

ORGANIZATION OF MISO STATES, INC.
Board of Directors Meeting
Conference Call
May 10, 2007

Approved June 14, 2007

The following board members or their proxies participated in the meeting:

Laura Chappelle, Michigan
Dan Ebert, Wisconsin
Frank Bodine, proxy for John Norris, Iowa
Candice Beery, proxy for Greg Jergeson, Montana
Bob Lieberman, Illinois
Greg Server, Indiana
Jeff Johnson, proxy for Mark David Goss, Kentucky
Tom Pugh, Minnesota
Steve Gaw, Missouri
Tim Texel, proxy for Eugene Bade, Nebraska
Susan Wefald, North Dakota
Jan Karlak, proxy for Valerie Lemmie, Ohio
Kim Pizzingrilli, Pennsylvania
Rolayne Wiest, proxy for Gary Hanson, South Dakota

Absent

Manitoba

Non-proxy staff participating

Bob Holly, Indiana
Angie Butcher - Michigan
Nancy Campbell, Minnesota
Mike Proctor, Missouri
Randel Pilo, Wisconsin

Also Bill Smith - OMS Staff

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

Approval of Minutes of the May 2nd Special Board Meeting

Dan Ebert moved for approval of the May 2, 2007 OMS Special Board of Directors Meeting minutes as distributed to board members. The motion was seconded. The minutes were approved by a unanimous voice vote of the directors.

Review of the January 23 Executive Committee meeting

Bill Smith highlighted the following items from the April 26th Executive Committee meeting.

- 1. The Assignment of New Projects.** Factors for new facilities was assigned to the Transmission Planning and Siting Work Group and a request for an inventory for resource adequacy authority was assigned to RAWG.
- 2. Review of Calendar.**

- 3. Discussion of RTO 101 & ASM Workshops.** An email was sent out to the affected curriculum committee and are waiting for Mr. Chandler's availability.

Executive Director's Report - Bill Smith.

Bill Smith reported that the draft audit report had been received on May 9th. It was a clean audit. The tax filing was prepared from the audit in time for the tax filing deadline on May 15th. A hard copy of the audit was being prepared for mailing to each director.

Cash On Hand

Candice Beery presented the Treasurer's report in Chairman Jergeson's absence. The total savings and checking account balances as of April 30, 2007 is **\$103,724.00**. The checking account balance is \$46,541.00 and the savings account balance is \$57,183.00.

Kim Pizzigrilli moved to accept the Treasurer's report as presented. Dan Ebert seconded the motion. A voice vote of the directors unanimously accepted the report.

Business Item

1. MISO Advisory Committee Issues – Frank Bodine

Frank Bodine opened the discussion talking about MISO's upcoming presentation on annual entity review.

- MISO is planning to roll the Expansion Planning Work Group into the Planning Subcommittee and for RECB to be rolled into the Planning Advisory Committee.
- Concern that there hasn't been as much consideration of input from OMS and if these groups are consolidated, the discussion will become less robust.
- Frank Bodine proposed that at the next MISO A/C meeting, the OMS members carry forward the message that these groups should continue as individual entities. Michigan and Illinois concurred.
- Randel Pilo pointed out that these two groups deal primarily with policy issues and would lose that focus if rolled into larger groups.

Laura Chappelle moved that the OMS Advisory Committee Members go forward and stress the importance of keeping the Expansion Planning Work Group and the RECB Group as separate entities. Chairman Ebert seconded. A voice vote of the directors unanimously passed the motion.

2. Revised Principles for Resource Adequacy – Jan Karlak

Jan Karlak gave an overview of what OMS was attempt to accomplish with the principles.

- There was extended discussion about enforcement and reliability and the purpose of the call.

The President asked for questions and discussion on the Introduction and Purpose sections of the draft.

- There were none

Discussion went forward on each Principle.

- On #1, Randel Pilo suggested the principle either be dropped or reworked to state just "energy market." Discussion on that ensued. The principle was reworked to the agreement of all directors.

- On #2, Commissioner Lieberman state he was confused about the distinction between planning reserve margin and operating reserve margin and he wondered if this principle dealt with planning reserve margins. Extended debate occurred. Commissioner Lieberman also wondered how the load serving entities would be able to meet the requirements of the principle, which prompted additional debate.
- On #3, the need for the phrasing “long-term” was questioned and the topic was discussed and changes were made to the wording of the principle.
- On #4, questions were raised about accreditation of DSM capacity. It was decided to leave the principle as written.
- On #5, the words “at a minimum” were discussed. It was suggested that perhaps the document was not ready to be voted upon. Minor changes were made to the principle and everyone was ready to proceed.
- There were no issues with principles #6 through #13.

