

**January 05, 2012**

**IOWA UTILITIES BOARD**

**STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD**

<b>IN RE:  UTILITY COAL PLANT PLANNING</b>	<b>DOCKET NO. NOI-2011-0003</b>
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**SUPPLEMENTAL COMMENTS OF THE MIDWEST INDEPENDENT  
TRANSMISSION SYSTEM OPERATOR, INC. IN RESPONSE TO THE IOWA  
UTILITIES BOARD'S SEPTEMBER 2, 2011 "*ORDER OPENING INQUIRY ON UTILITY  
COAL PLANNING AND SOLICITING COMMENTS*"**

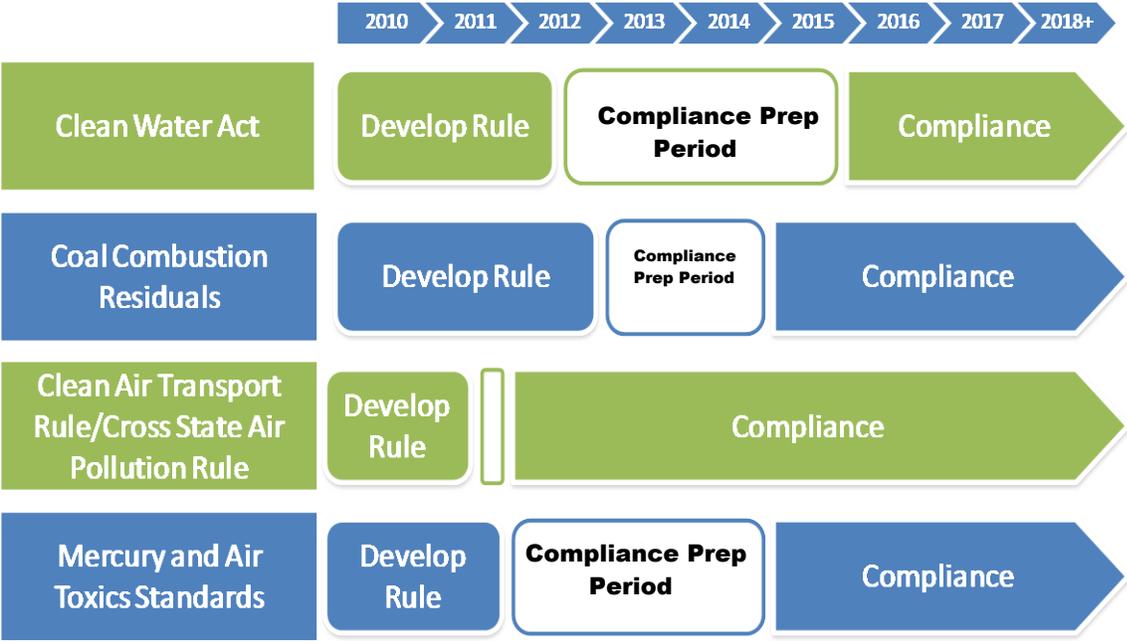
The Midwest Independent Transmission System Operator, Inc. ("MISO") respectfully requests leave of the Commission to submit the following brief supplemental comments in response to the Board's September 2, 2011 "*Order Opening Inquiry on Utility Planning and Soliciting Comments*," in addition to the MISO's initial comments submitted in this docket on December 15, 2011.

MISO's initial comments focused on the financial, rate and planning impacts anticipated to result from four significant EPA regulations.<sup>1</sup> MISO's initial comments also discussed certain tools that could be used to address such anticipated impacts – such as a safety valve proposal being made to U.S. EPA. However, MISO would be remiss if it did not also discuss the subject of *capacity deliverability* in the context of these EPA regulations and their anticipated impacts.

The anticipated compliance timelines for these EPA regulations are tight and somewhat overlapping, as is illustrated by the following graph:

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<sup>1</sup> The Clean Air Transport Rule, which has evolved into the Cross State Air Pollution Rule; the Mercury and Air Toxics Standards Rule; the Cooling Water Intake Structures Rule; and the Coal Combustion Residuals Rule.



