

ORGANIZATION OF MISO STATES, INC.
SPECIAL BOARD MEETING MINUTES
July 27, 2004

NOTE: Approved August 12, 2004

Commissioner Susan Wefald, President of the Organization of MISO States, Inc. (OMS), called the July 27, 2004 Special Meeting of the OMS Board of Directors to order via conference call at approximately 3:00 p.m. (cdt). The following directors were present for the meeting:

Susan Wefald, North Dakota
Steve Gaw, Missouri
Laura Chappelle, Michigan
David Sapper proxy for Robert Garvin, Wisconsin
John Harvey, proxy for Diane Munns, Iowa
Kevin Wright, Illinois
Bob Pauley, proxy for David Hadley, Indiana
Talina Mathews, proxy for Mark David Goss, Kentucky
LeRoy Koppendrayner, Minnesota
Greg Jergeson, Montana
Tim Texel, proxy for Louis Lamberty, Nebraska
Judy Jones, Ohio
Glen R. Thomas, Pennsylvania
Greg Rislov, proxy for Gary Hanson, South Dakota

Absent: Manitoba

Also Present:

Matt Lacey, Minnesota Dept. of Commerce
Jan Karlak, Ohio
Rob Mork, Indiana Office of Utility Consumer Council
Jerry Lein, North Dakota
Marla Larson, Montana
Kim Joyce, Pennsylvania
Bill Smith, OMS Staff

Raksha Krishna, EEI
Dave Taylor, Grid America

The Directors and proxies listed above established the necessary quorum for the meeting of at least eight Directors being present.

President Wefald announced that there would be one item of business on the meeting agenda:

Action Item: Shall OMS submit comments to the FERC regarding reactive power by July 30?

In order to determine if the OMS BOD would choose to submit comments, President Wefald introduced the Final Draft Version of the OMS Comments to the FERC on MISO's Schedule 21 as forwarded by email to members of the OMS BOD on July 23, 2004 at 2:56 pm (cdt) by Bill Smith.

Once the correct document was determined, President Wefald began discussing the twelve page document page by page, asking for comments, questions and corrections.

- **Page One** - no comments or corrections were offered on the background section.
- **Page Two** - contains a listing of Summary Comments "A" through "E". Jan Karlak suggested conforming each summary after the Comments are approved to reflect subsequent changes to the document.
- **Page Three** - discussion of reactive power. -- no changes.
- **Page Four -section "A. FERC should Reject the Proposed Schedule 21"**
Bob Pauley indicated Indiana does not support this paragraph - he felt the TOs at the MISO meeting were not opposed to Schedule 21, and OMS rejecting it in this document came as a surprise to Indiana.
President Wefald asked if Indiana would like to have a comment at the bottom of the page indicating Indiana's position, or if Indiana planned to vote no?
Discussion followed. (Steve Gaw agreed with Bob Pauley's view...that from a practical standpoint the VITOs were not going to put up a big fight. But Bill Smith looked at his meeting notes and thought they would probably protest.
Jan Karlak indicated that it was her Work Group's understanding that the VITOs were opposed to changing Schedule 2 and so at the last minute MISO decided to file this separate schedule 21 which would only address independent power producers, which would socialize the cost across the entire MISO footprint. But it was this socialization of cost which created some difficulty for some staff members of the working group, which resulted in what is presented in this document. Jan said this language is radically different from the original schedule 2.)

Bob Pauley answered President Wefald's question by saying Indiana's preference would probably be to vote no, but if OMS should choose to go along with it, Indiana might choose to insert a comment in this section or might decide to file separate comments.
Glen Thomas pointed out that Pennsylvania agreed with Indiana on this issue.

President Wefald asked Bob Pauley to work on language Indiana would want to have inserted in this document.

- **Page Five. "B An Alternate to a Needs Test Requested by Vertically-Integrated Transmission Owners in the MISO.** Jan Karlak mentioned that the "blue" highlighting showed rearranged language and correction of typos.
Bob Pauley felt that Missouri's comments were correct about a "Needs Test", but there was general agreement among the transmission owners that they didn't know how to do it.
- **Page Six** - background information.
- **Page Seven - B.1. OMS Recommendation: A Multi-zonal Approach to Cost Recovery:**
Steve Gaw, Missouri suggested adding a footnote at the end of first sentence following the word "footprint." Footnote would read: "**The Missouri Commission does not necessarily support a "multi-zonal" approach to the pricing of ancillary services. The Missouri Commission, however, would support a needs test determination.**"

As an alternative, David Sapper, Wisconsin suggested deleting the words in the first paragraph of B 1. "**ancillary services such as**" The sentence would then read "**As an**

alternative to a needs test, the OMS recommends that FERC require MISO to implement a "multi-zonal" approach to the pricing of Schedule 2 services in its footprint."

