



# FEDERAL ENERGY REGULATORY COMMISSION

NEWS

February 26, 2008

Docket Nos. ER07-1372-000 and ER07-1372-001

NEWS MEDIA CONTACT

Barbara A. Connors - 202.502.8680

## **FERC Conditionally Accepts Midwest ISO Ancillary Services Market Proposal**

The Federal Energy Regulatory Commission (FERC) has conditionally accepted the Midwest Independent Transmission System Operator's (Midwest ISO) proposal to implement a day-ahead and real-time ancillary services market (ASM), including a scarcity pricing proposal.

The proposed tariff will "yield substantial reliability and efficiency benefits," FERC said. The proposal calls for scarcity pricing through the use of demand curves in shortage conditions and greater participation by demand resources.

"This is a significant step to improve power markets in the Midwest," FERC Chairman Joseph T. Kelliher said. "FERC recently proposed changes to strengthen competition in organized electric markets, including improvements in demand response. The ancillary services market provides a greater opportunity for price competition from demand response, and will improve efficiency and reliability in this broad region."

The Midwest ISO will determine operating reserve requirements and procure operating reserves from all qualified resources, in place of the current system of local management and procurement of reserves by the 24 Balancing Authorities. A Balancing Authority is responsible for maintaining the balance of loads and resources within particular physical boundaries.

The Midwest ISO proposes to transfer and consolidate Balancing Authority responsibility in the Midwest ISO so that it will become the North American Electric Reliability Council-certified Balancing Authority for the entire Midwest ISO Balancing Authority Area. This will allow for the centralized management of ancillary services.

In accepting the ASM proposal, FERC noted that the Midwest ISO proposal "incorporates, and in some cases improves upon, ASM design features that have worked successfully in other RTOs and ISOs, including the PJM Interconnection, the New York ISO, ISO New England and the Electric Reliability Council of Texas." The Midwest ISO has designed a market "that incorporates the best features of other ASMs."

FERC carefully considered recommendations from the Midwest ISO, the Independent Market Monitor (IMM), the Organization of MISO States and other interested parties regarding market power and mitigation. Commission staff convened a technical conference in December 2007 to address the IMM's market power analysis and the Midwest ISO's proposed mitigation plan.

"[W]e are adopting a comprehensive package of market mitigation measures that will ensure that ancillary services market rates are just and reasonable as the region moves from cost-based rates to market-based rates," FERC said.





FERC also adopted conduct and impact mitigation tests that are the same as those now used in the Midwest ISO's energy market and that have worked well in the region. Similar mitigation measures have been used in other ancillary services markets, such as that in the New York ISO. To provide an additional check on market power, FERC said the IMM will audit and monitor for potential physical or economic withholding.

The Midwest ISO is scheduled to launch its ASM program on June 1, 2008.

(30)

R-08-11

