

Organization of MISO States
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 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 Reliability *First* Corporation (RFC), and the Southeastern 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, including generating capacity and demand resources, are developed and maintained by all load serving entities (LSEs) so they can reliably 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 continue to work on developing a transparent and truly competitive energy market.

OMS Revised Principle Number 2:

All load serving entities (LSEs) should maintain sufficient capacity to meet peak load plus minimum planning reserve margin requirements at all times in order that resource deficiencies will be infrequent. OMS remains skeptical that price signals alone will be sufficient to ensure adequate and timely long-term capacity and demand resource additions. The OMS, at this time, does not endorse a forward-based capacity market operated by the Midwest ISO.

OMS Revised Principle Number 3:

The Midwest ISO must provide non-discriminatory opportunities for all resources including renewable and demand resources and a mix of 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 wide acceptance of reliability standards proposed by the Regional Entities' predecessors. The OMS supports the efforts of the NERC and the Regional Entities within the Midwest ISO to ensure resource adequacy by proposing uniform regional resource adequacy or planning reserve requirements and enforcement procedures. States are then free to rely on such requirements and procedures as a minimum when setting any state reserve requirement.

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.

ADOPTED BY THE OMS BOARD OF DIRECTORS
MAY 10, 2007

The following commissions voted to support these principles:

Indiana Utility Regulatory Commission
Iowa Utilities Board
Kentucky Public Service Commission
Michigan Public Service Commission
Minnesota Public Utilities Commission
Missouri Public Service Commission
Montana Public Service Commission
North Dakota Public Service Commission
Public Utilities Commission of Ohio
South Dakota Public Utilities Commission
Wisconsin Public Service Commission

The Pennsylvania Public Utility Commission does not concur with Principle No. 5. The Nebraska Power Review Board abstained from the vote. The Manitoba Public Utilities Board did not participate in the development of these principles. The Illinois Commerce Commission provided the attached Dissenting Opinion.

**Dissenting Opinion of the Illinois Commerce Commission
Regarding the Organization of MISO States’
Revised Principles for Resource Adequacy**

May 16, 2007

I. Introduction

On May 10, 2007, a majority of the Organization of MISO States’ (“OMS”) Board of Directors voted to approve a document titled, “Revised Principles for Resource Adequacy.” The Illinois Commerce Commission’s (“ICC”) OMS representative—Commissioner Robert F. Lieberman—abstained from that vote on behalf of the ICC.

The ICC now seeks to have its dissenting opinion attached to the OMS’ Revised Principles for Resource Adequacy. The OMS Bylaws permit the attachment of such dissenting opinions. The OMS Bylaws state, “Individual Member authorities retain all rights to object to, support, or otherwise comment on, issue statements of the Organization [OMS], including the attachment of a minority report or dissenting opinion, provided it is submitted in a timely manner.”¹

The ICC supports the goal of resource adequacy as much as any other member of the OMS. Under Illinois law, all alternative retail energy suppliers are required to “comply with all applicable federal, State, regional and industry rules, policies, practices and procedures for the use, operation, and maintenance of the safety, integrity and reliability, of the interconnected electric transmission system.”² Furthermore, provider of last resort service in the Midwest ISO portions of Illinois is being provided pursuant to the resource adequacy standards of the former Mid-America Interconnected Network (“MAIN”).³ Concerns that load serving entities (“LSEs”) in retail access states such as Illinois are not pulling their weight with regard to resource adequacy in the Midwest ISO and are more likely to “lean on the system,” are baseless and lacking any supporting evidence.

The ICC takes no issue with, and indeed supports, most of the content of the OMS Revised Principles for Resource Adequacy. However, the OMS Principles have several shortcomings that fall into the following categories: (1) requiring planning reserves plus operating reserves in the operating day timeframe; (2) the lack of accommodation for load shifting between LSEs in retail access states; (3) failure to treat price responsive demand as a legitimate resource adequacy element; and (4) facilitation of an approach in which prices are not permitted to reflect underlying forward supply and demand fundamentals. These shortcomings would create unnecessary inefficiencies and unnecessary costs should attempts be made to implement the principles.

