

ORGANIZATION OF MISO STATES, INC.
Board of Directors Meeting
Conference Call
October 12, 2006

Approved November 9, 2006

Steve Gaw, President of the Organization of MISO States, Inc. (OMS), called the October 12, 2006 Meeting of the OMS Board of Directors to order via conference call at approximately 2:00 p.m. (CDT). The following board members or their proxies participated in the meeting:

Randy Rismiller, proxy for Kevin Wright, Illinois
Bob Pauley, proxy for David Hadley, Indiana
John Norris, Iowa
Jeff Johnson, proxy for Mark David Goss, Kentucky
Laura Chappelle, Michigan
Ken Nickolai, Minnesota
Steve Gaw, Missouri
Candace Beery, proxy for Greg Jergeson, Montana
Tim Texel, proxy for Eugene Bade, Nebraska
Jerry Lein, proxy for Susan Wefald, North Dakota
Judy Jones, Ohio
Kim Pizzingrilli, Pennsylvania
Greg Rislov, proxy for Gary Hanson, South Dakota
Dan Ebert, Wisconsin

Absent

Manitoba

State Agency members participating

Ken Roth, Angie Butcher, Bill Bokram, Wanda Jones - Michigan
Mike Proctor - Missouri
Jan Karlak - Ohio
Kim Joyce- Pennsylvania

OMS Staff participating - Bill Smith, Julie Mitchell

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

Treasurer's Report - September 2006

OMS Treasurer Kim Pizzingrilli, presented the September, 2006 Treasurer's report.

Cash On Hand

The beginning balance as of September 1 for the Wells Fargo Business Performance Savings Account was \$55,933.95. Interest earned for this month was \$149.61. The September 30, 2006 balance was \$56,083.56.

The beginning balance as of September 1 for the Chase Bank One Checking account was \$88,893.75. The total disbursements from the checking account for September 2006 were \$20,292.79, deposits totaled \$41,339.65, including the interest earned of \$45.14. As of September 30, 2006, the checking account bank balance was \$113,727.07 and the book balance was \$109,940.61.

The total savings and checking account balances as of September 30, 2006 was **\$ 166,024.17.**

John Norris moved to accept the Treasurer's report as presented. Laura Chappelle second the motion. A voice vote of the directors unanimously accepted the report.

Review of the September 26 Executive Committee meeting

Bill Smith highlighted the following items from the meeting:

- Nominating Committee has completed its work and will report to the board next month.
- OMS office lease renewal for two years was approved.
- The remainder of the meeting was spent reviewing projects and deadlines.

Business Items

1. MISO Advisory Committee Issues

- Agenda indicates MISO will be discussing the RA & RECB issues without a proposed vote indicated.
- Bill Smith will be presenting on the OMS Demand Response Initiative.
- John Norris indicated he would not be available to attend the MISO AC meeting October 18.
- Judy Jones will be one of the members of the rotating AC agenda planning committee next month. She asked OMS members for suggestions they may have.
- Judy agreed to plan for dinner with the FERC staff in Carmel on Wednesday Oct 18.

2. OMS Nominating Committee Report - no report was given.

3. OMS Position on Resource Adequacy Issues to the MISO Board - Jan Karlak President Gaw requested Resource Adequacy Work Group (RAWG) Chair, Jan Karlak to introduce the Response to Graham Edwards Questions on Resource Adequacy circulated to OMS members prior to the meeting.

Ken Nickolai moved to accept the document as presented.

Laura Chappelle seconded approval of the draft.

Jerry Lein requested a sentence change to the document.

With this change, the amended document was approved by a unanimous voice vote of the directors.

The response to MISO approved by the OMS Board of Directors follows the minutes.

4. RECB Position to MISO Advisory Committee - Mike Proctor, Randy Rismiller Mike Proctor presented a brief overview of the OMS Pricing Work Group's October 12 meeting concerning RECB issues. This meeting report follows in its entirety at the end of the minutes.

The question arose during Q & A following the presentation of this report as to how OMS MISO reps should vote on an RECB proposal should it appear on the next Wednesday MISO AC meeting agenda. The determination by the directors was for OMS reps to abstain, as OMS continues to work on a position through the Pricing Work Group.

Mike Proctor and Randy Rismiller were directed by the board to continue through their work group to study the RECB issue.

5. OMS Comments to U.S. DOE on Congestion Study - Jerry Lein, David Sapper

Bill Smith clarified the correct version of the document circulated to the board members with other materials for the meeting to be discussed at the meeting. Amendments were introduced and discussed as Jerry Lein presented the draft. Footnotes were requested.

Kim Pizzingrilli moved to file the draft OMS Comments to U.S. DOE on Congestion Study with the changes and footnotes discussed.

Greg Rislov seconded the motion.

President Gaw asked for a roll call vote to be taken concerning the motion to adopt the comments and file with DOE:

Illinois -	Yes
Indiana -	Yes
Iowa -	Yes
Kentucky -	Yes
Manitoba -	ABSENT
Michigan -	Yes
Minnesota -	Yes
Missouri -	Yes
Montana -	Yes
Nebraska -	Yes
North Dakota -	Yes
Ohio -	ABSTAIN*
Pennsylvania -	Yes
South Dakota -	Yes
<u>Wisconsin -</u>	<u>Yes</u>

Yes, file comment = 13

No, do not file = 0

Abstain = 1

Absent = 1

***OH abstained to join the NARUC filing**

The result of the director's roll call vote was to approve the DOE filing (with corrections approved at this meeting.)

Jack Dwyer of the Iowa Office of Consumer Advocacy and Nancy Campbell of the Minnesota Department of Commerce, and Robb Mork of the Indiana Office of Consumer Utility Counsel associate members of OMS, joined in approval of the comment to DOE. Their approval will be noted in the filing.

6. OMS Annual Meeting Plans - Bill Smith

Bill Smith presented preliminary information about the program for the OMS Annual Meeting, planned for December 14, 2006 at the Lakeside Conference Center (across from MISO) in Carmel. IN.

Executive Director's Report - Bill Smith.

Bill Smith reported highlights from the written report which follows the minutes.

Announcements

- Commissioner Workshop on MISO's Regional Expansion, Friday October 6, 9:00-11:00 CDT

- Commissioner Workshop on Resource Adequacy, Tuesday, October 10, 2:00 – 4:00 CDT.
- The next OMS Executive Committee Meeting will be held Tuesday, October 24 at 2:00 pm (CDT)
- ICF Cost-Benefit Study Briefing from 2-4 pm CST- Thursday, November 2.
- The next regular OMS Board Meeting will be held Thursday, November 9 at 2:00 pm (CST).

Meeting adjourned at 3:20 pm CDT

OMS

**Organization of MISO States
Report of the Treasurer
Kim Pizzingrilli, Pennsylvania PUC
to the
Board of Directors
October 12, 2006
Report for September 2006**

CASH ON HAND

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The total savings and checking account balances as of September 30, 2006 is **\$ 166,024.17**.



