Organization of MISO States

ORGANIZATION OF MISO STATES, INC.
Board of Directors Meeting
Conference Call Minutes
February 20, 2015

Approved March 19, 2015

Libby Jacobs, President of the Organization of MISO States, Inc. (OMS), called February 20, 2015 meeting of the OMS Board of Directors to order via conference call at approximately 10:00 a.m. (CST). The following board members or their proxies participated in the meeting:

Rand Hightower, proxy for Ted Thomas, Arkansas
Angela Weber, Indiana
Libby Jacobs, Iowa
Noel Darce, proxy for Eric Skrmetta, Louisiana
Sally Talberg, Michigan
Bret Eknes, proxy for Betsy Wergin, Minnesota
David Carr, proxy for Brandon Presley, Mississippi
Robert Kenney, Missouri
Kirk Bushman, Montana
Phil Movish, proxy for Jason Williams, City of New Orleans
Jerry Lein, proxy for Brian Kalk, North Dakota
Greg Rislov, proxy for Gary Hanson, South Dakota
Richard Greffe, proxy for Ken Anderson, Texas
Eric Callisto, Wisconsin

Absent
Illinois
Kentucky
Manitoba

Agency members participating
Michael Marchand – Arkansas
Hwikwon Ham, Cesar Panait – Minnesota
Mississippi Public Utilities Staff
Adam McKinnie – Missouri
Wisconsin Staff

Others on the call
Bill Smith, Tanya Paslawski, Colleen Dougherty – OMS Staff

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

Approval of Minutes from the January 15, 2015 Open & Closed Board Meetings

The minutes were approved as submitted.

Treasurer's Report

The January 2015 treasurer's reports were accepted as submitted.

Review of the January 29, 2015 Executive Committee Meeting:

Libby Jacobs highlighted the following items from the meeting:

- Jennings Strouss letter of engagement approval;
- FERC docket review
- Personnel Committee Recommendations were approved;
- OMS office phone system update

Executive Director's Report

A written report was distributed prior to the meeting. Bill Smith also highlighted the following:

- FERC docket list;
- Libby Jacobs recognized Bill Smith's receipt of the Terry Barnich award at NARUC the previous week. The Terry Barnich award recognizes the contributions of those "who have dedicated their time, energy and expertise to furthering regulatory best practices in a global environment."

BUSINESS

1. IMM Presentation

- David Patton provided an update and took questions from Board members and staff.

2. MISO Advisory Committee

- Sally Talberg provided the AC update. In addition to the hot topic, there are three action items on the agenda. They are:
    1. The Finance Subcommittee election. There is a motion to approve the three candidates that have been put forward by their sectors, including Venkata Bujimalla of the IUB on behalf of OMS.
    2. The Advisory Committee Charter for 2015. Permission was requested for the AC reps to use their best judgment in approving the proposed changes which include dropping Roberts Rules of Order, attendance requirements for the MISO President and Board, and Hot Topic process reform.
- The Hot Topic is on Resource Adequacy. Sally Talberg walked the Board through the comment document and made revisions.
- Libby Jacobs noted a late addition to the agenda, item #6A – the Consumer Advocate sector's request for resource funding. They are looking for funding to go forward with their ROE complaint at FERC. There will be discussion on that topic going forward.

3. MISO Planning Advisory Committee

- Angela Weber and Julie Urban provided verbal updates on the January and February PAC meetings.

4. ROE Update

- Bill Smith gave a verbal update on the ROE litigation status. He asked for permission to intervene in the second docket, EL15-45 and noted that it may be consolidated with the first.

Angela Weber moved to approve the intervention in EL15-45. Eric Callisto seconded. The motion was approved by unanimous voice vote.

5. MISO prohibited securities list & OMS staff compliance

- Libby Jacobs addressed this item and noted the OMS staff is in compliance.

6. Action Item: Suggested Revisions to OMS Demand Response Principles

- Andrew Kell presented the revisions and led the discussion on the document.

The Board approved the revised OMS Demand Response Principles by voice vote. Louisiana, Texas, Arkansas, and Mississippi abstained.

7. Action Item: Comments on FERC Technical Conference on Price Formation (AD14-14)

- Al Freeman explained the background on these comments and led discussion.

Angela Weber moved to approve the comments. Eric Callisto seconded. The motion was approved by voice vote with Texas abstaining.

8. Possible Action Item: Comments on ER15-918

- Tanya Paslawski indicated that the work group is not ready to discuss this issue yet, but a doc-less intervention has been filed.

9. Possible Action Item: Comments on Local Resource Zone Re-evaluation

- David Carr introduced this topic and led the discussion.

Adam McKinnie, proxy for Missouri, moved the comments revised to reflect that they come from the OMS Board and be submitted. Angela Weber seconded. The motion was approved by voice vote, with Arkansas and Texas abstaining.

10. Open Mic

- Bill Smith noted that the announcements on the agenda are in error. The correct date of the next OMS Board meeting is Thursday, March 19, 2015.
- Bill Smith and Libby Jacobs thanked Eric Callisto for his service to OMS. Commissioner Callisto is leaving the Wisconsin PSC at the end of his term.

Updates and Work Group Status Reports

Demand Response WG

- Andrew Kell provided a verbal update;

Transmission Cost Allocation WG

- Written report;

Markets and Tariffs WG

- Written report;

Resources WG

- Written report and Don Neumeyer provided a verbal update;

Regional Planning WG

- Written report;

Governance and Budget

- No report;

Seams WG

- No report;

Administrative Ad Hoc WG

- Libby Jacobs provided a verbal update;

Ad Hoc 111d WG

- No report;

ADJOURNMENT

The meeting of the OMS Board of Directors meeting adjourned at 11:26 am CST.

100 Court Avenue
Suite 315
Des Moines, IA 50309

OMS
Organization of MISO States

Please note that the day and time has been changed from the originally scheduled meeting

The Organization of MISO States Board of Directors will hold its monthly meeting via conference call Friday, February 20, 2015 at 10:00 am (Central).

- Call–in number is **866-848-2216**. The conference code is **7422895954** followed by the # sign.
- Board members who cannot attend the call should notify Kirk Bushman at kbushman@mt.gov with a copy to Colleen at (colleen@misostates.org) to designate a proxy for this meeting.

Agenda

Call Meeting to Order – President Libby Jacobs 10:00
Attendance, Recognition of Proxies, Declaration of a Quorum
Approval of Minutes from the January 15, 2015 Board meeting - **Open** & **Closed** sessions
Treasurer's Reports – January 2015
Review of Executive Committee meeting – January 29, 2015

Administrative Update

Report from the Executive Director 10:05
- FERC dockets

Business

1. IMM Presentation – David Patton 10:10
2. MISO Advisory Committee – Sally Talberg 10:25
   - February Hot Topic: Resource Adequacy
3. Planning Advisory Committee – Angela Weber 10:35
4. ROE Update – Bill Smith 10:40
5. MISO prohibited securities list and OMS staff compliance – Libby Jacobs 10:45
6. Action Item: Suggested Revisions to OMS Demand Response Principles – DR&TWG 10:55
7. Action Item: Comments on FERC Technical Conference on Price Formation (AD14-14) – M&TWG 11:05
8. Possible Action Item: Comments on ER15-918 – M&TWG 11:15
9. Possible Action Item: Comments on Local Resource Zone Re-evaluation – RWG 11:25
10. Open Mic – membership comment opportunity 11:35

OMS Work Group Status Reports

a. Demand Response WG
b. Transmission Cost Allocation WG
c. Markets and Tariffs WG
d. Resources WG
e. Regional Planning WG
f. Governance and Budget WG
g. Seams WG
h. Administrative Ad Hoc WG
i. 111(d) Ad Hoc WG

Announcements

- OMS In person meeting in New Orleans Tuesday, February 24, 2015 at 4:00pm CT in the Acadia Room at the Royal Sonesta Hotel
- Next OMS Executive Committee meeting: Thursday, March 5, 2015 at 1:00 pm CT
- Next regular OMS Board of Directors meeting: Thursday, March 21, 2015 at 1:00 pm CT

Adjourn 11:45

Revised February 16, 2015

OMS

Organization of MISO States
Report of the Treasurer
Commissioner Ken Anderson, Texas Public Utility Commission
to the Board of Directors
Report for January 2015

CASH ON HAND

The beginning balance for the Wells Fargo Business Performance Savings Account on January 1 was $25,337.43. Interest earned for this month totaled $0.65 and there was no other activity. The January 31, 2015, ending balance was $25,338.08.

