



Capacity Deliverability Issues Between PJM and MISO

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Introduction

- Capacity deliverability is essential because the boundaries of the RTOs should ideally have no effect on:
 - ✓ The use of the network to dispatch the system in the operating timeframe; or
 - ✓ Decisions regarding where to invest or retire units on the long-run.
- These objectives can only be satisfied if:
 - ✓ Inefficient barriers to trading capacity between areas are eliminated to allow the markets to develop capacity in the lowest-cost areas;
and
 - ✓ The obligations assigned to external capacity suppliers are reasonable and do not distort the efficient dispatch of the system.
- We have substantial concerns in both of these areas, and have recommended the ISOs work to resolve the issues since 2008.



Barriers to Capacity Trading

- The use of transmission to support capacity transactions needed to satisfy the ISOs' planning needs is among the highest value uses of the network (as indicated by capacity price differences).
- We have identified a variety of barriers that prevent full, economic utilization of the transmission capability in the planning horizon:
 - ✓ Understated firm ATC into PJM;
 - ✓ Use of a Capacity Benefit Margin;
 - ✓ Unit-specific deliverability testing; and
 - ✓ Ability of participants to hold firm capability that precludes efficient capacity sales.



External Capacity Obligations

- Inefficient operating requirements on external capacity suppliers can raise additional economic barriers to capacity trading.
- Capacity markets should recognize how energy is transferred between the ISO areas in reality.
 - ✓ The ISOs' dispatch in each area is adjusted to effectuate energy transfers (output is not delivered from specific units);
 - ✓ Hence, the ISOs should have operating procedures to ensure external capacity will be delivered on a firm basis
 - this is both more efficient and reliable than imposing resource-specific dispatch obligations.



Next Steps

- Capacity deliverability substantially effects the efficiency of the long-term decisions made to satisfy the ISOs' planning needs.
- We have been raising these issues for five years and virtually no progress has been made.
- Although they have been discussing these issues, the RTOs have not agreed on:
 - ✓ Whether a problem exists;
 - ✓ What potential solutions may be reasonable for addressing it if there is one;
 - ✓ What the priority should be to implement a solution.
- For this reason, I continue to believe these issues will only be resolved if the Commission issue a reasonable deadline for the ISOs to work with their stakeholders on a solution.