IAMU comments to IUB re MISO RA proposal July 1 2011

IUB Questions:

1. What elements of MISO's RAR proposal do you most support? Why? Elaborate upon your answer.

IAMU supports those elements of the MISO's RAR proposal that (a) promote least cost, responsible resource development and utilization, (b) equitable cost sharing for transmission services and (c) competitive energy supply. As we currently understand the tariff and draft business rules posted by the MISO on June 22 and discussed at the SAWG meeting on June 24, there appear to be elements of the proposed RA construct which are intended to achieve these objectives. Specifically, IAMU supports:

- The Grandmothering of existing agreements.
- The exemption of the Minimum Offer Price rule for DR, base load and other units as defined in the draft tariff, applying it only to CTs and CCCTs.
- The treatment of existing capacity that is external to the load's planning zone and the MISO as if that capacity were within the zone to which transmission service enters the MISO.
- The inclusion of Demand Resources in the auction on the same basis as capacity resources.
- The proposed mechanism which allows LSEs that have capacity deficiencies to purchase additional capacity at a market price, capped by the CONE value, rather than incurring administratively determined penalties.
- The elimination of Planning Resource Credits which can currently be offered into the voluntary capacity auction only if it has been demonstrated that the corresponding capacity is deliverable to the entire MISO footprint. The proposed RA construct provides a mechanism to more fully utilize excess capacity owned by LSEs by allowing them to participate in the auction and sell that capacity within the respective planning zone, without the universal deliverability requirement.
- The self-scheduling option and the opt-out option in which load and capacity equal to the LSE's peak demand plus reserves are both removed from the volumes cleared in the auction.
- The provision that LSE loads that do not opt-out of the auction are included in the cleared volumes since this should result in more meaningful capacity price signals than the current voluntary capacity auction in which only capacity resources are required to participate and load bids are optional.

2. What elements of MISO's RAR proposal give you the most concern? Why? Elaborate upon your answer.

IAMU is most concerned about those elements of the MISO's RAR proposal that are likely to inhibit (a) the development and utilization of resources in a least cost, responsible manner, (b) equitable cost sharing for transmission services, and (c) competitive energy supply. Specifically:

- The proposed RA construct places undue risk on LSEs who participate in new capacity resources that are in adjacent planning zones, perhaps only miles away from the respective load, even when adequate transmission capacity is shown to be available for the foreseeable future. Hedging mechanisms beyond Grandmothered Agreement rights and ZDC hedges from capacity upgrades are needed to mitigate that risk. (See further discussion under Other Comments below.)
- IAMU is concerned that the LSE protections intended by the MISO related to the Minimum Offer Price Rules and exemptions, and opt-out provisions, may be overridden by the FERC, in which case the MISO may be forced to adopt higher risk, costly alternatives.
- Other concerns exist that may impact LSEs to varying degrees depending on their capacity and demand side resource mix and other factors. These include:
    - Limitations on seasonal swaps which apply on a MW to MW basis.
    - Limitations on GMA hedge provisions which do not extend to seasonal or monthly contracts, or part-year contracts.

3. Taking MISO's proposal as a whole, if you had to vote yes or no on the proposal in its current form <u>with no changes</u>, which way would you vote?

IAMU would vote 'no' on the proposal in its current form. More time is needed to allow the stakeholders to understand the intent and implications of several aspects of the proposed designs in a thorough and meaningful manner, and to work with the MISO to amend those aspects of the proposed design, many of which have been only recently introduced, which can be shown to incur unacceptable risk, inequitable cost allocations, and system additions which are contrary to the principles of least cost planning of production and demand resources, and transmission systems.

4. Any other comments?

Load serving entities (LSEs) typically attempt to plan future resources to accommodate load growth and replacements due to retirements and for other reasons, while maintaining an economic mix of base, intermediate and peaking resources over reasonable periods of time. The MISO has estimated that pending EPA regulations could potentially drive the retirement of up to 30% of the present MISO capacity. The location and frequency of opportunities for public and investor owned utilities in Iowa and adjacent states to participate in additional or replacement base load plant capacity is uncertain at best.

These factors, taken together, make it imperative that LSEs, both publicly owned and investor owned, be allowed to operate in an environment that supports, rather than inhibits, the opportunity to participate in new base load construction on a least cost basis. The MISO proposal would potentially impose barriers to such participation based on largely arbitrary zonal definitions.

For example, LSEs in Iowa who could benefit from participation in the Big Stone II addition (if revived) would be reluctant to do so because of the potential for unhedged price separation between the respective zones. Similarly, a proposal to build a plant in Iowa (Sutherland for example), for which feasibility could be enhanced by participation from LSEs in Minnesota, would be made less feasible because of the reluctance of the Minnesota participants, also because of the potential for future unhedged capacity price separation.

The MISO needs to adopt an approach in which 'providing price signals' does not result in allocating costs inequitably to LSE's that have been diligent in planning their resources and transmission capacity simply because system conditions and flows change for reasons that are outside of their control. They can do this with an auction based allocation of capacity as proposed, which will provide price signals, but with the addition of financial hedges which will share the burden of the system deficiencies that may develop at a later time. This cost sharing can and should be done on a subregional basis similar to that used for sharing the cost of Market Efficiency Projects or Regionally Beneficial Projects which are expected to eventually resolve any deficiencies that may develop at a later time.

Stated briefly, ***a long term commitment by an LSE to a base load capacity resource, when transmission capacity is available today and in the foreseeable future, should override an arbitrarily defined border between two resource planning zones.*** This can be done by providing hedges for new, qualifying resources and agreements.

And finally, IAMU is concerned that a failure by the MISO to provide appropriate hedges for new, qualifying resources will result in a sub-optimal development of capacity resources which are likely to consist of smaller, less efficient plants than if participation in new base load plants was not inhibited for the reasons described above.