



USAID
FROM THE AMERICAN PEOPLE

Organization of MISO States

OMS



National
Association of
Regulatory
Utility
Commissioners

Forming a Multistate Organization to Facilitate Cooperation on Electric Transmission:

“The Experience of States Within the Midwest
Independent Systems Organization Footprint”

Commissioner Valerie Lemmie
President, Organization of MISO States

Regional Black Sea Regulatory Workshop
May 5-6, 2010: Chisinau, Moldova

Creating A Multistate Organization

- Background
 - RTO's
 - Multi-State Organizations
- Formative Stages: Organization of MISO States
- OMS Purpose and Function
- Relationships with NARUC, MARC and FERC
- Structure and Bylaws
- Activities of Working Groups and Special Committees
- Special Initiatives
- Lessons Learned
- Conclusion

Background: Key Factors Influencing Creation of a Regional Multi-State Transmission Organization

- Electric industry restructuring and impact of wholesale markets on retail rates.
- FERC Order 888, 889 and 2000 requiring independent management of the transmission grid.
- National Governor's Association report on interstate strategies for transmission planning and expansion which identified four primary challenges^[5]:
 - Clarifying state role in transmission planning, siting and cost allocation.
 - Recommended formation of multi-state entities (MSE's) through which states could coordinate these functions along regional lines.
- Midwest Governor's Transmission Siting Protocol signed in July 2005 that supported regional, cooperative approaches to transmission issues^[6].

[5]: NGA Report, supra note 2

[6]: Protocol among the Midwestern governors regarding the permitting and siting of interstate electric transmission lines in the Midwestern United States and Manitoba Canada, 2005.

Typical Consumer Electricity Prices in US

Generation	55% - 65%
Transmission	5% - %10
Distribution	15% - 30%

Background: Creation of Regional Transmission Organizations

- FERC proposed rule on standard market design suggested ways states could become involved in RTO activities as MSE's or Regional State Planning Boards. Rule never adopted, but proposal motivated Midwestern states to act.
- Impact of deregulated generation on retail rates:
 - While some states deregulated generation, all states wanted to understand how regional wholesale markets fit within state regulation:
 - Retail utilities rely on wholesale markets for supply of purchased power and to make sale of power.
 - EUC's follow individual strategies on net selling or buying and degree of short-term and long-term reliance placed on purchased supplies.
 - State regulators responsible for evaluating how effectively regulated utilities sell surplus power into wholesale markets.

Background: Creation of RTO's

Continued

- Public Utilities Regulatory Policies Act (PURPA) passed in 1978 to keep energy prices low, improve system reliability and reduce dependence on foreign oil by:
 - Encouraging new utility business models through deregulation and restructuring of “Natural Monopolies.”
 - Introducing more efficient, cheaper and environmentally friendly generation techniques and renewable resources signaling **bigger generation facilities were no longer better.**
 - **Allowing nonutility generators to supply electricity to the bulk power system creating open access to the transmission grid.**
 - Uncertainty about new business models caused utilities to cut costs thereby reducing generation and transmission reserve margins and capacity declined.

Background: Creation of RTO's

Continued

- The Federal Regulatory Commission (FERC) orders creating RTO's^[7]
- Order 888 (1996) deregulated generation sector through open access to transmission and mandated jurisdictional utilities to give control of their transmission facilities (not ownership) to an independent systems operator (ISO), approved by the FERC.
- Order 889 (1996) established FERC authority over retail transmission service, specifically wholesale and unbundled service.
- Order 2000 (1999) addressed limitations of order 888-inefficient operation and expansion of the grid and transmission system access discrimination through voluntary formation of RTO's to manage grid.
 - RTO characteristics include independent, geographic scope and regional configuration, operational authority over short-term reliability.
 - Functions include tariff administration and design, congestion management, ancillary services and market monitoring.
- To form an RTO, Transmission Owners had to give operational authority of their lines to the RTO.

[7]: IBID, 1978-1998 and 1999 to 2003.

