OMS

Organization of MISO States

ORGANIZATION OF MISO STATES, INC.
Board of Directors Meeting
Conference Call Minutes
August 9, 2007

Approved September 13, 2007

John Norris, President of the Organization of MISO States, Inc. (OMS), called the August 9, 2007 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:

Robert Lieberman, Illinois
Greg Server, Indiana
John Norris, Iowa
Jorge Valladares, proxy for Mark David Goss, Kentucky
Monica Martinez, Michigan
Tom Pugh, Minnesota
Steve Gaw, Missouri
Greg Jergeson, Montana
Tim Texel, proxy for Eugene Bade, Nebraska
Susan Wefald, North Dakota
Valerie Lemmie, Ohio
Kimberly Hafner, proxy for Kim Pizzingrilli, Pennsylvania
Randel Pilo, proxy for Dan Ebert, Wisconsin

Absent
Manitoba
South Dakota

Agency members participating
Randy Rismiller - Illinois
Laura Cvengros – Indiana
Carol Crone - Indiana
Rick Bertelson - Kentucky
Angie Butcher – Michigan
Hisham Choueiki, Jan Karlak - Ohio

David Hadley - MISO
Also Bill Smith, Julie Mitchell - 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 November 9, 2006 and July 12, 2007 Board Meetings

- Susan Wefald moved for approval of the November 9, 2006 OMS Board of Directors Meeting minutes as distributed to board members. Randel Pilo seconded the motion. The minutes were approved by a unanimous voice vote of the directors.
- Susan Wefald moved for approval of the July 12, 2007 OMS Board of Directors Meeting minutes as distributed to board members. Randel Pilo seconded the motion. The minutes were approved by a unanimous voice vote of the directors.

Treasurer's Report

Greg Jergeson presented the July OMS Treasurer's Report. The beginning balance as of July 1 for the Wells Fargo Business Performance Savings Account was $57,484.53. Interest earned for this month was $153.99. The July 31, 2007 balance was $57,638.52.

The beginning balance as of July 1 for the Chase Bank One Checking account was $59,581.15. The total disbursements from the checking account for July 2007 were $33,577.51. Deposits, interest and adjustments were $41,243.19. As of July 31, 2007, the checking account bank balance was $67,246.79 and the book balance was $68,655.64 (with 5 checks outstanding).

The total savings and checking account balances as of July 31, 2007 is $124,885.31.

Greg Jergeson moved to accept the Treasurer's report as presented. Susan Wefald seconded the motion. A voice vote of the directors unanimously accepted the report.

Review of the Executive Committee Meeting on July 26

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

- Budget preparation was discussed and a schedule was established for approving the budget at the September 13 board meeting
- The Personnel Committee was asked to review staff contracts and make recommendations. The contracts expire August 31. The Executive Committee will need to act on these at the August Executive Committee meeting.
- The OMS Nominating Committee has started the process of selecting officers for next year.
- Work group plans were reviewed.
- The Executive Committee approved the rental of an additional parking place for the OMS office part-time staff and service people in the adjacent parking garage.
- Preliminary plans for the OPSI-OMS luncheon to be held at the NARUC meeting in November in Anaheim were discussed.

Executive Director's Report:

Bill Smith highlighted the following items from the OMS Executive Director's report, which follows the minutes.

- Post-transition pricing filings were made Wednesday, August 1. FERC noticed the comment and corrected the filing date to September 17.
- MWDRI process update:
    1. OMS is noticing calls for two conference calls to be held on the MWDRI surveys. (The first meeting will be held on August 10.)
    2. The MWDRI OMS work Group is in the process of scheduling a conference call to discuss the ANOPR at FERC.
    3. MWDRI Steering Committee is scheduled to meet September 7 in Chicago. A Principles document will be presented at that time for committee approval and then brought to the OMS Board at its September 13 meeting.

BUSINESS

1. **MISO Advisory committee Issues -** John Norris
   President Norris reviewed the MISO Advisory Committee agenda. There were no formal action items on the agenda, but he referenced the following:
   - MISO AC is meeting August 15, 2007 in St. Paul.
   - Bill Smith noted the formation of an ASM readiness group to act as a liaison group between the stakeholders and MISO's readiness advisor. Approval for this group's formation will be requested at the MISO AC meeting.
   - MISO has made a filing at FERC to change the TO agreement to permit a change in the executive staff to separate the office of CEO and President. The OMS Long-term Development WG may have an interest in filing a comment on this.
   - Item on the agenda indicates MISO may announce a new junior membership for MidAmerican Energy, WAPA and Basin.

2. **ANOPR Comments -** Bill Smith
   Bill Smith provided a status report on comments being prepared by four OMS work groups on the FERC ANOPR.
   - Working Groups involved in drafting the comment include: The Market WG, Market Monitoring & Mitigation WG, the Demand Response WG, and Long-Term Development & Governance WG. Other OMS work groups are also making contributions. Comments are due September 14.
   - The work groups are working together to produce a combined draft to have ready for a vote at the September 13 board meeting. Hopefully the draft will be available two weeks before the meeting for member review.

3. **Resource Adequacy Plan -** Jan Karlak
   Jan Karlak provided the board a brief history of this resource adequacy issue and reviewed the four basic elements of the OMS Resource Adequacy Straw Proposal.
   - Jan also proposed straw voting electronically on the issue pieces with the first results to be available at the OMS September board meeting. Susan Wefald suggested final voting on the sections be done at OMS board meetings.
   - The RAWG has scheduled informational meetings for OMS Board members on the plan; the first meeting is to take place on Monday, September 10.
   - Attached is the RAWG report from August 6 with a summary of the comments they have prepared so far, and an additional presentation of the history of this resource adequacy issue. Also included is information about meeting dates.
   - President Norris encouraged board members to take part in the process. Randy Pilo pointed out how complicated this topic is, and the need for members to become informed through these RAWG sessions.

4. **Broad Constrained Areas Filing -** Market Monitoring & Market Power Mitigation Work Group
   Bill Smith spoke on behalf of Bob Pauley, chair of the Market Monitoring and Market Power Mitigation Work Group. He presented a draft filing to support MISO's request to extend indefinitely mitigation in Broad Constrained Areas. This filing was encouraged by the Market Monitor.

   Randy Pilo moved to approve the Broad Constrained Areas comments draft to the FERC as proposed by the Market Monitoring and Mitigation Work Group and distributed to OMS board members. Bob Lieberman seconded the motion.