TREASURER'S REPORT
Organization of MISO States
September 30, 2006

Certificates of Deposit

TOTALS

Balance as of 9/1/06	\$	-	
			<hr/>
Certificates of Deposit Balance as of 9/30/06			<hr/> <u>\$ -</u>

Wells Fargo Business Performance Savings Account

Balance as of 9/1/06	\$	55,933.95	
9/29/06	DEP	Interest on Savings.	\$ 149.61
			<hr/>
Business Performance Savings Account Balance at 9/30/06			<u>\$ 56,083.56</u>

Chase Bank One Commercial Checking with Interest

Balance as of 9/1/06	\$	88,893.75	
9/1/06	DEP	ACH from Midwest ISO.	\$ 40,000.00
9/13/06	DEP	Reimbursement for personal expenses charged to OMS VISA in error.	\$ 549.70
9/19/06	DEP	Reimbursement from Organization of PJM States for 50% of the cost relative to the Regulator Luncheon at the NARUC Summer Meeting .	\$ 744.81
9/30/06	DEP	Interest on Checking.	<u>\$ 45.14</u>
			<hr/>

Total Deposits

\$

41,339.65

Checks and Charges

Date	Check #	Descriptions		
9/1/06	2102	IA travel advance for Northwest Subgroup (OMS TPSWG) meeting on September 20 - 22, 2006 in St. Paul.	\$	400.00
9/1/06	2103	OH travel reimbursement for MISO AC and BOD meetings on August 15 - 17, 2006 in Carmel.	\$	185.72
9/1/06	2104	Combined Systems Technology for purchase of Qwest USB DSL modem kit for OMS server.	\$	74.19
9/1/06	2105	IA for travel reimbursement for Advisory Committee meeting on August 16, 2006 in Carmel.	\$	438.20
9/1/06	2106	MO for travel reimbursement for Midwest Legislative Conference - The Council of State Governments (panelist/OMS representative) on August 20, 2006 in Chicago.	\$	472.50
9/11/06	W/D	PayChex fee for August 2006.	\$	95.06
9/15/06	2107	Intercall for conference calls for OMS BOD, EX COM and WG Meetings in August 2006.	\$	1,367.49
9/15/06	2108	100 Court Investors, LLC for OMS office rent and parking for October 2006.	\$	874.21
9/15/06	2109	Qwest for August 2006 telephone, fax, DSL charges.	\$	208.92
9/15/06	2110	Chase Bank One Visa for August 2006 charges. (See below for details).	\$	914.40
9/15/06	2111	Infomax for copier, fax and printer lease for October 2006.	\$	172.31

9/15/06	2112	DWX for OMS website hosting for October 2006.	\$	35.00
9/15/06	2113	Combined Systems Technology for September 2006 through December 2006 Postini Spam Filtering for 2 e-mail boxes.	\$	27.56
9/28/06	WD	September Payroll (Including Employer & Employee taxes).	\$	11,810.56
9/28/06	WD	OM - Deferred Compensation Deposit (Including Employee W/H and new Employer Match effective 9/1/06).	\$	800.00
9/28/06	WD	ED - Deferred Compensation Deposit (Including Employee W/H and new Employer Match effective 9/1/06). <i>(Note: An additional match of \$250.00 was included in error. The error will be corrected with next month's employer match.)</i>	\$	2,416.67
Total Checks and Charges			\$	<u>20,292.79</u>

CHECKING ACCOUNT BALANCE 9/30/06 \$ 109,940.61

CERTIFICATES OF DEPOSIT, SAVINGS AND CHECKING ACCOUNT BALANCES AS OF 9/30/06 \$ 166,024.17

CHASE CHECKING ACCOUNT RECONCILIATION

	<u>Check #</u>	<u>Amount</u>
Bank Balance 9/30/06		\$ 113,727.07
Less: Checks O/S	W/D	\$ 800.00
	W/D	\$ 2,416.67
	1970	\$ 57.40
	2081	\$ 512.39
Book Balance 9/30/06		<u>\$ 109,940.61</u>

CHASE OMS VISA CARD PURCHASES

ED	Fee for re-issue of airline ticket originally purchased on June 27, 2006 for travel to NARUC Summer Meeting on July 27 - August 2, 2006 in San Francisco.	\$	100.00
ED	Personal expenses erroneously charged to OMS VISA. <i>(Reimbursed to OMS. See above).</i>	\$	549.70
ED	Fuel for rental car for travel to Camp NARUC in Lansing and MISO AC meeting in Carmel on August 15 - 16, 2006.	\$	12.26
ED	Airport parking for travel to Camp NARUC in Lansing and MISO AC meeting in Carmel on August 15 - 16, 2006.	\$	18.00
ED	Booking Fee for travel to NARUC meeting in Miami and MISO AC Meeting in Carmel on November 11 - 15, 2006.	\$	25.00
ED	Airfare for travel to NARUC meeting in Miami and MISO AC Meeting in Carmel on November 11 - 15, 2006.	\$	399.80
ED	Loew's Miami Beach Hotel for travel to NARUC meeting in Miami and MISO AC Meeting in Carmel on November 11 - 15, 2006.	\$	213.57
OM	United States Post Office for stamps.	\$	39.00
ED	Marriott San Francisco for 29 luncheons for OMS-OPSI Regulator Luncheon at NARUC Summer Meeting on July 31, 2006 in San Francisco. <i>(Shared with OPSI. See Deposits above).</i>	\$	986.00
ED	Marriott San Francisco for sign for OMS-OPSI Regulator Luncheon at NARUC Summer Meeting on July 31, 2006 in San Francisco. <i>(Shared with OPSI. See Deposits above).</i>	\$	40.00
ED	Marriott San Francisco for 4 vases for OMS-OPSI Regulator Luncheon at NARUC Summer Meeting on July 31, 2006 in San Francisco. <i>(Shared with OPSI. See Deposits above).</i>	\$	100.00
ED	Marriott San Francisco for sales tax for OMS-OPSI Regulator Luncheon at NARUC Summer Meeting on July 31, 2006 in San Francisco. <i>(Shared with OPSI. See Deposits above).</i>	\$	114.15
ED	Marriott San Francisco for Food and Beverage Service Charge for OMS-OPSI Regulator Luncheon at NARUC Summer Meeting on July 31, 2006 in San Francisco. <i>(Shared with OPSI. See Deposits above).</i>	\$	216.92
ED	Marriott San Francisco for credit for deposit (See August Treasurer's Report) for OMS-OPSI Regulator Luncheon at NARUC Summer Meeting on July 31, 2006 in San Francisco. <i>(Shared with OPSI. See Deposits above).</i>	\$	(1,900.00)
Total Chase Card Purchases August 2006		\$	<u>914.40</u>

**Midwest ISO Advisory Committee Meeting
Lakeside Conference Center - Carmel, Indiana
October 18, 2006
10:00 A.M. to 4:00 PM EDT
DIAL IN NUMBER: (800) 216-0480**

Meeting Agenda

		<u>Starting</u>
A.	Call to Order, Representative Roll Call (Patty Harrell)	5 min. 10:00
B.	Review of Agenda (Patty Harrell)	5 min. 10:05
C.	Standing Reports and Discussion Items	
1.	President's Report (Graham Edwards)	5 min. 10:10
	• ICF Cost/Benefit Study Preliminary Results Update	
	• 2007 Strategic Plan Revisions	
2.	Midwest ISO's Role Regarding Resource Adequacy Discussion with the Board of Directors (Advisory Committee)	90 min. 10:15
3.	Regional Expansion Criteria & Benefits Task Force Filing II (Jeff Webb) [√]	30 min. 11:45
Lunch Break		35 min. 12:15
4.	Finance Report (Mike Holstein)	15 min. 12:50
	• 2007 Proposed Capital Projects/Preliminary Budget	
5.	Operations Report (John Bear)	10 min. 1:05
	• Backup Control Center Testing Update	
	• Mid-term Load Forecast Improvements/Error Tracking (Scott Herbst)	
6.	Midwest ISO/PJM Coordinated Systems Plan (Jeff Webb)	15 min. 1:15
7.	Midwest ISO Transmission Expansion Plan 2006 Overview (Jeff Webb)	15 min. 1:30
8.	Ancillary Services Market Update (Roy Jones)	15 min. 1:45
9.	Annual Customer Satisfaction Survey (Todd Hillman)	10 min. 2:00
10.	Midwest ISO Dispute Resolution Procedures Revisions (Lori Spence)	15 min. 2:10
11.	OMS Demand Response Initiative (Bill Smith)	5 min. 2:25
12.	Board of Directors Nominating Committee Report (Barry Trayers)	5 min. 2:30
13.	Board of Directors Composition Recommendation (Barry Trayers)	5 min. 2:35
14.	Legal Report (Steve Kozey)	10 min. 2:40
15.	Approval of September 20, 2006 Minutes (Patty Harrell) [√]	5 min. 2:50
16.	Action Items from Previous Advisory Committee Meetings (Patty Harrell)	5 min. 2:55
	• Advisory Committee Leadership Nominating Committee	
	• 2007 Advisory Committee Representatives	
17.	Finance Subcommittee Recommendations on Capitol & Operating Budget (Patty Harrell)	5 min. 3:00
18.	Transmission Owners' Committee Report (Doug Collins/MSATs)*	10 min. 3:05
19.	OMS Report (Judy Jones)	5 min. 3:15
20.	Subcommittee, Working Group and Task Force Reports	10 min. 3:20

[√] Denotes potential motion for voting

* Report will be oral due to unavailability of written report prior to Advisory Committee meeting

Midwest ISO Advisory Committee Meeting
Lakeside Conference Center – Carmel, IN
October 20, 2006
10:00 A.M. to 4:00 PM EDT
DIAL IN NUMBER: (800) 216-0480
No need to register in advance.