Table 1: Selected RTO Responsibilities

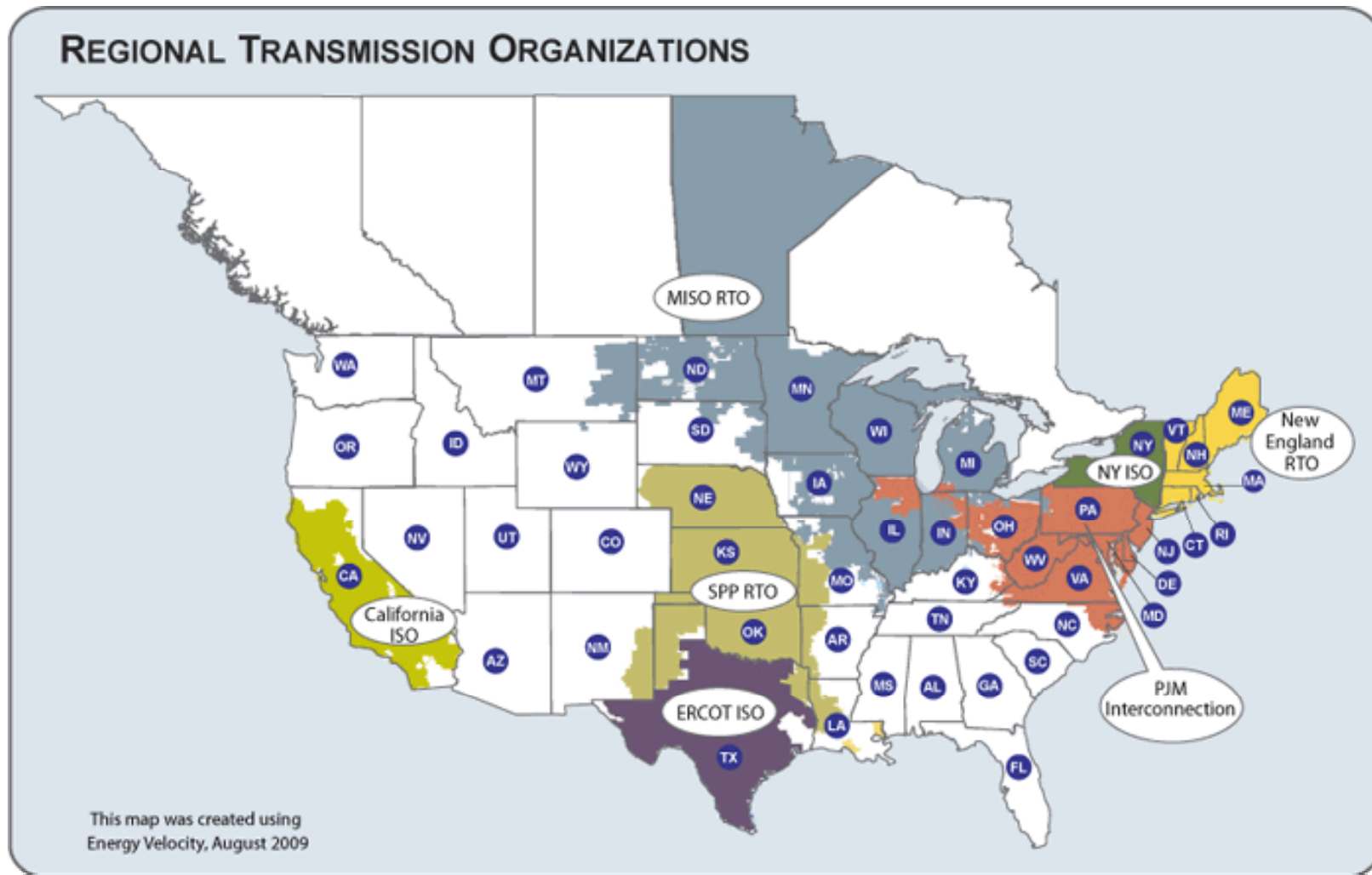
Category	Responsibility	Description	California ISO	ISO New England	Midwest ISO	New York ISO	PJM	Southwest Power Pool
Transmission functions	Service provider	Administers the transmission tariff and provides transmission services. Receives and processes transmission service requests. Determines available capacity.	Y	Y	Y	Y	Y	Y
	Balancing authority	Integrates resource plans regionally and maintains in real time the balance of electricity resources and electricity demand.	Y	Y	N ^a	Y	Y	N
	Reliability coordinator	Ensures the real-time operating reliability of the transmission system.	Y	Y	Y	Y	Y	Y
	Planner	Works with stakeholders to develop overall plans for new transmission needed to meet future projected electricity demand.	Y	Y	Y	Y	Y	Y