Jan Karlak moved that the Board pass the Principles for Resource Adequacy as amended on this call. Tom Pugh seconded. A roll call vote was taken. The principles passed 10-0 with 4 abstentions and 1 not present. The states voting aye were: Michigan, Wisconsin, Iowa, Montana, Indiana, Minnesota, Missouri, North Dakota, Ohio and South Dakota. The states abstaining were: Illinois, Kentucky, Nebraska and Pennsylvania. Manitoba was not present.

3. Report of ICF Study Group – Steve Gaw

- Steve stated that the extension had come out and trends were better than what they had been in the past.
- The Study Group has not had enough time to study the extension and form an opinion it. They hope to do so soon.

The meeting was adjourned at 4:00 pm CDT.

OMS

Organization of MISO States
Report of the Treasurer
Greg Jergeson, Montana Public Service Commission to
the
Board of Directors
May 10, 2007
Report for April 2007

CASH ON HAND

The beginning balance as of April 1 for the Wells Fargo Business Performance Savings Account was \$57,034.87. Interest earned for this month was \$147.85. The April 30, 2007 balance was \$57,182.72.

The beginning balance as of April 1 for the Chase Bank One Checking account was \$ 39,396.39. The total disbursements from the checking account for March 2007 were \$33,803.93. Deposits, interest and adjustments were \$40,948.34. As of April 30, 2007, the checking account bank balance was \$46,540.90 and the book balance was \$54,919.05 (with 13 checks outstanding).

The total savings and checking account balances as of April 30, 2007 is **\$103,723.62**.



TREASURER'S REPORT
Organization of MISO States
April 30, 2007

Wells Fargo Business Performance Savings Account

Balance as of 4/1/07			\$	57,034.87
4/30/07	DEP	Interest on Savings	\$	147.85
				<hr/>
Business Performance Savings Account Balance at 4/30/07				\$ 57,182.72

Chase Bank One Commercial Checking with Interest

Balance as of 4/1/007			\$	39,396.49
4/5/07	ADJ	Stop Payment on Check No. 2190		764.32
4/10/2007	DEP	MISO Remittance	\$	40,000.00
4/25/2007	DEP	ED Reimbursement	\$	152.00
4/30/07	DEP	Interest on Checking		32.02
Total Deposits				<hr/>
				\$ 40,948.34

Checks and Charges

Date	Check #	Descriptions		
4/5/2007	FEE	Stop Payment Fee	\$	30.00
4/10/2007	W/D	Paychex Fee	\$	98.91
4/11/2007	2295	MI Travel to MWDR1	\$	295.75
4/11/2007	2296	Combined System Technologies	\$	389.99
4/11/2007	2297	PLATTS--Electric Utility Week 1 Yr. Renewal	\$	1,940.00
4/11/2007	2298	MI Travel to OMS Annual Meeting	\$	764.32
4/11/2007	2299	Triplett Office Essentials	\$	46.16
4/11/07	2300	WI Travel to MISO A/C and BoD	\$	947.29
4/11/07	2301	Iowa Travel to MSC	\$	459.84
4/16/07	2302	MO Travel to ICF Cost/Benefit Presentation	\$	76.74
4/16/07	2303	DWX Internet	\$	35.00
4/16/07	2304	Intercall	\$	3,626.87
4/16/07	2305	100 Court Investors	\$	874.21
4/16/07	2306	Infomax Office Systems	\$	172.31
4/16/07	2307	Hartford Insurance Co.	\$	356.00
4/16/07	2308	Qwest	\$	204.96
4/18/07	W/D	OMS VISA	\$	3,405.64

4/24/97	2309	ED Reimbursement for Travel to A/C and BoD	\$	18.09
4/24/07	2310	ED Reimbursement for Travel to Annual Stakeholder Meeting	\$	37.32
4/24/07	2311	ED Reimbursement for Travel to Energy Bar Association--St. Louis, MO	\$	477.00
4/24/07	2312	ED Reimbursement for Out of Pocket Expense Incurred at IIEG Spring Conf.	\$	40.00
4/24/07	2313	IA Travel to DRWG and MSC	\$	550.22
4/24/07	2314	IA Travel to DRWG	\$	534.36
4/24/07	2315	MI Travel to FERC Market Monitoring Tech. Conference	\$	565.52
4/24/07	2316	KY Travel to MISO Stakeholder Meeting	\$	190.65
4/24/07	2317	Jane Ortner--Office Help for Annual Audit	\$	235.10
4/24/07	2318	SD Travel to Stakeholders Meeting	\$	448.81
4/24/07	2319	IA Travel to TRTF and MSC	\$	154.14
4/24/07	2320	WI Travel to MWDRI	\$	200.23
4/24/07	2321	ND Travel to Stakeholder Meeting	\$	862.60
4/29/07	W/D	Paychex, Payroll	\$	8,191.82
4/29/07	W/D	Paychex, Taxes	\$	4,607.41
4/29/07	W/D	Oppenheimer Funds--ED	\$	2,166.67
4/29/07	W/D	Oppenheimer Funds--OM	\$	800.00

