

**ORGANIZATION OF MISO STATES, INC.**  
**Special Board of Directors Meeting**  
**Conference Call**  
**May 2, 2007**

**Approved May 10, 2007**

Laura Chappelle, President of the Organization of MISO States, Inc. (OMS) and John Norris, Vice-President were unable to attend the May 2, 2007 special meeting of the OMS Board of Directors via conference call. At approximately 9:00 a.m. CDT, Commissioner Lemmie moved to designate Commissioner Wefald as Chair pro tempore. Commissioner Lieberman seconded; the motion passed on voice vote. At 10:00 a.m. CDT, Commissioner Wefald left the meeting and Commissioner Gaw was elected to serve as Chair pro tempore for the remainder of the meeting.

The following board members or their proxies participated in the meeting:

Laura Chappelle, Michigan was not able to participate due to illness.

Bob Lieberman, Illinois  
Tom Pugh, Minnesota  
Steve Gaw, Missouri  
Greg Jergeson, Montana  
Tim Texel, proxy for Eugene Bade, Nebraska  
Susan Wefald, North Dakota  
Valerie Lemmie, Ohio  
Greg Rislov, proxy for Gary Hanson, South Dakota  
Dan Ebert, Wisconsin

Absent

Indiana  
Manitoba  
Pennsylvania

Non-proxy staff participating

Parveen Baig - Iowa  
Jeff Johnson- Kentucky  
Angie Butcher, Bill Bokram - Michigan  
Jan Karlak, Dan Johnson- Ohio  
Randel Pilo, Wisconsin

Also Bill Smith - OMS Staff

The directors and proxies listed above established the necessary quorum for the meeting of at least eight directors being present.

**Business Item**

**1. Review RAWG's Revised Resource Adequacy Principles - Jan Karlak**

As Acting Chair, Commissioner Wefald began with a review of prior principles

- Resource Adequacy (2004) and Enforceable Standards (2007).
- The objective is to develop a more focused statement.
- Four groups are working on this issue: MISO, PRSG, RF/MRO and FERC.
- Draft Principles lets the states indicate their positions.

The Acting Chair asked for questions and discussion on the Introduction and Purpose sections of the draft.

- Commissioner Lieberman urged a better connection of wholesale and retail markets in these sections.
- Commissioner Gaw and Parveen Baig suggested rephrasing of Paragraphs 1 and 3 in the Purpose section, adding “to ensure that adequate resources are planned and maintained.”
- Commissioner Lemmie suggested adding “and demand resources . . .” after generating capacity.

Discussion went forward on each Principle.

- On #1, there was extended discussion to distinguish that OMS does not have a position on either an energy-only or a capacity market construct. Commissioner Gaw suggested adding “OMS does not endorse at this time a forward based capacity market managed by the MISO. Commissioner Jergeson suggested deleting “market-based.” Commissioners Ebert and Lieberman expressed need for more information on current activities and better understanding of the implications of the principles.
- On #2, Randel Pilo noted a need for more consideration of scarcity pricing. There was discussion of striking the phrase “be advantageous to the extent.”
- On #3, Commissioner Lieberman suggested inserting a reference to demand resources.
- On #4, it was mentioned that the paragraph attempts to provide a verification process like that used in MAPP.
- On #5, Randel Pilo sought assurance that the language would not interfere with state standards. The draft principle states that states are free to rely on this process, but states could be more specific in constrained areas.
- On #7, it is intended that OMS has no preferred enforcement method – that would not be a ‘principle.’ Jan Karlak noted a FERC order issued April 19 on the California ISO in which FERC claimed jurisdiction over wholesale resource adequacy.
- With time running short, Commissioner Lieberman said he would take up questions on ##11-13 with Jan Karlak off-line.

The meeting was adjourned at 10:05 am CDT.

For discussion among OMS Board Members May 2, 2007

The OMS Resource Adequacy Working Group (RAWG) recommends the following Revised Resource Adequacy Principles for discussion by the Board of the Organization of MISO States.

**DRAFT** 4-30-2007 p.m.

Organization of MISO States  
Resource Adequacy Working Group (RAWG)

**Revised Principles for Resource Adequacy**

INTRODUCTION

The Organization of MISO States (OMS) Resource Adequacy Principles, adopted by the OMS Board March 12, 2004, are revised in light of changes in the Midwest ISO market structure, the passage of the Energy Policy Act of 2005 recognizing the states' primary role regarding resource adequacy, and the new jurisdiction of the Federal Energy Regulatory Commission (FERC) over activities and reliability standards of the North American Electric Reliability Corporation (NERC) and the former regional reliability organizations.

The Revised Principles for Resource Adequacy are intended to assist stakeholder activities directed toward a workable program for resource adequacy in the Midwest ISO footprint, while remaining true to the States' oversight for providing safe and reliable service.

PURPOSE

The OMS Resource Adequacy Principles are meant to facilitate future OMS comments to Midwest ISO and the FERC relevant to a range of complex interrelated resource adequacy issues in an organized regional energy market. The interrelated issues include long-term resource adequacy, system reliability, enforcement of resource adequacy to meet peak load requirements plus a reserve margin, and regional system planning that considers generating capacity resources and their alternatives.