The beginning book balance for the Chase Bank One Checking account on January 1 was $95,075.06. The total disbursements from the checking account for January 2015 amounted to $54,236.11. Deposits, interest and adjustments were $60,001.12 which includes MISO funding of $60,000.00. As of January 31, 2015, the checking account bank balance was $103,848.28 (with 10 check payments outstanding) and the book balance was $100,840.17.

The total savings plus checking account balance as of January 31, 2015, is $126,178.15.

OMS

TREASURER'S REPORT
Organization of MISO States
January 31, 2015

Wells Fargo Business Performance Savings Account

Book Balance as of 12/31/2014			$ 25,337.43	
1/31/2015	DEP	Interest on Savings	$ 0.65	
Business Performance Savings Account Balance at 01/31/2015				$ 25,338.08

Chase Bank One Commercial Checking with Interest

Book Balance as of 12/31/2014			$ 95,075.06	
1/9/15	ACH	Midcontinent ISO	$ 60,000.00	
1/30/15	DEP	Interest on checking	$ 1.12	
		Total Deposits	$ 60,001.12	

Checks and Charges

Date	Check #	Descriptions			
01/09/2015	w/d	WF Payroll Service - Processing Fee	$	50.00	
01/14/2015	5025	Chris Devon (MI)	$	1,832.83	
01/14/2015	5027	State of Iowa (Libby Jacobs)	$	980.84	
01/14/2015	5029	Wisconsin PSC (Eric Callisto)	$	942.80	
01/14/2015	5028	Wisconsin PSC (A. Bohage)	$	781.54	
01/14/2015	5026	Indiana UCC (Robert Mork)	$	192.38	
01/20/2015	5032	Customized Energy Solutions	$	3,500.00	
01/20/2015	w/d	VISA (Chase Bank One)	$	3,427.60	
01/20/2015	w/d	Liberty Mutual Insurance	$	3,090.00	
01/20/2015	5030	100 Court Investors LLC	$	1,950.60	
01/20/2015	5033	Qwest/CenturyLink	$	241.87	
01/20/2015	5031	Combined Systems Technology (CST)	$	159.00	
01/20/2015	5034	Triplett Office Essentials	$	142.21	
01/21/2015	5042	Minnesota PUC (H. Ham)	$	1,403.24	
01/21/2015	5041	Minnesota PUC (H. Ham)	$	1,190.94	
01/21/2015	5038	Minnesota PUC (H. Ham)	$	940.02	
01/21/2015	5036	Combined Systems Technology (CST)	$	60.95	
01/21/2015	5039	Premier Copiers	$	57.53	
01/21/2015	5037	Combined Systems Technology (CST)	$	39.75	
01/27/2015	w/d	WF Payroll Service - Processing Fee	$	65.00	
01/29/2015	5052	Diversified Management Services (DMS)	$	339.00	
01/30/2015	w/d	Paychex, Inc - Payroll Net	$	21,374.54	
01/30/2015	w/d	Paychex, Inc - Taxes	$	10,923.06	
01/30/2015	w/d	Paychex, Inc - Processing	$	77.10	
01/21/2015	5040	Rachel Hassani (MO)	$	935.51	
01/21/2015	5044	Bill Smith	$	68.99	
01/27/2015	5046	Mississippi PUS (S.Mabry)	$	468.20	
01/29/2015	5050	Conference Suites, LLC	$	691.41	
01/29/2015	5048	Sally Talberg (Michigan)	$	164.91	
01/29/2015	5049	Company Corporation	$	150.00	
01/29/2015	5047	Sally Talberg (Michigan)	$	49.76	
01/29/2015	5051	Crystal Clear Water	$	17.57	
12/16/2014	4988	Laura Dixon (MS)	$	(596.00)	voided
12/30/2014	5012	Iowa OCA (Jennifer Easler)	$	(541.53)	voided
12/16/2014	4991	Rachel Hassani (MO)	$	(935.51)	voided

Total Disbursements - Checks and Charges	$ 54,236.11	
CHECKING ACCOUNT BALANCE at 1/31/2015		$ 100,840.07

TOTAL Certificates of Deposit, Savings and Checking Account Balances as of: 1/31/2015 $ 126,178.15

CHASE CHECKING ACCOUNT RECONCILIATION

Bank Balance 1/31/2015	$ 103,848.28	
Less Checks Outstanding		
11/17/2014 4933 Jerry Lein (North Dakota)	$ 66.00	
12/16/2014 4997 Richard Zuraski (IL)	$ 395.76	
01/21/2015 5040 Rachel Hassani (MO)	$ 935.51	

01/21/2015	5044	Bill Smith	$	68.99
01/27/2015	5046	Mississippi PUS (S.Mabry)	$	468.20
01/29/2015	5050	Conference Suites, LLC	$	691.41
01/29/2015	5048	Sally Talberg (Michigan)	$	164.91
01/29/2015	5049	Company Corporation	$	150.00
01/29/2015	5047	Sally Talberg (Michigan)	$	49.76
01/29/2015	5051	Crystal Clear Water	$	17.57

Total Outstanding Checks	**$**	**3,008.11**
Book Balance 01/31/2015	**$**	**100,840.17**

OMS

OMS Treasurer Report for Month of January 2015

Wells Fargo Business Performance Savings Account

Beginning Balance	25,337.43	
Interest Earned this Month	0.65	
Ending Balance		25,338.08

Chase Bank One Checking Account

Beginning Balance	95,075.06	
Total Disbursements	(54,236.11)	
Deposits/Interest/Adjustments	60,001.12	
Ending Balance		100,840.07
Ending Bank Balance	103,848.28	
Outstanding Deposits	0.00	
Outstanding Checks	(3,008.11)	
Book Balance	100,840.17	

Total Savings & Checking Balances as of January 31, 2015 **126,178.15**

10 checks outstanding at 1/31/2015

Organization of MISO States

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OMS Executive Director Report
February 20, 2015

FERC Issues

1. OMS, OPSI, MISO, PJM and the market monitors gave presentations and participated in Q&A at FERC on the status of the Joint and Common Market issues on January 22. OMS and OPSI also submitted joint comments.
2. Bill attended the latest MISO/SPP settlement conference on January 29th. Negotiations continue.
3. OMS filed doc-less interventions on February 9th in the Wisconsin Power and Light request for waiver of compliance with the MISO tariff for the 6 week period between the MATS compliance date and the end of the MISO planning year (ER15-872).
4. A second complaint was filed February 12th against the MISO TO ROE to continue tolling the refund period (EL15-45).
5. FERC's first technical conference on the EPA's Clean Power Plan took place on February 19th. OMS President Libby Jacobs spoke in her role as Chair of the Iowa Utilities Board. There will also be three regional conferences with the Central Region being held in St. Louis on March 31st. OMS to consider participation.

MISO Matters

1. OMS submitted responses to a survey about the activities and jurisdictional authority related to fuel assurance. MISO filed its response to FERCs reporting requirement on this issue which will include generic information on how OMS members manage those issues. OMS will consider filing comments in response to MISOs report 30 days after the February 18 filing date.
2. The OMS Regional Planning WG filed comments on MISOs Independent Load Forecast on February 4th.
3. MISO Board and Advisory Committee Meetings February 24-26 in New Orleans

Public Relations

- Bill Smith was honored at NARUC with the Terry Barnich award in recognition of his contributions to promoting international cooperation

among utility regulators and development of professional regulation on February 15th.
- Tanya attended the Gulf Coast Power Association conference February 5th in New Orleans.

Upcoming dates:
- Next Executive Committee Meeting: March 5
- Next Board Meeting: March 19
- Future OMS Board meetings: April 16, May 21, June 11
- Future OMS Executive Committee meetings: April 2, April 30, May 28

MISO Advisory Committee
February 25, 2015
Hot Topic: Resource Adequacy
Organization of MISO States (OMS) Response
For the State Regulatory Sector

Introduction

The Organization of MISO States (OMS) appreciates the opportunity to comment on resource adequacy (RA) as a Hot Topic for the MISO Advisory Committee. The increasing focus on RA is no doubt related to the projected tightening of reserve margins throughout the footprint as well as the changing nature of the footprint's resource mix. OMS expects that this AC Hot Topic debate will highlight the import role states play in ensuring RA as well as the certain areas where MISO can be of assistance.