[8]Source: <http://www.gao.gov/new.items/d08987.pdf>

Category	Responsibility	Description	California ISO	ISO New England	Midwest ISO	New York ISO	PJM	Southwest Power Pool
Wholesale energy market functions	Real-time market administrator	Administers a market where electricity is bought and sold at prices determined in real-time to satisfy the difference between projected needs and actual demand. Many of these markets price electricity differently at various locations across the region in order to reflect the costs associated with congestion.	Y	Y	Y	Y	Y	Y
	Day-ahead market administrator	Administers a forward market where electricity is bought and sold for use the following day based on projected customer needs.	N ^b	Y	Y	Y	Y	N
	Ancillary services market administrator	Manages services necessary to support the reliable operation of the transmission system and provision of electricity at appropriate frequency and voltage levels.	Y	Y	Y	Y	Y	N
	Capacity market administrator	Administers a system to procure a sufficient portfolio of supply and demand resources to meet future electricity needs and encourage investment.	N	Y	N	Y	Y	N

[9]Source: <http://www.gao.gov/new.items/d08987.pdf>

Seven RTO's Across the US



Formative Stages of OMS

- Assessment of legal tools available for multi-state cooperation.
 - Legislative Authorization
 - Interstate Compacts
 - Federal-State Joint Boards
 - States agree to work together to cooperatively with no formal authority.
 - Organizational Structure
 - Profit or Nonprofit
 - Regulators or Governors
 - Individual Members or Corporate Members
 - Regulators and/or Other State Agencies (e.g. Siting Boards)
 - Primary Role: Coordination of state activity and development of common advice to FERC and RTO.
 - Special filing rights agreement with RTO?
 - Voting
 - By State or By Electric Load
 - Combination of Above
-

The Organization of MISO States

Purpose and Function

- Created in June 2003 as a tax exempt 501(c)(4) Indiana Corporation pursuant to the civic welfare purposes it serves.
- Funding by the Midwest Independent Systems Organization (MISO):
 - Assures the decisional independence of the OMS.
 - Established process for OMS to develop its own budget level.
 - Disputes adjudicated by FERC.
 - FERC did not approve agreement but cited it favorably in orders.
- Marketing agreement to interested parties and observers.
- Coordination of states' participation in the MISO stakeholder process which began in 1996:
 - Formalized, structured process for members in the MISO Advisory Committee extended to nine sectors of market participants and interested parties.
 - OMS holds three seats on the 23-member Advisory Committee.
 - OMS States agreed to a rotation of these seats among the 13 member-states and Manitoba, Canada.
 - MISO recognizes unique role of states as "The First Among Equals."

Purpose and Function

■ OMS Goals

- ❑ Provide consolidated input on FERC matters of region-wide interest. FERC gives greater weight to submissions made by multiple states, providing states an incentive to work together cooperatively.
- ❑ To earn deference from FERC on pleadings filed. The combined effort among states produces geometrically better pleadings.
- ❑ Improve staff and commissioner expertise.
- ❑ Improve coordination of participation by states in the MISO stakeholder process through better reporting and internal discussion of issues.
- ❑ OMS is not another regulatory body; it has no decision making authority; its comments and filings are advisory only.

Timeline For Formation

- Conceptual design and planning began November 2002.
- In May 2003 concepts committed to paper; drafts finalized and articles of incorporation filed creating OMS.
- June 2003 initial meeting held and bylaws adopted, officers elected and funding agreement executed with the MISO.
- January 2004 two full-time employees began work for the OMS and an office was established. Employment agreements modeled on other non-profit agencies. Salary levels, terms and conditions were set equivalent to senior staff levels at member commissions.

Specifics of the Organization

- Membership is open to state or provincial regulatory authorities that regulate the retail electricity or distribution rates of transmission-owning members or transmission dependent utility members of the MISO and agencies that have primary regulatory authority for siting electric transmission facilities in those states or provinces.
- Associate membership (non-voting) is open to other state or provincial agencies involved with energy planning, environmental issues or advocacy issues relating to electric transmission.
- The OMS members match the MISO footprint, including six states only partially served by the MISO.
- 13 states and the Manitoba Public Utilities Board (MPUB) are OMS members. MPUB not active participant.
- The OMS Board of Directors is comprised of 14 members, one from each state or province. Each state commission determines its member.