Meeting Agenda

- | | | | | |
|----|--|-------------------|---------|----------------|
| D. | New Business | | 10 min. | 3:30 |
| 1. | November Advisory Committee Business (Patty Harrell) | | 5 min. | 3:40 |
| | ▪ Top 5 Issues for Discussion with Midwest ISO BOD | | | |
| | 1. Cost Accountability (Completed) | | | |
| | 2. BA Functions to Transfer to Midwest ISO & Ancillary Services Market (Completed) | | | |
| | 3. Midwest ISO's Role regarding Resource Adequacy (October) | | | |
| | 4. Transmission Rate Design (November) | | | |
| | 5. Joint and Common Market Development (December) | | | |
| E. | Recap | | | |
| 1. | Issues/Assignments & Pending Votes for November (April Paronish) | | 5 min. | 3:45 |
| F. | Selected List of Upcoming Meetings: | | | |
| 1. | Advisory Committee | November 15, 2006 | | 10:00 A.M. EST |
| | Rotating Agenda Team for November | | | |
| | ▪ Judy Jones | | | |
| | ▪ Eric Robertson | | | |
| | ▪ Beth Sohlt | | | |
| 2. | Board of Directors | November 16, 2006 | | 8:30 A.M. EST |

**ORGANIZATION OF MIDWEST ISO STATES
RESPONSES TO GRAHAM EDWARDS' REQUEST
REGARDING MISO'S RESOURCE ADEQUACY REQUIREMENTS PLAN
PHASES I AND II**

Midwest ISO's Role Regarding Resource Adequacy

INTRODUCTION:

The following exercise reflects the OMS Resource Adequacy Working Group Staff members' discussion of issues raised by a series of questions sponsored by the Midwest ISO under CEO Graham Edwards' name. The Midwest ISO requests responses from Stakeholders to these questions by October 11, 2006.

It should be noted that many of the Midwest ISO's questions are unclear. In these instances, greater clarification by the Midwest ISO is recommended to aid the OMS in responding more appropriately. In other instances, OMS efforts with respect to an issue may not have progressed sufficiently to allow a response at this time.

1.0 Demand Resources

MISO asks:

Typically states have dictated the level of demand response for parties under its jurisdiction. RTOs are in agreement that even a small amount of demand response participation in its wholesale markets can significantly dampen price volatility and mitigate potential market power.

What role should the RTO along with the individual states in the Midwest ISO footprint play in promoting demand response?

1.0 - OMS Response:

Demand response is primarily the responsibility of the States. The Midwest ISO should facilitate a market that recognizes the value of demand response.

1.1 - MISO asks:

What studies and analyses should the Midwest ISO do to estimate the value of demand response in its markets?

1.1 - OMS Response:

It is critical that the Midwest ISO develop a standardized method of evaluating and quantifying the benefits of demand response resources in its markets. Indeed, the modeling and analysis required to estimate the value of demand response resources will be a difficult process. Accordingly, the OMS supports the Midwest ISO's efforts to address demand response issues through its Demand Response Task Force under the chairmanship of Iowa Utilities Board Chairman John Norris, as it provides an opportunity for both the Midwest ISO and its

stakeholders to both contribute to the process and develop a better understanding of the issues associated with demand response. The Midwest ISO should note that the OMS is considering the formation of an OMS Midwest Demand Response Initiative (MWDRI) to work either in conjunction, or in parallel, with the Midwest ISO Demand Response Task Force. Commissioner Robert Lieberman, Illinois Commerce Commission, has volunteered to serve as chair of this OMS initiative. The particulars of MWDRI currently are under development.

1.2 MISO asks:

How should the Midwest ISO incorporate demand response in its MTEP process?

1.2 - OMS Response:

Under the traditional planning process for transmission expansion, load forecasting can be affected by demand response and change the MTEP over time.

1.3. MISO asks:

How should the Midwest ISO estimate the reliability benefits of demand response?

1.3 - OMS Response:

Before the Midwest ISO can estimate the reliability benefits of demand response, it must (a.) first be able to determine the value (price) of demand response, (b.) develop a mechanism that is cognizant of demand response efforts, and (c.) follow through by assuring that demand response is deliverable to the market.

There are two ways to measure reliability benefits when using resource adequacy at a given level of planning reserves resulting from the calculation of Loss of Load Expectation (LOLE). The load side of the LOLE calculation, adjusted for the uncertainty primarily due to weather, is measured at the forecasted peak.

A. The first measurement will determine the amount of planning reserve required to reduce the probability of the Loss of Load (load not being served).

B. The second calculation adds demand response to the calculation of LOLE. This decreases the expected value for peak loads as loads are reduced by the reduction in demand with the corresponding reduction in amount of capacity required to serve load. This second measure would then allow the Midwest ISO to set a value for the level of demand response using the avoided cost of peaking capacity.

1.4. MISO asks:

What should be the Midwest ISO's role in meter data quality?

1.4 - OMS Response:

The OMS needs clarification of the Midwest ISO's view of the definition, scope, and intent of a "role" for the Midwest ISO in metering issues.

1.5. MISO asks:

Should MISO set standards regarding meter data quality?

1.5 - OMS Response:

American National Standards Institute (ANSI) has Codes that are generally used by utilities for electric meter installations and accuracies –which translates into meter data quality. Most state commissions use these national standards as a basis to develop rules on electric metering. Shouldn't MISO be using these standards and codes that have been industry standards for many years? If this is not what Midwest ISO intends to use, then Midwest ISO needs to clarify and explain this question so OMS can provide an appropriate response.

1.6. MISO asks:

How would MISO enforce these standards?

1.6 - OMS Response:

See OMS response to 1.5 above

1.7. MISO asks:

What would be the role of the states commissions and OMS regarding meter data quality standards?

1.7 - OMS Response:

See OMS response to 1.5 above.

1.8. MISO asks:

Are revenue-quality meters required throughout the Midwest ISO footprint in order to implement demand-side management? If yes, what should be the approach for implementing this standard and assigning costs to customers?

1.8 - OMS Response:

This issue is much more complex than the quality of meters. One must ask how demand response can be audited and verified? How will the Midwest ISO interface with the load-serving entities? Finally, how will the load serving entities interact with the retail customers participating in demand response programs under State initiatives. More process information is needed before a response to these questions can be formulated.

2.0 Long-Term Financial Transmission Rights (FTR) & Energy Contracts

2.0. MISO asks:

LT energy contracts & LT FTR are important risk management tools that MPs can use to ensure against price volatility

What role should the RTO along with the states play in promoting these LT instruments?

2.0 - OMS Response:

The question of long-term FTRs has been addressed by the FERC and the Midwest ISO will be required to file a proposal that addresses the FERC rules on this issue. The OMS will be pleased to work with the Midwest ISO on the design of long-term FTRs and provide input, both through working group involvement in the MISO's Transmission Rights Task Force and through feedback from the OMS Board of Directors' review of any Midwest ISO long-term FTR proposals.