Total Checks and Charges

\$ 33,803.93

CHECKING ACCOUNT BALANCE 4/30/07

\$ 46,540.90

CERTIFICATES OF DEPOSIT, SAVINGS AND CHECKING ACCOUNT BALANCES AS OF 12/31/06

\$ 103,723.62

CHASE CHECKING ACCOUNT RECONCILIATION

	<u>Check #</u>	<u>Amount</u>
Bank Balance 4/30/07		\$ 54,919.05
Less: Checks O/S	W/D	\$ 2,166.67
	W/D	\$ 800.00
	2283	\$ 368.95
	2298	\$ 764.32
	2301	\$ 459.84
	2302	\$ 76.74
	2313	\$ 550.22
	2314	\$ 534.36
	2315	\$ 565.52
	2316	\$ 190.65
	2317	\$ 235.10
	2318	\$ 448.81
	2319	\$ 154.14
	2320	\$ 200.23
	2321	\$ 862.60
Book Balance 4/30/07		<u>\$ 46,540.90</u>

CHASE OMS VISA PURCHASES

ED	Travel to St. Louis for Energy Bar Conference	172.30
ND	ND Staff Travel to MISO Annual Stakeholder Meeting	647.21
ED	Travel and Expenses for MISO A/C and BoD	400.21
WI	WI Staff Travel for MISO A/C and BoD	825.84
ED	Travel to FERC Technical Conference on Market Monitoring	708.37
ED	Travel to MISO Annual Stakeholder Meeting	341.60
IA	Travel to A/C and BoD	130.00
OM	FEDEX Charge to Ship Materials to Energy Bar Conference	11.52
OM	USPS--Stamps	39
OM	Office Max	129.59
	Total Charges	<u>\$ 3,405.64</u>



Organization of MISO States

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OMS Executive Director Report May 7, 2007

FERC and DOE Activity

1. On April 16 the OMS filed supplementary comments on market monitoring following the Technical Conference on April 5. The OMS office facilitated a filing of Additional Comments on behalf of six member states; these comments reinforce the OMS comments.
2. On April 16 the OMS filed a Reply to MISO's answer on long-term transmission rights in Docket ER07-478.
3. On April 19, the FERC released two PJM orders that are instructive for future MISO rate design. 119 FERC ¶61,063 and 119 FERC ¶61,067. The press releases, orders, and individual commissioner statements can be found on the "What's New" section of the FERC's website <http://www.ferc.gov/>
 - FERC reaffirmed the current "license plate" system for allocating the cost of existing facilities and new owner-initiated facilities.
 - It affirmed allocating the costs of new, PJM-planned facilities to those benefiting from the projects.
 - It directed PJM to develop a detailed methodology for determining who benefits from, and therefore, who pays for new facilities – both reliability projects and economic projects – below 500 kilovolts (kV). Different criteria may be used for reliability and economic projects if justified on the record.
 - It also determined that the costs of new PJM-planned facilities of 500 kilovolts or above – both reliability projects and economic projects – should be shared on a region-wide basis.
4. April 19, the FERC approved the California Independent System Operator's mechanism for financing facilities to interconnect

location-constrained renewable resources such as wind, geothermal and solar generation to the grid. 119 FERC ¶61,061.

- Initially the costs of interconnection facilities for location-constrained resources will flow to all users of the system through the transmission revenue requirement of the Participating Transmission Owner that constructs the facility.
 - Each generator that interconnects would be responsible for paying its *pro rata* share of the going-forward costs of the line.
 - All users of the transmission grid would pay the costs of any unsubscribed portion of the line through their inclusion in the Transmission Access Charge until the line is fully subscribed.
 - To be eligible for this rate treatment, the interconnection facility must be approved in the ISO's transmission planning process as providing needed system benefits.
 - Once the facility is constructed, generators of any fuel type would be eligible to interconnect and contract for unsubscribed capacity, consistent with the Commission's open access requirements.
5. Also on April 19, the FERC denied rehearing on various requests with respect to the incentive rulemaking, Order No. 679-A. 119 FERC ¶61,062.
6. On April 26, At the Gridweek conference this afternoon, Secretary of Energy Bodman announced the draft designation of two National Interest Electric Transmission Corridors. One area is Southern California – Arizona – Nevada. The other extends from New York State South to the Baltimore-Washington area. There will be a 60 day comment period. 3 public meetings are planned: May in Washington, May 17 in California and May 23 in New York City. The announcement documents are indexed at:
<http://nietc.anl.gov/documents/index.cfm#maps>. The Mid-Atlantic NIETC map is at:
<http://nietc.anl.gov/documents/docs/DraftMidAtlanticCorridor.pdf>.