A roll call vote was taken: Vote yes to approve comments:

Illinois - Yes
Indiana - Yes
Iowa - Yes
Kentucky - Yes
Manitoba - Absent
Michigan - Yes
Minnesota - Yes
Missouri - Yes
Montana - Yes
Nebraska - Yes
North Dakota-Yes
Ohio - Yes
Pennsylvania-Abstain
South Dakota-Absent
Wisconsin - Yes

Yes - 12
Abstain - 1
Absent - 2

By a majority vote of the states present, the comments were approved. Bill Smith was instructed to contact the members not available to vote at this time on the comments to determine if they wanted to join in the approval of the comments.

5. **Reconsideration of ASM Order -** Market Work Group

Randy Rismiller spoke on behalf of Bill Bokram, chair of the Markets Work Group. FERC issued an order in June on MISO's Ancillary Services filing. FERC rejected that filing and provided guidance on several issues including cost allocation. Cost Allocation was a major element of the OMS filing on MISO's Ancillary Services.

The attached draft is a request for clarification from FERC of meaning and intent of the words FERC used in this cost allocation issue, clarifying that MISO's matter of cost allocation is still open discussion by MISO and its stakeholders; and for alternatives to be considered.

Susan Wefald moved passage of the Request for ASM Clarification Order draft to the FERC as proposed by the Market Work Group and distributed to OMS board members. Greg Jergeson seconded the motion.

A roll call vote was taken: Vote yes to approve comments:

Illinois - Yes
Indiana - Yes
Iowa - Yes
Kentucky - Yes
Manitoba - Absent
Michigan - Yes
Minnesota - Yes
Missouri - Yes
Montana - Yes
Nebraska - Yes
North Dakota-Yes
Ohio - Yes
Pennsylvania-Yes
South Dakota-Absent
Wisconsin - Yes

Yes - 13
Abstain - 0
Absent - 2

By a majority vote of the states present, the comments were approved.

6. **Comment to MISO Board on Free Rider Issue -** Pricing Issues Work Group

Randy Rismiller, Pricing Work Group Co-Chair, presented information to OMS board members. He explained that the MISO board requested a position paper from the sectors on the "free rider" issue. Three states (Illinois, Michigan, Ohio) worked together to answer the questions posed by MISO to produce a compilation document presented for OMS board consideration.

- FERC raised the issue of what is the appropriate financial arrangement for utilities that do not belong to MISO, but receive some advantages because of geographic proximity.
- Attached is the white paper the OMS board approved for presentation to the MISO Advisory Committee at its August meeting.

Monica Martinez moved that OMS adopt the position in the draft Free Rider document summary, with attachments to be added to express the various state positions. Tom Pugh seconded the motion.

The Illinois position was to be credited to the Illinois Federal Energy Policy Staff. Michigan Energy Markets concurred with Illinois' position.

A voice vote was taken. Pennsylvania, Missouri and North Dakota abstained. The remaining directors voted Yes to support the comments.

<u>Announcements:</u>

- August 3 – ASM regional workshop – Madison, WI - 9:00 am - 12:00 noon
- August 10 – WG chairs and key staff - 9:30 am - 11:00 am CDT - Note: DATE CHANGE
- August 14 – ASM regional workshop – St. Paul, MN - MISO Offices - 1125 Energy Park Dr. - 1:30 - 4:30 pm CDT
- August 15 – MISO Advisory Committee Meeting - St. Paul Hotel, St. Paul, MN
- August 16 – MISO Board of Directors Meeting - St. Paul Hotel, St. Paul, MN
- The next OMS Executive Committee meeting will be held August 23 at 2:00 CDT
- September 7 – MWDRI Steering Committee – Chicago (time and place TBA)
- The next regular OMS Board Meeting will be held September 13 at 2:00 CDT
- September 14 – ANOPR comments due
- September 17 ??? – Comment due on Post-Transition Pricing
- September 19 - Advisory Committee Meeting – Carmel
- September 19 - WG chairs and key staff – 4:00 – 6:00 – Carmel
- November 11 – OPSI – OMS lunch planned at NARUC

The meeting adjourned at 3:45 p.m. CDT

At the OMS September 13, 2007 Board Meeting, the July OMS Treasurer's Report was corrected. This is the revised report.

OMS

TREASURER'S REPORT
Organization of MISO States
July 31, 2007

Wells Fargo Business Performance Savings Account

Balance as of 7/1/07				**$ 57,484.53**	
	7/31/07	**DEP**	**Interest on Savings**	**$ 153.99**	
Business Performance Savings Account Balance at 7/31/07					**$ 57,638.52**

Chase Bank One Commercial Checking with Interest

Balance as of 7/1/07				**$ 59,581.15**
	7/2/2007	**DEP**	**Deposit**	**$ 1,191.00**
	7/9/2007	**DEP**	**MISO Remittance**	**$ 40,000.00**
	7/16/2007	**DEP**	**Deposit**	**$ 8.11**
	7/31/07	**DEP**	**Interest on Checking**	**44.08**
			Total Deposits	**$ 41,243.19**

Checks and Charges

Date	Check #	Descriptions	
7/3/2007	2383	IL Travel to OMS Board Meeting	$ 82.00
7/3/2007	2384	MI Travel to OMS Planning Meetings	$ 501.44
7/3/2007	2385	KY Travel to ASM Presentation, Columbus	$ 363.10
7/3/2007	2386	Ryun, Givens, and Waith	$ 2,660.00
7/3/2007	2387	Minneapolis Marriot City Center	$ 1,689.51
7/10/2007	W/D	Paychex Fee	$ 99.60
7/10/2007	2388	Triplett Office Essentials	$ 62.09
7/10/07	2389	ND Travel to OMS Board Meeting	$ 364.38
7/10/2007	2390	MO Travel to OMS Board Meeting	$ 824.19
7/10/07	2391	MO Travel to OMS Board Meeting	$ 449.31
7/10/07	2392	KY Travel to MISO RECB Meeting	$ 349.77
7/10/07	2393	MI Travel to MISO AC and MTEP Meetings	$ 246.86
7/10/07	2394	MT Travel to OMS Board Meeting	$ 645.65
7/10/07	2395	WI Travel to MISO AC Meeting	$ 636.87
7/10/07	2396	ED Travel to FERC TC in Pittsburgh	$ 38.99
7/16/07	2397	OH Travel to OMS Board Meeting	$ 624.48
7/16/07	2398	OMS Chase VISA	$ 1,330.72
7/16/07	2399	Triplett Office Essentials	$ 958.24
7/16/07	2400	100 Court Investors	$ 874.21

At the OMS September 13, 2007 Board Meeting, the July OMS Treasurer's Report was corrected. This is the revised report.

