



# FEDERAL ENERGY REGULATORY COMMISSION

November 12, 2008

Chairman Joseph T. Kelliher

**Docket Nos.** ER08-637-000 and ER08-637-001

## Statement of Chairman Joseph T. Kelliher on

### **Technical conference to consider issues related to the Midwest Independent Transmission System Operator, Inc.'s proposal to offer Market Coordination Service**

"Good morning. I'd like to welcome everyone to the conference today. I believe the issue before us today is an important one regarding the future of Regional Transmission Organizations (RTOs). Fundamentally, under the Midwest ISO's Market Service proposal, a Market Service customer would be permitted to have generation on its system incorporated into Midwest ISO's market without becoming a full-member transmission owner of the Midwest ISO. Under the proposal, the Market Service customer would maintain operational control over its transmission facilities, retain its own open access transmission tariff and retain its through and out, or "pancaked," transmission rates. In addition, under the proposal, a Market Service customer would not be subject to the Midwest ISO's transmission planning process or its cost sharing mechanism for new transmission.

While the impetus for the proposal is a desire for closer integration between Midwest ISO and members of MAPP in order to address seams issues, Market Service will be offered to any qualifying transmission provider. For example, any existing full-member transmission owner of the Midwest ISO, or any other neighboring RTO, could avail itself of the Midwest ISO's Market Service once satisfying notice and financial obligations and receiving appropriate Commission approval to depart their respective RTO. In addition, any transmission provider bordering Midwest ISO, or another Market Service customer would also be eligible for Market Service.

The Commission articulated certain policy concerns and posed several questions in its June 2008 order on the Market Service proposal – these questions were posed so that we could gain a better understanding of the impact of the proposal on RTO membership as well as an attempt to fully understand the corresponding benefits to customers in the footprint of the Midwest ISO Transmission Owners and customers in the footprint of the potential Market Service customer.

In summary, this proposal presents an issue of "first impression" for this Commission. On one hand, a case can be made that the proposal permits the RTO to enlarge its energy market and realize benefits for customers within its footprint and within the Market Service customer's footprint. Such benefits would include reducing administrative costs to existing transmission owners, increasing generation choices (including wind) in the market, increasing reliability through a market mechanism and reducing the use of TLRs.

On the other hand, there are legitimate concerns that approval of the Market Service proposal could impair MISO transmission operations and the quality of transmission service. Rate pancaking could arise within the existing MISO territory, and both transmission planning and expansion could be damaged. The Market Services proposal would provide expanded access to markets to wholesale customers outside RTOs. But doing so could come at the expense of effective transmission operations, planning, and expansion. If so, I believe that is too high a price. In some respects, the Market Services proposal may



## STATEMENT

be inconsistent with Order No. 2000. The Commission must ask itself which is more important: expanded market access or the core transmission functions envisioned for RTOs in Order No. 2000.

Because of the broad policy and technical implications of this proposal we've scheduled a two-part technical conference to explore the issues raised, so that the Commission can make a well-informed decision on the merits of this case. During the first session, the morning session, my colleagues and I, as well as members of staff, will explore the policy issues raised by the proposal. During the second session, the afternoon session, staff will lead a discussion of the technical aspects of the proposal.

I would like to thank the panelists for taking the time to submit comments on the policy implications of this proposal and for appearing before us today to further discuss these issues. I look forward to hearing more from all of the panelists on the proposed Market Service."