

MISO October 2012 Advisory Committee Hot Topic

"MISO Membership"

Response of the Organization of MISO States for the State Regulatory Authorities Sector

The OMS submits the following response to the October MISO Advisory Committee Hot Topic Questions regarding MISO Membership.

QUESTIONS:

1. What are the benefits that members and market participants value? On what specific items or areas should MISO focus to increase that value? What information does MISO need from members and market participants to achieve that result?

The Organization of MISO States (OMS) is not a MISO member as a transmission owner or market participant. Our state commission members have varying degrees of regulatory authority over certain MISO members.

OMS has emphasized the importance of certain strategic goals for MISO. These goals are as follows:

- operational excellence;
- demonstrable benefits;
- cost control;
- sound emphasis on regional planning;
- commitment to resource adequacy;
- coordination with neighbors;
- openness; and
- support for the regional state committee concept.

Overall, OMS believes that MISO should focus on maximizing the savings to the members and end-use electricity customers in its footprint. States have different levels of authority to ensure that savings to state-regulated MISO members are passed along to end-use customers, but in those areas where we are not able to ensure this, it is critical that MISO's operations provide those savings. If expansion of membership helps to advance realization of these strategic goals, it should be evaluated in the MISO stakeholder process. However, expansion of membership, in and of itself, does not automatically equate to benefits of value from the OMS perspective.

The fact that transmission owners have committed to be, and continue to be, members of MISO suggests they receive value from MISO membership; i.e., what

economists call “willingness to pay.” In addition, some states do examine the benefits and costs of MISO membership for their jurisdictional utilities. For example, the Missouri Public Service Commission requires a periodic cost/benefit study of utilities under their jurisdiction who are MISO members.

In terms of information needed to achieve desired benefits, the OMS does not necessarily see a need for new metrics in this area--there are already sufficient metrics available. However, MISO would benefit from prioritization of its goals (e.g., along the lines of the OMS goals noted above) and establishment of understandable metrics to align with those priorities. It is more an issue of organizing the information we already have rather than needing new information we haven't thought of yet.

2. From a current member's perspective, as MISO considers expansion, what expansion criteria should MISO consider? Seams elimination? Cost / Benefit ratios? Regulatory state compatibility of new entrants? Matching reliability and market footprints? Lowering costs? Need for tariff changes?

MISO employs the Value Proposition which OMS agrees is a useful tool to consider the benefits and costs resulting from the RTO's operations. However, the OMS is concerned that the Value Proposition is structured so that a larger RTO always seems to result in greater value to MISO members. For example, the Value Proposition suggests that as the MISO footprint becomes larger, then reliability will improve as measured by transmission system availability. This is a testable hypothesis. The OMS suggests that MISO investigate whether this is the case, or if there is an "optimum" size of an RTO in terms of reliability. If reliability does indeed decrease due to diseconomies of scale, is MISO at or near the bottom of a U-shaped curve (with Loss of Load Expectation on the vertical axis and RTO size on the horizontal axis), or is it (or could it become?) too large, moving on to the upward sloping portion of the curve?

For example, MISO could calculate the marginal improvement with LOLE or the energy loss vs. the cost (both initial and ongoing) to bring in additional footprint. Another test could reference the seams. This test would include formally calculating the values of Capacity Benefit Margin and Transmission Reserve Margin, and creating new ancillary services to exchange those new products between adjacent RTOs.

Another potential test could be how much marginal reliability improves with the addition of more generation and load in a footprint. This could be weighed against the administrative costs of managing the larger footprint. Also as MISO tests the capacity deliverability of MISO's interfaces with its RTO neighbors there may be other capacity reserve planning products and transmission services that could bring benefits without necessarily increasing RTO size.

Spreading fixed costs, such as administrative costs, through expansion of membership could be beneficial to MISO members and their end-use customers. However, as MISO becomes larger, any potential new member's effect on decreasing administrative costs is necessarily smaller. A countervailing factor is that the addition of more and more members may make the stakeholder process lengthier, more complex and perhaps even unwieldy.

The OMS recommends that MISO expansion should occur when end-use customers see quantifiable reliability or economic net benefits, and should not occur if existing end-use customers are worse off. In a simplistic way – the costs to add software, computers, communication, and marginal employees plus any shared transmission requirements are weighed against member revenues, market savings for energy and ancillary services, and capacity savings.

3. How should MISO's efforts in sustaining and growing membership and market participants be measured and evaluated? What metrics should be used?

Measuring and evaluating this area is difficult as entities are either in or out of MISO. There are many characteristics for a company to analyze as it considers its membership. Operating within or outside of an RTO is a major strategic business decision. Factors considered in such a decision make it difficult to develop metrics to assess performance of the RTO. Thus, it may be problematic for the MISO to measure and evaluate this goal, or have any employee incentive for sustaining and growing membership.

The MISO *2012 Annual Incentive Goals and Metrics* report includes a metric to “Add a New Transmission Owner and Increase Net Load to the Market.” This metric allows the MISO Board of Directors to “use its discretion to base performance on the net impact of load served if one or more Transmission Owners take substantive action to add or withdraw transmission assets from the functional control of the Company”. The Required Performance for this metric is a “Net commitment to join from a new Transmission Owning member”, and it is evaluated on a pass/fail basis.

OMS is troubled that this metric is not tied to end-user benefits. MISO management should not be pursuing growth for growth's sake, and should not be financially rewarded for load additions that have not been shown to benefit current stakeholders and end-use customers in particular. Although this metric allows the Board to “use its discretion”, OMS recommends that evaluation should be based on a more objective set of criteria.

MISO should consider whether pursuing a larger membership creates value greater than the costs incurred in attempting to attract new membership, especially because any new member may not ultimately join MISO. It is one thing to passively recruit new members simply by being the type of RTO potential members would wish to join; it is another thing entirely to spend time and money to actively participate in multiple state and federal dockets and essentially lobby potential members to join MISO. In addition, almost all states do not allow ratepayer recovery of utility marketing expenses. Such costs, if incurred, are borne by the shareholders. MISO is a nonprofit entity, without shareholders, so any marketing costs would ultimately be paid for by end-use customers in the footprint.