

Wholesale Power Market Platform

Comments of the MISO Public Consumer Group

Executive Summary

We appreciate the opportunity to provide these brief comments on a few issues that have come up in the time that we have been serving as Consumer Advocates on the Midwest Independent System Operator (MISO) Advisory Board. Overall, we have supported the efforts of the Federal Energy Regulatory Commission (FERC) to explore ways to allow competitive forces to develop in the electric market. We've also noted that reliable, reasonably priced electricity is essential not only for the electricity market itself but also for the numerous markets and consumers that use electricity. Some of Minnesota's largest customers have told Minnesota regulators that they need 99.9999 percent reliable power to run their companies. They also need low-cost power to be competitive in their own markets. As issues have arisen before the Advisory Board and FERC, we have relied on these dual goals of reliable, low-cost power.

We also appreciate the efforts that MISO has made in working with States on some of the issues that have developed since MISO became operational. We look forward to continuing to work with the members of the Advisory Board. We also look forward to working with the Organization of MISO States on transmission and related issues.

The following list summarizes the main points in this brief paper. These points are taken primarily from positions we have proposed in various comments to the MISO or the FERC. We support the following objectives:

- Existing firm transmission rights for native-load customers must be maintained, including transmission rights for future load growth.
- Costs to develop this new wholesale market, uplift charges, transmission pricing and costs related to financial transmission rights should be assigned and allocated on a cost-causative basis, not socialized.
- Users of the transmission system should pay fair rates for the cost of their use of the system, regardless of participant type.
- Hybrid transmission pricing (blending of both postage stamp & license plate) should be considered by the MISO and the FERC.
- For reliability reasons, conservative levels should initially be used for purposes of resource adequacy (available generation) at least when the market is first being started. As a result we support maintaining the 15 percent Midwest Area Power Pool (MAPP) reserve requirement as a minimum requirement.

- Demand-response options should be developed as a part of the wholesale power market.
- MISO should begin all of its transmission planning cycles with a "bottoms up" approach that builds on the native-load needs identified within individual and subregional state planning procedures.
- More focused incentives should be used to get transmission built, instead of broad overall increases in return on equity (ROE) for all transmission, including existing facilities.
- Market monitoring and market power mitigation are critical to develop and have in place.

Firm Transmission Rights Allocations

One of the basic principles that we have used in developing our comments on various issues is that native-load customers should be afforded the same transmission rights as they have had for many years. The transmission system has been built to serve the needs of native-load customers, who have consequently been paying for the costs of the system. We have also advanced the principles that any new costs added to the system: (a) should be reasonable and (b) should be allocated to users of the transmission system in a manner that recognizes how users impose costs on the system.

Stemming from these principles, we conclude that firm transmission rights (FTRs) must be allocated to native-load customers first, in MISO's initial allocation of firm transmission rights. This approach recognizes that the transmission system was built for native-load customers who have been paying for this system. Moreover, native-load customers should not be required to participate in the auction. Participation by native-load customers should be on a voluntary basis; alternatively, the approach could be to require only excess transmission capacity to be auctioned.

In addition, native-load customers should receive the actual FTRs based on existing rights, not a prorated amount of transmission rights. Shortage of transmission rights (where MISO determines transmission rights are not simultaneously feasible) should not be allocated to native-load customers since it would reduce their existing transmission rights.

We appreciate and support FERC's most recent comments regarding FTRs in its Standard Market Design (SMD) whitepaper. FERC states, "we want to ensure existing customers retain their existing transmission rights and retain rights for future growth." FERC also states, "the Final Rule will eliminate any requirement that FTR's be auctioned."

We have also heard commitments from MISO that appear to support FERC's comments regarding assurance of the FTR's for existing customers. We support MISO following through with this commitment with input from the various MISO states.

Costs Recovery for Costs to Develop the Market and Costs Related to Financial Transmission Rights

Native-load customers should not be forced to subsidize the wholesale sector from a transmission-pricing standpoint. FERC should promote a policy where cost recovery follows cost causation to the extent possible. Users of the transmission system should pay for their use regardless of participant type. We note that hybrid transmission pricing (blending of both postage stamp & license plate) should be considered. We support the effort to develop better pricing mechanisms.