OMS-MISO Activity:

1. The Midwest ISO Stakeholder Meeting was held on Wednesday, April 18. Commissioners Norris, Wefald and Chappelle appeared on

panels to discuss the Midwest ISO's strategic direction for the next 5 to 7 years. MISO's notes on the meeting are posted at:
http://www.midwestmarket.org/publish/Folder/1e161b_110b64acc e1_-7ded0a48324a.

2. The Midwest ISO released additional results of the ICF study of Midwest ISO Operational Benefits, extending the findings for five more months. The OMS group discussed these findings with MISO staff on April 30. The report is at
http://www.midwestmarket.org/publish/Folder/1e161b_110b64acc e1_-7faf0a48324a?rev=1.
3. The Midwest Demand Resources Initiative steering committee met May 4. Its Program Design subgroup met May 7.
4. The OMS Resource Adequacy Work Group developed a draft of Revised Principles on resource adequacy. The Board held a working session on the draft May 2 and will consider it again May 10.
5. The Midwest ISO Transmission Owners briefed stakeholders on post-transition pricing issues on April 26.

Public Relations

1. Presentations:
 - During Gridweek, several OMS commissioners appeared on panels. Chairman Ebert appeared at the FERC technical conference on demand response on April 23. Chairman Norris spoke to the Demand Response Town Hall on April 24. Commissioner Gaw gave a presentation at Gridweek on April 26.
 - Commissioner Lieberman testified on May 3 to the US House Subcommittee on Energy and Air Quality hearings on smart grid development.
2. Pending speaking/meeting invitations:
 - Commissioners Wefald, Ebert, and Server, along with Ken Nickolai and Kim Wissman are scheduled to speak at a joint Reliability First / Midwest Reliability Organization conference on resource adequacy on May 10.
 - Commissioner Lieberman was asked to speak on demand response in an organized market at FERC's technical conference on competition May 8.

Upcoming MISO Filing of Regional Interest

Filing Date	Docket No.	Description	Pursuant to Commission Order
8/1/2007	ER07-____-000	The Midwest ISO Transmission Owners to submit their proposed Post-Transition Period transmission pricing mechanism, effective 02/01/08.	84 FERC ¶ 61,231 (1998)

Other upcoming dates:

- May 10 - RFC-MRO RA conference (Carmel)
- May 11 – Planning Reserve Sharing Group meeting (Carmel)
- May 10-11 – PJM conference on demand response (Alexandria)
- May 15 (changed from April 24) - ASM State Ratemaking Study Group (Carmel). This meeting will include a review of energy market charge types as a foundation for understanding ASM charge types.
- May 16 – Advisory Committee
- May 18 – OMS Work Group Chairs
- May 24 – OMS Executive Committee
- June 1 – Joint and Common Market meeting (Carmel)
- June 20 – OMS in-person Board meeting (Minneapolis, following MARC)
- June 28-29 – FERC Technical conference on "strawman" proposals regarding transmission planning in the Midwest ISO, PJM, New York ISO, and ISO New England footprints and adjacent areas RM05-17 (Pittsburgh)

Organization of MISO States
Revised Principles for Resource Adequacy

INTRODUCTION

The Organization of MISO States (OMS) Resource Adequacy Principles, adopted by the OMS Board March 12, 2004, are revised in light of changes in the Midwest ISO market structure, the passage of the Energy Policy Act of 2005 recognizing the states' primary role regarding resource adequacy, and the new jurisdiction of the Federal Energy Regulatory Commission (FERC) over activities and reliability standards of the North American Electric Reliability Corporation (NERC) and the former regional reliability organizations.

The Revised Principles for Resource Adequacy are intended to assist stakeholder activities directed toward a workable program for resource adequacy in the Midwest ISO footprint, while remaining true to the States' oversight for providing safe and reliable service.

PURPOSE

The OMS Resource Adequacy Principles are meant to facilitate future OMS comments to Midwest ISO and the FERC relevant to a range of complex interrelated resource adequacy issues in an organized regional energy market. The interrelated issues include long-term resource adequacy, system reliability, enforcement of resource adequacy to meet peak load requirements plus a reserve margin, and regional planning that considers generating capacity resources and their alternatives.