Specifics of the Organization

- The OMS Executive Committee is comprised of five elected members^[11]:
 - President – Sets agenda and conducts Board and Executive Committee meetings
 - Vice President – Liaison to Advisory Committee
 - Secretary – Responsible for meeting notes and liaison to Advisory Committee
 - Treasurer – Approves office expenditures and payroll and is responsible for bank and financial statements
 - At Large Member – Liaison to Advisory Committee
- Funding
 - Began with \$200,000 advance from MISO
 - Annual budget approximately \$700,000
 - MISO Board has accepted all OMS budget requests **to date**

^[11]*Executive Committee also serves as Audit Committee

Relationships With Other Professional and Membership Associations

There are two key membership associations for utility regulators in the Midwestern states: the National Association of Regulatory Commissioners (NARUC) and the Mid-America Regulatory Conference (MARC). OMS board members belong to both.

NARUC

- Represents public service commissioners who regulate essential utility services, e.g. electricity, natural gas, telecommunications, water and transportation.
 - Provides opportunity at three meetings annually for commissioners to discuss topics of national interest.
 - Members issue resolutions, present federal testimony, make legal filings and serve as federal advocate of legislation or agency rules of interest to the membership.
 - Generally, members can serve on up to two committees that mirror state regulatory responsibilities:
 - ☐ Consumer Affairs ☐ Critical Infrastructure ☐ Electricity ☐ Energy Resources
 - ☐ International Relations ☐ Telecommunications ☐ Water
 - ☐ Climate Change ☐ Utility Market Access ☐ Gas
 - Membership dues and federal grants cover operational expenses.
 - Ohio's 2010 dues were \$85,000.
-

Relationship With Other Professional and Membership Organizations Continued

MARC

- Regional group of state commissioners meet to foster better communications among and between members, share ideas and discuss regulatory and policy issues with one another, the public and the utility industry.
 - Like OMS, MARC is an affiliate organization of NARUC. There are 15 states in the MARC region:

Arkansas	Kansas	Illinois
Indiana	Iowa	Michigan
Minnesota	Missouri	Nebraska
North Dakota	South Dakota	Oklahoma
Ohio	Texas	Wisconsin
 - Holds annual meeting in June in home-state of the president.
 - January meeting of commissioners only.
 - Summer and winter meetings held at NARUC conferences.
 - States pay dues, \$100 per state, but there are no staff. MARC officers manage funds, meeting planning and other activities.
-

Relationship Between OMS and the FERC

- Excellent relationship exists. FERC Commissioners usually attend NARUC and regional NARUC affiliate meetings as well as other industry related conferences so there is time to share views and opinions outside of docketed cases.
- For docketed cases, NARUC, OMS and individual states make filings, often in cooperation with one another. We also share legal resources and technical expertise.
- Over the years, many FERC Commissioners have also been state utility commissioners, including newest FERC appointee, John Norris, former Chairman of the Iowa Commission.
- FERC Commissioners usually take note of issues raised by states; our voice is important.
- OMS Commissioners often testify on issues of critical importance, e.g. transmission planning and cost allocation before FERC Commissioners on open dockets.

