereof, for attempting to implement capacity deliverability. The outcome of this fact-finding has yet to be concluded, and OMS is not advocating in support for, or against, the specific issue of capacity deliverability at this time; more simply, OMS would like to highlight that this type model can be applied to other issues help make decisions on contentious seams issues going forward.

- **How should MISO address issues where there is strong disagreement among stakeholders?**

MISO should consider the nature of the disagreement and the cost-benefit to participants, including ratepayers. If the disagreement concerns areas that are generally outside of MISO's purview, such as resource adequacy, then MISO should work with and rely on the other entity with jurisdiction for advice and assistance with stakeholder discussions.

When there is strong disagreement among stakeholders, MISO should be reminded that it too is a public entity, specifically a federal public utility with public interest obligations per its objective as a 501(c)(4) non-profit tax exempt organization that exists to provide a public or societal benefit. In that regard, MISO's role comes closest to the regulatory role of the states which balance and determine policy outcomes solely using a public interest standard, not a private interest standard. As an example, MISO may face an issue with a divergent opinion from one sector imbued with a strong incentive for private economic gain, whereas another sector may have more diverse objectives reflected in its input. The latter sector is again more likely to be the governmental sector. The governmental sector, whether through elections or

appointments, reflects more closely the combined divergent views of society into a unique perspective, the public interest. MISO should pay heed to that.

Sectors such as those representing private economic interests and/or corporate business priorities are unique in creating added value, wealth, and income. But, private sectors' engagement in an RTO stakeholder forum may necessarily pursue private gain, self-interest, or at worse, monopoly rent-seeking as defined in the public goods literature. In those circumstances, a simple balance is not the optimal outcome. Rent-seeking behavior is checked by arms-length negotiations which is not the intent of the RTO stakeholder process.

- **How should MISO prioritize issues that are very important to one or only a few stakeholders but that are unimportant to the majority of stakeholders?**

While the question seems to ask what MISO should do, it can also be read to ask what stakeholders should do. Where only a few stakeholders deem an issue important, they should continue to be given the opportunity in the appropriate work groups to present their concerns and proposals, and then use that opportunity to demonstrate benefits and garner further support as many do now. Depending on stakeholder support, MISO might provide some of its analyses to address benefit/cost aspects. If there were to be any bias brought to this process by MISO, it should be to give public interest issues additional consideration.