The interrelated issues are now being addressed in several separate venues: the FERC-regulated reliability standard-setting activities of the Midwest Regional Entities under the NERC: the regional entities of the Midwest Reliability Organization (MRO); the Reliability *First* Corporation (RFC), and the Southeastern Electric Reliability Council (SERC); the efforts of the Planning Reserve Sharing Group administered by Midwest ISO Staff; the OMS Resource Adequacy Working Group (RAWG); the Midwest ISO market participants' Supply Adequacy Working Group (SAWG); and other regional activities in the context of a long-term resource adequacy plan for meeting the Midwest ISO coordinated planning requirements under NERC standards.

As evidenced by our principles for resource adequacy adopted on March 12, 2004, the OMS has long recognized the continuing need to ensure that adequate resource planning reserves, including generating capacity and demand resources, are developed and maintained by all load serving entities (LSEs) so they can reliably serve load at all times. To that end, the OMS' revised principles are as follows:

LONG-TERM RESOURCE ADEQUACY

OMS Revised Principle Number 1:

The Midwest ISO should continue to work on developing a transparent and truly competitive energy market.

OMS Revised Principle Number 2:

All load serving entities (LSEs) should maintain sufficient capacity to meet peak load plus minimum planning reserve margin requirements at all times in order that resource deficiencies will be infrequent. OMS remains skeptical that price signals alone will be sufficient to ensure adequate and timely long-term capacity and demand resource additions. The OMS, at this time, does not endorse a forward-based capacity market operated by the Midwest ISO.

OMS Revised Principle Number 3:

The Midwest ISO must provide non-discriminatory opportunities for all resources including renewable and demand resources and a mix of firm contracts when meeting annual forecast load adjusted by dispatchable and verifiable price-responsive demand reductions.

OMS Revised Principle Number 4:

Capacity certification/accreditation test procedures and deliverability verification must be applied periodically to establish capacity ratings for resources being relied upon to meet Midwest ISO capacity requirements.

RELIABILITY

OMS Revised Principle Number 5:

The OMS recognizes the wide acceptance of reliability standards proposed by the Regional Entities' predecessors. The OMS supports the efforts of the NERC and the Regional Entities within the Midwest ISO to ensure resource adequacy by proposing uniform regional resource adequacy or planning reserve requirements and enforcement procedures. States are then free to rely on such requirements and procedures as a minimum when setting any state reserve requirement.

OMS Revised Principle Number 6:

The OMS encourages compliance with the NERC and Regional Entity standards, and urges openness and transparency with respect to overall resource adequacy of the region, as well as individual load serving entities' compliance with those standards.

ENFORCEMENT

OMS Revised Principle Number 7:

Forward planning reserve enforcement mechanisms should become effective by no later than June, 2008. With the Midwest ISO-proposed changes in market mechanisms expected to occur in 2008, the timing of such mechanisms are critically important to help ensure resource adequacy during the transition.

OMS Revised Principle Number 8:

Each entity responsible for serving MISO Load should be periodically, independently audited to ensure that accredited and deliverable capacity sufficient to meet peak load plus the applicable reserve requirement was in place at all times during the previous period.

OMS Revised Principle Number 9:

Non-compliance with a resource adequacy standard can put load that is in compliance with such standards at risk. Therefore, consequences of instances of non-compliance must not be levied indiscriminately across all load, but must be targeted toward the parties at fault.

OMS Revised Principle Number 10:

All entities or their designated planned reserve sharing groups within the Midwest ISO should adopt enforceable planning reserve requirements to assure there are sufficient resources to maintain continuous reliability and effective competition.

REGIONAL PLANNING

OMS Revised Principle Number 11:

Regional planning, conducted in accordance with NERC standards for coordinated planning, must include consideration of the deliverability, security and coordination of generating capacity resources and their alternatives as well as the capacity needs of all load serving entities, including those who are transmission dependent, on a non-discriminatory basis. Such planning helps ensure resource adequacy.

OMS Revised Principle Number 12:

The ultimate decisions regarding generation resource planning shall be left to the states. The Midwest ISO has a unique comprehensive view of the fifteen-state region regarding the location of transmission constraints. The Midwest ISO's reporting, analyses, and regional recommendations in compliance with NERC standards for coordinated planning can be very helpful to the states in developing state resource adequacy policy and generation siting decisions.

OMS Revised Principle Number 13:

Planning reserve assessments must be forward-looking and allow consideration of new capacity additions of all fuel types and technologies as resource options. Annual forward-looking load and capability reports should include long-term load forecasts adjusted by mechanisms that allow the participation of demand response and load reduction and a supply plan for meeting capacity and reserve requirements with existing accredited and deliverable capacity resources.

