

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Midwest Independent Transmission System)	Docket Nos. ER07-1372-000
Operator, Inc.)	ER07-1372-001

**REPLY COMMENTS OF THE ORGANIZATION OF MISO STATES, INC.
FOLLOWING TECHNICAL CONFERENCE**

The OMS has reviewed the comments submitted by parties December 20, 2007, in this docket. Upon review of the comments, the OMS does not alter its position described in its October 15 comments on the filing and its December 19 post-conference comments, namely that the very high potential for the exercise of market power in the Midwest ISO ancillary services market (“ASM”) merits a very strong and active market monitoring approach. In its October 15 comments, the OMS proposed using a \$10 per MW/hour adder over reference levels along with a ratchet mechanism that allows the adder to adjust up or down depending on market participants’ behavior in the ASM. The Midwest ISO and the independent market monitor (“IMM”) have indicated support for that approach. While the other parties’ post-conference comments are informative, they do not refute the need for the proposed adjustable adder.

Upon reading the comments, OMS believes one area merits further discussion. That is, a clear specification of reference levels is needed in the tariff. Comments by Ameren and the Midwest TDUs suggest that there is ongoing ambiguity over what the correct reference levels should be. Ameren believes that certain opportunity costs must be included, and that the IMM has made such a commitment.¹ The Midwest TDUs believe the appropriate reference levels must be defined during the period when there is the least amount of uncertainty over the measurement of marginal costs. Appropriate reference levels should essentially be defined during a period of maximum competition in the ASM, when transmission constraints are not binding, and when the relevant market is

¹ Pages 7-8, “Post-Technical Conference Comments of Ameren Services Company,” December 20, 2007, Dockets ER07-1372-000 and -001. Accession Number 20071220-5091.

not zonal.² The Midwest TDUs believe the MISO has made this representation as well.³ The OMS position is that the reference levels must reflect true marginal cost of service, so the Commission should in this docket make clear to the Midwest ISO and the IMM the proper way to calculate the reference levels and put that method in the tariff.

Conclusion:

Neither the results of the December 6 technical conference, nor the parties' post-conference comments persuade the OMS to change its position and recommendation regarding ASM market monitoring. In fact, responses at the technical conference and the discussion above reinforce the concept that the Midwest ISO should use the OMS-proposed \$10 per MW/hour adder over reference levels with the indicated ratchet mechanism. OMS reiterates that the Commission has before it a rare consensus of the states, the RTO, and IMM. This consensus respects and reflects the Commission's own guidance on issues of market power in prior decisions. Consequently, the Commission should direct the Midwest ISO to make a compliance filing implementing the OMS-proposed \$10 per MW/hour adder mechanism for the ASM, including the ratcheting component.

The OMS submits these comments because a majority of the members have agreed to generally support them. The following members generally support these comments. Individual OMS members reserve the right to file separate comments regarding the issues discussed in these comments:

Illinois Commerce Commission
Indiana Utility Regulatory Commission
Iowa Utilities Board
Kentucky Public Service Commission
Michigan Public Service Commission
Minnesota Public Utilities Commission
Missouri Public Service Commission
Montana Public Service Commission
North Dakota Public Service Commission
Public Utilities Commission of Ohio
South Dakota Public Utilities Commission

² Pages 2, 9, and 18, "Post-Technical Conference Comments of Midwest TDUS," December 20, 2007, Dockets ER07-1372-000 and ER07-1372-001. Accession Number 20071220-5115.

³ Ibid. Page 2.

Wisconsin Public Service Commission

The Manitoba Public Utilities Board did not participate in this pleading. The Nebraska Power Review Board and the Pennsylvania Public Utility Commission abstained from this pleading.

The Indiana Office of Utility Consumer Counselor, the Iowa Office of Consumer Advocate and the Minnesota Department of Commerce, as associate members of the OMS, participated in these comments and generally support these comments.

Respectfully Submitted,
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Dated: January 11, 2008

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Des Moines, Iowa, this 11th day of January, 2008.

William H. Smith, Jr.