Jan Karlak spoke to the "ancillary services" issue after Dave Sapper's comment. Steve Gaw asked to check with Mike Proctor to verify whether Missouri would use Wisconsin's language or would insert the footnote that he initially requested.

Glen Thomas indicated that Pennsylvania has problems with "multi-zonal approach". Reactive power is really about reliability - giving RTOs flexibility. He agrees with MISO's view and can't support multi-zonal approach.

Bob Pauley had concerns about the lack of specificity relating to "homogeneous systems" and "multi zonal approach." Indiana could not be in support of the document's ambiguous language.

Laura Chappelle, Michigan agrees with Steve Gaw's concerns about the multi zonal approach. Michigan also has problems with the entire document and its rejecting of the proposed schedule 21. Michigan would consider agreeing to a footnote in favor of a needs test.

John Harvey spoke up at this point and raised the issue that Michigan and Missouri are at opposite ends of the spectrum - even though both disagree with the multi-zonal approach. Jan Karlak asked President Wefald if two footnotes in the document might be appropriate.

At this point, President Wefald asked Laura Chappelle to draft language for a footnote for the states in favor of a needs test.

Steve Gaw then complimented Jan Karlak and her working group on the work that went into this Reactive Power document.

- **Page Eight.** Marla Larson, Montana noted: In the last paragraph on page 8, there is a typo in the first sentence - **change "B.1" to "C.1"**

Bob Pauley objected to the sentence "**Such a discrepancy is discriminatory.**" in the second paragraph of **C.1. OMS Recommendation: Penalties Linked to Performance** Because of this language, Indiana would not support the document.

Steve Gaw asked Bob Pauley if Indiana objected to the one sentence or the whole paragraph itself. Bob Pauley felt that the one sentence caused some heartburn. It is doubtful Indiana will sign on, because the threshold problem is "undue discrimination."

John Harvey, Iowa, is concerned about penalties not being equitable in schedules 21 and 2. Jan Karlak responded that her work group felt that there should be even-handed treatment of all providers of reactive power. What is a problem is that independent producers of reactive power are not getting paid. Jan Karlak explained that there is a great discrepancy between schedule 21 and schedule 2. She described some of the discrepancies.

Greg Jergeson commented on the document as a whole; highlighting the need for FERC to offer a technical conference to describe what really ought to be in a schedule 21. (Page 11 of the document describes the need for a renewed stakeholder process.)

Instead of devoting time to this small issue (in dollar terms), Bob Pauley felt OMS should devote its resources to more substantive issues dollar-wise. Jan Karlak responded - while it appears to be a small issue monetarily -- her working group felt there was a bigger

principle involved. Even though it represents only a few pennies per customer; should MISO be allowed to socialize costs over the entire footprint, when not every producer is affected?

John Harvey offered his agreement with Jan Karlak and her working group's thinking on the issue of socializing costs.

- **Page 9 and Page 10 - Lost Opportunity Costs**

Leroy Koppendrayer asked why the comments suggest "lost opportunity costs" when they weren't requested by the IPP? This appears to be a broad brush approach.

Jan Karlak responded that lost opportunity costs were mentioned in the Troy case that was finally settled and they are a feature of how recovery is handled in PJM, California, and several other states where the issue in schedule 2 is involved. MISO intends to address this issue when the market is launched.

Greg Jergeson wants another choice added (see page 11) or at least a change in the wording.

- **Page 11** in the first paragraph at the top of the page. Jan Karlak suggested the wording be changed from:

"Many of these issues can be controversial. For example, in the matter of compensation for "lost opportunity costs," some State Commissions such as ___(x)___, ___(y)___, and ___(z)___, feel such compensation is inappropriate or requires more research, discussion or negotiation, while other OMS States feel such compensation is appropriate after the launch of a MISO centrally-dispatched security constrained energy market. In order to expedite this recommended stakeholders process for further discussion and resolution, the OMS requests that FERC provide a target date for the filing of a revised Schedule 2 by the Midwest ISO no later than December 1, 2004."