Long-term Contracts for transmission service may require new construction or upgrades to existing transmission facilities to accommodate changes in load growth. Long-term FTRs may be needed to hedge against congestion and the higher cost of redispatched power. When energy contracts are executed there is no guarantees of uncongested deliverability unless the parties are interested in paying the price of investment to relieve that congestion and improve deliverability.

3.0 Resource Adequacy Metrics & Midwest ISO Transmission Expansion Plan (MTEP)

3.0 MISO asks:

The Midwest ISO's "Energy Only Market" Resource Adequacy plan relies more on markets than centralized command to ensure resource adequacy

How should the Midwest ISO in its MTEP process measure resource adequacy?

3.0 - OMS Response:

The MTEP process needs to focus on deliverability issues and indentify in conjunction with the States those delivery areas where resources, based on the current generation fleet, are inadequate to meet forecast demand.

3.1 MISO asks:

How should the Midwest ISO proceed in developing metrics to measure whether the objectives of Phase II are being met?

3.1- OMS Response:

The OMS supports the Midwest ISO working with stakeholders to develop objective metrics to ensure the completeness and feasibility of the market design, ensure the readiness of the Midwest ISO and other relevant parties to implement the new market design, and track actual costs and benefits of Phase II. However, the OMS also believes that the individual elements of Phase II are intended to be elements of good market-based energy policy. Accordingly, the Midwest ISO should endeavor to complete the work necessary to implement the elements of Phase II in a timely manner.

4.0 Seams Issue Resolution

MISO asks:

Continued coordination to resolve seams issues with neighboring RTOs and non-market regions is important to the success of the Midwest ISO's resource adequacy proposal

We are soliciting Stakeholder feedback on this important element of Phase II

4.0 - OMS Response:

The Midwest ISO should work with its neighbors to address seams issues, so as to maximize operational efficiencies, facilitate competition and provide Midwest ISO market participants with access to the broadest range of resources possible.

The OMS supports the language in FERC's NOPR on Order 888 reform that would require all transmission providers, including the RTOs, to engage in coordinated, open and transparent transmission planning. Accordingly, the OMS encourages the Midwest ISO to develop a transmission planning process that considers the impacts of the Midwest ISO transmission plan on both sides of the Midwest ISO border. In particular, the Midwest ISO should strive to work in a cooperative manner with its non-MISO neighbors, at the sub-regional level, where expansion plans typically originate.

5.0 ERO 'Requirements' and Energy Only Market Approach

MISO asks:

The Midwest ISO has stated that long-term reliability is the responsibility of the individual states in the Midwest ISO footprint

5.0 How does the Midwest ISO integrate ongoing efforts made by the ERO or its subsidiaries to force planning reserve requirements on MPs with its market-based ERO EOM approach?

5.0 - OMS Response:

Both MRO and RF have adopted a one-day-in-ten-year LOLE standard for planning reserve sharing groups within their regions. The question of how reserve requirements fit with MISO's EOM approach is determined by how the reserve sharing groups are willing to treat demand response resources in their calculation of reserve margins. In the past, any interruptible loads were treated as reductions to forecasted peak demands for which the utility was required to plan for generation supply to meet its reserve requirement. Thus, a 100 MW reduction in peak demand from interruptible load resulted in a reduction in 115 MW of generation capacity at a reserve requirement of 15 percent.

With interruptible load varying with the price of supply (energy and contingency reserves), the question will arise as to whether or not the reserve sharing groups will allow a perfect substitution of demand response for generation capacity, irrespective of the price level that is required in order for the demand response resources to be available. It is also likely to raise the question regarding the dependability of demand response resources and how the utility verifies that it has valid demand response resources available at various price levels.

If LSEs decide that generation is the most cost effective resource alternative, then there will be very few occurrences of shortage pricing. On the other hand, if a large number of LSEs decide that demand response is a more cost effective means for meeting reserve margin standards, then there will be much more frequent occurrences of shortage pricing.

There is nothing in the adoption of a planning reserve requirement such as the one day in ten years LOLE that prevents the Midwest ISO from having an energy only market.

6.0 Phase I Success

6.0. MISO asks:

The Midwest ISO Phase I portion of its Resource Adequacy plan intends to simultaneously co-optimize Ancillary Services with its Energy Markets

How should the Midwest ISO proceed in developing metrics to measure whether the objectives of the Phase I design are being met?

6.0 - OMS Response:

- Use the savings estimated in the April 3, 2006 filing to FERC as one standard to gauge the post Ancillary Services Market (ASM) savings.
- Metric suggestions:
 - Efficient dispatch results in reduced costs to utilities or balancing authorities

- Value of reductions in total costs of providing Phase I services exceeds total cost (MISO and other relevant parties' costs) of implementing Phase I and providing the associated services.
 - Fewer manual (or non-automated) disruptions to automated dispatch and other market operations (assuming such operations are optimal).
- Metrics should be transparent and sufficiently granular for control area or state by state analysis.
- The MISO Board will review the Proof of Concepts in November prior to voting whether to launch the ancillary services market. Only if the results are positive and the MISO Board approves the ASM, will the tariff changes be filed at FERC.
- Can MISO's Proof of Concepts lend itself to the creation of an objective set of Phase I implementation readiness metrics, so that MISO and stakeholders can use the Proof to assess MISO's readiness to implement Phase I? Assuming that the MISO board approves going forward with the ASM, it is suggested that MISO share the results of the Proof of Concepts with stakeholders and then file the results of the comprehensive and objective Proof of Concepts results at FERC.
- In considering metrics, it is currently unknown how many different sub-regions, and zones, will be needed in developing the Ancillary Services Market as the deliverability test results are not yet final. The ultimate design of the MISO Ancillary Service Market must recognize the multi-dimensional electric reliability and operational issues of the broad footprint. The MISO footprint may have many tiers of sub-regions and zones, depending on the functional purpose and timeframe of planning, implementation of the ancillary services market and real time operations.
- Finally, the use of metrics to evaluate the objectives of Phase I design can, in certain instances, be a useful endeavor.

6.1. MISO asks:

With Phase I's new co-optimized ancillary services and energy dispatch being critical for a secure operation of the grid, what metrics can MISO develop that will reflect the reliability of the grid during real-time operations (e.g. Loss of Load Probability [LOLP])?

6.1 - OMS Response:

- ASM should be quickly dispatched by MISO—just as responsive as or better than the local balancing authorities' provision of ancillary services.
- Phase I should provide the same level of reliability with lower total costs and less unnecessarily duplicative dependence on reserves.

- ASM should use the most efficient, cost effective generation for economic dispatch to provide each ASM product and the Energy Market the same reliability level or better with reduced costs.
- At the minimum, MISO should measure reliability using ERO standards.

6.2 MISO asks:

Are there any interim adjustments before Phase I and/or between Phases I & II that the Midwest ISO should consider?

6.2 - OMS Response:

- Phases I and II should first be clearly defined by business rules, tariff provisions, and other necessary supporting documentation.
- Phase I assessment using above metrics and ERO standards is needed after ASM start up..
- Assess lessons learned; identify changes needed; begin implementation or scheduling changes.
- Success of ASM is the foundation for long-term Resource Adequacy success.
- A robust ASM will help facilitate long term Resource Adequacy.
- The OMS supports the Midwest ISO working with stakeholders to develop objective metrics to ensure the completeness and feasibility of the market design, ensure the readiness of the Midwest ISO and other relevant parties to implement the new market design, and track actual costs and benefits of Phase I. The OMS also believes that the Midwest ISO should endeavor to complete the work necessary to implement the elements of Phase I in a timely manner.

6.3 MISO asks:

Scarcity pricing is a market design element that provides the appropriate price signal to support reliable dispatch and encourages MPs to make their resources available for dispatch and supports long-run reliability

How should the Midwest ISO in its energy only market approach measure the success of its scarcity pricing design element?

