

ORGANIZATION OF MISO STATES, INC.
Special Board of Directors
Meeting Minutes Notes
March 3, 2006

Commissioner Steve Gaw, President of the Organization of MISO States, Inc. (OMS), called the March 3, 2006 Special Meeting of the OMS Board of Directors to order via conference call at approximately 2:00 p.m. (CST). The following board members or their proxies participated in the meeting:

Kevin Wright, Illinois
Bob Pauley, proxy for David Hadley, Indiana
John Norris, Iowa also had proxy later in meeting, Frank Bodine
Jeff Johnson, proxy for Mark David Goss, Kentucky
George Stojic, proxy for Laura Chappelle, Michigan
Burl Haar, proxy for Ken Nickolai, Minnesota
Steve Gaw, Missouri
Greg Jergeson, Montana
Tim Texel, proxy for Eugene Bade, Nebraska
Jerry Lein, proxy for Susan Wefald, North Dakota
Judy Jones, Ohio and also had proxy later in meeting, Kim Wissman
Kim Joyce, proxy for Kim Pizzingrilli, Pennsylvania
Greg Rislov, proxy for Gary Hanson, South Dakota
Dan Ebert, Wisconsin

Absent

Indiana, Manitoba

Others participating in the meeting:

Bill Smith, Julie Mitchell - OMS Staff
Randy Rismiller, Bill VanderLaan, Illinois
Bill Bokram, Michigan
Dave Sapper, Wisconsin

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

1) Action item: OMS comments to the Department of Energy on National Interest Electricity Corridors - Jerry Lein

President Gaw announced that there would be two business items on the Agenda. The first item is an action item, approval of OMS comments prepared by the OMS Transmission Planning and Siting Working Group to the Department of Energy on National Interest Electricity Corridors. Jerry Lein co-chair of TPSWG gave a brief background of the issue. He indicated the DOE comments were due March 6, 2006.

Dan Ebert moved to adopt the comments to the DOE on National Interest Electricity Corridors as circulated to the board members. Burl Haar seconded the motion. Discussion followed with some friendly amendments offered to change or correct language. Once the document had been reviewed, Dan Ebert moved and George Stojic seconded the adoption of the NIETC comments as they read with board member changes.

An individual state vote was taken: **Vote Yes to approve NIETC comments:**

Illinois - Yes
Indiana - Absent
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
Wisconsin - Yes

The motion to adopt the OMS comments to the DOE concerning NIETCs carried with 12 Yes votes.

Absent = 2

Abstentions = 1

Against = 0

(Document as filed follows minutes.)

2) Action item: OMS position on MISO cost benefit analysis factors - Judy Jones.

In Judy's absence Bill Smith gave a brief overview of the issue. At the January MISO AC meeting, the MISO board of directors asked stakeholders to make concrete suggestions as to how costs and benefits should be expressed and measured. The MISO board requested input which the various sectors provided at the February AC meeting. Patty Harrell compiled a list of factors, and another list has been prepared by Kevin Murray. Both of these documents offer alternatives to use in discussion of possible benefits and costs that OMS may want to consider. Or perhaps the OMS board members may want the OMS work group to continue to work on the issue. (Patty Harrell wants a response by Monday, March 6.)

David Sapper indicated he did not think action had to be taken immediately. Kim Wissman felt that Judy Jones had asked that it be added to today's meeting agenda at Patty Harrell's request. But Kim felt that the OMS was not ready to act on it today, and so should wait for additional feedback. President Gaw asked that board members review the factors again, and direct feedback to Bill Smith and/or David Sapper. They will forward it to the executive committee. Bill mentioned it could also be added to the March 9 Board meeting agenda.

Announcements:

Bill Smith asked board members to watch for and address a paper circulated March 3 by Susan Wefald on Resource Adequacy Issues.

Upcoming Meetings:

- March 7 MISO Stakeholders briefing on its planned filing on control area functions (due April 1)
- March 9 OMS Board Meeting – review comments on FERC Long-Term FTR NOPR and preview Advisory Committee agenda
- March 15 MISO Advisory Committee
- March 28 OMS Executive Committee
- March 29 DOE Technical Conference in Chicago on National Interest Electricity Corridors
- April 19 MISO Annual Stakeholder Meeting (Carmel)

Adjournment

The meeting adjourned at 3:40 pm CST

2/27/06 DRAFT

**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 (DOE or Department) Notice of Inquiry (NOI) published in the Federal Register on February 2, 2006, the Organization of MISO States, Inc. (OMS) submits the following comments regarding the designation of National Interest Electric Transmission Corridors (NIETCs). The OMS previously submitted comments to the DOE on September 17, 2004, regarding designation of national interest electric transmission bottlenecks, and requests that the DOE review the attached copy of those comments in this proceeding.