The interrelated issues are now being addressed in several separate venues: the FERC-regulated reliability standard setting activities of the Midwest Regional Entities under the NERC: the regional entities of the Midwest Reliability Organization (MRO); the ReliabilityFirst Corporation (RFC), and the Southeaster Electric Reliability Council (SERC); the efforts of the Planning Reserve Sharing Group administered by Midwest ISO Staff; the OMS Resource Adequacy Working Group (RAWG); the Midwest ISO market participants' Supply Adequacy Working Group (SAWG); and other regional activities in the context of a long-term resource adequacy plan for meeting the Midwest ISO coordinated planning requirements under NERC standards.

As evidenced by our principles for resource adequacy adopted on March 12, 2004, the OMS has long recognized the continuing need to ensure that adequate resource planning reserves of generating capacity are developed and maintained by all load serving entities

(LSEs) so they can reliability serve load at all times. To that end, the OMS' revised principles are as follows:

## LONG-TERM RESOURCE ADEQUACY

### **OMS Revised Principle Number 1:**

The Midwest ISO should build on the work started toward developing a transparent, market-based pricing design for operating reserves in the Midwest ISO Ancillary Services Market to similarly incorporate scarcity pricing concepts along with planning reserves in the market design in a long-term resource adequacy plan.. This should be done so that prices can reflect underlying forward supply and forward demand fundamentals

### **OMS Revised Principle Number 2:**

All load serving entities (LSEs) should maintain sufficient capacity to meet peak load plus minimum reserve margin requirements at all times in order that periods of scarcity will be infrequent. OMS remains skeptical that scarcity price signals alone will be sufficient to ensure adequate and timely long-term capacity additions. Scarcity pricing, however, may be advantageous to the extent it provides yet another incentive for capacity additions but does not result in market manipulation.

### **OMS Revised Principle Number 3:**

The Midwest ISO must provide non-discriminatory opportunities for all resources including renewable resources and long-term firm contracts when meeting annual forecast load —adjusted by dispatchable and verifiable price-responsive demand reductions.

### **OMS Revised Principle Number 4:**

Capacity certification/accreditation test procedures and deliverability verification must be applied periodically to establish capacity ratings for resources being relied upon to meet Midwest ISO capacity requirements.

## RELIABILITY

### **OMS Revised Principle Number 5:**

The OMS recognizes the widely accepted reliability standards proposed by the Regional Entities. The OMS supports the efforts of the NERC and the Regional Entities within the Midwest ISO to ensure resource adequacy by the adoption and enforcement of uniform

regional resource adequacy or planning reserve standards. States are then free to rely on such standards instead of establishing and enforcing state-specific standards

**OMS Revised Principle Number 6:**

The OMS encourages compliance with the NERC and Regional Entity standards, and urges openness and transparency with respect to overall resource adequacy of the region, as well as individual load serving entities' compliance with those standards.

ENFORCEMENT

**OMS Revised Principle Number 7:**

Forward planning reserve enforcement mechanisms should become effective by no later than June, 2008. With the Midwest ISO-proposed changes in market mechanisms expected to occur in 2008, the timing of such mechanisms are critically important to help ensure resource adequacy during the transition.

**OMS Revised Principle Number 8:**

Each entity responsible for serving MISO Load should be periodically, independently audited to ensure that accredited and deliverable capacity sufficient to meet peak load plus the applicable reserve requirement was in place at all times during the previous period.

**OMS Revised Principle Number 9:**

Non-compliance with a resource adequacy standard can put load that is in compliance with such standards at risk. Therefore, consequences of instances of non-compliance must not be levied indiscriminately across all load, but must be targeted toward the parties at fault.

**OMS Revised Principle Number 10:**

All entities or their designated planned reserve sharing groups within the Midwest ISO should adopt enforceable planning reserve requirements to assure there are sufficient resources to maintain continuous reliability and effective competition.

REGIONAL PLANNING

**OMS Revised Principle Number 11:**

Regional planning, conducted in accordance with NERC standards for coordinated planning, must include consideration of the deliverability, security and coordination of generating capacity resources and their alternatives as well as the capacity needs of all

load serving entities, including those who are transmission dependent, on a non-discriminatory basis. Such planning helps ensure resource adequacy.

**OMS Revised Principle Number 12:**

The ultimate decisions regarding generation resource planning shall be left to the states. The Midwest ISO has a unique comprehensive view of the fifteen-state region regarding the location of transmission constraints. The Midwest ISO's reporting, analyses, and regional recommendations, in compliance with NERC standards for coordinated planning can be very helpful to the states in developing state resource adequacy policy and generation siting decisions.

**OMS Revised Principle Number 13:**

Planning reserve assessments must be forward-looking and allow consideration of new capacity additions of all fuel types and technologies as resource options. Annual forward-looking load and capability reports should include long-term load forecasts adjusted by mechanisms that allow the participation of demand response and load reduction and a supply plan for meeting capacity and reserve requirements with existing accredited and deliverable capacity resources.