6.3. - OMS Response:

Measuring effects of the ASM scarcity pricing element separate and apart from effects of other resource adequacy policies and programs would be very difficult, if not impossible. The

Midwest ISO should measure the overall success of resource adequacy policies and programs by measuring investment in supply- and demand-side resources. The adequacy of such investment could be measured by the frequency and duration of involuntary load curtailments. The lesser the frequency and duration of involuntary load curtailments, the more success.

The level, frequency and duration of scarcity prices would not be a good measure of success, because those measures would be functions of several factors, including regulators' and utilities' risk preferences and real-time grid conditions. That is, stakeholders could rationally prefer and, by their own actions, create different levels of exposure to scarcity prices.

It is important to emphasize that if an LSE decides that generation is the most cost effective resource alternative, then very few occurrences of shortage pricing will occur. On the other hand, if many LSEs decide that demand response is a more cost effective means for meeting reserve margin standards, then shortage pricing will occur more frequently.

Finally, the discussion of scarcity pricing may cause an initial reaction of public alarm. Although the question above asks for measures of success of the design of scarcity pricing, the OMS has the following initial reactions to ASM scarcity pricing:

- Proper scarcity pricing is a vital component of a robust and vibrant RTO energy market.
- Market participant exposure to true energy prices during scarcity conditions should not occur until market participants have available the necessary methods and tools to manage or mitigate the risk of exposure to scarcity prices.
- Scarcity pricing should reflect actual (or accurately projected) local supply and demand conditions.
- Scarcity pricing should only be charged to a utility if it did not participate in the day-ahead market. Scarcity pricing should be called upon subsequent to all demand response measures in the ancillary services market.
- Scarcity prices should rise in increments that accurately reflect local supply and demand conditions.
- Concerns exist regarding potential inflexible generation bidding into the ancillary services market. Therefore, design the ancillary services scarcity market to encourage generator flexibility, thereby reducing unproductive or inefficient bidding strategies.
- The Value of Lost Load (VOLL) is a proposed component of the equation to derive scarcity prices. To date, little information has been provided how VOLL will be derived from a practical and real world perspective. Although it has been suggested that state commissions could be responsible to derive VOLL, the state commissions need considerable information to better understand this economic theory before any consideration of this important responsibility. Absent a clear and practical understanding, better understood methods such as LOLE should also be considered.
- Measurable increases in the number and variety of strategies and tools that can be used by market participants to manage and mitigate customer exposure to scarcity prices.

- MISO should not implement any scarcity pricing mechanisms without careful consultation with the Independent Market Monitor, stakeholders, and FERC. Effective market power mitigation should be a prerequisite to the implementation of an energy only market and the ASM.
- Scarcity pricing should not be implemented until MISO demonstrates it can dispatch demand response in a non-discriminatory manner and until adequate planning reserves have been made.

As approved by the OMS Board of Directors
October 12, 2006

**UNITED STATES OF AMERICA
BEFORE THE
DEPARTMENT OF ENERGY
OFFICE OF ELECTRICITY DELIVERY AND ENERGY RELIABILITY**

**Considerations for Transmission Congestion Study and
Designation of National Interest Electric Transmission Corridors**

COMMENTS OF THE ORGANIZATION OF MISO STATES

In response to the U.S. Department of Energy's (Department) request for comments on its National Electric Transmission Congestion Study and the potential designation of National Interest Electric Transmission Corridors (NIETC), the Organization of MISO States, Inc. (OMS) submits the following comments. The OMS previously submitted comments regarding NIETC to the Department on September 17, 2004, and March 6, 2006. The OMS requests that the Department take notice of those comments when it considers these matters.

Members of the OMS that attended a meeting of the Organization of PJM States (OPSI) on September 18 in Maryland, understood the Department to express a desire for a dialogue with state commissions to seek consensus on an approach to NIETC policy that would comply with the new federal statutes as well as statutes governing state actions. Such a forum would be consistent with Section 216 of the Federal Power Act for the Department to engage in "consultation with the states." The OMS believes that a Department/state commission forum and the subsequent conduct of future congestion studies should be truly consultative by involving the states and seeking consensus. Such a forum would benefit from inclusion of the Federal Energy Regulatory Commission (FERC), Regional Transmission Organizations (RTOs), Regional Reliability Organizations (RROs), and others.

Congestion Study and Corridor Designation

In chapter 6 of its congestion study, the Department invited comment on any and all aspects of the study and the potential designation of NIETCs. In particular, the Department requested that commenters respond to the following three questions:

1. *Would designation of one or more National Corridors in these areas be appropriate and in the public interest?*

The OMS appreciates the Department's efforts towards identifying "Critical Congestion Areas." However, we are not persuaded that "Congestion Areas of Concern" and "Conditional Congestion Areas" can be so precisely forecasted as to warrant declarations of national corridors.¹ Rather than attempting to forecast future NIETCs, designations should be based on existing, persistent, and well documented problems that have not been resolved by local and regional entities such as RTOs, ISOs or other similar organizations.

Even some Critical Congestion Areas may not warrant designation if there are more cost-effective and timely solutions for resolving congestion in those areas. The OMS takes comfort in the Department's acknowledgement in the executive summary of the study that it will strive for a comprehensive regional solution that considers alternatives. Predicting future congestion and transmission constraints is often difficult and there may be better alternatives for eliminating or reducing congestion in the longer-term than the construction of new transmission facilities.

In addition to these practical concerns, the OMS believes that NIETC designations in areas beyond Critical Congestion Areas would exceed both the plain reading and Congressional intent of the Energy Policy Act of 2005. Specifically, new section 216 of the amended Federal Power Act states:

¹ The North Dakota Public Service Commission (NDPSC) and the South Dakota Public Utilities Commission (SDPUC) believe that NIETC designation in conditional congestion areas where electric transmission is needed to make use of plentiful and low-cost domestic resources is in the national interest. The NDPSC supports designation of a NIETC within the Dakotas–Minnesota conditional congestion area identified as one of the principle areas of interest in the Department's congestion study.

(a) Designation of National Interest Electric Transmission Corridors.

- (1) Not later than 1 year after the date of enactment of this section and every 3 years thereafter, the Secretary of Energy...in consultation with affected States, shall conduct a study of electric transmission congestion.
- (2) After considering alternatives and recommendations from interested parties (including comment from affected States), the Secretary shall issue a report, based on the study, which may designate any geographic area experiencing electric energy transmission capacity constraints or congestion that adversely affects consumers as a national interest electric transmission corridor.

The statute makes clear that NIETC designations may be made for areas actually “experiencing electric energy transmission capacity constraints or congestion that adversely affects consumers.”² The statute does not provide for NIETC designations in areas that may experience congestion in the future or under certain circumstances.

With regards to the Department’s request for additional details and technical analysis, the OMS will largely defer to the individual state commissions and service providers that are more familiar with specific details regarding transmission congestion issues in their electric service areas. Instead, the OMS will focus on the question of whether designation of one or more corridors as NIETCs is appropriate and in the public interest.

The OMS submits that a NIETC designation can only be in the public interest if it would expedite or facilitate a transmission solution to a national interest congestion problem and only if the transmission solution is more cost-effective and timely than other solutions (e.g., generation, demand-response), as determined by the relevant regional planning process, either independently or in concert with the transmission solution. A comprehensive analysis by the Department, while more complicated, is essential. Furthermore, in areas served by RTOs, participation by the RTOs, stakeholders, and state commissions is

² The NDPSC and the SDPUC submit that the existing NDEX transmission capacity constraint adversely affects consumers by preventing the development of plentiful low-cost domestic resources needed for decreasing our national dependence on natural gas and foreign oil.

critical to achieving preferred solutions. To avoid unnecessary and costly duplication while ensuring a comprehensive analysis, the OMS urges the Department to use the databases, modeling tools, and expertise of the RTOs and their stakeholder processes as well as the relevant Regional Reliability Organizations, where possible.