ADOPTED BY THE OMS BOARD OF DIRECTORS
MAY 10, 2007

The following commissions voted to support these principles:

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

The Pennsylvania Public Utility Commission does not concur with Principle No. 5. The Nebraska Power Review Board abstained from the vote. The Manitoba Public Utilities Board did not participate in the development of these principles. The Illinois Commerce Commission provided the attached Dissenting Opinion.

**Dissenting Opinion of the Illinois Commerce Commission
Regarding the Organization of MISO States'
Revised Principles for Resource Adequacy**

May 16, 2007

I. Introduction

On May 10, 2007, a majority of the Organization of MISO States' ("OMS") Board of Directors voted to approve a document titled, "Revised Principles for Resource Adequacy." The Illinois Commerce Commission's ("ICC") OMS representative—Commissioner Robert F. Lieberman—abstained from that vote on behalf of the ICC.

The ICC now seeks to have its dissenting opinion attached to the OMS' Revised Principles for Resource Adequacy. The OMS Bylaws permit the attachment of such dissenting opinions. The OMS Bylaws state, "Individual Member authorities retain all rights to object to, support, or otherwise comment on, issue statements of the Organization [OMS], including the attachment of a minority report or dissenting opinion, provided it is submitted in a timely manner."¹

The ICC supports the goal of resource adequacy as much as any other member of the OMS. Under Illinois law, all alternative retail energy suppliers are required to "comply with all applicable federal, State, regional and industry rules, policies, practices and procedures for the use, operation, and maintenance of the safety, integrity and reliability, of the interconnected electric transmission system."² Furthermore, provider of last resort service in the Midwest ISO portions of Illinois is being provided pursuant to the resource adequacy standards of the former Mid-America Interconnected Network ("MAIN").³ Concerns that load serving entities ("LSEs") in retail access states such as Illinois are not pulling their weight with regard to resource adequacy in the Midwest ISO and are more likely to "lean on the system," are baseless and lacking any supporting evidence.

The ICC takes no issue with, and indeed supports, most of the content of the OMS Revised Principles for Resource Adequacy. However, the OMS Principles have several shortcomings that fall into the following categories: (1) requiring planning reserves plus operating reserves in the operating day timeframe; (2) the lack of accommodation for load shifting between LSEs in retail access states; (3) failure to treat price responsive demand as a legitimate resource adequacy element; and (4) facilitation of an approach in which prices are not permitted to reflect underlying forward supply and demand fundamentals. These shortcomings would create unnecessary inefficiencies and unnecessary costs should attempts be made to implement the principles.

¹ OMS Bylaws, Section IV.8

² 220 ILCS 16-115(d)(2)

³ See, e.g., Affidavit of Craig D. Nelson, Vice President-Strategic Initiatives of Ameren Services Company and Vice President-Power Supply Acquisition of the Ameren Illinois Utilities in ICC Dkt. No. 06-0715.

The ICC's concerns with these issues are explained in more detail below and an edited version of the OMS Principles is attached as Appendix A to this Dissenting Opinion.

II. Proposed Modifications to the OMS' Revised Resource Adequacy Principles

A. Requiring Planning Reserves Plus Operating Reserves in the Operating Day Timeframe Would Be Inefficient.

Resource adequacy is, by its nature, a forward-looking exercise. OMS Principle 13, for example, correctly recognizes the forward-looking nature of resource adequacy planning. OMS Principle 4 also recognizes the need for forward assessments of resource adequacy. These are necessary elements of any sound resource adequacy program. However, a LSE that carries sufficient capacity to satisfy its operating day needs, including both non-coincident peak operating day needs and coincident peak operating day needs, for both energy and operating reserves should not suffer consequences or be penalized for insufficient resource adequacy. In other words, in the operating day timeframe, an LSE should not be required to hold a capacity reserve margin in excess of its actual peak load, plus its share of system operating reserves. Imposing a requirement to carry capacity in excess of that actually needed to meet peak energy needs plus operating reserve requirements would be wasteful of individual company and customer resources and would be economically inefficient.

The primary purpose of a forward planning capacity reserve margin is to ensure the availability of sufficient capacity of the right types and in the right places to satisfy the system's needs for energy, regulating reserve, and contingency reserve in the operating day time frame. At some point, planning reserve transitions into operating reserve as the operating day approaches. If there is concern with inadequate operating reserves on the system, the better solution would be to increase the operating reserve requirement. The solution is not to mandate demonstration of a planning capacity reserve amount on top of operating reserves in the operating day time frame.