7/16/07	2401	Intercall	$ 2,711.23		
7/16/07	2402	Infomax Office Systems	$ 172.31		
7/20/07	2403	DWX Internet	$ 35.00		
7/20/07	2404	Qwest	$ 241.00		
7/20/07	2405	IA Travel to DRWG and MWDRI	$ 732.20		
7/20/07	2406	ED Travel to NARUC Summer Meeting	$ 188.34		
7/30/07	2407	Combined Systems Technologies	$ 41.34		
7/30/07	2408	IA Travel to DRWG, MWDRI, and MSC	$ 733.86		
7/30/07	2409	100 Court Investors	$ 85.00		
7/30/07	2410	MWDRI Conference Call Expense	$ 184.27		
6/30/07	W/D	Paychex, Payroll	$ 8,137.98		
6/30/07	W/D	Paychex, Taxes	$ 4,546.94		
6/30/07	W/D	Oppenheimer Funds--ED	$ 2,166.67		
6/30/07	W/D	Oppenheimer Funds--OM	$ 800.00		
		Total Checks and Charges		33577.55	
CHECKING ACCOUNT BALANCE 7/31/07					$ 67,246.79

CERTIFICATES OF DEPOSIT, SAVINGS AND CHECKING ACCOUNT BALANCES AS OF 7/31/07 $ 124,885.31

CHASE CHECKING ACCOUNT RECONCILIATION

	Check #	Amount
Bank Balance 7/31/07		$ 68,655.64
Less: Checks O/S	2389	$ 364.38
	2407	$ 41.34
	2408	$ 733.86
	2409	$ 85.00
	2410	$ 184.27
		$ 67,246.79
Book Balance 7/31/07		

S VISA PURCHASES

ED	Indiana Secretary of State	7.14
OM	Office Max	44.77
ED	Travel to New York	403.59
OM	Office Max	137.94
OM	Office Depot	36.65
ED	Marriot--MSP	618.69
ED	Parking	8.00
ED	Cab Fare	35.64
ED	Cab Fare	9

At the OMS September 13, 2007 Board Meeting, the July OMS Treasurer's Report was corrected. This is the revised report.

ED	**Caribou Café**		**8.11**
OM	**Office Max**		**21.19**
		Total Charges	**$ 1,330.72**

OMS

Organization of MISO States
Report of the Treasurer
Greg Jergeson, Montana Public Service Commission to the
Board of Directors
August 8, 2007
Report for July 2007

CASH ON HAND

The beginning balance as of July 1 for the Wells Fargo Business Performance Savings Account was $57,484.53. Interest earned for this month was $153.99. The July 31, 2007 balance was $57,638.52.

The beginning balance as of July 1 for the Chase Bank One Checking account was $59,581.15. The total disbursements from the checking account for July 2007 were $33,577.51. Deposits, interest and adjustments were $41,243.19. As of July 31, 2007, the checking account bank balance was $67,246.79 and the book balance was $68,655.64 (with 5 checks outstanding).

The total savings and checking account balances as of July 31, 2007 is **$124,885.31.**

Organization of MISO States

100 Court Avenue, Suite 218
Des Moines, Iowa 50309

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

OMS Executive Director Report
August 3, 2007

FERC and DOE Activity

1. OMS filed a comment on July 6 with the Department of Energy addressing the proposed National Interest Electric Transmission Corridors.
2. On July 20, the Midwest ISO made an Informational Filing Regarding Broad Constrained Area Mitigation. Comments are due August 10. Docket No. ER07-1182.
3. On July 10, the FERC accepted the MISO's proposal to exempt from Revenue Sufficiency Guarantee Charges deviations from day-ahead schedules due to a market participant's compliance with emergency directives. 120 FERC ¶ 61, 029. (Docket No. ER07-885)
4. On July 20, the MISO filed to extend the Broad Constrained Area mitigation measures. The Market Monitoring Work Group discussed the proposal with the market monitor and recommended a supporting comment for the Board's August 9 meeting.
5. On August 1, four filings relating to post-transition pricing were submitted by the Midwest ISO (Docket No. ER07-1233), the Midwest Stand-Alone Transmission Companies and Wolverine Coop (Docket No. ER98-1438 and ER07-____), PJM and MISO and their transmission owners (Docket No. ER05-6 et al), and AEP (Docket No. ER05-6 et al). MISO and the MSATs suggested a comment date of September 17.

OMS-MISO Activity:

1. The survey of utility demand response programs prepared for the Midwest Demand Resources Initiative was distributed to state commissions on July 2 for distribution to individual utilities. The next meeting of the Steering Committee is scheduled for September 7 in Chicago.
2. The ICF Study report was sent to the OMS Board on July 10. That group has become the Modeling Work Group and has begun reviewing the benefits work of the KEMA Consulting Group and is reviewing the baseline data requirements for pre- and post-ASM market analysis.

3. On July 25 the OMS Long-Term Development and Governance Work Group submitted staff observations to the MISO based on previous OMS statements on strategic issues.
4. Scheduling of RTO101 presentations has begun. Interested states should contact the OMS office for more information.
5. The OMS Resource Adequacy Work Group formulated a matrix of elements of a long-term resource adequacy plan, received comments from stakeholders on it, and held a conference with MISO staff. Its next call is scheduled for August 6. It plans to present its recommendations piecemeal for Board members' information, and bring a completed recommendation to the Board by October.
6. The Markets Work Group has followed stakeholder discussions of revenue sufficiency guarantees (RSG) and anticipates a MISO filing this fall.
7. ASM regional workshops were held in Columbus on July 31 and Madison August 3. Participants found the sessions very informative.
8. The Midwest ISO held briefings on July 17 and 31 to gain stakeholder input on its proposed revisions to the Interconnection Study Queue process.