¹ OMS Bylaws, Section IV.8

² 220 ILCS 16-115(d)(2)

³ See, e.g., Affidavit of Craig D. Nelson, Vice President-Strategic Initiatives of Ameren Services Company and Vice President-Power Supply Acquisition of the Ameren Illinois Utilities in ICC Dkt. No. 06-0715.

The ICC's concerns with these issues are explained in more detail below and an edited version of the OMS Principles is attached as Appendix A to this Dissenting Opinion.

II. Proposed Modifications to the OMS' Revised Resource Adequacy Principles

A. Requiring Planning Reserves Plus Operating Reserves in the Operating Day Timeframe Would Be Inefficient.

Resource adequacy is, by its nature, a forward-looking exercise. OMS Principle 13, for example, correctly recognizes the forward-looking nature of resource adequacy planning. OMS Principle 4 also recognizes the need for forward assessments of resource adequacy. These are necessary elements of any sound resource adequacy program. However, a LSE that carries sufficient capacity to satisfy its operating day needs, including both non-coincident peak operating day needs and coincident peak operating day needs, for both energy and operating reserves should not suffer consequences or be penalized for insufficient resource adequacy. In other words, in the operating day timeframe, an LSE should not be required to hold a capacity reserve margin in excess of its actual peak load, plus its share of system operating reserves. Imposing a requirement to carry capacity in excess of that actually needed to meet peak energy needs plus operating reserve requirements would be wasteful of individual company and customer resources and would be economically inefficient.

The primary purpose of a forward planning capacity reserve margin is to ensure the availability of sufficient capacity of the right types and in the right places to satisfy the system's needs for energy, regulating reserve, and contingency reserve in the operating day time frame. At some point, planning reserve transitions into operating reserve as the operating day approaches. If there is concern with inadequate operating reserves on the system, the better solution would be to increase the operating reserve requirement. The solution is not to mandate demonstration of a planning capacity reserve amount on top of operating reserves in the operating day time frame.

OMS Principles 2 and 8 would place a planning reserve requirement on top of an operating reserve requirement. Specifically, OMS Principle 2 would require all LSEs to "maintain sufficient capacity to meet peak load plus minimum planning reserve margin requirements at all times." OMS Principle 8 states that each LSE 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 Principle 10 envisions that OMS' proposed resource adequacy requirements would be "enforceable." Together, OMS Principles 2, 8, and 10 envision consequences for LSEs that are found to not have carried the required extra capacity in the operating day timeframe. This constitutes bad policy, as it would impose unnecessary costs on customers and would be economically inefficient.

B. Load Shifting Between LSEs in Retail Access States Must Be Accommodated.

OMS Principles 2 and 8 would impose a forward capacity reserve maintenance obligation on each individual LSE. For example, OMS Principle 2 states that each individual LSE “should maintain sufficient capacity.” This envisions that each LSE would be separately responsible for securing owned or contracted capacity resources to cover the forecast peak load for that LSE. However, in retail access states, retail load can shift between LSEs on short notice. Therefore, while the total retail load within the utility’s service area can be forecasted as accurately as ever, the share of that total load that each load serving entity will serve cannot be accurately forecasted far ahead of time. There are potential solutions for this issue, but none of them are encompassed in the OMS Principles.

With respect to resource adequacy, it is important that the Midwest ISO system, as a whole, is resource adequate and that each LSE bears its proportional share of the financial responsibility for maintaining system resource adequacy. To accomplish the OMS’s goal of individual LSE responsibility for the maintenance of resource adequacy quantities, as contrasted to individual LSE financial responsibility for its proportional share of the total system obligation, a forum would need to be established for transparent purchases and sales of capacity as load switches between LSEs during the planning period. In essence, a capacity market would be required. Although the OMS explicitly states in Principle 2 that it “does not endorse a forward-based capacity market operated by the Midwest ISO”, imposing individual capacity obligations upon LSEs will ultimately require the establishment of the kind of forward-based capacity market that OMS avers it does not endorse in Principle 2.

C. Price Responsive Demand Should Be Treated as an Eligible Resource Adequacy Element.

Price responsive demand can, and should be, treated as a legitimate resource adequacy resource on a probabilistic basis. Indeed, it could be argued that price responsiveness of load is much more predictable than generation unit outages—and, therefore, constitutes a much more reliable resource adequacy element.