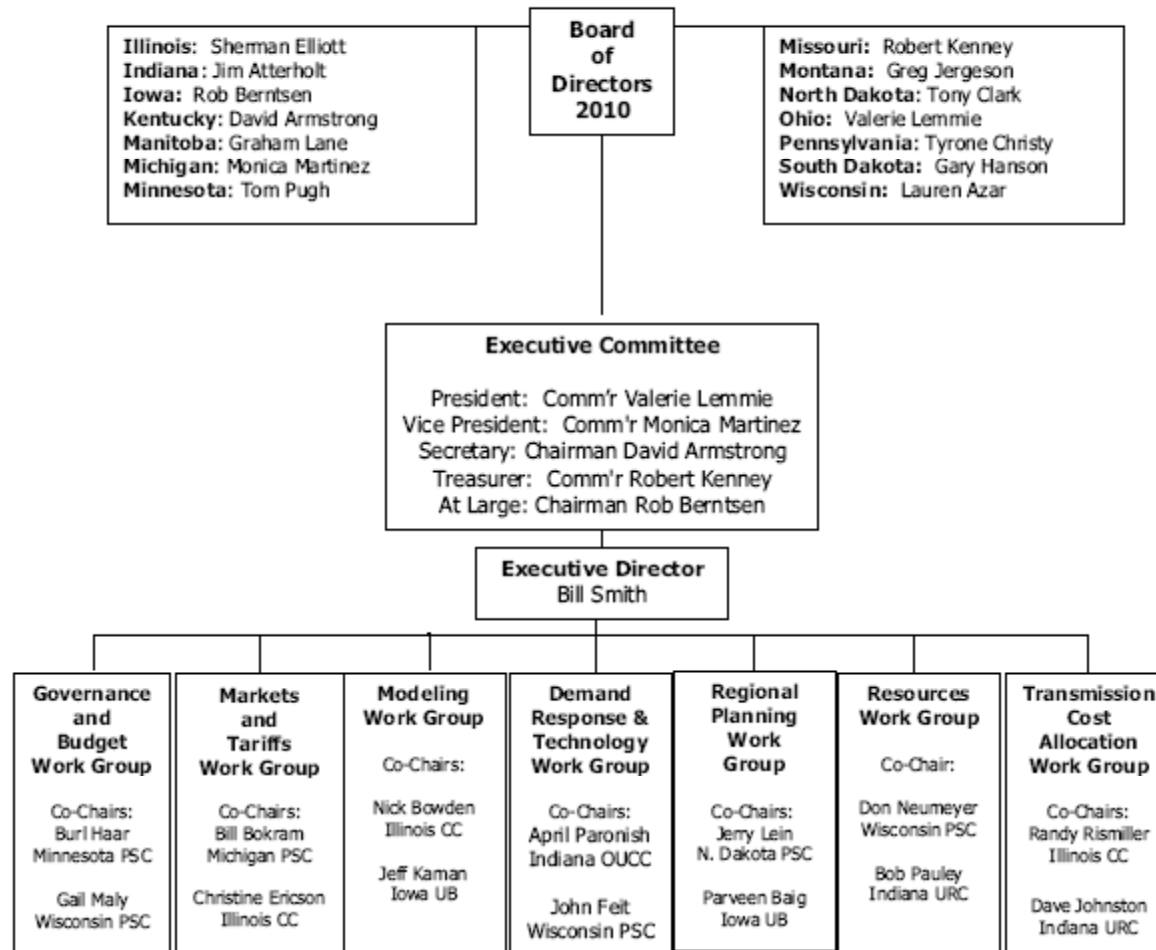
OMS Structure and Bylaws

The OMS has been in operation for nearly seven years and experience has matched expectations of founders and newer commissioners alike.

- Internal Process

- Models NARUC structure.
- OMS conducts analysis of issues and develops positions and pleadings through internal work groups.
- Work groups primarily staff; at times commissioners and associate members participate and chair working groups.
- OMS Board and Executive Committee identify issues of concern and assign them to work groups; work group members also suggest issues for Board's consideration if they believe OMS should take position.
- Work groups have been added and eliminated as issues and priorities change.
- Work groups meet by conference call to draft a position paper which is distributed to board members with as much lead time as possible before board meetings, usually two or three days.

Organization of MISO States



OMS Structure and Bylaws Continued

- Internal Process continued
 - Work groups give monthly updates during board meetings so commissioners usually know when position papers and/or proposed FERC filings will be submitted for their review and approval.
 - At board meeting, the work group recommendation is presented and discussed, subject to amendment by parliamentary procedures.
 - By-laws require a majority vote (eight) of membership before a position is adopted.
 - Minority opinions are included with the majority opinion and states may footnote particular issues of support or opposition.
 - Working group chairs meet monthly via teleconference call.
 - The seven working groups illustrate range of interest and issues within OMS:
 - Governance and Budget
 - Demand Response and Technology
 - Transmission Cost Allocation and Planning
 - Regional Planning
 - Markets and Tariffs
 - Resources
 - Modeling