Public Relations

1. Presentations:
   - Bill Smith spoke at the FERC order 890 Technical Conference on June 29 in response to MISO's Planning strawman and its proposal relating to the planning queue.
2. Pending speaking/meeting invitations:
   - None

Upcoming MISO Filing of Regional Interest

Filing Date	Docket No.	Description	Pursuant to Commission Order
9/14/2007	ER07-550-000	The Midwest ISO to re-file proposed revisions to the EMT regarding the implementation of its Ancillary Services Market.	119 FERC ¶ 61,311 (2007)
10/11/2007	OA08-__-000	The Midwest ISO to submit its § 206 compliance filing pursuant to Order No. 890 containing non-rate terms and conditions (or a demonstration that previously approved variations continue to be "consistent with or superior to" the revised pro forma OATT).	Order No. 890 at ¶¶ 157, 161
December 2007	ER07-550-000 ER07-550-001	The Midwest ISO to submit a permanent Resource Adequacy plan.	119 FERC ¶ 61,311 (2007)

Other upcoming dates:

- August 6 – RAWG call
- August 6 – MISO Informational Forum
- August 7 - FERC Midwest Market oversight call
- August 9 – OMS Board of Directors
- August 10 – WG chairs and key staff
- August 14 – ASM regional workshop – St. Paul
- August 14 – Planning Advisory Committee
- August 15 – Advisory Committee – St. Paul
- August 16 – MISO Board of Directors
- August 17 – MISO Market Subcommittee ASM market design
- August 22 - SAWG/RAWG meeting
- August 23 – OMS Executive Committee
- August 23 – MISO Capital Budget Stakeholder presentation
- August 29 – SAWG/RAWG meeting
- August 29 – Transmission Portfolio Assessment Measurement Workshop
- September 7 – MWDRI Steering Committee – Chicago
- September 10 – MISO Informational Forum
- September 13 – OMS Board of Directors
- September 14 – ANOPR comments due
- September 17 – Post-transmission pricing comments due
- September 19 – Advisory Committee
- September 27 – OMS Executive Committee

ORGANIZATION OF MISO STATES, INC.
Board of Directors Special Meeting
Conference Call
November 9, 2006

DRAFT

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

Kevin Wright, Illinois
Bob Pauley, proxy for David Hadley, Indiana
John Norris, Iowa
Jeff Johnson, proxy for Mark David Goss, Kentucky
Laura Chappelle, Michigan
Mike Proctor, proxy for Steve Gaw, Missouri
Tim Texel, proxy for Eugene Bade, Nebraska
Susan Wefald, North Dakota
Judy Jones, Ohio
Kim Pizzingrilli, Pennsylvania
Gary Hanson, South Dakota
Dan Ebert, Wisconsin

Absent
Manitoba
Minnesota
Montana

State Agency members participating
Randy Rismiller, Illinois
AW Turner, Kentucky
Michigan Staff
Kevin Holtsberry, Ohio
John Levin, Pennsylvania
Greg Rislov, South Dakota
David Sapper, Wisconsin

Also Bill Smith and Julie Mitchell - 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 – October 12th – John Norris

Kim Pizzingrilli moved that the minutes of the October 12th Board meeting be accepted. Laura Chappelle seconded. The motion was approved by unanimous voice vote.

Treasurer's Report – Kim Pizzingrilli

The Treasurer's Report was emailed to the Board Members prior to the meeting and there were no questions.

Kevin Wright moved to accept the Treasurer's Report. Gary Hanson seconded. The report was accepted by unanimous voice vote.

Review of the October 24th Executive Committee Meeting

Bill Smith highlighted the following from the meeting:

- A couple of speaking engagements were discussed, including the Modern Grid in Columbus which Steve Gaw agreed to do. Bill Smith gave a brief overview of the format Commissioner Gaw would be speaking in and what he would be speaking about.
- Preparations for the Annual Meeting were discussed.
- The Executive Committee also discussed a slight change in the way the Board reviews documents and saves time by not having each change in phrasing put to a formal motion.

Business Items

1. MISO Advisory Committee Issues – Judy Jones.

Judy Jones led the Board through the voting items on the agenda for the next MISO A/C meeting. A meeting had been held previously to discuss the voting issues and whittle them down.

- **Ancillary Services Market Filing Update.** Judy Jones expressed a belief that this vote will be delayed. Bill Smith was unsure if it would be or not.
- **Finance Subcommittee Recommendation on Capital & Operating Budget.** Susan Wefald and Kevin Wright were uncertain if OMS had actually taken a voting position on the budget in the past. David Sapper stated that he believed OMS had abstained last year. It was decided that the Board members would review the recommendations and let Bill Smith know by November 13 how they wanted the A/C representatives to vote and Bill Smith would pass that information along.
- **Data Posting Working Group Charter.** Judy Jones explained that the purpose of the charter is an effort to provide more information in a timely and efficient manner. It was decided to support the charter.
- **MTEP 06.** Judy Jones stated the MTEP vote had been changed to an update.

2. Nominating Committee Report – Susan Wefald.

The nominating committee has made the following decisions:

- For President: Commissioner Laura Chappelle of Michigan; Vice President and Lead Advisory Committee Member: John Norris of Iowa; Treasurer: Commissioner Gary Hanson of South Dakota; Secretary and Advisory Committee member: Commissioner Dan Ebert of Wisconsin; Board Member at Large & Advisory Committee member: Commissioner Kevin Wright of Illinois.

3. Comment to FERC on RECB II Filing – Pricing WG – Randy Rismiller/Mike Proctor.

Mike Proctor gave an overview of the Pricing Group's process and where they are in the development of the comment document.

4. Comment to MISO Board on MTEP – TP&S WG – Jerry Lein/David Sapper.

Jerry Lein gave an update of the Transmission Planning & Siting WG's work.

- Jerry Lein recommended that at this time the OMS vote no on the A/C accepting the plan without more time to consider it.
- Mike Proctor expressed some concern that MTEP 06 includes projects that are inappropriate and gave several examples.

5. Comment to FERC on the Joint and Common Market Filing – Market WG – Candace Beery/Angie Butcher.

Bill Smith gave a report on the status of the filing.

6. Update on MWDRI / DRTF – Bob Lieberman / John Norris.

Mary Collins did an update on recruitment to the MWDRI steering committee.
John Norris reviewed the DRTF meeting in Carmel.

7. Update on the Annual Meeting Plans – Bill Smith.

Bill Smith and Julie Mitchell updated the Board Members on the plans for the annual meeting.

Administrative Update – Bill Smith

- Upcoming OMS project deadlines – Bill Smith. Bill Smith confirmed the upcoming project deadlines listed in the agenda.

MISO Update – Graham Edwards.

- Mr. Edwards joined the call and spoke about the ICF study. He also stated he had received a request from OMS to extend the time for review for MTEP and he will recommend to the MISO Board that they do that.

Announcements

- The informal lunch with OPSI members at NARUC was noted.
- The MISO breakfast at NARUC was discussed.
- The date of the next Executive Committee meeting was confirmed.
- The special OMS Board Meeting was noted.
- The OMS Annual Meeting was touched on again.

