



Organization of MISO States

100 Court Avenue, Suite 315
Des Moines, Iowa 50309

Phone: 515-243-0742
Fax: 515-243-0746
www.misostates.org

August 30, 2012

Mr. John R. Bear
President and Chief Executive Officer
MISO
jbear@misoenergy.org

Via Electronic Mail Only

Dear Mr. Bear:

Thank you for your correspondence dated August 29, 2012, and the *Proposal for Enhanced OMS Authority for Determining Cost Allocation Methodologies to be Filed Pursuant to Section 205 of the Federal Power Act* ("MISO Section 205 Proposal"), which OMS received August 30, 2012.

As you are aware, on August 16, 2012, OMS adopted two proposals.¹ These two OMS proposals reflect approximately nine months of effort, including two joint meetings with the Entergy Regional State Committee on February 13-14, 2012, and May 2, 2012, resulting in a May 11, 2012 joint paper² produced by an OMS/ERSC working group; a June 13, 2012 Special OMS Board Meeting; a June 19, 2012 planning proposal,³ which reflected modifications based on discussions at the Special Board Meeting; additional revisions resulting in the July 6, 2012 proposals, which were presented and discussed at the July 18, 2012 MISO Advisory Committee Meeting; and finally, the August 16, 2012 proposals, which reflect additional modifications based on stakeholder feedback and additional discussions with MISO. These two proposals are the products of much collaboration, compromise, and concession.

OMS understands that the MISO Section 205 Proposal is intended to address some lingering, discreet concerns or issues. First, the MISO Section 205 Proposal intends to address the concern that MISO's independence is compromised if it is "directed" to take any action. Second, the MISO Section 205 Proposal intends to address the concern regarding Baseline Reliability Projects being subject to enhanced OMS authority. Third, the MISO Section 205 Proposal provides that filing tariff language to effectuate this proposal is contingent upon the successful integration of Entergy Arkansas transmission, generation, and load into MISO's markets.

Given the severely truncated timeline under which we are operating, it was difficult for the entire OMS Board to fully and fairly review, analyze, and address the MISO Section 205 Proposal, line-by-line. But the remaining concerns are well known to all. Given the virtual inability to fully analyze the MISO Section 205 Proposal in a timely fashion, OMS offers a counterproposal that attempts to address the concerns and issues identified above. The attached *OMS Counterproposal for Enhanced Authority for Determining Cost Allocation Methodologies to be Filed Pursuant to Section 205 of the Federal Power Act* ("OMS Section 205

¹ OMS Proposal for Enhanced Authority for Determining Cost Allocation Methodologies to be Filed Pursuant to Section 205 of the Federal Power Act ("OMS Section 205 Proposal"); and OMS Proposal for Enhanced Planning Authority ("OMS Planning Proposal").

² Scope of OMS Enhanced Authority

³ OMS Proposal Rescope of Enhanced OMS Planning Authority

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Counterproposal") is based upon the August 16, 2012 OMS Section 205 Proposal. We believe it addresses the remaining concerns and issues.

First, the OMS Section 205 Counterproposal adopts certain language in paragraphs 2 and 6 that attempts to satisfy the concerns of "directing" MISO and MISO's independence. This language was proposed by MISO General Counsel Steve Kozey in a document provided to OMS on August 24, 2012, as "Option c."

Second, the OMS Section 205 Counterproposal includes language that excludes Baseline Reliability Projects. OMS understood the Transmission Owners expressed concern regarding reliability projects for which the TOs bear NERC responsibility. In recognition of that legitimate concern and as a show of compromise and concession, OMS explicitly exempted BRPs below 345 kV. OMS thought that that compromise struck an appropriate balance between the TOs' valid concerns regarding their NERC obligations and OMS's goal of having greater authority regarding projects for which our ratepayers will ultimately pay. In this OMS Section 205 Counterproposal, OMS has compromised further still by explicitly exempting all BRPs.

Third, the OMS Section 205 Counterproposal adds an additional paragraph that requires filing of tariff language to effectuate the OMS Section 205 Counterproposal irrespective of Entergy Arkansas's successful integration into MISO's markets.

Regarding this last provision, as OMS has stated since the beginning of this effort, the integration of Entergy Corporation into MISO was but one reason for pursuing enhanced state regulatory authority. Other, independent reasons exist, including FERC Order 1000's contemplation of enhanced state authority with respect to cost allocation and transmission planning, that counsel in favor of enhanced state authority. Given that fact, making the grant of enhanced authority over cost allocation contingent upon successful Entergy integration is ill-advised.

Further, if the concepts outlined in this proposal are good policy with Entergy Arkansas in the MISO footprint, they are good policy without Entergy Arkansas in the MISO footprint. Given the tremendous amount of time and effort expended by all to arrive at this point, to include such a contingency does not properly recognize that effort nor does it acknowledge the independent reasons for granting the state regulators enhanced authority.