Resource Adequacy in the MISO footprint

MISO, its Members, and the Organization of MISO States (OMS) have worked together to address ways that MISO can provide increased transparency to the resource adequacy picture in the current delivery year and in future years, both at a footprint-wide and Local Resource Zone level. Notably, MISO, OMS, and stakeholders have worked together to implement a repeatable survey of the resource adequacy plans of Load Serving Entities and their jurisdictional entities.

These efforts are good examples to consider as you respond to the following question:

1. **What efforts, if any, could MISO and its stakeholders consider in improving regional resource adequacy transparency and/or processes? Some current and potential initiatives for consideration include:**
    a. **OMS/MISO resource assessment survey**
    b. **Development of a seasonal resource adequacy requirement and/or accreditation**
    c. **Fuel assurance considerations**
    d. **Changes to existing resource adequacy processes (e.g., term)**
    e. **Review of resource adequacy with respect to increase in System Support Resources and other environmental compliance requirements**

In your comments, consider the activity/initiative, as well as the entity responsible for the activity or initiative. If no efforts are needed, explain.

a. The 2014 OMS/MISO Resource Adequacy Survey (Survey) provided valuable information to MISO, OMS member entities, and other stakeholders regarding resource adequacy within the MISO footprint. OMS and MISO are in the process of formalizing the timing and communications framework to guide the 2015 Survey efforts. Should MISO and OMS deem the framework for continued coordination successful, a more formalized structure in the Tariff and/or Business Practices Manual should be explored to most effectively utilize this valuable tool in future years.

b. OMS supports exploring seasonal capacity products and planning reserve margin requirements and beginning a process to study these items. We believe that a seasonal construct will shed light on, among other things winter preparedness and generator retirements. These issues may not be adequately captured by the current construct.

Some MISO members and market participants may question the need for a seasonal construct given the level of effort required to start and maintain seasonal processes and investigate potential downstream impacts. OMS does not. Given the rising severity of seasonal climate patterns, the need for and benefits of a seasonal construct may very well be greater than the cost and effort required to implement such a construct. To the extent MISO has not already begun studying this issue, MISO should commission a whitepaper to study moving to a seasonal resource adequacy construct and OMS requests regular status updates be distributed to stakeholders.[1]

c. OMS believes increasing coordination between the electric and natural gas sectors is an important component of the resource adequacy equation. The members believe that the creation of a clearly defined "Electric-Gas Operations Coordinator" as envisioned by MISO is one way to ensure adequate coordination takes place.

Furthermore, OMS members are actively engaged in the current FERC-driven fuel assurance assessment as part of their state jurisdictional role in ensuring resource adequacy. Its members have provided input to MISO to include in its report to FERC in Dockets AD13-7 and AD14-8. State retail regulators play an important role in assessing and monitoring whether the generators under their regulatory influence – to the extent they have said authority – have adequate fuel reserves, and failing that, access to deliverable fuel if such a need were to arise.

OMS notes that MISO should support the retail regulators in these efforts by providing it with any data it has concerning the regional availability and deliverability of the various types of generator fuels. This information is similar to the information MISO collected and supplied to OMS regarding the LSEs efforts to ensure they acquired adequate resources to meet their needs.

Lastly, the continued efforts to coordinate electric and natural gas processes to better align with future needs for more natural gas fired generation is also important as the region moves to greater reliance on natural gas to meet resource adequacy needs.

d. As a threshold matter, the OMS urges MISO to keep the following in mind when evaluating any possible change to the existing resource adequacy processes – resource adequacy within MISO is largely a state prerogative. Unlike most other RTOs in the Eastern Interconnect, MISO is predominately composed of traditional vertically-integrated, state-regulated utilities. The vast majority of OMS members exercise plenary and exclusive jurisdiction over decisions regarding the type and amount of generation constructed within their jurisdictional boundaries by their jurisdictional utilities, and what costs those utilities are allowed to recover.[2]

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[1] A seasonal construct will need to incorporate a fuel assurance component to account for historically observed fuel-limited operations. The risks associated with specific weather events will be more easily quantified and accounted for in a seasonal assessment, helping to incorporate possible future probabilistic models of resource adequacy.

[2] There are some areas within MISO where generators are excluded from state and local regulation, and MISO should consider how best to preserve resource adequacy within those regions. However, in doing so, MISO must

To date, MISO's Resource Adequacy Construct (RAC) has respected state and local regulators resource adequacy decisions.[3] The Planning Reserve Auction (PRA) is voluntary. It does not attempt to force new capacity into regions that state and local regulators have determined do not need additional capacity.

As part of their regular activities, state and local regulators evaluate their jurisdictional utilities' capacity decisions. They consider not only the consequences of those decisions over the near-term, but also the effect of these decisions 10, 20, 30, and sometimes 40 years into the future. During this evaluative process, state and local regulators quantify their jurisdictional utilities' capacity costs. They gather and receive evidence from industry experts, environmental interest groups, consumer advocates, industry trade groups and other affected stakeholders. Regulators hold hearings where local, regional, and sometimes national interests are represented and considered by the individual regulators and their staff. The majority of MISO's traditional, vertically-integrated utility generator capacity costs – and thus, the majority of MISO's generator capacity costs – recover their capacity costs through this process, and bundled retail rates.

Just one of the many factors state regulators consider before making a decision regarding resource adequacy is fuel diversity. The energy industry is fraught with externalities and uncertainty due to fuel volatility and regulatory uncertainty. State and local regulators manage these risks through careful, long-term planning. As part of that process, regulators analyze whether individual utilities – and in turn, consumers – are over-exposed to the volatility of certain fuel types or other risks. In doing so, regulators insulate jurisdictional utilities and their consumers from unnecessary and unwanted risk and resulting market inefficiencies.

So far, MISO's RAC and Energy and Operating Reserve Markets, working in tandem with state and local regulation, have resulted in reserve margins above all federal, state, and local requirements, and reasonable costs to consumers. Given the many challenges the industry faces, OMS recognizes that reserve margins within MISO are projected to shrink over the next few years. However, OMS and its members are committed to facing these challenges and most OMS members have already begun that process.

Consequently, OMS does not currently support any change to the RAC, the PRA, or any other MISO resource adequacy process. OMS, as mentioned earlier in these comments, is in favor of studying the cost and benefits of a seasonal construct as a first step in potential future changes to the RAC.[4]

That said, OMS is strongly opposed to any change to address the so-called "missing money problem," including but not limited to, imposing a downward sloping demand curve (DSDC) in the PRA, eliminating Fixed Resource Adequacy Plans (FRAP), and adopting a minimum offer price rule (MOPR).[5]

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take care not to infringe on state and local regulators' resource adequacy authority, to the extent such authority exists.

[3] Notably, OMS's members are the only entities within the MISO stakeholder process (including MISO) charged with affecting policy that promotes the public interest.

[4] OMS again calls upon MISO to commission a whitepaper to investigate the cost, benefits and feasibility of such an approach and request regular updates from MISO staff.

[5] The Michigan PSC and the PUC of Texas are not advocating for changes in the MISO resource adequacy construct but do not have adequate information to take a position on these specific elements (for or against), such as a sloped demand curve. Moreover, the Michigan PSC and the PUC of Texas do not join the comments in this section regarding the "missing money problem."

To the extent there is a "missing money problem" in MISO,[6] it is negligible and addressing the supposed problem will provide little benefit to the vast majority of the footprint. For the majority of MISO generation - traditional, vertically-integrated, state-regulated generation – there is no missing money problem.

To reiterate, OMS opposes the introduction of a DSDC in the PRA. A DSDC would hinder, limit, and otherwise subvert state and local regulators' resource adequacy authority by effectively negating their decisions regarding the optimal capacity level and capacity resource mix within their respective borders. Furthermore, OMS is unaware of any empirical data that would support the claims made by many that DSDCs improve price efficiency and stability and reduce generator incentive to withhold capacity. Moreover, OMS questions whether the DSDC can deliver the benefits promised. It is impossible for a contrived short-run auction to have perfect foresight, and absent a MOPR (a mechanism OMS opposes), the auction would drive long-term generation decisions towards the lowest cost generation. Generation is not homogeneous. Most of the available capacity in the MISO footprint is based on long-run vertically integrated generation. Long-run investment in power generation requires careful consideration of many factors not a short-run price signal in a short-run capacity auction.