NIETC Should Be Designated Sparingly:

The OMS cautions that any designation of NIETCs should be applied sparingly with sensitivity and deference to the impacted states. Transmission siting has traditionally been held within the purview of state jurisdiction. Transmission siting has the potential for significant local impacts. Those most able to assess the need and balance a project's costs and benefits should have significant input into the siting process. National or regional oversight may very well have interests different and, in some cases, in contrast to those where the construction will actually take place.

While the goals of such designations may be well intentioned, federal designations of protected transmission corridors that would preempt state decisions on transmission siting issues should be used cautiously. Siting decisions have very real state and local impacts such as construction, environmental and political costs. Designation for purposes that may not have accompanying local benefits needs to be approached with care.

The OMS recommends that the DOE avoid NIETC designation of geographic areas where current planning and siting processes are functioning well and effectively addressing reliability and congestion issues.

Furthermore, the OMS stresses that where the DOE takes the serious step of designating a corridor with regional, state and local cost impacts, the designation must not only result in regional benefits, but it should not unduly burden one particular state or stakeholder for the alleged benefit of another.

NIETC Should be Defined as Generalized Paths:

In its notice, the DOE stated that it expects to identify corridors for potential projects as generalized paths between locations as opposed to specific routes and invited comments to address how broadly or narrowly corridors should be defined.

The OMS agrees that NIETC corridors would be best defined as generalized paths. Defining generalized paths leaves maximum flexibility to develop routes that maximize system value while minimizing adverse effects. The DOE should consider the purpose for designation of a particular corridor and designate only the geographic area necessary to accomplish this purpose. Furthermore, the designation of an NIETC should not be at the request of one particular provider or for a particular predetermined project. Finally, designation should not foreclose alternative solutions to reliability or congestion problems.

Congestion Study and Corridor Designation Processes:

The OMS appreciates that the DOE will provide opportunities for public comment regarding designation of particular corridors. The OMS looks forward to an opportunity to provide further input after the congestion study is published and the final criteria are established. The OMS believes the early designation option provided in the NOI should not be used except in extraordinary circumstances. NIETC designations should flow from and be directly related to the congestion study results.

Congestion Study:

To assist the DOE in conducting and preparing its electric transmission congestion study, the DOE requested comments on the following questions:

1. **The Department asks whether it should distinguish between persistent congestion and dynamic congestion, and if so, how?**

The OMS believes the DOE should focus on persistent forward-looking congestion where the benefits of transmission upgrades would be most consistent and projects would be most likely to occur. The solution to persistent congestion should be a long term solution. The DOE should define “persistent” in forward-looking terms that reflect numbers of events, amounts of MWs or the amount of difference between the real time price and the shadow price over a specified time period, such as one year or one season.

2. **Should the Department distinguish between physical congestion and contractual congestion and if so, how?**

The OMS believes the DOE should focus on identifying physical congestion that can be remedied by physical system upgrades necessary to meet national standards. Physical congestion can be easily identified by performing steady state load flow studies.

3. **Appendix A lists those transmission plans and studies the Department currently has under review. In addition to those listed in Appendix A, what existing, specific transmission studies and other plans should the Department review: How far back should the Department look when reviewing transmission planning and path flow literature?**

The OMS believes the DOE has done a good job identifying existing studies that reflect wholesale transmission transactions. However, the identified studies do not reflect the quality of service or impact of congestion on the prices seen by native load consumers. The Midwest Transmission Expansion Plan (MTEP) of the Midwest ISO and other such regional transmission plans should be the primary source for identifying congestion. In the Midwest ISO region, the Northwest Exploratory Study and Midwest ISO West RSG Consolidated Study included in the MTEP should be reviewed for possible NIETC designations. Additionally, the Western Area Power Administration’s recent Dakota Wind Study provides detail on export constraints faced by North and South Dakota. The Northeast blackout studies and the 2004 CERA Interconnect Congestion Study may be further sources that could help with identification of NIETC designations.

The DOE should be mindful of the need for NIETC designations both in regions served by organized markets and in non-market regions. The results from studies prior to the Midwest ISO energy market start-up can indicate persistent congestion, but should be used with caution because flow and usage patterns may have changed with the start of the Midwest ISO's market.