OMS Structure and Bylaws Continued

OMS Board Process

- Monthly meetings of Board and Executive Committee open to the public.
- Most meetings are by teleconference calls; three meetings face-to-face in April at MISO Annual Meeting, in June at MARC Meeting and in October OMS holds its annual meeting.
- April and October meetings allow for OMS Board interaction with MISO executive staff and board members. The June meeting allows OMS Board Members to meet and greet with FERC Commissioners, and other resource people.
- Board and working groups meet monthly with the Market Monitor.
- OMS Board reviews agenda of MISO's Advisory Committee (AC) and Planning Advisory Committee (PAC). The Vice President is lead representative to the AC where OMS has three votes and the At-Large Member is the representative this year to the PAC.
- The Executive Committee and/or Board may call special planning meetings or retreat as needed. President invited other MSE's to it's January 2010 retreat.
- OMS President official OMS representative, attends meeting with other MSE's, testifies and performs ceremonial duties as needed.

OMS Structure and Bylaws Continued

Issues Addressed

- Concerns of member states: New facilities, needs analysis, siting and permitting approval for transmission facilities.
- Sub-regional issues: Smaller group of states in the footprint have unique issue(s) to address like integrating more wind from their states into the transmission grid.
- Sharing responsibility with other states and MISO, NERC and FERC; resource adequacy, transmission siting, system reliability and investment.
- FERC jurisdictional issues: RTO structure.
 - MISO's energy market launched in 2005 and ancillary services market launched in 2008-2009.

OMS Structure and Bylaws Continued

Resolution of Disputes and the Format of Filings

- Began with philosophy to seek consensus and agreement whenever possible.
- Through effective leadership, manage issues that are important to states, but where there is no agreement among states as to the best solution.
- Having majority and minority opinions in same document, usually by footnote identifying the state. Key means of ensuring each states interests are recognized and their voice heard. All participating states are listed on pleadings with their positions identified. States can make separate filing if they choose.

OMS Structure and Bylaws Continued

- Recognizing the region reflects different regulatory schemes, OMS seeks to leverage common interests and to build better understanding when states take different positions:
 - Three retail rate states where generation has been deregulated and there is competition at the retail level.
 - Seven states use conventional rate-of-return regulation with vertically integrated utilities.
 - Two states separated transmission facilities from generation and distribution assets.
 - Two states have a mix of retail competition and conventional rate-of-return regulation.
 - The province is fully served by public power.
 - Transmission facilities have mixed uses, for reliability and economic considerations.
 - MISO manages the transmission facilities of member companies but must coordinate service over transmission facilities of non-members connected to MISO.
 - Region has two different stand-alone transmission companies.
- Voluntary cooperation works effectively for OMS.

OMS Structure and Bylaws Continued

Approaches in Other Regions

- Model adopted in key respects by other regional committees:
 - ❑ Southwest Power Pool (2004)
 - ❑ New England States Council on Electricity (2004)
 - ❑ Organization of PJM States (shares six member states with OMS) (2005)

Activities of Working Groups and Special Committees

Work Group	Primary Areas of Focus
Governance and Budget	MISO Strategic Plan Officer Duties Increased Transparency MISO Budgets Weight Given to State Input
Markets and Tariffs	Market Design and Value Market Monitoring and Mitigation Issues MISO Market Expansion (Module F) Energy and Ancillary Services Markets FTR, ARR and Transmission Rights Issues
Modeling	Analytic support to other work groups on economic, engineering and forecasting models
Demand Response and Technology	Customer Response to Market Conditions Smart Grid Retail Demand Response
Regional Planning	Midwest Transmission Expansion Plan Seasonal Reviews Other Transmission Studies: JCSP, RGOS, KEEM, EWITS Minimum Generation Issues Transmission Operations (Day 1)
Resources	Module E Reserve Margins Price Responsive Demand Energy Efficiency Verification Loss of Load Expectation and Planning Resource Assessments Demand Side Management Resources BPM and Resource Qualification and
Transmission Cost Allocation	Regional Cost Allocations and Pricing Under RECB 1 and RECB 2 Cross Border Cost Allocations