To some extent, the demand for electricity is elastic. Unfortunately, the OMS Principles relegate price responsive load to being merely an offset to the load forecast. For example, OMS Principle 3 refers to load forecasts “adjusted by dispatchable and verifiable price-responsive demand reductions.” Principle 13 also describes such “adjustments” to load forecasts for “demand response and load reduction.”

States with retail customers on real-time tariffs, or their equivalent, should not be penalized for adding demand elasticity to the Midwest ISO energy market. Rather, the expected response of load to incremental price changes can be forecasted and should be credited as a resource adequacy resource.

D. Market Design Must Permit Prices to Reflect Underlying Forward Supply and Demand Fundamentals.

OMS Principle 1 recommends that the Midwest ISO “continue to work on developing a transparent and truly competitive energy market.” A transparent and truly competitive energy market must include prices that reflect underlying forward supply and demand fundamentals as well as system operating realities. This principle is critically important, and if properly implemented, would go far, in promoting system resource adequacy. The Principle would be improved if it referred specifically to the scarcity pricing features of the Midwest ISO’s ancillary services market design which were developed to induce sufficient operating reserves (including regulating reserve). After all, the primary difference between planning reserve and operating reserve lies in the timeframe. As the operating day approaches, planning reserve transitions into operating reserve.

OMS Principle 1 does not seem to be substantially different in intent from the Midwest ISO Board of Directors’ recently adopted resource adequacy principle #3 which states:

3. Develop a wholesale market platform to accommodate the appropriate market mechanisms and price incentives
 - Pricing provisions to assure supply and demand fundamentals appropriately expressed in market clearing prices
 - Availability of long-term transmission service and congestion cost hedges to mitigate delivery risk under long-term supply contracts
 - Opportunities for full demand participation.

OMS Principle 1 and Midwest ISO Principle 3 describe market-based methods of promoting resource adequacy. These Principles correctly acknowledge that price must reflect underlying system fundamentals at all times. When that is not the case, incentives and disincentives are not properly aligned to achieve the desired resource adequacy outcome.

Although the OMS expressed support for market-based mechanisms for resource adequacy in Principle 1, the content of the other principles does not set out a framework in which prices and market mechanism are used as tools to achieve resource adequacy. OMS also stated in Principle 2 that “OMS remains skeptical that price signals alone will be sufficient to ensure adequate and timely long-term capacity and demand resource additions.” The OMS provided no explanation for its skepticism and did not identify any market failure that would support its skepticism of markets. Unless a structural market failure is identified that would make market-based mechanisms unworkable, resorting to non-market mechanisms would be a more inefficient and costly method of achieving resource adequacy goals.

III. Conclusion

While the ICC supports most of the content of the OMS “Revised Principles for Resource Adequacy,” the ICC submits this dissenting opinion to clarify its position on

these issues and to encourage the OMS to accommodate this position in future revisions to the OMS Principles.

In the discussions leading up to the OMS vote, concerns were expressed by several OMS members about approving the principles without sufficient time to explore or to understand the extent of the impacts these principles would have on market participants and customers in the member states. The ICC strongly encourages further exploration and discussion along those lines. As the potential impacts are better understood, we also encourage the continuous and frequent update and revision of these principles so as to optimize the benefit these principles could have for all Midwest ISO member states.

Appendix A is attached to this Dissenting Opinion showing the ICC's recommended revisions to the OMS Principles.

Appendix A to the ICC's Dissenting Opinion

OMS Revised Principle Number 2:

All load serving entities (LSEs) should maintain be responsible for sufficient capacity ~~to meet so that all~~ peak load ~~plus minimum planning reserve margin requirements needs,~~ including operating reserve, can be met at all times in order that resource deficiencies will be infrequent. ~~OMS remains skeptical that price signals alone will be sufficient to ensure adequate and timely long term capacity and demand resource additions. The OMS, at this time, does not endorse a forward based capacity market operated by the Midwest ISO.~~

OMS Revised Principle Number 3:

The Midwest ISO must provide non-discriminatory opportunities for all resources including renewable and demand resources (including price responsive demand) and a mix of firm contracts when meeting annual forecast load ~~adjusted by dispatchable and verifiable price responsive demand reductions.~~

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~~ operating reserve was in place at all times during the previous operating period.

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 well as firm contracts and demand response, 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.