Additionally, OMS is opposed to a mandatory resource adequacy construct. If the PRA were mandatory, it would be the sole arbiter of MISO capacity prices, not state and local regulators.

In conclusion, OMS does not presently support any change to MISO's existing resource adequacy processes. It requests that MISO study whether shortening the PRA to seasonal assessments is feasible and cost-effective. OMS does not support and would strenuously object to imposing a DSDC or a MOPR in the PRA or eliminating Fixed Resource Adequacy Plans, both individually and collectively. Any such mechanism would impede and restrict state and local regulators' plenary and exclusive authority over resource adequacy within MISO, to the extent said regulators have such authority.

e. OMS supports updating the attachment Y process to prevent generating units being designated as SSRs and then easily switching status. To prevent unnecessary SSR designations in the future, MISO has indicated an interest in updating RA requirements and planning processes. OMS believes additional scrutiny of a unit owner's request to retire or suspend a unit is also needed to ensure the SSR system is not gamed – that is, merely using the SSR to recoup revenues that the generator is unable to collect through other sources.

With increased retirements from environmental compliance, the projected timeline of thermal unit retirements becomes increasingly important. Using what has been learned from current SSR examples may necessitate a more conservative approach to retirement assumptions, leading to possible different unit additions or transmission solutions in the planning process.

MISO is currently working to address stakeholder comments related to how suspended units and units that have filed attachment Y documentation participate in the PRA.

On a related matter, OMS believes that MISO needs to continue making changes to the interconnection process to prevent the unnecessary overbuilding of transmission by ensuring proper capacity credit is granted to new generators. The conditional deliverability testing

[6] OMS does not know of any evidence that would support the existence of such a problem in MISO.

process needs to be updated to ensure that new thermal generation, with an executed GIA, will receive credit for capacity that is deliverable to the grid during the summer peak.

Winter Resource Adequacy

Turning the focus toward the future, consider winter readiness and resource adequacy impacts to winter readiness while addressing the following questions:

1. Are the current resource adequacy processes sufficient to address the recurrence of an extreme weather event? What gaps exist, and to the extent that you believe gaps exist, what measures can be taken to address them?

The current resource adequacy processes may need to be modified slightly in order to address the recurrence of an extreme weather event. The seasonal construct discussed in response to question 1-b in the first section is a modification that can account for variations in fuel availability or firmness, demand side resource availability, and common cause failure modes. These assessments can then be used to consider potential changes in operating procedures or incorporated into probabilistic resource adequacy models.

2. From the resource adequacy perspective, what is your sector's evaluation of the resource investment needed to minimize the impacts of these low-probability, high-risk events?

This situation is known as High Impact Low Frequency (HILF) event. The "risk" is the probability of the event multiplied to the consequence (cost, damage, etc.) Without delving deeper into risk mitigation and the management of moving the severity curve, let it be noted there are different techniques to reduce the severity of such independent weather events. Our sector believes that instead of just investing more in generation or transmission for HILF events, MISO should enhance unit operations and market rules with modifications. This is to address very few hours of the year that have high, cumulative consequences. To address forced outages, for example, additional units can be brought online at minimum output levels to ensure that adequate capacity is available. In addition, units that experienced start-up trouble during the winter of 2013-2014 could add insulating materials and may already be making these changes in response to past events. Some are changing generation crew locations temporarily. MISO could also coordinate intra- and inter-regional flows in preparation for extreme weather, accounting for the geographic reach of the event. This is sort of a mutual aid to prevent the cascading of power delivery failures brought on by generally predictable locations and conditions. The specifics are random by site and failure mode and all utility investments can be set to back each other with the likely local failures. We do not need to over build to events that are not likely to happen in the equipment's lifetime. Depending on the primary failure modes, different procedures can mitigate secondary failure modes.

The OMS is aware of the "Pay for Performance" concept that is now in place for ISO New England and has recently been proposed by PJM ("Capacity Performance"). Since these are new ideas aimed at robust forward capacity auctions, it is premature to judge their value today as applied to MISO. As the MISO Board of Directors is aware, these two eastern RTOs contain mostly restructured states while MISO has mostly traditionally regulated states, so a tool for the eastern RTOs may not be the right solution for MISO. As these forward capacity markets

continue to mature, their relevance to MISO states may become more appropriate, but at this time these tools are not applicable.

Impact of changing resource mix on resource adequacy

Several contributing factors are leading the MISO footprint into a period of significant resource changes. These factors include:

- Environmental regulations
- Integration of the southern region
- Renewable portfolio standards
- Fuel-cost changes
- Seams coordination

The most notable change is the retirement of coal-fired generation resources that are being replaced in part by natural gas-fueled generation. This has also increased the focus on demand side management implementation during events, allowing load to be reduced to supplement generation-based resource adequacy.

1. With resource adequacy in mind, what activities or processes can MISO facilitate and/or implement to maintain and improve reliable operations during this evolution?

OMS believes that MISO can form special task teams with Subject Matter Experts to facilitate knowledge for all stakeholders, related to risk assessment during this period of uncertainty.

Stakeholders could increase their understanding of neighboring regions and their operations, planning assumptions, and business models. For instance:

- How is their system modeled? – examine the reasonableness of assumptions of capability of generation, transmission, and demand side programs;
- Understand the neighboring regions joint operating agreements with MISO.

2. What hurdles do you see as MISO's members prepare and respond to this evolution?

The main hurdles that OMS sees are the uncertainty surrounding the implementation of the Clean Power Plan and the build out of the necessary natural gas infrastructure. With states having the flexibility to choose their own implementation plans, generator dispatch may be complicated by differences between individual state emission reduction needs.

3. Is your sector concerned that the change in fuel mix poses a risk to reliable operation of the transmission system? If so, why, and what, if anything, should MISO do to reduce the risk?

The change presents a challenge but it is manageable with transparency of planning of generation (including how gas is procured), DSM programs, and intra- and inter-RTO transmission. The speed at which the fuel mix changes occur will be directly related to the amount of risk to reliable operation of the bulk power system.

Organization of MISO States

www.misostates.org

Organization of MISO States
Statement of Principles for Demand Resources

The Organization of MISO States (OMS) supports a well-functioning wholesale power market in the MISO region and agrees that engagement by customers, the demand side of the market, is vital to this objective.

In promoting this objective, the OMS recognizes:

1. MISO's tariff, Business Practices Manuals, and other attachments should support the state commissions' responsibility in the setting of rules and conditions of service for retail demand response programs; and

2. MISO's tariff, Business Practices Manuals, and other attachments should provide flexibility to Load Serving Entities (LSE) so that they may offer retail demand response resources into the markets in a way that preserves both state and regional interests.

Values

Robust participation on the demand side of the market can work in real time to signal that a reduction of some electric use is more valuable than the dispatch of more expensive supply. The OMS identifies some key values that flow from an active demand side:

1. Lower costs for safe and adequate electric service to all customers;

2. Customer awareness of the cost of electricity, especially at times of peak demand and low reserves, as well as awareness of options to respond and reduce costs;

3. Reduced volatility in power prices;

4. More efficient signals for generation and transmission capacity as well as for demand side resources, including demand response, energy efficiency, and distributed generation;

5. Efficient resource adequacy assurance;

6. Efficient maintenance of system reliability;

7. Diminished potential for generators to exert market power;

8. A cleaner electric system; and

9. Delayed or avoided new electric generation.

Demand resources are everywhere since many customers from all customer classes can participate in demand response if given a reasonable opportunity. Unfortunately, many of these demand resources are currently only prospective resources because of barriers to their active participation in the market. Demand resources represent a broad category of options potentially available to customers, including demand response, energy efficiency, distributed generation and dynamic or time-based rate options. The states also recognize that the system value of demand response may be enhanced for all participants if demand resources are developed and offered in all states. Analysis to test this premise should be developed with cooperation from MISO and OMS.