To this language:

Many of these issues can be controversial. For example, in the matter of compensation for "lost opportunity costs," some State Commissions such as (x)___ (y)___ (z)___ feel such compensation may or may not be appropriate, but requires more research, discussion or negotiation. Other OMS States feel such compensation is appropriate after the launch of a MISO centrally-dispatched security constrained energy market. In order to expedite this recommended stakeholders process for further discussion and resolution, the OMS requests that FERC direct the MISO to eliminate undue discrimination between schedule 2 and 21 no later than December 1, 2004.

President Wefald asked for a roll call vote of states in general support of filing the document with the FERC. Greg Jergeson, Montana so moved. John Harvey, Iowa seconded the motion.

Do states generally support comments?

South Dakota - Yes

Nebraska - Yes

Indiana - No

Iowa - Yes

Pennsylvania - No

Kentucky - Abstained - procedurally unable to vote

North Dakota - Yes

Wisconsin - Yes

Illinois - Yes
Michigan - No
Missouri - Yes
Minnesota - Yes
Ohio - Abstained * (OMS BOD later agreed to offer Ohio 24 hours to vote)
Montana - Yes
Manitoba - Absent

Motion Carried:

9 - in favor of supporting document
3 - opposed
2 - procedural abstentions
1 - absence

Wisconsin voted Yes contingent on state names being added to the paragraph on page 8.

Once it was determined that the comments were generally approved by a majority of states, President Wefald returned to page 11 of the comments to ask which states wished to have their names mentioned in the following sentence beginning:

"For example, in the matter of compensation for "lost opportunity costs," some State Commissions such as (x)____ (y)____ (z)____"

The states wishing to have their names included in this sentence on page 11 were:

Minnesota, Illinois, Wisconsin, South Dakota, Montana, Iowa, Missouri, North Dakota

At this point in the meeting, President Wefald asked the directors to return to **Page 8** of the comments to discuss the second paragraph of **section C.1**.

Discussion began about the sentence "Such a discrepancy is discriminatory." Mike Proctor suggested the sentence be changed to "**Such a discrepancy may be unduly discriminatory.**" Bill Smith clarified the meaning of "unduly" to suggest that it means "different burdens imposed without justification." In light of this clarification, the directors accepted this wording change.

John Harvey spoke at this point and indicated Iowa is not in support of the last sentence in this paragraph. "**Accordingly, the OMS recommends that this schedule 21 penalty provision be added to a revised MISO Schedule 2.**" President Wefald polled each of the states who supported the document individually and the consensus reached suggested deleting this sentence from the comments.

Jan Karlak then suggested a similar problem exists in another section of **Page 8, section C.2**. and therefore recommended the first sentence in this section be changed:

"The OMS recommends that MISO include "more detail, including the penalty provisions of Schedule 21 mentioned in C.1. above, with any evaluation of performance conducted fairly and impartially by the Midwest ISO, in a revised version of MISO's original Schedule 2."

The directors from the states generally approving the comments agreed to delete the phrase "**in a revised version of MISO's original Schedule 2.**" from the previous sentence; and to strike any mention of MISO's original Schedule 2 where it appears in the remainder of the document.

See **Page 9**, first paragraph, second sentence. " To that end, a mandatory "response time" requirement, based on a generation resource's design and operating characteristics should be included in

Schedule 2 to assure there is no unwarranted delay in the generation resources' response to the control area operator's call for changes in reactive power and voltage control."

To be consistent, the directors agreed to delete the phrase "**should be included in Schedule 2**".

Jan Karlak then offered to make changes to the document's "Summary of Comments" to make them consistent with the changes already agreed to by the OMS BOD. President Wefald asked her to do so. And also directed the executive director to make the requested changes to the document and forward it to the Ohio Commission to be voted on at its Board Meeting tomorrow.

After changes to the document were completed, the Comments were to be filed with the FERC by July 30, 2004.

[Note: On July 28, 2004 Ohio approved the comments and requested its name be added to the list on Page 11; Nebraska requested that its name be added to the Page 11 list as well.]

Jan Karlak was thanked by the directors for her dedicated work effort on this issue.

Meeting adjourned at 4:35 pm (cdt)