

The Brattle Group recommends removing capacity transfer barriers, and identifies improvements that could produce \$1.5 billion in annual savings or \$12 billion over eight years.

Institutional Barriers

For the last five planning years, PJM capacity prices have been approximately \$30/kW-year above those in MISO. MISO estimates the transmission System will be capable of reliably transferring 5,300-6,300 MW of capacity in the 2014-2015 planning year. Despite the incentives to transfer capacity from MISO to PJM created by the price differential and the availability of transfer capability, only 400 MW of capacity sales from MISO to PJM exist. In its preliminary report, the Brattle Group, identifies three barriers:

- Availability of firm transmission for capacity sales represents the most significant barrier. Existing transmission reservation processes were designed prior to the current capacity markets, which when used to establish qualification to provide capacity have resulted in under-utilization of the transmission system. Entities that hold firm transmission capability often do not use the service for capacity sales.
- Current processes do not include a mechanism to net out capacity commitments in opposite directions across the border.
- Procedures to ensure participants meet energy market must-offer obligations resulting from cross-border capacity commitments create unnecessary risks resulting in increased costs.

Capacity Deliverability Proposal

Together, the Brattle Group and MISO developed a preliminary proposal for resolving the identified barriers to capacity transactions across the PJM-MISO border. The proposal treats internal and external resources similarly 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 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.

- **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 load 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.

MISO believes unlocking these significant savings for consumers is of great importance, through either the approach outlined here, or another alternative solution, and that a fair and accountable process to ensure consistent progress is appropriate.

Did you know?

- Studies indicate reserve margins in MISO could drop significantly due to compliance with EPA regulations.
- Eliminating barriers to efficient capacity transactions between adjacent areas could result in billions of consumer savings annually.
- Analysis shows at least 4,000 MW of additional net transfer capability is available between MISO and PJM.
- Eliminating barriers will provide flexibility, transparency, and efficiency while dealing with EPA regulations.