Principles

The OMS accepts the following as principles for use in other applicable venues, and the OMS expects that these principles will evolve over time:

1. **Wholesale electric markets function better with an active and engaged demand side**;

2. **Markets should recognize and assure economic value** from real-time load reduction actions, especially in congested areas, through material payments to market participants and customers, as appropriate, that enable the response to occur;

3. **MISO and state regulators should analyze and make apparent the value of investments in demand resources** to reduce costs to consumers and increase reliability and environmental quality;

4. **MISO should respect states' jurisdictional role** in determining how customers may participate in demand response programs;

5. **Regulators (and lawmakers, when necessary) should remove inefficient institutional barriers** to demand response and other demand resources, both at the state level and in all the markets that MISO operates, including ancillary services;

6. Market rules and tariffs should **enable cost-effective demand response enrollment and participation,** and all demand resource market participants, to the extent possible, should be subject to equivalent registration and technical requirements as any other resource in a MISO market;

7. **Legacy load control and interruptible tariffs**, largely designed in a pre-organized market framework for purposes defined by individual states, will continue and may be more valuable if they are consistent with a well-functioning wholesale electric market; however, legacy programs shall not be required to participate in the MISO market;

8. **Regulation should enable and encourage those business structures and relationships** that facilitate and promote demand resources; however, such encouragement does not imply the subsidization of demand resources;

9. **The environmental effect** of demand response that involves behind-the-meter generation should not be unduly negative; and

10. **Ongoing education and dialogue** among stakeholders to achieve progress on these principles will continue to be important.

The OMS calls on MISO to: 1) maintain a commitment to improving its market design procedures that affect demand response; 2) assess and reflect the value of demand resources in its MISO Transmission Expansion Planning (MTEP) process; and 3) take what steps it can to enable OMS states to improve demand response programs under their individual state jurisdictions.

The OMS expects a well-functioning demand side of the MISO wholesale electric market will benefit all market participants, including non-participating customers, and will address expectations for efficient market performance by federal energy regulators.

History

- Originally adopted by the OMS Board of Directors November 8, 2007
- Amended February 20, 2015
    - The Arkansas Public Service Commission, Louisiana Public Service Commission, Mississippi Public Service Commission, and the Public Utility Commission of Texas abstained from this vote.

DRAFT: Price Formation in Energy and Ancillary Services Markets Operated by Regional Transmission Organizations and Independent System Operators

The Organization of MISO States (OMS) appreciates the opportunity to offer comments in FERC Docket AD14-14-000 Price formation in Energy and Ancillary Services Markets Operated by Regional Transmission Organizations and Independent System Operators. Below are the OMS comments on offer caps, settlement intervals,

ISSUE 1: Offer Caps

a. Should the $1,000/MWh offer cap be modified?

i. If the offer cap is modified, what form should the offer cap take? For instance, should a modified cap be set at a level greater than the current $1,000/MWh cap and apply even if a resource has costs greater than the new cap or should the offer cap be replaced with a structure that allows offers at the higher of marginal cost or the existing $1,000/MWh cap? Should it be a fixed cap or a floating cap that varies with the price of fuel (e.g., natural gas)? If a modified cap were set as a fixed offer cap, what should the new offer cap be? What should be the basis for determining the fixed offer cap?

ii. If the offer cap should not be modified or set such that marginal costs could be greater than $1000/MWh, how should the Commission ensure that suppliers with costs greater than the cap have the opportunity to recover those costs?

iii. Do the real-time and day-ahead market clearing processes allow sufficient time to verify the cost-basis of the marginal resources that exceed the offer cap? Does the settlement process allow sufficient time to verify costs of resources that receive uplift associated with offers that exceed the offer cap?

b. What are the advantages and disadvantages of having offer caps be set at the same level across all RTOs/ISOs? Would different offer caps across the RTOs/ISOs exacerbate interface pricing issues at RTO/ISO borders? If so, how? Would an offer cap that takes the form of the higher of marginal cost or $1,000/MWh create the same issues as setting different offer caps across RTOs/ISOs?

c. What impact would adjusting the offer cap have on other aspects of RTO/ISO price formation (e.g., mitigation rules or shortage pricing rules)? Would other market rule changes be necessary if offer cap levels were adjusted? Do other challenges associated with modifying offer cap rules exist? If so, what are they? If offer cap rules are adjusted, how quickly could RTOs/ISOs incorporate adjusted offer cap rules into their software and the market clearing process?

d. Should the same offer cap that applies to generation also apply to load bids? What are the advantages and disadvantages of applying an offer cap to load bids?

As FERC is aware, the current offer caps reflect a careful balance of federal and state policy interests on generation, dispatch efficiency, and limiting LMP price volatility to protect consumers from unjust and unreasonable price spikes. However, natural gas prices during the winter of 2013-2014 created a circumstance where the current generic $1,000/MWh cap on energy offers may have been insufficient to allow natural gas-fired generators to recover their costs when natural gas prices spiked due to supply constraints. To ensure supply adequacy during these extreme events, it is appropriate to consider removal or upward adjustment to the cap. However, the discussion around lifting offer caps must be first and foremost based on FERCs ability to prohibit any exercise of market power to be reflected in electric energy market offers. Each energy market offer should reflect generating unit specific costs for the interval that the offer is made. To reach this ideal state, FERC needs to have confidence not only that the RTOs and the Market Monitors are mitigating the exercise of market power in the RTO's electric energy market, but that the prices for each generator's input costs (e.g., natural gas) are established in a competitive market so that market power in those inputs does not find its way into the generator's electric energy market offer. If this ideal state can be assured, there would be no need for arbitrary caps on energy price offers in RTO energy markets.

Without such confidence and assurances, the industry will be subject to the vagaries of market manipulation witnessed in California over a decade ago that would be devastating to consumers and utilities. Furthermore, lifting the cap could implicate numerous other issues such as the need for independent resource adequacy constructs in the RTOs that match state regulatory models and the use of centralized capacity markets, bilateral contracts, or LSE self-build obligation to serve requirements in retail regulated states. OMS would not support any construct that alters the resource adequacy construct within the RTOs.

To the extent that current rules and practices do not, or cannot, prevent all exercises of market power in electric energy offers or in the markets for inputs into the production of electrical energy (e.g., natural gas) so that a cap on energy price offers is necessary, the cap must be established at a level sufficient to enable all generators to recover legitimate unit marginal costs for the market interval at issue. An energy offer cap need not be constant through the year if generator costs vary throughout the year, or if the potential for market power in either electric energy prices or generator input prices varies throughout the year. Ideally, any cap established would apply to not only MISO but also other MISO seam partners so as to foster an integrated dispatch across the respective RTOs. Please note that OMS does not support the recovery of legitimate generating unit marginal costs through uplift. All legitimate generating unit marginal costs must be allowed to be reflected in the locational marginal price.

Existence of an offer cap at any level, however, should not in any way reduce the vigilance of the RTOs and IMMs to prevent the exercise of market power in electric energy markets. Nor does it mean the FERC need not be concerned with trying to prevent the exercise of market power in the markets for electric generation inputs, principally natural gas. Efforts to prevent the exercise of market power must be comprehensive, intensive and ongoing.

ISSUE 4: SETTLEMENT INTERVALS

Staff Questions:

a. What are the advantages and disadvantages of moving to sub-hourly settlements for the real-time market as they relate to price signals, market efficiency, and operations?

b. What metering and RTO/ISO software changes would be needed to change settlement intervals from hourly to sub-hourly for the real-time market, and how long would these changes take to implement? Are there significant costs to RTOs/ISOs, and to market participants, of such changes? Are there any other impediments to adjusting settlement intervals?

c. What are the advantages and disadvantages of changing from hourly to sub-hourly settlements in the day-ahead market?

Proposed OMS Response:

While there are some potential advantages from moving to sub-hourly settlements, any such move should be undertaken only if benefits outweigh the costs. The technological requirements are an important cost consideration of such a move.

The MISO IMM has placed a high value on the potential benefits of moving to five minute settlements in the 2013 MISO State of the Market Report. (Chris add)In the current MISO market design, MISO initiates dispatch signals for internal generation every five minutes, MISO also produces 5 minute LMP prices, including interfaces. MISO's settlement process however, is settled on an hourly average basis using the average of the five minute prices that are produced. This can create some inconsistent pricing signals and potentially inefficient market outcomes. Because of a potential difference between the dispatch signal and the predicted hourly settlement prices, generators may have an incentive to deviate from dispatch instructions or provide inflexible offers. Scheduling of energy transaction between regions through interchange transactions can also be affected by this inconsistency between the five minute prices and hourly average settlements as well. F five minute pricing can sometimes cause volatility and large swings in inter-regional interchange transactions being scheduled. The hourly average price signal that those interchange transactions are settled upon there cause inconsistencies resulting to incomplete information for market participants attempting to schedule interchange transactions and which in turncan result in market inefficiency.