Finally, OMS understands that it has MISO's commitment to file the necessary tariff language to effectuate the OMS Planning Proposal.

OMS remains committed to healthy dialogue with the goal of achieving a mutually beneficial result.

Thank you for your time and consideration. We look forward to your response.

Very truly yours,

A handwritten signature in cursive script that reads "Robert S. Kenney". The signature is written in dark ink and is positioned above the typed name.

Robert S. Kenney
President, Organization of MISO States

OMS Counterproposal for Enhanced Authority for Determining Cost Allocation Methodologies to be Filed Pursuant to Section 205 of the Federal Power Act

OMS proposes to modify and supplement its earlier proposal as follows:

1. OMS would have the legal right under MISO's tariff to request and MISO will agree to file an amendment to its cost allocation methodology that would be identified as an OMS proposed filing.
2. OMS's authority to request MISO to file a separate filing would be exercisable in any of the following circumstances:
 - a. Upon MISO undertaking a section 205 filing to amend an existing cost allocation methodology.
 - b. Upon OMS request that MISO 1) examine a change or changes in methodology, which MISO would not unreasonably deny, and subject to the commencement of a stakeholder process as provided and modified in 5 and 6, below, or 2) make minor technical and clarification tariff changes. Once an examination is requested under 1), MISO shall begin the requested stakeholder process not more than 60 days after the date of OMS's request.

For purposes of this No. 2, "examine a change or changes in methodology" shall not include the methodologies employed in Baseline Reliability Projects but shall mean changing any transmission project cost allocation methodology, changing the definition of the classes or types of transmission projects subject to any MISO cost allocation formula, or any combination of the foregoing. In the case of any dispute between MISO and OMS as to whether a MISO proposal examines a change or changes in methodology, the proposal nonetheless shall be deemed to be an examination of a change or changes in methodology for purposes of OMS's Section 205 rights described herein.

3. The right described above would apply to the cost allocation methodology being applied to new regional projects and those previously-approved projects where MISO initiates reevaluation in the future (in other words, the cost allocation methodology may be an existing methodology that is being applied to a new or reevaluated set of projects), excluding Baseline Reliability Projects.
4. This new involvement would apply immediately, not upon the expiration of the five-year transition period accepted by the FERC in its Order in Docket No. ER-12-480-000, dated April 19, 2012 (139 FERC ¶ 61,056). Nothing in this paragraph is intended to transfer costs between MISO North and MISO South during the five-year transition period.
5. Barring extraordinary circumstances, MISO shall honor any request by OMS that one or more state commissioners be selected as stakeholder process co-chairs, provided OMS provides

assurances of the availability of said commissioner(s) to help direct the stakeholder process in a timely manner. At the beginning of the stakeholder process developing a proposal seeking to amend an existing cost allocation methodology or develop a new cost allocation methodology, MISO and OMS will work cooperatively to develop appropriate guidelines and time frames by which any alternative proposal and supporting materials would be completed.

6. At any point during the stakeholder process (whether initiated by MISO or OMS request) developing a proposal seeking to amend an existing cost allocation methodology or develop a new cost allocation methodology, OMS may undertake to develop an alternative cost-allocation methodology, so long as 66% of the OMS voting members agree to this undertaking. If at the end of such stakeholder process MISO reasonably concludes that it will not file with FERC either any amendment to an existing cost allocation methodology or a new cost allocation methodology, then no OMS alternative will be filed by MISO. MISO will provide to OMS a written explanation of its decision not to file with FERC.

7. OMS and MISO will work cooperatively to ensure that OMS's alternative tariff language, as well as any material supporting justness and reasonableness, is filed in an agreed upon time frame.

8. Nothing in this proposal is intended to supersede or abrogate MISO's or any MISO Transmission Owner's existing Section 205 rights.

9. Nothing in this proposal is intended to affect any existing or currently planned transmission project in the 2011 MISO MTEP, Appendix A. In other words, nothing in this proposal is intended to operate retroactively on currently approved projects that proceed without re-evaluation by MISO.

10. MISO shall provide the technical support (either in human or financial resources) in order for OMS to support the justness and reasonableness of its proposal. MISO staff shall be subject to reasonable direction by authorized OMS representatives for purposes of developing an OMS cost allocation methodology proposal whether or not OMS ultimately requests that MISO files a tariff as provided herein.

11. MISO shall timely file and fully support at FERC the changes sought in this proposal regardless of the outcome of the integration of any of the Entergy Corporation entities (or successor organizations) into MISO as TO members. Entergy Corporation is defined as and understood to mean Entergy Arkansas, Entergy Mississippi, Entergy Louisiana, Entergy Gulf States Louisiana, Entergy Texas, and Entergy New Orleans.

This OMS Section 205 Counterproposal was adopted by the OMS Board of Directors on August 30, 2012. The Manitoba Public Utilities Board abstained from voting on this proposal.