Special Initiatives

- CARP: Meeting for almost 18 months to recommend transmission cost allocation formula states could support:
 - OMS informed MISO the states wanted to address “thorny” issue of transmission cost allocation to facilitate build out/upgrade of grid to incorporate wind resource.
 - Each state designated “negotiator” to participate in-person at the monthly meetings, lasting almost 18 months.
 - Developed modeling assumptions to educate ourselves about inputs and outputs.
 - Reviewed numerous cost allocation methods:
 - Highway/byway
 - Injection/withdrawal
 - UPP
 - Work resulted in hybrid approach that OMS believes best addressed unique issues of states.
 - Injection/Withdrawal method for large scale overlay projects. Generators (current and new) pay access rate based on 20% of the transmission revenue requirements for that year. Access rate is adjusted annually based on the annual revenue requirements.
 - Load pays 80% usage charge both inside and outside MISO footprint.

Special Initiatives Continued

- CARP continued:
 - Continue to use but improve MISO stakeholder processes to review and recommend reliability and economic projects.
 - New generators pay local access charge or “higher of” cost for generator interconnections.
 - Second new generator requiring interconnection, will compensate first generator for benefits accrued from investments of first generator.
 - Transmission study every five years to determine actual system usage.
 - First time states have come together to see if they could reach consensus on cost allocation formula.
 - EISPC: Received \$14 million in federal funds to provide input into planning and analysis of transmission system overlay for entire Eastern Interconnection of 41 jurisdictions over a four year period.
 - Final vote
 - 11 – Yes
 - 1 – Abstain (Pennsylvania)
 - 1 No (Illinois)

Lessons Learned

- Our success has been in embracing differences – e.g. retail rate states, states with RPS, states with no nuclear energy policy, different load sizes.
- Working within existing system gauging its strengths and weaknesses and making changes as needed.
- Start with good information as this leads to understanding; from understanding there is knowledge, and action is best taken with full knowledge of issues and their ramifications.
- “Hands-off mind-on” policy when it comes to working groups and OMS staff. Let the professional and technical experts do their job without interference to get the best product and best results. Staff also appreciate this approach.
- Working together has enhanced OMS’ stature and influence within stakeholder groups (AC and PAC), with MISO Board and with FERC. We have gained a reputation as the “go to” people.
- States want solutions to problems; we don’t bring other issues or partisan politics into our discussions. Keep your eyes on the prize.
- Sometimes you win, sometimes you lose, sometimes it’s a draw, but you keep working with your fellow commissioners and staff as often there is a “lowest common denominator” all states can live with. Example is bidding price responsive demand into MISO forecasts.
- “Least regrets” option as way of building consensus.