If MISO were to move to sub-hourly settlements these inefficiencies could be reduced and the market settlements would more closely align with the five minute price signals. This improved alignment of the pricing and dispatch with settlement would allow more predictable outcomes and less volatility. It would also reduce inflexibility and increase the incentive for resources to not follow dispatch instructions more closely. More flexible and quicker responding units would also benefit from shorter interval settlements that would recognize and reward their value more closely than the current hourly average settlements.

While there are some potential advantages from moving to sub-hourly settlements, any such move should be undertaken only if benefits outweigh the costs. Technological requirements are

an important cost consideration of such a move.

ISSUE 5: NEW PRODUCTS TO INCENT FLEXIBILITY

Staff Questions:

a. How do RTOs/ISOs currently ensure that they will have sufficient flexibility during real-time? Specifically, to what extent are residual unit commitments used to acquire anticipated needed flexibility?

b. How are flexible resources compensated for the value that they provide to the system? Does that compensation reflect the value? Why or why not? If compensation to flexible resources does not reflect their value, how should RTOs/ISOs compensate flexible resources for the service they provide?

c. What are the tradeoffs between sending a price signal through a short-duration shortage event versus establishing a ramping product that is priced separately?

d. What are the tradeoffs among procuring flexibility through unit commitments (e.g., headroom requirements) rather than through the ten-minute reserve products or through ramp products?

e. Does allowing combined-cycle natural gas resources to submit different offers for different configurations facilitate more efficient price formation? What are the advantages and disadvantages to generators of bidding these configurations?

Proposed OMS Response

5.c. OMS supports the establishment of a ramping product that is priced separately. We believe this is a better approach than sending a price signal during the short duration of a shortage event which can lead to increased price volatility as generators over react to sharp price spikes. A properly designed ramping product will reward units that provide needed flexibility, rather than provide windfall profits for units that happen to be in the market during the short-duration shortage event. With the expected changes to the generation portfolio and greater reliance on intermittent generators, creating the right incentives for flexible resources is crucial and RTOs are already working on new products to

address this need.

However, this is an area that FERC should not standardize, but rather allow RTOs to develop region-specific solutions with their stakeholders and market participants. MISO, for example, is in the early stages of developing a new ramping product. It is in the early stages of implementation. There is inadequate experience to support a similar product in other RTOs which face different challenges. The ability to realize full revenue opportunities consistent with the value that energy storage can provide needs to be addressed, but this is still a work in progress.

Issue 9: Shortage Prices

In the questions below, the term "shortage pricing" refers generically to any pricing action taken in response to a shortage event. Not all RTOs/ISOs use this phrase in the same way. In responding to the questions below, please define terms and distinguish between "shortage pricing" and "scarcity pricing," if such a distinction is intended.

a. What principles should be used to establish shortage price levels? Should there be one price for any shortage or a set of escalating prices for greater levels of shortage? Is it important to have shortage price levels consistent across adjacent RTOs/ISOs to avoid seams issues?

The "shortage pricing" should be used to send a price signal to establish a proper incentive for the supplier and consumer "at the time of crisis". The price can be a step increase based on NERC Energy Emergency Alert levels.

"Shortage pricing is not a price signal for long term planning. In MISO, with the exception of Illinois, long term planning is informed through the states' resource planning process not through "shortage pricing".

b. What are the advantages and disadvantages of implementing shortage pricing in the day-ahead market as well as in the real-time market? If shortage pricing is established only in the real-time market but not in the day-ahead market, are other policies needed to facilitate price convergence between the day-ahead and real-time markets during periods of shortage? If so, what are these other policies? If not, why not?

The "shortage pricing" event should be a very rare occasion. Under this assumption, the convergence of day-ahead and real-time markets may not be a significant issue. The risk of market manipulation from increased complication of the market design may outweigh the potential benefit of price convergence between the day-ahead and real-time markets during periods of shortage.

ISSUE 10: TRANSIENT SHORTAGE EVENTS

Staff Questions

a. Should there be a minimum duration for a shortage event before it triggers shortage pricing? Why or why not? How would one determine that minimum time, and how does it relate to the settlement interval?

b. Do RTO/ISO rules regarding transient shortage events result in appropriate price signals? Why or why not? To the extent possible, please provide empirical evidence supporting your answer.

c. Should treatment of transient shortages be consistent across all RTOs/ISOs? Why or why not?

Proposed OMS Response

10.b A price signal is meaningless for very short transient conditions that are in the process of being resolved by system operators. A transient shortage condition will be over before market participants can respond to the higher price. In fact, if market participants react to the short-term price signal, the result is over-generation in subsequent intervals and price volatility. Triggering shortage prices in these situations provides windfall profits to generators already in the market, putting unnecessary cost burden on customers.

Issue 11: Interchange Uncertainty

While we do not have answers on what RTOs/ISOs can specifically do to reduce uncertainty, we do believe more must be done. It is too early to judge whether the CTS implementation between NYISO and PJM will work for PJM and MISO. As was discussed during the FERC meeting on 1/22/15, the general consensus among the meeting participants is that interface pricing is an issue that must be solved. The problem is that the magnitude of the issue has not been appropriately quantified and stakeholders have not been able to come to an agreement. MISO and PJM have formed a joint technical small workgroup to discuss the interface pricing issue. The meetings that have been held to date have been useful and should be continued. However, the group has not yet come to any agreement on recommendations to present at the overall MISO/PJM Joint and

Common Market meeting.[1]

[1] The Public Service Commission of Wisconsin suggests that interchange optimization and interface pricing are appropriately dealt with between the RTOs with stakeholder involvement, but we would like to see a timeline that includes milestones from the RTOs for plans to specifically address the issues and come to a resolution. If they are not able to come to a resolution by the deadline, it would then be time for FERC to step in and provide specific direction

TO: Laura Rauch
FROM: OMS Board of Directors
DATE: 2/20/2015
RE: LRZ Reevaluation- Trigger Feedback

The Organization of MISO States (OMS) submits the following comments in response to MISO's request for input to its proposal to add "state request for reevaluation" to the Reevaluation Triggers material presented in the February 4th and 5th Loss of Load Expectations Working Group and Supply Adequacy Working Group meetings. The OMS appreciates this opportunity to comment.

On October 30, 2014, MISO introduced principles and considerations behind reevaluating Local Resource Zone (LRZ) boundaries. MISO stated that the issue arose during its evaluation of two stakeholder requests to reevaluate the existing LRZ configuration within MISO. Now, MISO is looking to formalize an LRZ reevaluation process in the BPM that can be used as a guide in future scenarios. In various stakeholder discussions concerning this topic, MISO and other stakeholders have acknowledged that state and local jurisdictions hold authority over resource adequacy and are charged with ensuring electrical service is delivered in a reliable and cost-effective fashion. MISO went on to state that it believed a state request to evaluate the current LRZ boundaries at any given time should trigger such a study by MISO.

Under MISO's current Tariff, LRZs are used for a variety of purposes, but perhaps most importantly, they are used in MISO's resource adequacy and transmission planning processes. In the vast majority of MISO, state and local authorities have plenary and exclusive jurisdictional authority over resource adequacy. In the same vein, they have significant influence over transmission planning, both individually (e.g. siting) and collectively (e.g., OMS's Tariff-derived authority in the MTEP process). Therefore, given the impact of LRZs have on state and local prerogatives, the OMS RWG agrees that state and local jurisdiction requests should be strongly considered by MISO when deciding to initiate an LRZ boundary reevaluation.

Before proceeding forward, the OMS asks MISO to discuss the timeline of what should occur once a state or jurisdiction makes a request for LRZ analysis. The timeline should include:

- A formal notification to the stakeholders and states and local jurisdictions that such a study is about to be commenced;
- After the analysis study is final, the results should be made public and comments requested from the MISO stakeholder community

Furthermore, before moving forward, MISO should discuss with stakeholders how it would treat state and local regulators opposition to another regulators' study request. For instance, assume Jurisdiction A - which is included in LRZ Z with Jurisdictions B and C – asks MISO to study splitting Jurisdiction A into its own LRZ, LRZ A. How would MISO weigh opposition from Jurisdiction B or C when deciding whether it should study splitting Jurisdiction A into its own LRZ? Likewise, assume Jurisdiction D - currently within its own LRZ, LRZ D – requests MISO study combining its LRZ with LRZ E, an LRZ comprised exclusively of Jurisdiction E. Again, how would MISO weigh this opposition by Jurisdiction E?