Costs to develop this new market, uplift charges, transmission pricing and costs related to financial transmission rights must be assigned and allocated on a cost-causative basis. Accomplishing this goal requires unbundling of services that allows for identifying costs related to specific purposes (an example would be the costs to auction transmission rights as a service). The next step is to identify, to the extent possible, which entities have caused the costs to be imposed on the system. For example, costs to auction transmission rights should be assigned to only those customers who use the auction process.

Simply aggregating all costs and dividing over all MWh or all customers would inappropriately socialize costs and give the wrong price signals, which would create a very inefficient market. Inefficiency occurs, for example, when some users are told that the cost of a service is actually lower than it really is, which may encourage them to use the service more than is appropriate. At the same time, assigning costs to those who may not even use the service is unfair and unreasonable.

An efficient market requires assigning the right price to the right service and to the right users of the service. Failure to set the system up in a reasonable manner will create inefficiencies that could cause problems in the market and will likely result in cost shifts to retail customers (based on the proposals we have seen to date).

There are some costs (small percentage) which benefit all customers and should be paid for by all customers. However current proposals tend to fully socialize costs to all customers regardless of use, cost causation or benefits. We have been commenting on these proposals repeatedly, and we hope the message of ensuring reasonable rates for customers will be heard eventually, just as the issue of reliable service for native-load customers appears to be gaining favor.

Resource Adequacy

As noted above, reliability of electric service is a critical issue for electric consumers. As such, conservative levels should be used for purposes of resource adequacy (available generation) at least when the market is first being started. As a result we support the following, at a minimum:

- maintaining the 15 percent Midwest Area Power Pool (MAPP) reserve requirement as a minimum requirement;

- using a 10-year planning horizon for resource adequacy to provide sufficient time for resource development and allow for reliable forecasts of decision variables;
- using penalties for non-compliance, which are severe enough to provide reasonable incentives for market participants to acquire the appropriate resources.

We look forward to working with other states and MISO on this issue to determine an appropriate level of resource adequacy for purposes of the MISO footprint.

Demand Response

We appreciate MISO's continued work to develop demand response as part of this new market. We continue to support the development of demand response as a part of the wholesale power market. While we recognize some of the difficulties that have been raised about coordinating numerous dispersed resources and ensuring that demand-response options can be dispatched in a timely and reliable manner, we think it is important to develop ways to allow for the bid of these demand response resources to be included in the market. We are pleased to see that MISO's workgroup is focusing on addressing some of these and other issues, and we look forward to seeing subsequent proposals from this group.

Transmission Planning

FERC's regional transmission planning concept, and MISO's initial efforts in producing the first Transmission Expansion Plan, should improve our understanding of what investments are needed to develop a functional wholesale market. MISO's early emphasis on reliability and constraint solutions is a positive signal that its planning staff recognizes the operational priorities that also concern state regulators. We continue to expect that MISO will begin all of its transmission planning cycles with a "bottoms up" approach that builds on first meeting the needs of native-load customers, as identified within individual and subregional state planning procedures. Further, we expect that MISO's "next level" efforts to develop transmission expansions principally designed to allow for more market transactions than the system can currently accommodate will involve open consultation with state regulators, administrations and the Organization of MISO States. Such efforts will help to address the range of various state policies.

Incentives for Transmission

We would like to see more focused incentives to get transmission built, instead of broad overall increases in return on equity for all transmission, including existing transmission facilities. Incentives must be designed reasonably to ensure that the money that energy consumers presumably pay provides results that are at least as large as the incentives. For example, the incentives should be designed to be used only where warranted, necessary, and effective to

address the defined problems. Such incentives should be targeted to focus on the specific desired objective (such as getting transmission built and improving efficiency of the transmission system), and to promote behavior that would not have otherwise occurred without the incentive. Incentives that are too broad are likely to needlessly increase rates and promote inefficient behavior.

Market Monitoring and Market Power Mitigation

We believe that market monitoring and mitigation is one of the most important parts of the SMD to ensure that the electricity market is efficient and can deliver its objectives. Effective oversight of the market is necessary to ensure that market participants have sufficient disincentive against taking actions that could manipulate the market. Moreover, it is critical for market participants to have faith in the market. Market monitoring helps enforce the rules of the market that are beyond the scope of the competitive market pressures. Although market monitoring and mitigation is an area in which we have been able to participate only by observing discussions, other parties such as FERC, MISO, Dr. David Patton and other state agencies have done an excellent job in shaping this important tool for a successful market. We continue to support the development of market monitoring and market power mitigation.

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