Given the potential magnitude of coal-fired unit retirements projected to result from these stringent EPA regulations, along with these tight timelines for compliance, capacity deliverability is an important issue today, and increased capacity deliverability can play a meaningful role in mitigating resulting capacity shortages, reduced reserve margins, and associated reliability challenges.

As the MISO referenced in its December 15, 2011 comments, the EPA's proposed mercury rule, in particular, would hit the MISO system the hardest because most of the work needed to comply with this rule would occur during the 2014/2015 timeframe. The timing for implementation of the EPA regulations is problematic, in part, because it takes three to four years to retrofit or to replace a power plant. As a result, approximately 62,000 MW of coal units could potentially be unavailable for reliability purposes -- *all at the same time*. Even though most of these units would not necessarily retire, they would still need to be shut down for many months to install environmental control equipment to comply with the EPA regulations. Improved capacity deliverability is another tool that can be used to manage and mitigate reliability impacts from the substantial compliance obligations and associated unit outages that will result from the EPA regulations.

Capacity deliverability refers to the ability to move energy from a resource to the customer load. Optimizing capacity deliverability across RTO “seams” allows energy resources to move and be used across broader regions, resulting in increased efficiency, increased flexibility for future investment decisions, and increased reliability during the transition period to compliance with these new EPA regulations.

Preliminary MISO analysis indicates that up to 4,000 MWs of additional capacity transfers between MISO and PJM should be possible. Although physical transfer capability exists, artificial, non-physical barriers inhibit the movement of capacity across seams. Improving the ability to move capacity across RTO borders will increase RTOs’ flexibility to maintain reliability at the lowest costs to customers – a particularly important goal in light of the capacity constraints likely to result, at least temporarily, from compliance with the EPA regulations.

MISO and The Brattle Group have developed a preliminary proposal for resolving identified barriers to capacity transactions across the MISO/PJM border. The proposal treats internal and external resources as similarly as possible while maintaining and building upon existing market processes. Under the current process, a firm transmission reservation is required to move capacity across the border. The proposal recommends solving the current inefficiencies with the firm transmission reservation processes by developing processes that ensure cross border unit deliverability and an aggregate capacity commitment that respects transfer limits between MISO and PJM. Both PJM and MISO use a similar approach to assure locational resource adequacy within their respective footprints.

Key market design elements of this proposal include:

- **Capacity transfer capability** – jointly agree upon a total transfer capability that could be achieved simultaneously at each modeled interface between the markets.
- **Model external capacity zones in auctions** – to enforce the established capacity transfer limits, each RTO would model the other as an external market zone in their respective capacity **auctions**.

- **Energy must-offer obligations** – a resource making a cross-border capacity commitment would make an energy offer into its host market to meet its must-offer obligations.
- **Firm commitment during emergency conditions** – during declared system emergencies, each regional transmission organization would have firm rights to call on resources committed to their loads without limitations.
- **Grandfathering agreements for existing capacity sales** – holders of existing firm transmission reservations that use these agreements for capacity sales would be compensated for any price differences between the RTOs.
- **Resource qualification** – all cross-border generation resource obligations would be unit-specific.
- **Market-monitoring and mitigation standards** – each RTO would develop separate market monitoring and mitigation rules to govern their respective auctions.

Achieving more efficient seams management processes for capacity will require substantial RTO and stakeholder participation. However, given the economic and reliability benefits, particularly in light of the capacity impacts expected to result from the EPA regulations and tight compliance timelines, MISO urges its various stakeholders to work toward this goal. More efficient seams management is an area where state and federal agencies, along with RTOs and individual utilities, can and should work together to minimize financial, reliability, and resource adequacy problems while complying with the EPA regulations and their associated tight compliance deadlines.

Respectfully submitted,

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