To be clear, the OMS does *not* believe a state request should trigger an immediate change in LRZ boundaries. Rather, such a change could occur only after MISO (a) conducts a study to evaluate the impacts the change may have upon entities within and outside the proposed reconfigured zone(s), (b) presents the findings to stakeholders for discussion, and (c) since LRZ boundaries are codified in the Tariff, files for and receives FERC approval.

Transmission Cost Allocation Work Group Report
For February 19, 2015 OMS Board Meeting
Co-Chairs: Randy Rismiller and Bert Finzer

The Commission recently issued several Orders addressing MISO Transmission Cost Allocation/Rates issues. The following sections summarize those Orders. The TCAWG plans to try to bring recommendations to the Board on Issues I and II below.

I. ER10-1791-003: ORDER ESTABLISHING PAPER HEARING PROCEDURE

On July 15, 2010, MISO and MISO TOs filed proposed revisions to the MISO Tariff seeking, among other things, to allocate the costs of MVP projects to load within MISO and to exports from MISO on a postage stamp basis. Following consideration of comments and protests, the Commission issued an order finding the proposed MVP process to be just and reasonable. However, the Commission found that MISO could not allocate costs of the MVP projects to export transactions that sink in PJM because doing so would violate Commission precedent prohibiting rate pancaking along the PJM-MISO seam. Rate pancaking is the practice of charging multiple through and out rates to a single transaction passing through more than one zone.

Multiple parties sought rehearing and/or clarification of multiple aspects of the MVP Order. On October 21, 2011, the Commission issued an order denying the petitions regarding the PJM issue. The Commission held to its position that MISO's proposal to allocate MVP costs to transactions sinking in PJM was contrary to Commission precedent eliminating rate pancaking. The Commission, however, stated that it did not prohibit MISO from seeking to allocate costs to PJM loads through a Section 205 filing "in a manner that does not involve an impermissible resumption of pancaked rates and is in accordance with cost causation principles."

A number of parties appealed various aspects of the MVP and Rehearing Orders, including the PJM cost allocation issue. In its decision, issued June 25, 2014, the Court of Appeals remanded to the Commission the determination on export pricing to PJM for further analysis.[1]

On January 22, 2015, the Commission issued its Order Establishing Paper Hearing Procedure, setting a 45-day period for parties to submit comments on, "in light of current conditions, what if any limitation on pricing to PJM for MVPs by MISO is justified."

On February 6, 2015, numerous parties requested the Commission to extend the comment deadline from February 21, 2015 to April 22, 2015.

The TCAWG plans to hold conference on this issue in the coming weeks in an attempt to develop a recommendation or recommendations for the OMS Board's consideration.

[1] *Illinois Commerce Commission v. FERC*, 721 F.3d 764 (7th Cir. 2013).

II. ER13-1943-000 and 001 : ORDER ON COMPLIANCE FILINGS

FERC issued its *Order on Compliance Filings*[2] on December 18, 2014 addressing the MISO/PJM Order 1000 inter-regional compliance filings. In the December 18 Order, FERC rejected in part and conditionally accepted in part, subject to further compliance filings, the MISO and MISO TOs' compliance filing and MISO Attachment FF revisions. FERC also conditionally accepted the PJM compliance filing and the PJM TOs' compliance filings, subject to further compliance filings.

MISO and PJM had submitted competing provisions regarding certain elements of interregional cost allocation. FERC ordered MISO and PJM to develop a common interregional cost allocation method or set of methods that apply to inter-regional reliability projects and to public policy driven projects.[3]

FERC set June 16, 2015 as the deadline for PJM and MISO to submit their compliance filing(s).

In its earlier filings in this case on the issue of inter-regional reliability project cost allocation, the OMS was divided between either adopting the voluntary cost allocation approach that MISO had advanced or retaining the current tariff approach as supported by PJM.

The TCAWG expects to revisit these debates in the coming weeks in an attempt to make a recommendation or recommendations to the OMS Board.

III. Summary of Recent FERC Orders Regarding MISO Formula Rate Protocols

A. ER13-2379-001: ORDER ON REHEARING AND CLARIFICATION

The OMS sought rehearing of several FERC orders issued on March 20, 2014 wherein, the FERC accepted the compliance filings of MISO TOs regarding MISO's protocols for formula rates.[4] On January 22, 2015, the FERC denied rehearing of these orders, as summarized below.[5]

(1) The OMS argued that the FERC erred in allowing the revised formula rate protocols to become effective on January 1, 2014, rather than the refund effective date of May 23, 2012, which was established in the Commission's May 17 Order.[6]

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[2] *PJM Interconnection, et. al.,* 149 FERC ¶ 61,250 (2014)("December 18 Order")

[3] D*ecember 18 Order* at PP 193-194.

[4] See, e.g., *March 2014 MISO Order*, 146 FERC ¶ 61,212 at PP 58-73, 103-115; *March 2014 NIPSCO Order*, 146 FERC ¶ 61,211 at PP 28-37, 53-64; *March 2014 Southern Indiana Order*, 146 FERC ¶ 61,210 at PP 58-73, 103-115.

[5] *Midcontinent Independent System Operator, Inc.* 150 FERC ¶ 61,024 (2015)

[6] *Midwest Independent Transmission System Operator, Inc.,* 139 FERC ¶ 61,127 (2012)

The OMS also argued that the issue at hand was whether the charges produced by the formula rates that were in effect under the MISO tariff during the period May 23, 2012, and December 31, 2013, were possibly unjust or unreasonable.

The FERC denied the OMS arguments on the grounds that: (1) the formula rate protocols provided under the tariff were found to be insufficient to ensure just and reasonable rates and mandated changes to the formula rate protocols;[7] (2) it was neither necessary, nor practical, to require application of the revised protocols as of May 23, 2012, because it would be impossible to re-run the full protocols process for past periods;[8] (3) nothing in prior orders alters the rights of any party to challenge the prior years' annual updates under section 206 of the FPA;[9] (4) the FERC has authority to order refunds of charges assessed pursuant to those prior years' annual updates to the extent those are found to have occurred;[10] and (5) the establishment of the refund effective date does not require the FERC to order refunds as of that date; rather, the FERC has broad equitable discretion in determining whether and how to apply remedies in any particular case.[11]

(2) The OMS also requested that the Commission clarify that the revised formula rate protocols apply to both transmission owners that are currently employing formula transmission rates and to those transmission owners that are initially establishing a revenue requirement under the MISO formula rate process.

While the FERC dismissed the OMS' request for clarification, it did state an expectation that all formula rate updates, including initial rates calculated by a TO after January 1, 2014, will be subject to review and challenge procedures consistent with the FERC's determinations in these proceedings.[12] The FERC continued, stating that newly joining TOs, or TOs proposing to adopt a new formula rate, should propose a plan to apply the protocols to the calculation of its initial rates when MISO makes a filing revising the tariff to reflect the inclusion of the new formula rate in the MISO Tariff.[13]

B. ER13-2379-002 and 003: ORDER ON COMPLIANCE FILINGS

On May 19, 2014, MISO and the MISO TOs made compliance filings to the FERC in response to an order issued by the FERC on March 20, 2014. On June 13, 2014, the OMS submitted comments to FERC regarding the TOs' compliance filings. The FERC's response to the OMS' comments in the January 22 Order is summarized below.[14]

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[7] January 22 Order, at P 12.
[8] January 22 Order, at P 12.
[9] January 22 Order, at P 12.
[10] January 22 Order, at P 12.
[11] January 22 Order, at P 13.
[12] January 22 Order, at P 16.
[13] January 22 Order, at P 16.
[14] *Midcontinent Independent System Operator, Inc.* 150 FERC ¶ 61,025 (2015)

(1) A formal challenge need not have been preceded by an informal challenge on the same issue, but must have been preceded by an informal challenge on some issue ("any issue").

(2) A party submitting a formal challenge cannot be required, as a condition for submitting the formal challenge, to explain why it did not pursue an informal challenge on the particular issue on which it seeks to pursue the formal challenge.