OMS Principles 2 and 8 would place a planning reserve requirement on top of an operating reserve requirement. Specifically, OMS Principle 2 would require all LSEs to "maintain sufficient capacity to meet peak load plus minimum planning reserve margin requirements at all times." OMS Principle 8 states that each LSE should "be periodically, independently audited to ensure that accredited and deliverable capacity sufficient to meet peak load plus the applicable reserve requirement was in place at all times during the previous period." OMS Principle 10 envisions that OMS' proposed resource adequacy requirements would be "enforceable." Together, OMS Principles 2, 8, and 10 envision consequences for LSEs that are found to not have carried the required extra capacity in the operating day timeframe. This constitutes bad policy, as it would impose unnecessary costs on customers and would be economically inefficient.

B. Load Shifting Between LSEs in Retail Access States Must Be Accommodated.

OMS Principles 2 and 8 would impose a forward capacity reserve maintenance obligation on each individual LSE. For example, OMS Principle 2 states that each individual LSE “should maintain sufficient capacity.” This envisions that each LSE would be separately responsible for securing owned or contracted capacity resources to cover the forecast peak load for that LSE. However, in retail access states, retail load can shift between LSEs on short notice. Therefore, while the total retail load within the utility’s service area can be forecasted as accurately as ever, the share of that total load that each load serving entity will serve cannot be accurately forecasted far ahead of time. There are potential solutions for this issue, but none of them are encompassed in the OMS Principles.

With respect to resource adequacy, it is important that the Midwest ISO system, as a whole, is resource adequate and that each LSE bears its proportional share of the financial responsibility for maintaining system resource adequacy. To accomplish the OMS’s goal of individual LSE responsibility for the maintenance of resource adequacy quantities, as contrasted to individual LSE financial responsibility for its proportional share of the total system obligation, a forum would need to be established for transparent purchases and sales of capacity as load switches between LSEs during the planning period. In essence, a capacity market would be required. Although the OMS explicitly states in Principle 2 that it “does not endorse a forward-based capacity market operated by the Midwest ISO”, imposing individual capacity obligations upon LSEs will ultimately require the establishment of the kind of forward-based capacity market that OMS avers it does not endorse in Principle 2.

C. Price Responsive Demand Should Be Treated as an Eligible Resource Adequacy Element.

Price responsive demand can, and should be, treated as a legitimate resource adequacy resource on a probabilistic basis. Indeed, it could be argued that price responsiveness of load is much more predictable than generation unit outages—and, therefore, constitutes a much more reliable resource adequacy element.

To some extent, the demand for electricity is elastic. Unfortunately, the OMS Principles relegate price responsive load to being merely an offset to the load forecast. For example, OMS Principle 3 refers to load forecasts “adjusted by dispatchable and verifiable price-responsive demand reductions.” Principle 13 also describes such “adjustments” to load forecasts for “demand response and load reduction.”

States with retail customers on real-time tariffs, or their equivalent, should not be penalized for adding demand elasticity to the Midwest ISO energy market. Rather, the expected response of load to incremental price changes can be forecasted and should be credited as a resource adequacy resource.

D. Market Design Must Permit Prices to Reflect Underlying Forward Supply and Demand Fundamentals.

OMS Principle 1 recommends that the Midwest ISO “continue to work on developing a transparent and truly competitive energy market.” A transparent and truly competitive energy market must include prices that reflect underlying forward supply and demand fundamentals as well as system operating realities. This principle is critically important, and if properly implemented, would go far, in promoting system resource adequacy. The Principle would be improved if it referred specifically to the scarcity pricing features of the Midwest ISO’s ancillary services market design which were developed to induce sufficient operating reserves (including regulating reserve). After all, the primary difference between planning reserve and operating reserve lies in the timeframe. As the operating day approaches, planning reserve transitions into operating reserve.

OMS Principle 1 does not seem to be substantially different in intent from the Midwest ISO Board of Directors’ recently adopted resource adequacy principle #3 which states:

3. Develop a wholesale market platform to accommodate the appropriate market mechanisms and price incentives
 - Pricing provisions to assure supply and demand fundamentals appropriately expressed in market clearing prices
 - Availability of long-term transmission service and congestion cost hedges to mitigate delivery risk under long-term supply contracts
 - Opportunities for full demand participation.

OMS Principle 1 and Midwest ISO Principle 3 describe market-based methods of promoting resource adequacy. These Principles correctly acknowledge that price must reflect underlying system fundamentals at all times. When that is not the case, incentives and disincentives are not properly aligned to achieve the desired resource adequacy outcome.

Although the OMS expressed support for market-based mechanisms for resource adequacy in Principle 1, the content of the other principles does not set out a framework in which prices and market mechanism are used as tools to achieve resource adequacy. OMS also stated in Principle 2 that “OMS remains skeptical that price signals alone will be sufficient to ensure adequate and timely long-term capacity and demand resource additions.” The OMS provided no explanation for its skepticism and did not identify any market failure that would support its skepticism of markets. Unless a structural market failure is identified that would make market-based mechanisms unworkable, resorting to non-market mechanisms would be a more inefficient and costly method of achieving resource adequacy goals.