The meeting adjourned at 4:01 CST.

OMS
Organization of MISO States

ORGANIZATION OF MISO STATES, INC.
Board of Directors Meeting
Conference Call
July 12, 2007

Approved August 9, 2007

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

Robert Lieberman, Illinois
Parveen Baig, proxy for John Norris, Iowa
Jeff Johnson, proxy for Mark David Goss, Kentucky
Monica Martinez, Michigan
Burl Haar, proxy for Tom Pugh, Minnesota
Steve Gaw, Missouri
Bryan Baldwin, proxy for Greg Jergeson, Montana
Tim Texel, proxy for Eugene Bade, Nebraska
Susan Wefald, North Dakota
Valerie Lemmie, Ohio
Kimberly Hafner, proxy for Kim Pizzingrilli, Pennsylvania
Dan Ebert, Wisconsin

Absent
Indiana
Manitoba
South Dakota

Agency members participating
Randy Rismiller - Illinois
Cathy Brewster – Indiana
Frank Bodine, Jeff Kaman - Iowa
Rick Bertelson, Jorge Valladares - Kentucky
Bill Bokram, Angie Butcher – Michigan
Mike Proctor - Missouri
Annette Bendish – North Dakota
Randel Pilo - Wisconsin
Also Bill Smith, Julie Mitchell - 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 June 14 Board Meeting
Bob Lieberman moved for approval of the June 14, 2007 OMS Board of Directors Meeting minutes as distributed to board members. Valerie Lemmie seconded the motion. The minutes were approved by a unanimous voice vote of the directors.

Treasurer's Report
Bryan Baldwin presented the June OMS Treasurer's Report on behalf of Chairman Jergeson. The beginning balance as of June 1 for the Wells Fargo Business Performance Savings Account was $57,335.90. Interest earned for this month was $148.63. The June 30, 2007 balance was $57,484.53.

The beginning balance as of June 1 for the Chase Bank One Checking account was $45,900.05. The total disbursements from the checking account for June 2007 were $26,352.21. Deposits and interest totaled $40,033.31. As of June 30, 2007, the checking account bank balance was $59,581.15 and the book balance was $67,054.05 (with 12 checks outstanding).

The total savings and checking account balances as of June 30, 2007 is $117,065.68.
Bryan Baldwin (Montana) moved to accept the Treasurer's report as presented. Monica Martinez seconded the motion. A voice vote of the directors unanimously accepted the report.

Review of the Executive Committee on June 28
Bill Smith highlighted the following item from the June 28th Executive Committee meeting.
The Executive Committee meeting on June 28 was a ten minute conference call whereby Executive Committee members approved the MWDRI 2007 contract with DOE for $55,000 in travel and meeting expense funding.

Administrative Report:
Bill Smith highlighted the following items from the Executive Director's Report which follows the minutes.

1. ASM workshops have been scheduled for July 31 in Columbus, August 3 in Madison, and August 14 in St. Paul. Details of the meetings have been sent out and has been posted on the OMS web site.
2. RTO 101 - the updated 2007 version of RTO 101 is now available for scheduling. Once you have a date or two, OMS has sent information for contacting John Chandley directly. OMS is keeping a master calendar, so once your date is scheduled, please contact the OMS office with it.
3. The Demand Response Survey has been provided state commissions for send-out to utilities.
4. July 23 - Date for Rehearing of the Order offering guidance to the MISO on its AMS filing. Bill Smith contacted OMS work groups about starting a reconsideration draft. A filing for reconsideration or clarification by OMS would signal to MISO that this is still a live issue. Directors present indicated he should proceed. The draft would be brought back to the August 9 board meeting for approval before filing.

5. Upcoming Dates:
    - Friday, July 13 at 8:30 am EDT, is the briefing by MISO on the KEMA project.
    - July 18 - Stakeholder Session at MISO on the Open Season White Paper
    - July 25 - RAWG conference call at 10:00 am CDT
    - July 26 - OMS Executive Committee meeting at 2:00 pm CDT

Business

1. OMS Position on Post-Transition Pricing – Randy Rismiller and Mike Proctor

- Randy Rismiller discussed the issue of OMS' position on Post Transition Pricing. After the June 20th meeting in Minneapolis, the MISO transmission owners held a general stakeholder meeting on June 27th. Many members of the OMS Pricing WG participated in that meeting. There were several presentations made in that meeting: the majority TOs position, the MSAT plus Wolverine position, and a load serving entity coalition position. MSAT plus Wolverine proposal supports keeping the license plate rate arrangement for the existing facilities. They proposed postage stamp rates for all new facilities 345 and greater.
- Most MISO TOs support retaining license plate rates for existing facilities, and they support retaining RECB cost allocation processes for new facilities and letting that process play out for awhile.
- With respect to the Inter-RTO cost allocation, all MISO and PJM TOs, except one, support keeping the current license plate rate approach between the RTOs. The exception is American Electric Power Company which has announced in a PJM members forum they intend to make a separate filing.
- The LSE coalition, made up almost exclusively of non-transmission owning members, advocate a sharing of costs for both existing and new facilities.
- By August 1, 2007 there will be four separate filings by TOs with different positions. With respect to the state regulators, there are still different positions being held. Randy and Mike Proctor feel it is unlikely OMS could reach a unanimous position on this post transition pricing issue by the August 1 date. After receiving the filings on August 1, Randy and Mike wish to reconvene the Pricing Work Group to try to reach a position the OMS can feel comfortable with.
- Secretary Ebert asked the directors if they thought OMS wished to miss the opportunity of being ahead of this issue. Mike Proctor, Burl Haar and Valerie Lemmie all agreed with Randy that it would be best to wait until after August 1.

3. Final Report of ICF Study Group – Steve Gaw

Mike Proctor reported on behalf of Steve Gaw that the group had completed its technical review and briefly summarized reactions to the ICF study. The report follows the minutes.

4. Summary of the State of the Market Report - Dr. David Patton

The MISO Market Monitor, David Patton, presented to the MISO Board, June 20, 2007 the 2006 STATE OF THE MARKET REPORT. This July 2007 report provided a detailed evaluation of the MISO energy markets for 2006, the first full year of market operations in Midwest ISO. At this OMS board meeting Dr. Patton presented to OMS directors the executive summary of this report. A copy of the executive summary follows the minutes.

5. Basics of Market Monitoring - Dr. David Patton

Dr. Patton offered a brief description of the market monitoring function. He referred to a previous MISO presentation from December, 2004 entitled "**Update on Market Monitoring of the MISO Electricity Markets.**" A copy of this presentation follows the minutes.