The FERC granted the OMS' request to require the MISO TOs to add language which states that an interested party must submit an informal challenge on *any issue* to submit a formal challenge. The FERC also found that the proposed modification will lend clarity to interested parties that the subject of formal challenges does not need to be the same as an interested party's previous informal challenge. MISO TOs were required to revise their formula rate protocols, in a compliance filing due within 30 days of the date of the order.[15]

(3) Because using the process for challenge specified in the protocols to pursue challenges to the filed rate formula itself is not permitted, clarifications are needed so that challenges are properly focused on alleged violations of the protocols or the application of the rate formula, rather than the rate formula itself.

The FERC rejected the OMS' request on the basis that it may confuse this point by creating a circular reference and that any misapplication of the formula is a violation of the rate.[16]

(4) Formula rate protocols cannot bar statutorily permitted Section 206 complaints and protocol language that obscures this right is inappropriate.

The FERC rejected the OMS' proposal to add a sentence to the formula rate protocols which would clarify that the protocols do not restrict an interested party's ability to file a complaint pursuant to Section 206 of the FPA, because the terms of the protocols already sufficiently preserve this right.[17]

(5) Existing tariff protocol language regarding "construction schedules and in-service dates" that the Commission had previously approved was improperly deleted.

The FERC disagreed with the OMS' assertion that certain language deleted from some of the TO's protocols was improperly deleted and should be restored. FERC found that informational filings submitted by TOs with forward-looking rates must contain information necessary to review the reasonableness of projected costs, which includes the expected construction schedules and in-service dates identified by the OMS. On that basis, the FERC found that the deleted language identified by the OMS is redundant, with respect to the proposed informational filing requirements, and its restoration unnecessary.[18]

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[15] January 22 Order, at P 49.
[16] January 22 Order, at P 54.
[17] January 22 Order, at P 50.
[18] January 22 Order, at P 21.

OMS Markets and Tariffs Work Group January 2015 Report

1. Highlights from the February 3, 2015 MISO Market Subcommittee Meeting:

   A. MISO-SPP M2M status update. MISO and SPP are working together to work toward the go-live date of March 1, 2015

   B. ELMP will go live on March 1, 2015. .

   C. On December 12, 2014 FERC issued an order in ER14-2445-001 (Hurdle Rate docket). MISO and IMM filed request for rehearing. On February 11, 2015, FERC issued an order granting rehearing for further consideration.

2. Highlight from the February 11, 2015, Financial Transmission Rights Working Group:

   A. MISO presented new FTR metric for Markets Committee of the Board of Directors. WPPI proposed alternative metric and opposed the proposed new metric.

For those interested, please note the following MISO meetings:
MISO Board of Dirs Markets Committee – monthly meetings (2/25 next mtg)

MISO Market Subcommittee - monthly meetings (3/3 next mtg)

MISO FTR Working Group – monthly meetings (3/11 next mtg)

The **OMS Markets and Tariffs Work Group** covers: Energy and Operating Reserve markets, Market Monitoring and Mitigation. See
http://www.misostates.org/index.php/work-groups-2/workscopereference/63-markets-a-tariffs-workscopereference
http://www.misostates.org/images/stories/meetings_schedules/OMSWGOverview21May2014.pdf

Allan Freeman and Hwikwon Ham, Markets and Tariffs Work Group co-chairs

Resources Work Group Report
Don Neumeyer
For February 20, 2015 OMS Board Meeting

OMS Resources Work Group

Report for February 20, 2015 Board meeting

Co-Chairs: Don Neumeyer and Walt Cecil

February AC Hot Topic

The February 2015 Hot Topic is Resource Adequacy in the MISO footprint. The topic was divided into three separate issues with multiple, target questions for responses in each section. The three sections were:

- Footprint wide RA transparency and process
- Winter Resource Adequacy
- The Changing Resource Mix

The Resources WG has supplied a draft response for review at OMS Board's Feb. 20th meeting. The AC meeting's discussion will be February 25th in New Orleans.

SAWG/LOLE WG comment

At the February 4th LOLE and 5th SAWG MISO presented information on the concept of reevaluation triggers for Local Resource Zone boundaries. MISO asked for comments by the stakeholders. At SAWG each state can make a comment if they so desire. However, the Resources WG staff felt a common response was justified on this topic. Basically the response states that an individual State can an initiation of a review request. The Resources WG has prepared a response. This response is offered to the Board for review if they want to endorse it as an OMS Board response instead of the Resources WG. This is an agenda item for the Feb. 20th Board meeting.

MISO Fuel Assurance

FERC directed each RTO/ISO to file a report on the status of its effort to address market and system performance associated with fuel assurance. This is due Feb. 18th. MISO asked the OMS States to fill out individual survey on their respective efforts on this topic. The response were collected by OMS by Feb. 4th for a combined return to MISO for their use. MISO will supply back to OMS a summary report of the State's efforts.

Upcoming Items:

- SAWG Mar.5
- LOLE Mar. 4

End of report: DGN

OMS Regional Planning Work Group Report for February 19 Board meeting

Co-Chairs: Dave Johnston and Julie Urban

The RPWG held a joint meeting with the TCAWG and the Seams WG. We discussed feedback on the MTEP16 Futures, the Independent Load Forecast (ILF) and modelling of the Clean Power Plan (CPP). Randy Rismiller presented an overview of the FERC Order 1000 Compliance filing focusing on cost allocation for Cross Border Baseline Reliability (CBBRP) and Public Policy Projects. Randy also presented an overview of the FERC paper hearing on the PJM export charge for MISO MVPs.

MTEP16 Futures Feedback:

The Regional Planning Work Group (RPWG) sent comments on the MTEP16 futures. The WG supported the Bentek NG prices, and recommended age related retirements for all generation types for all futures. However the WG suggested no additional age-related coal retirements for the High Growth Future. The WG supported the Lazard starting price for both wind and solar with a 1%/yr decrease for wind and a 10%/yr decrease for solar over the next five years.

Suggestions on Scope for Independent Load Forecast:

The RPWG recommended three areas of focus: econometric diagnostics and remedial measures, development of confidence intervals for macroeconomic variables and the modeling of block load additions in the south. The RPWG requested a historical time series of MISO actual and Module E forecast of peak load and scatterplots by LSE without identification of the LSE.

CPP:

MISO provided and overview of the Phase III Study Scope of the Clean Power Plan (CPP). Phase III will include state level modeling and incorporate cost and construction for gas and electric infrastructure build-out. MISO plans to use PLEXOS because it allows for state-level CO2 targets and gas infrastructure modelling. Analysis will occur Mar-June and Report Writing May-July. The RPWG will send in a comment on the use of PLEXOS and our concern over the lack of stakeholder experience with PLEXOS.

OMS Planning Authority:

Concern over the interpretation of BPM language by some MISO staff on the timing of the OMS request for supplemental analysis was raised after a meeting between MISO staff and RPWG members on the futures. David Johnston and Julie Urban are working on BPM edits to address the confusion. The Tariff allows for assessment and suggestions for improvement at the end of the two year period (June 2015).

Transmission Developer Qualification and Selection (TDQS) process:

The TDQS met on February 12 and MISO continues to work on tariff and Business Practice Manual (BPM) language, and two legal agreements between MISO and transmission developers. MISO is planning to present the draft tariff/BPM at the March PAC and file any tariff changes in mid-April. It is possible that an open transmission project could come before the MISO Board in mid-June, so the TDQS process could be implemented in the second half of 2015.

MISO is also looking to use April 16 for a workshop on reevaluation, with a focus on cost-shared projects. It could spill over into the morning of April 17 due to a MISO Board System Planning Committee the morning of April 16. MISO is inviting feedback by March. The RPWG will have a call on this.

FERC Activities:

MISO-PJM Interregional Order 1000 (ER13-1945 and others): FERC issued its order for the Interregional Order 1000 for MISO and PJM. Compliance is being discussed in the RECB Task Force. The three work groups discussed the option of OMS comments to MISO on cost allocation methodologies for cross border reliability and public policy projects. There was a discussion of the DFAX methodology used by PJM. The TCAWG will discuss this issue.

Paper Hearing (ER10-1791-003) on whether an MVP export charge should be assessed against transactions sinking in PJM. The WGs discussed the possibility of an OMS filing in the paper hearing. Randy Rismiller will discuss this with Chair Jacobs since the filing is due March 8.