



Federal Energy Regulatory Commission

Midwest ISO Technical Conference With States and Market Participants

Midwest ISO's Wholesale Market Platform Overview

**Remarks of Jim Torgerson
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Mr. Chairman, Commissioner Brownell, Commissioner Massey, distinguished guests, ladies and gentlemen, thank you for inviting me here today. It is my pleasure to be on the agenda, and I appreciate the opportunity to speak with you about the MISO and the progress we are making as the nation's first RTO to be approved by FERC.

Following yesterday's important meetings with state commissioners at the MARC Conference, I want to give you an update on the steps we are taking to launch the Midwest Market Initiative, and to discuss how an open and accessible market can



benefit all users of the electricity grid – from generators and suppliers to utilities and their customers.

Today I'd like to give you a brief overview of MISO before addressing the topics that directly relate to our role in fulfilling the vision of creating competitive wholesale power markets at the regional level.

Electricity is not a luxury today — it is a necessity. Reliable electricity fuels America's diverse economy, brings power and progress, and drives the critical systems that form the backbone of our national security.

The safe, reliable, and efficient transmission of electricity at the wholesale level is a big reason why FERC issued Order 2000, creating RTOs. In response, transmission owners and operators throughout much of the Midwest stepped up to the plate, and voluntarily formed the MISO.

MISO now manages an electricity grid that serves more than 16 million customers. We have in excess of \$13 billion dollars in installed assets — spanning 15 states



and one Canadian province. Our members include transmission owners and operating companies, investor-owned utilities, municipalities, electric cooperatives, state regulatory authorities, consumer groups, end-use consumers, and environmental groups, power marketers and independent power producers.

Simply put, MISO's mission is to develop wholesale market functions that help ensure the reliable flow of electric power in an open and non-discriminatory way. Our job is to make sure electricity gets from the power plant to the consumer — Reliably, and at a fair price.

An open and accessible energy market offers proven benefits to all customers:

- It offers transparent pricing.
- It offers more options – and more flexibility for market participants to meet their needs.
- It provides the centralized security constrained economic dispatch that maximizes the efficiency of regional resources.



- It offers market based congestion management and eliminates the inefficient practice of using TLRs to manage congestion.
- It matches the physics of the electric system with the market and does not change the physical system.

And, a competitive, open-access market provides regulators with:

Information that arms you with additional tools to analyze electricity costs and services, including:

- Pricing, dispatch and operational information in real-time
- Congestion locations, costs, and mitigation approaches



- Analysis and assessment of where additional generation and transmission resources could be sited, benefits they will provide, and to whom the benefits will flow;
- Lower risk of adverse economic conditions resulting from resources being located in regions that have transmission limitations;
- Greater insight into the planning process through real-time analysis of information; and
- An independent resource you can consult with a variety of energy-related matters.

It's no accident that I listed MISO's value as an *independent resource* in my litany of benefits. Independence is a big word for MISO. As a non-profit organization governed by an independent Board of Directors, the MISO operates as a neutral entity managing an open-access electricity market for an entire region.

And since MISO does not have an economic interest in the buying and selling of power, we can ensure that all market participants benefit equitably. We attain this neutrality through an independent Board of Directors and our Independent Market Monitor.



Our Independent Market Monitor, Potomac Economics, helps identify and remedy flaws in market design or efforts to unduly exercise market power. Potomac Economics does this by continuously monitoring data it receives to evaluate market performance and identify conduct by market participants that could compromise the efficiency or distort the outcomes of the markets.

We believe this independence is crucial in instilling confidence that at all times – especially during times of constraint – market power is identified and vigorously mitigated.

To further explain the steps we have taken in this important area, we will discuss our market mitigation plan at a Technical Conference on June 26th at FERC's offices in Washington.

Let me now turn to the FERC White Paper and its impacts on market developments.

From our perspective, the White Paper recently released by FERC emphasizes the Commission's commitment to competitive wholesale power markets, while



underscoring a flexible approach toward the formation of regional markets and how they are structured to meet the needs of individual regions.

We wholeheartedly agree that the development of sound wholesale markets is a positive step. We are confident that such markets produce enhanced reliability and significant benefits for all market participants:

At MISO, we strongly believe that competitive wholesale power markets can bring meaningful benefits for consumers:

- Regional wholesale power markets place downward pressure on prices by increasing supply options, by encouraging the timely and appropriate siting of new generation plants, and transmission facilities. This, in turn encourages the development of necessary infrastructure to increase supply.
- Improved regional resource planning can help minimize short-term scarcity by encouraging development of additional transmission and generating capacity to meet market demand.



Through the formation of RTOs, the electric power industry now has the ability to provide consistent outage coordination across a large region.

MISO has the ability to “see” outages not only on its system, but also on neighboring systems, thus identifying in advance potential problems that an outage may cause. This enables MISO to better manage the critical interface between conducting needed maintenance outages and maintaining the integrity and reliability of the interconnected network to meet transmission service expectations.

Moreover, because the MISO has access to information from a regional perspective, we can manage the flow of resources across the grid to reduce or eliminate unscheduled, or excess, power. MISO also provides market participants with up-to-the-minute information on congestion so they can manage their resources in the most cost-effective manner. This information is particularly useful when the grid is heavily congested.