The meeting adjourned at 4:15 p.m. CDT

OMS RAWG RESOURCE ADEQUACY STRAW PROPOSAL

DESCRIPTION, SCHEDULE & INITIAL COMMENT SUMMARY
as of August 1, 2007

INTRODUCTION

In its June 22, 2007 Order on Ancillary Services Filing and Providing Guidance, Docket Nos. ER07-550 et al. (hereinafter FERC June 22, 2007 Order), the Federal Energy Regulatory Commission (FERC) remarked,

> *The Midwest ISO notes that stakeholders are divided over whether to implement a strict "energy-only market" design or to develop a capacity market, such as the Reliability Pricing Model in PJM or the Forward Capacity market in ISO-NE. The Midwest ISO states that it is not proposing to develop the type of capacity markets that are being used in other RTOs. Instead, the Midwest ISO plan is predicated on the price of energy reflecting all cost associated with resource adequacy.*[1]
>
> *Responding to the large number of commenters who consider the resource adequacy component of the Midwest ISO filing to be deficient…, we not that the Midwest ISO is not making a long-term resource adequacy proposal in the instant proceeding. The Commission will address long-term resource adequacy in the Midwest ISO when it has a comprehensive Phase II resource adequacy proposal to evaluate. This we are clarifying that we are providing limited guidance for future resource adequacy discussions, in response to the Midwest ISO's Attachment A, but are not prejudging the merits of any future Midwest ISO filing which details a proposal to ensure long-term resource adequacy.*[2]
>
> *We clarify our impression of the purpose of the present ASM filing as it relates to the future resource adequacy filing. The market for ancillary services proposed here is intended to provide the correct financial incentives so that sufficient quantities of reserves of all types are available to the system operator at all times, especially during shortage conditions. The long-term resource adequacy plan due to be filed as Phase II should address providing the proper financial incentives such that new generation entry is economically feasible based on all revenues received from the Midwest ISO's markets including scarcity payments. We also note that in prior orders the Commission has not mandated a particular method of providing the proper investment incentives to ensure long-term resource adequacy, but has instead endorsed the idea that an energy-only market may be one such reasonable method.*[3]

THE ROLE OF THE OMS IN RESOURCE ADEQUACY

In a Resolution adopted February 8, 2007, the Board of the Organization of MISO States (OMS), asserts that the sovereign states and province represented in the

[1] FERC June 22, 2007 Order at ¶135.
[2] FERC June 22, 2007 Order at ¶136.
[3] FERC June 22, 2007 Order at ¶137.

membership of the OMS, together with their duly constituted regulatory agencies, have the primary role for electric generation and resource adequacy as recognized by federal as well as most state or provincial law.[4]

The OMS Resolution further urges all load serving entities or their designated planned reserve sharing groups in the MISO to adopt contractually enforceable planning reserve requirements to assure there are sufficient resources to maintain continuous reliability and effective competition. To take action to implement newly designed RAWG Principles to uphold this OMS position, the OMS Resource Adequacy Working Group (RAWG) drafted a straw proposal to address long-term resource adequacy in the multi-state MISO footprint. Initial comments on the straw proposal were solicited from RAWG members, as well as from stakeholder members of the MISO Supply Adequacy Working Group (SAWG), as requested by RAWG members. Addressing long-term resource adequacy in this instance means the OMS States, under the States' responsibility recognized by Congress in the Energy Policy Act of 2005, is working on a plan to establish MISO-wide rules with stakeholder input to encourage new construction enhanced by demand response in order to provide sufficient sources of electric power to meet customers needs in the near future and for years to come.

NEXT STEPS

The RAWG straw proposal for Long-term Resource Adequacy Plan and the initial comments from both RAWG members and SAWG stakeholders follow. The intent behind the RAWG straw proposal is not to create a mandatory capacity market but to complement the MISO energy-only market. To that end, the RAWG Long-term Resource Adequacy Plan must meet the expectations of FERC as outlined above while including a mechanism to enforce ongoing efforts of Planning Reserve Sharing Groups to comply with the resource adequacy standards of the regional reliability entities of the National Electric Reliability corporation (NERC): ReliabilityFirst and the MidAmerican Reliability Organization (MRO).

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[4] Section 212 (i) of the Federal Power Act as amended by Section 1211(i) of the Energy Policy Act of 2005.

SCHEDULED ACTIVITIES

The OMS RAWG Long-term Resource Adequacy Plan, intended to modify the Midwest ISO Tariff, specifically Module E, for the MISO's December 2007 filing at the FERC, is comprised of the following four major elements: Planning Reserve Metrics, Enforcement, Demand Response, and Financial Issues. [*Note: All RAWG Temporary Task Forces listed below are open and welcome to all RAWG members and conference call participants.]*

I. PLANNING RESERVE METRICS:

RAWG initial definition of Planning Reserve Metrics includes methods of forecasting load and supply resources, net of forced outages, and based on tested/reported capability, not nameplate rating for both generators and demand response resources.

MISO activities designed for ASM market include "registration" of generators, Type I Demand Response Resources as well as Type II Demand Response Resources[5] for inclusion in Business Process Testing in **October, 2007** and submission by **September 15, 2007** for inclusion in Operational Testing.

- **August 2007: MISO completion date for stakeholder discussions and applicable PRSG discussion to develop additional detail in Module E to address Planning Reserve Margin evaluation.**
- **November 2007: MISO completion date for stakeholder and applicable PRSG discussion to develop additional DRR improvements.**

LONG-TERM PLANNING RESERVE REQUIREMENTS: For purposes of determining "unforced capacity" for Planning Reserves, does registration and business process testing take into account forced outage rates? Testing for DRRI and DRRII as capacity resources? For intermittent resources such as wind?

RAWG PLANNING RESERVE METRICS TEMPORARY TASK FORCE: Fred Heizer (OH), Parveen Baig (IA) (to be confirmed), Don Neumeyer (WI), John Norris (IA), Jan Karlak (OH)

II. ENFORCEMENT:

RAWG initial definition includes protecting planning reserve margins with deficiency penalties that act as a deterrent and incent load serving entities to avoid penalties by either burying or building capacity; the timing and value of deficiency charges to be determined.

[5] Type I Demand Response Resources (DRRI) are defined as capable of supplying a specific quantity of Energy to the market through physical load interruption; Type II Demand Response Resources (DRRII), are defined as capable of supplying dispatchable Energy to the market through behind-the-meter generation or controllable load.