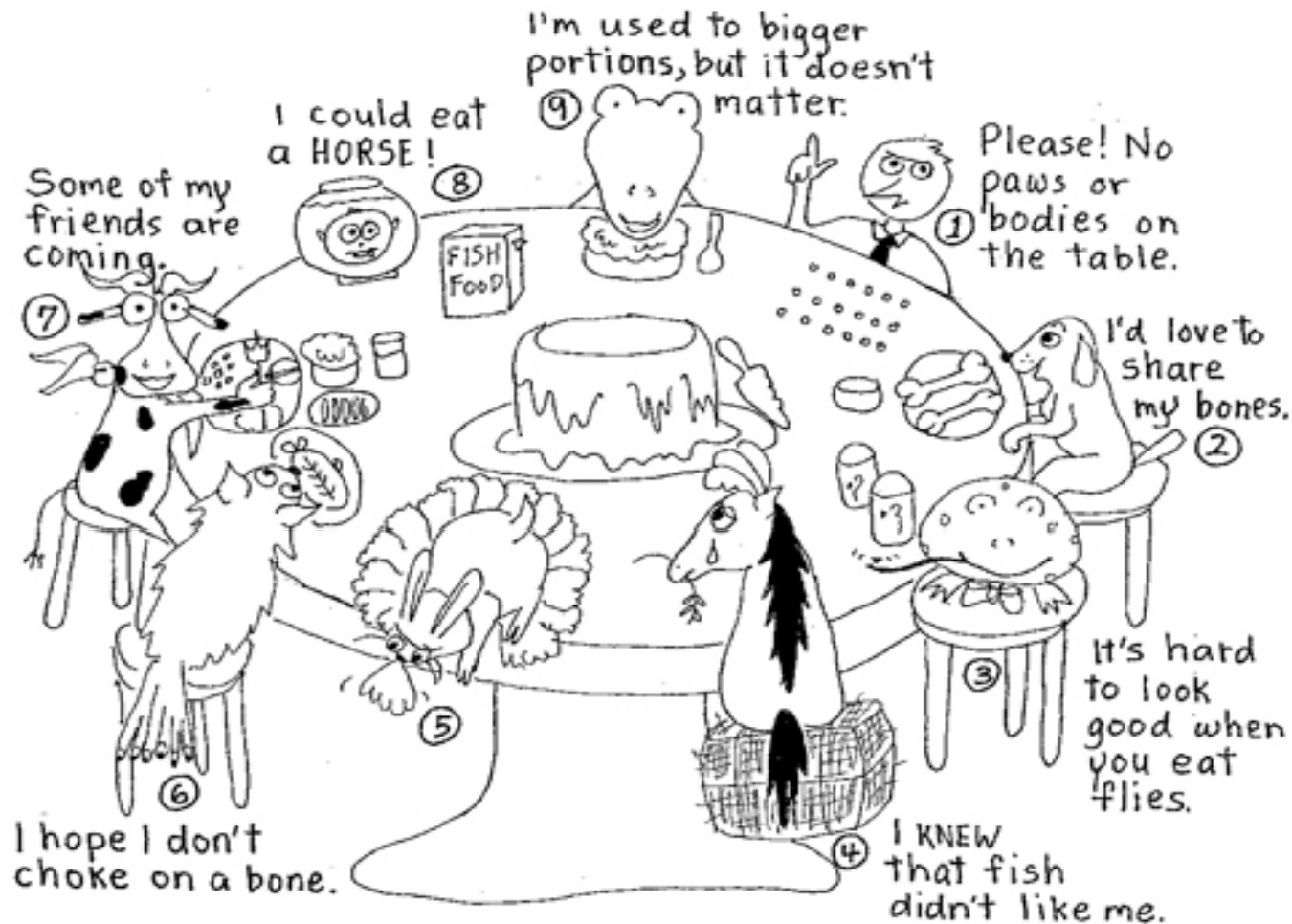
OMS Member States

<u>State</u>	<u>2009 Population</u>	<u>MISO Load</u> ^[12]	<u>Retail Rate State</u>
Illinois	12,910,409	10,559	Deregulated
Indiana	6,423,113	15,822	Regulated
Iowa	3,007,856	8,010	Regulated
Kentucky	4,314,113	776	Regulated
Manitoba*	1,174,000	6,133	Regulated
Michigan	9,969,727	19,872	Deregulated
Minnesota	5,266,214	12,432	Regulated
Missouri	5,987,580	9,218	Regulated
Montana	974,989	151	Deregulated
North Dakota	646,844	1,261	Regulated
Ohio	11,542,645	17,539	Deregulated
Pennsylvania	12,604,767	1,064	Deregulated
South Dakota	812,383	495	Regulated
Wisconsin	5,654,774	16,556	Regulated
Total:	83,000,677	119,689	

^[12]Represents non-coincident peak load

*Data is based on the 2004 Manitoba Bureau of Statistics

If You're Not At the Table...You're On the Menu!



Conclusion

- OMS builds technical capacity of state commissioners and staff through participation in work groups, mutual discussions, and MISO technical committees.
 - Commissioners and staff gain broader perspectives on regional issues and better knowledge of RTO operations and personnel.
 - All gain ability to network with appropriate experts in other states and throughout stakeholder community.
 - Staff members develop more specialized expertise by being able to concentrate on particular issue, e.g. market design.
 - States maximize staff expertise without spending additional dollars for more employees or consultants.
 - MISO funding makes this work – states could not afford to spend the resources for our active stakeholder participation with the RTO.
-

Conclusion Continued

- Experience demonstrates importance of commissioner involvement in policy decisions. Their authority helps balance local and regional needs and empower staff to broaden their focus.
- Commissioners have shown exemplary leadership in respecting policy differences among states and among stakeholder interests.
- Participation nets a high value return.
- Increases communications between states and the RTO.
- State agencies tell us regional participation has improved their expertise on transmission and market issues.
- Working groups are key to success.
- Priority should be given to institutionalizing organizational systems, strategies and structures, as people come and go.