

NOTICE OF COMMUNICATION

TO: Parties in Case No. EO-2011-0128
FROM: Commissioner Jeff Davis
DATE: June 13, 2011
RE: Communications from and on behalf of MISO

On Tuesday, June 7th, from 11:00 a.m. – 12:00 p.m., I served as moderator on a panel at the Mid-America Regulatory Conference (MARC) entitled “Electric Breakout: The Down Low on the ISO.” The panelists were John Bear, President and CEO of the Midwest ISO (MISO), and Nick Brown, President and CEO of the Southwest Power Pool (SPP). The purpose of the panel was to discuss how MISO and SPP work with each other and compete against each other. There were more than 100 people from the conference in attendance.

During the panel discussion, MISO President & CEO John Bear referred to either the “annual Planning Resource Auction (‘PRA’) or the Resource Adequacy Construct (‘RAC’) and implied that MISO had no intention of going past the one year planning process. Mr. Bear’s statements seemed inconsistent with representations made to this Commissioner in a May 18th presentation by MISO and attended by counsel for Ameren Missouri and Maureen Borkowski, President of Ameren Transmission Company. See the following web link: <http://168.166.67.51/viewerportal/vmc/video.do?eventId=5220>

After the panel discussion was over, I approached Karl Zobrist whom I believe is the counsel to the MISO Board of Directors and was in attendance at the May 18th presentation and asked him if I had heard John correctly. He said yes and stated affirmatively “There is no plan beyond the one year resource adequacy construct.” I was so skeptical of Mr. Zobrist’s statement that I took out a pen and wrote the quote down on the back of my name badge, recording both the date (6/7/11) and time (12:20 p.m. Mountain Time) I recorded it. See Attachment #1.

Later that day, I noted that I received a white paper via email from MISO that very same morning intimating the fact that MISO’s Proposed PRA was different from PJM’s Capacity Auction, one of three significant distinctions was “In MISO, the auction is “prompt,” not 3-years forward. The demand forecast being met by the auction is the demand for the immediately following summer – some 2-to-3 months in the future; the demand forecast being met by the RPM in PJM is for the summer 38-to-40 months in the future. See Attachment #2.

In conclusion, I have no preconceived notions about these issues but there does appear to have been a change in MISO’s position on the capacity market/resource adequacy construct issue since their May 18, 2011, appearance in front of this Commission and further examination of this issue is warranted.

There is no plan
beyond the one year
RA construct.

12:20 MT

Karl Zobrist

6/7/11





MISO Resource Adequacy Enhancements – OMS Outreach Series #5

Auction Mechanisms

The annual Planning Resource Auction ('PRA') is a key element in MISO's resource adequacy requirement proposal. The purpose of this communication is to provide an overview of the purpose and key elements of the PRA, as well as to highlight primary differences between MISO's proposed PRA and PJM's auction.

Auction Purpose

The PRA serves several purposes, all related to making sure that an adequate supply of resources – not an excess supply – is available to meet demand. One purpose of the auction is to determine a market-based value attached to having resources located in certain geographical areas. MISO is required via a FERC Order to construct a resource adequacy approach that takes resource location into account and determines a value for such locations using a market-based approach.

Another purpose of the auction is to determine – and place a value upon – any congestion related to the different locations of capacity and load. While transmission congestion is evaluated in the energy and ancillary services market, such congestion is related to more narrowly defined issues. The auction will identify congestion related to capacity – based upon issues that reflect annual peak conditions as opposed to conditions occurring throughout the year.

Key Auction Elements

The proposed auction will consider available resources with loads on a zonal basis.

Key elements related to the auction include the following:

- **Annual peak demand forecasts**, prepared by Load Serving Entities (**LSEs**)¹ and is for the total demand of their customers at the time of MISO's annual summer peak,
- **Transmission limitations** determined from system engineering studies to allow the maximum amount of low cost resources to provide service,
- **Local Clearing Requirements** indicating the amount of capacity that must be secured from resources within each zone to meet the reliability standard, and a
- **Single, sealed-bid auction style** designed to minimize the ability for participants to signal or game the auction, while at the same time providing efficient market-clearing prices.

¹ Forecasts may be prepared by the Electric Distribution Companies (**EDCs**) in retail choice states because they have the most complete data related to all the retail customers in their service territories.

The auction mechanisms are a relatively straightforward application of cost-minimization formulas that also provide a simultaneous solution for all zones². The resulting auction clearing prices will reflect the relative scarcity of available capacity in each zone. Market Participants will see these transparent results and be able to more efficiently and effectively plan for the future.

The proposed PRA allows historical service and relationships to continue. For example, LSEs with historically utilized resources outside of their load's planning resource zone will be able to avoid capacity congestion costs. At the same time, new loads and resources will find additional information available regarding the prospective costs of alternative location decisions. Over time, the result should be a more efficient and effective transmission system, optimally utilized to meet the needs of its users.

MISO's Proposed PRA vs. PJM's Capacity Auction

The PRA envisioned is not PJM's Reliability Pricing Model ('RPM'). While there are many inherent differences between the two auctions, several significant distinctions are apparent:

- In MISO, the "demand" being met by the auction is developed by those with the most local knowledge of the retail customers: the LSEs themselves. In the RPM, PJM (or a surrogate) prepares the demand forecasts.
- In MISO, the auction meets a planning resource requirement that must be met – and no more.
- In MISO, the auction is "prompt," not 3-years forward. The demand forecast being met by the auction is the demand for the immediately following summer – some 2-to-3 months in the future; the demand forecast being met by the RPM in PJM is for the summer 38-to-40 months in the future.

The MISO Planning Resource Auction is designed to be a straightforward, annual process by which planning resources can be acquired and adequately priced given load requirements and transmission system constraints.

² In fact, MISO conducts similar type auctions every day through its Energy & Operating Reserve Markets.