MISO sees enforcement of compliance with planning reserve margin requirements as an **open question**. PRSG has no enforcement mechanism except to “throw” deficient LSEs out of the PRSG.

RAWG ENFORCEMENT TEMPORARY TASK FORCE: Don Neumeyer (WI), Jerry Lein (ND), Bill Bokram (MI), Cathy Cole (MI)

III. DEMAND RESPONSE:

RAWG initial definition of Demand Response includes enhanced demand response measures on a par with, as an alternative to capacity, or to forestall construction of new capacity resources.

MISO activities regarding Demand Response include a completion date of **November 2007** as noted above for stakeholder and applicable PRSG discussion to develop additional DRR improvements.

RAWG DEMAND RESPONSE COORDINATION TEMPORARY TASK FORCE: Don Neumeyer (WI), John Norris (IA) and Chair of the MISO Demand Response Working Group, Jan Karlak (OH)

IV. FINANCIAL ISSUES:

RAWG initial definition of Financial Issues includes (1) mechanisms for regular capacity payments {included in the day ahead market offers] for both generators and special case response (mandatory commitment) for being callable by MISO and (2) revenue stream from voluntary offers and buyer designations of capacity and demand response on a MISO ***“eCap”*** electronic bulletin board as a way to facilitate LSE achievement of a Planning Reserve.

[Note: MISO has developed a similar bulletin board for the southern Illinois market and some MISO Staff may be interested in expanding it MISO footprint-wide. Participants in commercial market trading platforms such as the IntercontinentalExhange (ICE) currently do not trade in capacity or demand response resources.]

MISO activities include **December 2007** as a completion date for stakeholder and applicable PRSG discussions to facilitate LSE achievement of Planning Reserve.

[Note: On a related issue, RAWG has scheduled a conference call **August 6, 2007**, with Todd Ramey, Director, MISO Forwards Markets, to provide a presentation on the role of “price signals” for new capacity investments offered by **the scarcity pricing** elements designed for the co-optimized ancillary services/energy markets.]

RAWG FINANCIAL ISSUES TEMPORARY TASK FORCE: Mike Proctor (MO); Bill Bokram (MI); Randy Rismiller (IL), Jerry Lein (ND), Jan Karlak (OH), Don Neumeyer (WI)

RAWG LONG-TERM RESOURCE ADEQUACY STRAW PROPOSAL
WITH A SUMMARY OF COMMENTS

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GENERAL PURPOSE

- **RAWG Internal Comments:** *[The RAWG Plan is to] provide for enforceable resource adequacy requirements, facilitate an informal capacity trading program, and provide market prices that reflect market conditions.*

- **SAWG (External Stakeholder) Comments:**
  Kudos to the OMS for this but you should not wait for either MISO or FERC to address long-term Resource Adequacy. OMS should put its preferences out there and support a standard consensus product that is fungible across the MISO footprint.

  By recognizing that a complete demand response program covers a wide range of load customers, with different and unique characteristics, it is possible to meet the OMS objectives without sacrificing the structure of Module E. The area that demand response spans covers Loads who have backup generation (behind the meter) to those that can provide significant curtailment through load shifting and/or abatement.

  RA requirements should be based on well-defined and standardized RA product with clear obligations on sellers.

  If consistent with the RAWG viewpoint, you may consider adding a comment here that the RAWG supports MISO filing a comprehensive proposal no later than December 31, 2007.

  Think the RAWG proposal is "right on" with regards to where we (and MISO) needs to go with this issue

I. PLANNING RESERVE METRICS

Use of metrics to forecast load and supply resources, net of forced outages, and based on tested/reported capability, not nameplate rating, for both generators and demand responders.

A. <u>STATES & RESOURCE STANDARDS:</u>

States' resource adequacy requirements for planning reserves as applicable, which may include renewable portfolio standards and state reliability requirements.

- **RAWG Internal Comments:** *Retain a default mechanism. Default could be calculated by a PRSG determined by a State requirement, but should not be less than the current NERC/RE requirement of a 1-event-in-10 year translation.*

- **SAWG (External Stakeholder) Comments:** *Every resource that is counted to meet the planning reserve obligation should be subject to a certification process to ensure performance (mw production or interruption capability).*

  Believes that standardizing the requirements for demand response across the footprint is extremely important, though not necessarily a deal breaker. The States should recognize that M&V standards must flow from one transmission area to another if meaningful results are to be interpreted.

B. <u>REGIONAL RELIABILITY LEVELS</u>:

MISO can calculate LOLE or accept calculations of PRSG as required on an annual basis by Regional Entities of NERC, and make translations to planning reserve margins based on local conditions and deliverability, while deferring to State requirements for any higher standard.

- **RAWG Internal Comments:** *Calculate an equivalent planning reserve margin considering supplyside options, transmission congestion and demandside options based on NERC or Regional Entities requirements, such as the 1-event-in-10 year existing requirement.*

- **SAWG (External Stakeholder)Comments:** *Agree provided the process used is transparent. The OMS should look at more than one year ahead.*

  [A]grees that a minimum MISO-wide LOLE requirement to determine the planning reserve margin is reasonable and should be included in a MISO tariff, subject to higher state planning reserve requirements.

  Assigning the Midwest ISO a central role for performing Resource Adequacy functions will be most efficient and effective.
  Further, FirstEnergy agrees with the recommended MISO functions identified in the RAWG Proposal. These include:
  - *calculations of LOLE and equivalent planning reserve margins,*
  - *integration of long-term resource planning with transmission scenarios,*
  - *establishment of uniform capacity testing and reporting,*
  - *support of NERC and RE compliance verification,*
  - *and Tariff inclusion of minimum planning reserve requirements.*

  These functions should be performed by the Midwest ISO, not PRSGs.
  - *The Midwest ISO has the data and the resources to perform the studies.*
  - *Creates one consistent set of LOLE calculations.*

- *The alternative is multiple PRSGs performing their own LOLE studies, each with the potential for different methodologies and outcomes. Verification and enforcement would be far more complex and inefficient.*

C. DEFAULT PLANNING RESERVE MARGIN:

Default could be calculated by a PRSG, but should not be less than a 1-event-in-10 year translation.

- **SAWG (External Stakeholder) Comments:** *[A]grees with RAWG that the minimum reserve margin comes from a LOLE that is calculated to once in ten years. [S]upports the MISO's efforts to ensure grid reliability.*

  As stated above, …agrees with a minimum requirement based on 1-in-10 LOLE. We understand that MISO makes a clear distinction between "default" and "minimum". If the goal of the RAWG is to suggest the 1 event in 10 year calculation and that the proposal should result in a "minimum" across the MISO market footprint (consistent with the RAWG comment in "Regional Reliability Levels"), …suggest the proposal language be changed by replacing "default" with "minimum".