4. **What categories of information would be most useful to include in the congestion study to develop geographic areas of interest?**

All types of historical operational actions to prevent physical real time transmission line overloading should be included in the congestion study. The DOE should include constraint information for areas where operating agreements have historically limited the need to curtail wholesale transactions. Areas where independent regional planning has shown the need for transmission relief, but needed proposed projects are not being sited should be examined. Data regarding international congestion and cooperation in siting international transmission lines could also be useful when designating NIETCs. Seams between RTOs and market to non-market seams should be studied, especially where congestion can interfere with more efficient functioning of energy markets. Another category of information that could prove useful is data concerning the cost-effective development of remote resources such as clean coal and wind that can reduce the use of natural gas and oil.

Draft Criteria:

The DOE invited comment on what criteria to use when evaluating the suitability of geographic areas for NIETC status and requested comment on eight preliminary draft criteria:

Draft Criteria 1: *Action is needed to maintain high reliability.* Maintaining high electric reliability is essential to any area's economic health and future development. Accordingly, an area would be of interest for possible NIETC designation if there is a clear need to remedy existing or emerging reliability problems. Metric: A definition of the affected area in terms of load population and demand growth: a description of the expected degree of improvement in reliability associated with a proposed project: if appropriate, identification of existing or projected violations of NERC Planning Criteria.

It is unclear what is meant by "high reliability." The degree of reliability maintained is always a matter of cost. Accordingly, the cost of reliability should be no

higher than necessary to meet FERC approved reliability standards. The OMS suggests metrics identifying existing or projected violations of these standards. The OMS further suggests that the DOE consider the age of existing infrastructure and the recommendations of any regional planning groups who have assessed the existing infrastructure in an area as additional metrics. Finally, the DOE should consider prioritization of designations, so that areas with greater potential for economically significant blackouts are designated first.

Draft Criteria 2: *Action is needed to achieve economic benefits for consumers.* An area may need substantial transmission improvements to enable large economic electricity transfers that would result in significant economic savings to retail electricity consumers. Metrics: Estimates, based on transparent calculations and data, of the aggregate economic savings per year to consumers over the relevant geographic areas and markets. A demonstration of expected reduction in end-market concentration and how economic benefits for consumers would be affected.

The OMS generally agrees that economic benefit is in the national interest and an appropriate criterion. The OMS would request that the expected economic benefits be widespread throughout a region and suggests that the DOE establish a metric that includes this consideration. In addition, the DOE should consider establishing a threshold requirement for an appropriate minimum magnitude of benefits needed to meet this criterion.

The OMS would like to point out that the studies used to include this criterion have not been based upon benefits to end consumers, but rather upon studies of wholesale transactions. Accordingly, the OMS recommends the DOE include a metric that reflects estimated economic benefits to all retail electricity consumers in the corridor if all savings were passed through.

Draft Criteria 3: *Actions are needed to ease electricity supply limitations in end markets served by a corridor, and diversify sources.* Metrics: Areas that are dependent on “reliability-must-run” plants would benefit from targeted improvements, in terms of enhanced reliability, reduced costs, or both. Similarly, areas that are highly dependent on specific generation fuels could economically benefit from supply diversification. Estimate the likely magnitude of such benefits, showing calculations.

The OMS generally agrees with this criterion. In particular, there has been a growing trend towards reliance on natural gas-fired generation as a baseload energy resource, rather than as a supplemental peaking capacity resource. While the draft

metrics are generally appropriate, the DOE should consider adding a metric for considering whether congestion limits the output of certain generators during normal system operating conditions. The OMS would also like to see more specific metrics that measure the extent to which supply diversification available from the corridor could reduce dependency on natural gas or increase the use of renewable resources. The OMS recommends that the DOE establish a threshold level of benefit requirement for meeting this criterion.

Draft Criteria 4: *Targeted actions in this area would enhance the energy independence of the United States.* Metrics: Provide calculations showing how specific actions aided by designation as an NIETC would increase fuel diversity, improve domestic fuel independence, or reduce dependence on energy imports. Quantify these impacts including possible impacts on U.S. energy markets.

The OMS generally agrees that this criterion is appropriate. The OMS asks the DOE to recognize that some of the natural gas being used for generating electricity in the United States is imported. The OMS recommends the Department publish a prioritized list of energy resources it considers important to meeting this criterion.