It is important that the Department ensure that the congestion identified in an area is persistent, rather than transient and that the lack of a solution is the result of siting problems prior to designating an NIETC. Designation of an NIETC based on anything other than siting barriers is not in the public interest as it could result in an inefficient application of resources, may fail to resolve the constraint, and would be an inappropriate federal infringement on state siting laws.

In the event that an independent regional planning process determines that a transmission solution is the preferred approach to resolving a critical constraint, then the Department should, as required by law, consult with the affected state commissions prior to designating a NIETC. For example, if needed transmission is not being constructed due to a perception that cost recovery or other uncertainties are the primary barrier rather than siting, then a NIETC designation would be an unnecessary and inappropriate federal infringement on state siting jurisdiction and would not be in the public interest.

When the Department designates an NIETC, and when a transmission solution has been proposed within such NIETC, and under certain conditions outlined under Section 216(b) of the amended Federal Power Act, FERC may assume backstop siting authority for such transmission project. While this arrangement may expedite a transmission solution, it should not result in the Department attempting to manage or develop a specific solution to the identified congestion. Doing so would likely result in a biased and inefficient outcome. Instead, the Department should focus on identifying areas of congestion that are of national interest and allow the best solution to develop through existing regional planning processes. The OMS understands that this is the intent of the

Department. The federal/state processes for accomplishing this would be appropriately addressed in a Department/state forum.

While Section 216 of the FPA is silent on the issue of whether NIETCs should have a specific expiration date or be terminated after a certain event or circumstance has occurred, it is important that the NIETC designation not be allowed to continue after its stated objective(s) have been met. Allowing NIETCs to continue after their objective has been met will effectively result in the FERC maintaining its backstop siting authority when it is no longer necessary. This result is not only unnecessary, but also a potential federal infringement on state jurisdiction. Accordingly, the Department should take considerable care to ensure that a NIETC designation is removed promptly after its objective has been met. To that end, the OMS recommends procedures be developed for an NIETC designation to be removed as soon as the stated goal of the NIETC has been accomplished. While the FPA requires the Department to update its congestion study on a triennial basis, it would be appropriate to announce the termination of the NIETC designation in a timelier manner – at a minimum, no later than the Department’s annual status reports on the congestion studies.

For the above reasons, the OMS urges the Department to only designate corridors when they are truly necessary for solving a national interest congestion problem and only when the identified congestion is persistent, and only in cases where the prior failure to develop a solution is the result of siting problems.

2. How and where should DOE establish the geographic boundaries for a National Corridor?

The OMS agrees that a NIETC is a geographic area under section 216(a). However, we do not believe it necessary for the Department to completely specify the perimeter boundaries of a NIETC.³ As previously noted in response to the Department’s NOI, the OMS believes that NIETC corridors would be best defined as generalized paths. In most cases, specifying only source and sink

³ The Montana Public Service Commission notes its participation in the comments filed by the Committee on Regional Electric Power Cooperation (CREPC) taking the position that NIETCs must have defined geographical boundaries.

areas should provide sufficient NIETC definition without restricting the flexibility necessary for planners to develop routes that maximize system value while minimizing any adverse effects. In short, specific corridor widths or boundaries should be specified only when absolutely necessary and then, those boundaries should address the concerns that made them necessary without resulting in unnecessary routing restrictions.

Designating boundaries around corridor paths could have the effect of establishing federal transmission line corridors within states as utilities seek transmission routes within those federally designated paths. Land use planning should remain within the states' purview. Accordingly, the Department should consider the purpose for designation of a particular NIETC and attempt to designate only the geographic source and sink areas necessary to accomplish that purpose. Just because a proposed transmission project is located within the geographic area encompassed by the NIETC, it should not automatically be assumed that the project will address the circumstances for which the NIETC was designated. Accordingly, it is critical that the Department clearly define the goal of the NIETC so that only projects intended to address that stated goal would be eligible for the FERC backstop siting treatment specified in Section 216(b) of the amended FPA. Furthermore, NIETC designation should not be at the request of one particular provider or for a particular predetermined project and should not foreclose alternative solutions to reliability or congestion problems.⁴

3. *How would the costs of a proposed transmission facility be allocated?*

The OMS recommends that stakeholders work towards agreement on cost allocation methodologies through regional processes like that of the Midwest ISO's Regional Economic Criteria and Benefits (RECB) task force. Last year the

⁴ The Pennsylvania Public Utilities Commission clarifies its position that while section 216(a) of the FPA uses the term "geographic area" in defining the NIETC process, that is not equivalent to a designation of an area defined by political subdivisions. Political subdivisions have no impact on the physical flow of electricity, or on the physical limitations of the conductors, transformers, substations and other infrastructure of the interstate grid.

Midwest ISO filed a cost allocation methodology that was developed through the RECB task force process for transmission upgrades needed for system reliability and generator interconnections. This year the RECB task force is working to develop allocation methods for other regionally beneficial transmission upgrades in time for the Midwest ISO to make a November 1st filing with the FERC. We believe the final determination of cost allocation methodologies for new transmission will be a critical step towards realizing needed transmission expansions within the Midwest ISO footprint. However, the Department should have little or no role in the cost allocation policy development process.

Next Steps

The OMS shares the Department's expectation that regional transmission planning organizations will take the lead in working with state commissions, stakeholders and industry transmission experts to develop solutions to the congestion problems identified in the Department's congestion study. The Department's participation in regional and sub-regional planning processes through its power marketing administrations has been invaluable in the past. We look forward to the Department's continued contributions of planning expertise as well as modeling improvements and an expanded inter-regional effort in the years to come.

Conclusions

The OMS appreciates the Department's invitation to comment on both the congestion study and the potential designation of NIETCs. Because of the difficulty in predicting constrained areas and the potential for intervening solutions, the OMS is not convinced that Congestion Areas of Concern and Conditional Congestion Areas ought to receive designations as corridors.

When designating a NIETC it is important that the Department state its purpose and objective for the designation. Transmission projects that may be physically located within the geographic boundaries of an NIETC, but that are not applicable towards the stated NIETC designation purpose should not be eligible

for the FERC backstop siting treatment that may follow NIETC designation and the corridor designation. Furthermore, an NIETC designation should be removed as soon as its stated objective has been accomplished.

The OMS continues to believe that NIETCs would be best defined as generalized paths. In most cases, specifying only source and sink areas should provide sufficient NIETC definition without restricting flexibility for planners to develop transmission line routes that maximize system value while minimizing adverse effects.

The OMS supports initiation of a forum between the Department and state commissions Section “consultation with the states” that Section 216 of the Federal Power Act requires the Department to engage in.

The OMS looks forward to working with the Department, the Midwest ISO and its stakeholders, and the relevant Regional Reliability Organizations on future matters concerning NIETCs. The Organization of MISO States submits these comments because a majority of the members have agreed to support them. Individual OMS members reserve the right to file clarifying comments or minority reports on their own regarding the issues discussed in these comments. The following members generally support 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
- Nebraska Power Review Board
- North Dakota Public Service Commission
- Pennsylvania Public Utility Commission
- South Dakota Public Utilities Commission
- Wisconsin Public Service Commission

The Public Utilities Commission of Ohio abstained from these comments. The Manitoba Public Utilities Board does not participate in these comments.

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

Respectfully Submitted,

William H. Smith, Jr.

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Dated: October 12, 2006

Pricing Working Group Meeting
October 11, 2006, 9:30 a.m. – 12:15 p.m.

Summary

The Pricing WG discussed four possible modifications to the current MISO proposal for cost allocation of Regionally Beneficial Projects (RBPs).

1. Divide the planning regions into smaller sub-regions

The discussion centered on a September 18 presentation to the Planning Advisory Committee that had a preliminary division of MISO into 5 sub-regions for purposes of calculating regional delivery of market generation for reliability. In this presentation, the West planning sub-region is divided into two sub-regions - see map in attachment.