A regional market also enables the MISO to help mitigate market demand and ensure consistency and quality of service to each of the 16.5 million customers within our market area. Access to generation and transmission resources over such



a wide geographic area allows us to balance the load on the grid across a much larger scale, providing participants increased options for the supply of energy.

MISO's *Integrated Control Center Systems (ICCS)* allow participants to schedule power on a secure, Internet-based platform. Through the *ICCS* system, MISO evaluates transmission service requests, approves and provides transmission reservations, schedules service over multiple control areas, and analyzes system conditions in real time.

MISO will operate the energy market in two time periods: a Day-Ahead market and a Real-Time market. Both markets operate on dispatch principals similar to those used today – i.e., generation plants are dispatched to minimize the cost of serving load. The price for energy in these markets is based on Locational Marginal Pricing (LMP), which means that prices reflect transmission constraints and represent the local value of generation. Locational pricing also prompts efficient use of generation, and sends signals to add new generation capacity when supply is tight.



What matters most to us is meeting the needs of our customers. In the long-term effort of providing for the needs of electricity users, there are few items more important than ensuring that the Midwest Market is well run and brings benefits to consumers.

Now, I would like to provide you with an update on the progress we are making in preparing for the launch of the Midwest Market Initiative, now scheduled for March 31st of next year.

By extending the start-up date for the Midwest Market Initiative by four months, we believe market participants will have more time to prepare for a successful market opening. Extending the launch date also allows MISO's control areas and other market participants more time to train, more time to prepare and more time to review and confirm the market rules. We also will use this time to test our systems so that we have a very clear sense of how transactions will roll out from the beginning to the end of the process.

All systems changes and communication links with control areas need to be finalized in advance of the Market trials and Market trials are now scheduled to run



from November 1, 2003, through February 2004. Training started last week with the pilot outreach programs at Vectren, Cinergy and Illinois Municipal Energy Agency. Training classes are scheduled continuously now until November.

- The senior management teams of the MISO and PJM will meet later this month with Chairman Wood to coordinate the joint and common market timing. We will continue to work with PJM to identify and deliver quickly on those issues that bring benefits to customers.
- The GridAmerica integration is on target. Integration of their systems was essentially completed June 1st. We are performing with GridAmerica people an end-to-end test this week that will meet the requirements of all of the parties. Ameren's hearing in front of the Missouri commission is scheduled for early July. We are now planning for operations to commence on October 1st.
- TRANSLink is planning on starting up their activities in the first quarter of 2004. They still need state approvals in Minnesota and Iowa.

- The initial FTR indications were sent to stakeholders for review on June 5. We intend to follow the guidelines included in the recent FERC white paper to serve existing customers and to allow for future load growth. FERC also provided us guidance in the order related to the Market Rules. During the next two months we will be working with the state commissions and customers to review the information and modify the initial indicators to meet the goal of having no adverse impacts on existing customers. This will involve numerous one-on-one meetings with the impacted parties to come up with solutions and options that meet the goals.
- Also during the next six weeks we will be working with stakeholders to finalize the initial market rules tariff. We have already planned for a technical working session for the market protocols and another technical working session for the market rules tariff itself. We have pushed back the initial filing of the tariff until July 25th to allow additional input from stakeholders. We will then make the compliance filings and changes through the balance of this year, and by January 31, 2004, make the final compliance filing in advance of the market opening on March 31st.



- The Midwest ISO discussed its Transmission Expansion Plan at the MARC conference and we will be taking the plan to the Board of Directors for its endorsement next week. Future plans will be developed with the Organization of MISO States (OMS).
- Finally, the Supply Adequacy Working Group will be working in concert with the OMS to determine the appropriate resource adequacy for the Midwest ISO region.

At MISO, we are poised to bring the benefits of competitive wholesale electricity markets – managed independently and fairly – to the entire Midwest region.

We have made significant strides in the formation of a new wholesale electricity market, but a good deal of work remains – data transfer protocols, system and information technology changes, accounting and settlement matters, and various regulatory filings are all involved in the launch of an energy market.

We're confident that by continuing to work with our members and other market participants, our efforts will succeed in providing innovation, efficiency, and



exceptional reliability to customers who depend on the largest power system in the world.

At some of these meetings that I have the opportunity to address the Commission, Commissioner Massey frequently asks what are the three things we need.

Today I would like to take the opportunity to answer the question before the Commissioner has the chance to ask it.

- First, we need certainty with our area. I would ask the state commissions and FERC to come to decisions on the GridAmerica and TRANSLink requests to be in the Midwest ISO quickly. Also, once Illinois Power submits its request, I hope this can be decided expeditiously. We need this certainty in order to fully utilize our models and make the appropriate allocations for the FTRs.
- Second, we need consistency from the Commission. All of us need to understand the path FERC intends to take and we need clarity as to what changes the Commission is considering from existing regulations and law.



- Finally, we need help from FERC in the outreach and education to our stakeholders in explaining why – as I believe – this market makes sense at this time.

Thank you again for having me today, and for the opportunity to speak with you.

I'd be happy to try and answer any questions you may have.