Draft Criteria 5: *Targeted actions in the area would further national energy policy.*

The OMS recognizes that "the designation would be in the interest of national energy policy" is listed in EPCACT section 1221. However, as proposed, this criterion is too vague and undefined to be useful. Accordingly, the OMS suggests that the DOE's efforts to capture national energy policy considerations in the other criteria would be more effective than attempting to do so in a separate criterion.

Draft Criteria 6: *Targeted actions in the area are needed to enhance the reliability of electricity supplies to critical loads and facilities and reduce vulnerability of such critical loads or the electricity infrastructure to natural disasters or malicious acts.* Metrics: For this criterion, relevant metrics would be case specific.

The OMS agrees with this criterion. The OMS notes that this criterion is considered under the current NERC transmission planning requirements and presumes it will be required under the new ERO transmission planning requirements that will ultimately be approved by the FERC.

Draft Criteria 7: *The area's projected need [or needs] is not unduly contingent on uncertainties associated with analytic assumptions, e.g., assumptions about future prices for generation fuels, demand growth in load*

centers, the location of new generation facilities, or the cost of new generation technologies.

The OMS understands this criterion to be asking: “are the load and capability projections reasonably robust across contingencies?” There is a need for transparency in the assumptions included in the modeling and forecasting of system needs to determine possible NIETC designations. A reasonable degree of forecasting certainty is necessary, but certainty in itself is not a criterion for designation. Therefore, as an alternative to making the accuracy of projections and forecasts a separate criterion, the OMS suggests that the DOE consider applying analytical robustness as a metric for evaluating designation criteria.

The DOE requested comment regarding what metrics would be suitable for gauging uncertainties under Draft Criteria 7. Some of the major factors that most models would use to project the need for future transmission projects include fuel prices, equipment prices, inflation levels, transportation prices, population trends, and economic trends. Some of these factors are much more volatile than others, especially during the short-run (e.g. fuel prices). Each model that could be used will have different levels of sensitivity, and as a result, will have different levels of confidence depending on the assumptions made. Stated another way, the more a model or analysis depends upon the more volatile/variable factors, the lower the level of confidence. The key phrase in Draft Criteria 7 is "unduly contingent." Each model will have some variability built in. It is up to each user to be aware of the potential variability.

Draft Criteria 8: *The alternative means of mitigating the need in question have been addressed sufficiently.*

The OMS believes this criterion could be restated as “Have non-wire or other solutions been adequately considered in the geographic area?” The OMS believes it is critical to consider alternative non-wire solutions when evaluating each of the designation criteria. It appears that proper consideration of alternatives is necessary, but not in itself a criterion for designation. Therefore, as an alternative to making the proper consideration of alternative solutions a separate criterion, the OMS suggests the DOE consider applying the identification of alternative solutions as a metric to be used when evaluating designation criteria. The OMS recommends the DOE include new generation

resources and demand side load reduction programs as alternatives to the construction of new transmission lines in its evaluations for possible NIETC designations.

Further Comment and Recommendations:

The DOE seeks comment on whether there are other criteria or considerations that should be considered and whether certain criteria or considerations are more important than others. The OMS believes it might be worthwhile to consider criteria such as whether a NIETC is an unusually likely candidate for a merchant transmission solution or if it is unusually well suited for advanced technology solutions. With regard to whether certain criteria or considerations are more important than others, the OMS believes that the NOI generally presented the draft criteria in order of importance. Nevertheless, the DOE should make an effort to apply all of the criteria to a geographic area when determining whether the area should be designated as an NIETC. Priority for designation should be given to geographic areas that satisfy multiple criteria.

The OMS recommends that the DOE initiate a formal rule making proceeding to establish NIETC application and designation procedures.

The OMS recommends that the DOE set a finite time period during which a designation remains in effect and establish a procedure to un-designate an area. The time period for a designation should not be longer than the three-year period between congestion studies and should expire with final authorization of transmission facilities fulfilling the needed transfer capability specified for the corridor.

The OMS recommends that the DOE require or give additional weight to an assessment from an independent regional planning body that a geographic area should be designated or meets certain criteria.

In some cases, federal agencies have significantly delayed transmission projects, both during and after state permitting reviews. As the OMS continues to work towards effective regional strategies that address the challenges of coordinating state siting of interstate projects, the FERC or the DOE should make a critical contribution by leading a similarly tasked initiative among federal agencies.

Conclusion:

(Add OMS standard language)