- Jeff Webb pointed out that the sub-regions in this document do have some relationship to the issues of reducing congestion, but the specifications of these sub-regions is still a work in progress.
- While states on the call not in the West sub-region did not object to splitting the West region into two sub-regions, the biggest impact would be on those states in the West region and those states were less sure about this approach.
- Nancy Campbell suggested that allowing zones to opt out of cost allocation when that zone has little or no benefits from an upgrade or set of upgrades. (See also Jerry Lien's proposal under item 2 and Jeff Webb's comment under item 3.)

2. Use WGNL benefits to allocate project costs among pricing zones for a period of 5 years, and then allocate these costs by an alternative method such as:

a. Method adopted for existing transmission

b. Method adopted for reliability upgrades

c. Sub-regional postage stamps

d. Other

- The discussion centered on the concern that any measure of benefits becomes less precise over time, and that limiting the allocation based on the WGNL measure of benefits to a specific period should help to address that concern. Most of the states on the call supported this concept.
- Jerry Lien proposed an alternative under the WGNL approach that would not allocate any costs to a zone that met the No Loss provision, but would otherwise allocate costs within the sub-region on a postage stamp basis.
- With respect to the length of time of the initial allocation (e.g., 5 years) or the alternative for changing to another method after the initial period (e.g., a through d above), the working group did not try to come to agreement on those level of details. If this option is pursued, the Pricing WG would work on ironing out those details.

3. Expand allocation of the costs of RBPs to include cost-beneficial 100 kV to 345 kV projects in the sub-regions, in such a way as to ensure that costs allocated to pricing zones within each sub-region, on a load ratio share basis, would not exceed the benefits by pricing zone, where the benefits are measured using either Adjusted Production Cost, or Load LMP, or a combination of the two – whichever is most appropriate.

- To address the concern about allocated costs exceeding expected benefits, Jeff Webb proposed modifying the proposed tariff language in Attachment FF to state as follows:
The relevant section to Attachment FF is III. A.2. f.iii):

iii) Excessive Funding or Cost Requirements: The Transmission Provider shall seek to identify and manage the development of, as a part of the planning process for Regionally Beneficial Projects, portfolios of projects that tend to provide benefits throughout each sub region over the planning horizon. The Transmission Provider shall analyze on an annual basis whether the project portfolios developed in accordance with this goal and the criteria in Section III. A.2.f. unintentionally result in unjust or unreasonable annual capital funding requirements for any Transmission Owner or rate increases for Transmission Customers in designated pricing zones; or otherwise result in undue discrimination between the Transmission Customers, Transmission Owners, or any Market Participants; any such identified consequences shall be reported to the Planning Advisory Committee and to the Organization of MISO States.

- Jeff Webb also pointed out that there are benefits to load that are not reflected in the Adjusted Production Cost or Load LMP metrics; e.g., lowering reserve margins, generator opportunities for profits, job creation and improved competition in the bilateral generation markets.
 - Several of the states expressed concern that option 3 could be interpreted as discriminatory unless the inclusion of lower voltage projects was generally applied instead of just being applied solely to achieve a balanced portfolio. Other states pointed out that this might not be regarded as discriminatory if the balance ensures that allocated costs do not exceed estimated benefits. The other states also pointed out that taking a balanced portfolio approach would relieve the concern about the large size of the sub-regions, because it would make the boundaries of the sub-regions less important.
4. Have MISO only file the inclusion criteria on November 1 and delay the allocation method until there is better information on what kinds of projects will qualify using the proposed inclusion criteria.
- Jeff Webb stated that his recollection of the FERC Order is that MISO does not have this as an option – the order was for MISO to submit a cost allocation proposal. However, Jeff also pointed out that after the first three years, if MISO determines that the sub-regions give “sub-optimal” results, the MISO would consider changing the boundaries of the sub-regions.

There were two other clarifying discussions that took place in the meeting.

- First, with respect to cost allocations to the sub-regions, Jeff Webb clarified that the “no loss” provision of the WGNL allocation formula would be applied after aggregating the results for adjusted production costs and load LMP to the sub-regional level. Thus, negative values for either of these metrics at the zonal level would be included, and only when the overall level for the sub-region of either metric is negative would a sub-region be excluded from the allocations. This sub-regional aggregated measure would also be applied to determine the benefits for purposes of inclusion.
- Second, with respect to process for determining RBPs, Jeff Webb pointed out that while not included in the tariff language, MISO determines what projects to consider by a fairly systematic process that looks at:
 - 1) Projects proposed by individuals or groups as potentially beneficial;
 - 2) Model screening by looking at:
 - flowgates that have the highest shadow prices (values for congestion);
 - areas that are overloaded under specific loading scenarios; and
 - 3) Constraints that have appeared from actual experience with the market.

Meeting Details:

- A. States in attendance included: MO, MI, KY, IA, IN, IL, ND, MT, OH, MIN and WI. Also, John Lawhorn and Jeff Webb were present for MISO.
- B. The meeting started with an explanation by Jeff Web about the proposal to allocated cost to the three planning sub-regions. Jeff Webb clarified that the no loss provision of the WGNL allocation formula would be applied after aggregating the results for adjusted production costs and load LMP to the sub-region level. Thus, negative values for either of these metrics at the zonal level would be included, and only when the overall level for the sub-region of either metric is negative would a sub-region be excluded from the allocations. This sub-regional aggregated measure would also be applied to determine the benefits for inclusion. Jeff was going to send out a spread sheet example to illustrate the exact calculations.
- C. The first issue discussed was the concept of dividing the 3 planning sub-regions into smaller sub-regions. The discussion centered on a September 18 presentation to the Planning Advisory Committee that had a preliminary division of MISO into 5 sub-regions for purposes of calculating regional delivery of market generation for reliability. In this presentation, the West Planning sub-region is divided into two sub-regions - see map in attachment.
- Jeff Webb pointed out that the sub-regions in this document do have some relationship to the issues of reducing congestion, but the specifications of these sub-regions is still a work in progress. Jeff Webb also stated that to the extent that the proposed sub-regions result in sub-optimal results, the MISO would consider changing the sub-regions. The concept here appeared to be for MISO to file the 3 planning sub-regions, but have some flexibility with respect to looking at splitting into smaller sub-regions if there were problems with cost allocations.
 - The group next briefly discussed the proposed change to Attachment FF that would put in place the concept of having as a goal to provide benefits throughout each sub region – see below:
 - iii) Excessive Funding or Cost Requirements: The Transmission Provider shall seek to identify and manage the development of, as a part of the planning process for Regionally Beneficial Projects, portfolios of projects that tend to provide benefits throughout each sub region over the planning horizon. The Transmission Provider shall analyze on an annual basis whether the project portfolios developed in accordance with this goal and the criteria in Section III. A.2.f. unintentionally result in unjust or unreasonable annual capital funding requirements for any Transmission Owner or rate increases for Transmission Customers in designated pricing zones; or otherwise result in undue discrimination between the Transmission Customers, Transmission Owners, or any Market Participants; any such identified consequences shall be reported to the Planning Advisory Committee and to the Organization of MISO States.
 - While states on the call not in the West sub-region did not object to splitting the West region into two sub-regions, the biggest impact would be on those states in the West region and those states were less sure about this approach.
 - There was additional discussion that there would be less concern with having smaller sub regions if projects provided a balance of benefits throughout the larger planning sub-regions.
 - Instead of having smaller sub-regions, Nancy Campbell proposed to include an [opt-out of the cost allocation for a project where there are clearly no benefits to a given entity.](#)

- D. The next issued discussed was the proposal to apply WGNL allocation factors to zones for a period of five years, after which these costs would be rolled into rates based on some other criteria such as:
- a. Method adopted for existing transmission
 - b. Method adopted for reliability upgrades
 - c. Sub-regions
 - d. Other

There were several perspectives expressed regarding this proposal:

- Many of the states believed that using the WGNL allocation to zones, but limiting it to some period of time would address concerns about the “PRECISION” of the metric. The concern over precision being that the further out in time one goes, the more likely that all the assumptions used to calculate the WGNL measure of benefits would no longer be valid. Also, this proposal addresses the concern that an allocation based on a picture of benefits in a point in time should not be made permanent.
 - There was discussion about how RBPs do provide reliability down the road, and when you look at the longer run, it become difficult to separate upgrades into the reliability and economic classifications.
 - The exact time period of the initial allocation was not discussed in any great detail.
 - There was some discussion regarding how the costs would be rolled into rates after the initial allocation period:
 - Jeff Webb thought the FERC would be positive toward a proposal that would roll costs into rates by aggregating up by sub-regions the costs allocated to the zones and having them allocated on a postage stamp basis.
 - Jeff Webb also cautioned the group about applying the LODF method for reliability upgrades to large 345 kV backbone type projects. The LODF method, while appropriate for “least-cost” upgrades needed to meet reliability violations, could be to localized for the benefits from larger projects.
 - It was pointed out that cost allocation for existing transmission will need to be decided this next year to be implemented in 2008.
 - Jerry Lein proposed an alternative under the WGNL approach that would not allocate any costs to a zone that met the No Loss provision, but would otherwise allocate costs within the sub-region on a postage stamp basis.
 - Mike Proctor expressed a concern with the No Loss provision where a zone would not be allocated any cost if the Load LMPs had increased. If this occurred in a zone where the load is regulated, profits from sales of generation into the market would increase and retail customers would benefit from the expansion. It is only where load is strictly being served from competitive generation sources that the No Loss provision for Load LMP should be applied.
- E. The third change discussed is to include lower voltage upgrades (above 100 kV but below 345 kV) in the allocations when these projects are needed to provide sufficient benefits to zones whose allocated costs from 345 kV and above projects results in more costs being allocated to a zone than what the zone can expect to receive in benefits.
- In this proposal, the measure of benefits to a zone would be specific to that zone’s situation; i.e., adjusted production costs for regulated loads and load LMP for loads that are served exclusively from competitive generation.

- The purpose is not to ensure benefits are spread among zones in a sub-region in proportion to their loads, rather to ensure that no zone is allocated greater cost than it would receive in benefits.
- Some of the states were concerned that such a proposal would be discriminatory by including regional cost allocation for some lower voltage projects, but not for others. These states would support including lower voltage projects if inclusion was generally applied to all projects, not just to certain projects needed to ensure that no zone would be allocated costs greater than benefits.
- Jeff Webb’s proposed change to the language in Attachment FF states:
 - iii) Excessive Funding or Cost Requirements: The Transmission Provider shall **seek to identify and manage the development of, as a part of the planning process for Regionally Beneficial Projects, portfolios of projects that tend to provide benefits throughout each sub region over the planning horizon.** The Transmission Provider shall analyze on an annual basis whether the project portfolios developed in accordance with this goal and the criteria in Section III. A.2.f. unintentionally result in unjust or unreasonable annual capital funding requirements for any Transmission Owner or rate increases for Transmission Customers in designated pricing zones; or otherwise result in undue discrimination between the Transmission Customers, Transmission Owners, or any Market Participants; any such identified consequences shall be reported to the Planning Advisory Committee and to the Organization of MISO States. **Emphasis added.** This language does not specifically call for MISO to look at lower voltage projects, but does imply that MISO will seek to provide benefits through out each sub region.
- Jeff Webb also pointed out that there are benefits to load that are not reflected in the Adjusted Production Cost or Load LMP metrics; e.g., lowering reserve margins, generator opportunities for profits, job creation and improved competition in the bilateral generation markets.

F. The next item discussed was the proposal for MISO to only file inclusion criteria and delay cost allocation until it had a better estimate of what projects would be included in the cost allocation.

- Jeff Webb stated that his recollection of the FERC Order is that they were to file a cost allocation. If this is the case, this is not a viable option for MISO.
- Jeff Webb provided the following response to my question regarding projects that would actually be built and have costs allocated within the first three years:

“To your question, it is unlikely that there will be significant charges for a Regionally Beneficial Project within the first three years after an approved RECB II tariff. There could be some to the extent that such a project meets the Inclusion Criteria after the future year planning analyses are completed, and the project begins to incur CWIP charges. The planning process itself will take many months to work out the particulars of the "Futures" development through the Planning Advisory Committee, upon which the demonstration of meeting the Include Criteria is based. So the short answer is I expect little to none, but possibly some.”

G. The last item discussed was the process used to determine what projects would be evaluated by MISO.

- Jeff Webb stated that MISO looks to three sources of information for prioritizing projects that it then evaluates using the PROMOD models:
 - 1) Projects proposed by individuals or groups as potentially beneficial;

- 2) Model screening by looking at
 - flowgates that have the highest shadow prices (values for congestion);
 - areas that are over loaded under specific loading scenarios; and
- 3) Constraints that have appeared from actual experience with the market.



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OMS Executive Director Report October 11, 2006

FERC and DOE Activity

1. On September 26, the FERC issued its order responding to the Midwest ISO's June 6 resource adequacy filing. The order generally accepted the MISO's two-phased approach and the concept of an energy-only plan. It asked the MISO to provide specific mileposts for the steps. The order referred extensively to the OMS comments and the results were consistent with the OMS positions.

OMS-MISO Activity:

1. MISO has again experienced delays in releasing the draft ICF benefit study to perform additional quality control on the input data. The study draft is now expected at the end of October. A briefing for OMS on the study has been scheduled for Thursday November 2 at 2:00 CDT.
2. On September 29, OMS submitted rankings of 2007 MISO capital budget items.
3. OMS work groups were engaged extensively in developing positions on resource adequacy, Ancillary Services Market, regional cost allocation, and the Department of Energy congestion study and corridor designation process.

Public Relations

1. Presentations
 - September 22 Bill Smith will give a presentation on OMS organization and activities to an Energy Bar Association teleconference.
2. Pending speaking/meeting invitations:
 - OMS President Gaw has been invited to speak to the Midwest Modernizing the Grid Regional Summit to be held in Columbus, Ohio, November 15-16.

Upcoming MISO Filings of Regional Interest

Filing Date	Docket No.	Description	Pursuant to Commission Order
11/1/06	ER06-18-001	The Midwest ISO to submit a compliance filing concerning a proposal for cost allocation of Regionally Beneficial Projects (allocation of MISO economic projects within MISO related to the RECB filing).	114 FERC ¶ 61,106 at P 90 (2005) and 5/18/06 Midwest ISO request for Extension of Time
11/30		ASM filing	
12/1/06	ER06-313-000	The Midwest ISO to submit an evaluation of alternative methods to accommodate monthly FTRs in a further compliance filing 90 days prior to the next annual FTR allocation.	114 FERC ¶ 61,117 at PP 20, 26 and Ordering Paragraph (C) (2006)
12/1/06	ER05-6-023, EL04-135-025, EL02-111-043 and EL03-212-039	The Midwest ISO to submit its compliance filing concerning the cross-border economic planning cost allocation proposal.	113 FERC ¶ 61,194 at P 24 (2005) and Midwest ISO/PJM Extension of Time filed May 17, 2006
1/29/07	RM06-8-000	The Midwest ISO to submit a compliance filing regarding long-term FTR transmission rights in markets with locational pricing pursuant to Order No. 681	116 FERC ¶ 61,077 (2006)

CURRENT OMS PROJECTS

RECB (filing November 1)

ICF Benefits Study (late October)

Comments to MISO BoD on Resource Adequacy (Oct)

Comments to MISO BoD on Rate Design (November)

Comments to MISO BoD on Joint and Common Market (December)

Demand response Initiative – estimated launch mid-October

DOE Congestion Study and backstop siting comments (October 10)

Cost recovery “32-charge” training

Data confidentiality and access and FERC Market analysis calls

Transmission rights task force review and long-term FTRs

Joint and Common Market

Ancillary services Market