III. Conclusion

While the ICC supports most of the content of the OMS “Revised Principles for Resource Adequacy,” the ICC submits this dissenting opinion to clarify its position on

these issues and to encourage the OMS to accommodate this position in future revisions to the OMS Principles.

In the discussions leading up to the OMS vote, concerns were expressed by several OMS members about approving the principles without sufficient time to explore or to understand the extent of the impacts these principles would have on market participants and customers in the member states. The ICC strongly encourages further exploration and discussion along those lines. As the potential impacts are better understood, we also encourage the continuous and frequent update and revision of these principles so as to optimize the benefit these principles could have for all Midwest ISO member states.

Appendix A is attached to this Dissenting Opinion showing the ICC's recommended revisions to the OMS Principles.

Appendix A to the ICC's Dissenting Opinion

OMS Revised Principle Number 2:

All load serving entities (LSEs) should maintain be responsible for sufficient capacity ~~to meet so that all~~ peak load ~~plus minimum planning reserve margin requirements needs,~~ including operating reserve, can be met at all times in order that resource deficiencies will be infrequent. ~~OMS remains skeptical that price signals alone will be sufficient to ensure adequate and timely long term capacity and demand resource additions. The OMS, at this time, does not endorse a forward based capacity market operated by the Midwest ISO.~~

OMS Revised Principle Number 3:

The Midwest ISO must provide non-discriminatory opportunities for all resources including renewable and demand resources (including price responsive demand) and a mix of firm contracts when meeting annual forecast load ~~adjusted by dispatchable and verifiable price responsive demand reductions.~~

OMS Revised Principle Number 7:

Forward planning reserve enforcement mechanisms should become effective by no later than June, 2008. With the Midwest ISO-proposed changes in market mechanisms expected to occur in 2008, the timing of such mechanisms are ~~critically~~ important to help ensure resource adequacy during the transition.

OMS Revised Principle Number 8:

Each entity responsible for serving MISO Load should be periodically, independently audited to ensure that accredited and deliverable capacity sufficient to meet peak load ~~plus the applicable reserve requirement~~ operating reserve was in place at all times during the previous operating period.

OMS Revised Principle Number 13:

Planning reserve assessments must be forward-looking and allow consideration of new capacity additions of all fuel types and technologies, as well as firm contracts and demand response, as resource options. Annual forward-looking load and capability reports should include long-term load forecasts ~~adjusted by mechanisms~~ that allow the participation of demand response and load reduction and a supply plan for meeting capacity and reserve requirements with existing accredited and deliverable capacity resources.



Midwest ISO Advisory Committee Meeting
Lakeside Conference Center - Carmel, Indiana
May 16, 2007
10:00 A.M. to 12:00 PM EST
DIAL IN NUMBER: (800) 216-0480

Item A2

Meeting Agenda

		<u>Starting</u>
A. Standing Items		
1. Call to Order, Representative Roll Call (Peggy Ladd)	5 min	10:00
2. Review of Agenda (Peggy Ladd)	5 min	10:05
3. Approval of March Meeting Minutes (Peggy Ladd) √	5 min	10:10
4. Action Items from Previous AC Meetings (Todd Hillman)	5 min	10:15
B. Discussion Items		
1. Solicitation for Board Nominating Committee (Peggy Ladd)	5 min	10:20
2. Top Issues for Discussion - Board of Directors (Paul Feldman)	15 min	10:25
3. Joint & Common Market Update (Jeff Webb/Bill Phillips)	10 min	10:40
4. FTR Auction Analysis Update (Richard Doying)	10 min	10:50
5. ASM Financial Update (Roy Jones)	5 min	11:00
6. FERC Order 890 Update (Steve Kozey)	5 min	11:05
7. Midwest ISO Exploder List Management (Todd Hillman)	5 min	11:10
C. Standing Committee Reports		
1. Steering Committee (Patty Harrell) √	20 min	11:15
2. Transmission Owners' (Paul Jett/Gregory Ioanidis) *	5 min	11:35
3. OMS (John Norris)	5 min	11:40
D. New Business		
1. June Advisory Committee Business (Peggy Ladd)	10 min	11:45
E. Recap		
1. Issues/Assignments & Pending Votes for June (Todd Hillman)	5 min	11:55
LUNCH		12:00

Rotating Agenda Team for June Agenda:

Ron Mucci
Dan Ebert
Ray Wahle

√ Denotes potential motion for voting

* Report will be oral