  The key is a "minimum reserve margin" standard in the MISO tariff with enforcement penalties also in the tariff, with the states allowed to set higher standards at their discretion - this is the ONLY way to prevent free ridership

D. RESOURCE ADEQUACY MARGIN CALCULATION/CONVERT LOLE TO RESERVE MARGIN:

Calculate an equivalent planning reserve margin considering supplyside options, transmission congestion and demandside options.

- **SAWG (External Stakeholder) Comments:** *Demand side options add a level of reliability equal to or greater than high performance nuclear power plants (over 95%).*

  [B]elieves that the MISO is best situated to calculate a RA margin for its market footprint.

  Extremely important to incorporate the planning reserve requirements into the Midwest ISO Tariff. Provides a sound platform for promoting Resource adequacy requirements, while also providing a number of benefits.
  - *First, a regional set of minimum requirements is created that can be relied upon and exceeded as States set their reserve requirements.*
  - *Second, a uniform methodology for calculating planning reserve margins is established, creating clear and equivalent reserve requirements across the Midwest ISO footprint.*

- *Third, a consistent set of eligible resources is identified region-wide and can be certified for meeting planning reserve obligations.*
- *Fourth, a level playing field is achieved as all Market Participants are obligated to meet the same market rules. The important result is that Reliability will increase if all Market Participants are required to comply.*
- *Fifth, allows enforcement mechanisms to be established that are suitable for addressing a multi-state area such as the Midwest ISO footprint. Mechanisms must be financial in nature and properly address any LSE deficiency*

E. COMPLIANCE WITH TESTING PROTOCOLS:

MISO should establish uniform testing and reporting of capacity and demand response capability.

- **SAWG (External Stakeholder) Comments:** *The MISO should review the standards developed by New York's ISO and New England's ISO for testing protocols. Both ISOs have dealt with demand response resources being used for reliability. Using DR for reliability and not for economics requires resources to have high performance factors. DR performance is both measurable and testable. M&V plans come in various levels of complexity base on the types of resources that are allowed to provide capacity.*

  Coordinated planned outage scheduling with MISO.

  RA requirements should eliminate the potential for double counting of resources.

  The RA requirement should allow the system operator with the full information regarding what generation capacity and demand response resources it can rely upon to meet load reliably.

  [S]upports the RAWG comments as we understand them.

  It is extremely important that a UCAP approach be adopted as the currency used for planning reserve transactions.
    - *Not all resources provide the same level of contribution towards resource adequacy.*
    - *Just as unit availability is an important factor in LOLE calculations, it should also be recognized as important for planning reserve transactions.*

  Adopting a UCAP basis provides several benefits.
    - *First, it provides for a rational manner for assigning an equitable capacity value to resources in terms of their resource adequacy contribution.*
    - *Second, it is difficult for an LSE to hedge availability risks, so this places the performance risk where it belongs, on the generator.*

- *Third, it provides an incentive for all generator owners to maintain and improve generator unit availability. This has the added benefit of increasing the reliability of a region.*

F. MONITORING, REPORTING, & AUDITS:

NERC and the REs have limited ability to audit, monitor and analyze compliance with capacity reserve requirements that can be augmented by MISO activities.

- **RAWG Internal Comments***: A resource should be monitored and audited by the MISO, per resource adequacy requirements set forth in MISO's tariff.*

- **SAWG (External Stakeholder)Comments:** *Audits should be performed both before and after the capability period or season.*

  This is not a large hurdle [for demand response]. [W]ill support these efforts to ensure a level playing field.

  [S]upports the RAWG comments as we understand them.

G. CONSISTENT & COMPATIBLE METRICS:

Calculation of capacity deficiencies should be weather-normalized across the market footprint for a distribution of a 50/50 forecast of capacity capability for one-event-in-10 years events, taking into account forced outage rates, seasonality, and deliverability and congestion factors.

- **SAWG (External Stakeholder)Comments:** *[A]grees with the points made by OMS and RAWG that metrics should be developed*
  1. *to aid the enforcement of planning reserve requirements,*
  2. *to take into account forced outage rates,*
  3. *and the other issues mentioned in the matrix.*

  From a DR perspective, deliverability has always been at the center of all controversies. ECS proposed that average peak monthly demand levels from a prior year's like capability season be used for baseline analysis. By subtracting the actual measured load during an event from the baseline, the MISO will be able to determine a DR's curtailment. Performance is easily measured by analyzing DR's committed demand to its actual achieved demand level for the measured period. Use of a traditional CBL methodology leads to undercompensated resources and a lack of certainty and reliability. With an AMD or APMD approach a resource knows exactly what its firm commitment level is, providing certainty; as opposed to a CBL methodology which has an ever-changing target that resources are generally unsure of – hence, a lesser chance of success.

The product itself should be defined in a manner that allows MISO simplified and transparent compliance by both the LSEs (buyers) and capacity suppliers (sellers).

Is it correct to assume the list of items to be considered are not limited to those defined and items such as load forecast uncertainty and others (similar to those identified in the RFC standard) could also be an input to the process? If so, one may want to indicate that MISO should take "into account factors, such as" and use those listed, which indicates the list is not inclusive.

II. ENFORCEMENT

Enforcement mechanism to protect planning reserve margins with deficiency penalties that act as a deterrent and incent load serving entities to avoid penalties by either buying or building capacity; the timing and value of deficiency charges to be determined.

ENFORCEMENT:

NERC and the REs have no enforcement authority over planning reserve requirements and neither do some of the States. Energy output transactions in a wholesale market are assumed to cross State borders as do many of the territories of the capacity resource owners. Area-wide enforcement in a multi-state area is problematic and should therefore be addressed in the RTO tariff where States cannot initiate enforcement strategies on their own for meting out financial consequences for "leaning" on the system by load serving entities due to capacity deficiencies.

- **RAWG Internal Comments:** *Tariff requirements set forth for resource adequacy in module E should be enforced by MISO.*

  Area-wide enforcement in a multi-state area is problematic and should therefore be addressed in the RTO tariff with sufficient financial consequences to discourage "leaning" on the system by load serving entities with capacity deficiencies. Financial consequences may be in the form of a sliding scale with lesser obligations paid for being slightly deficient so that bilateral capacity trading prices are less affected by the obligation amount.

  [REDLINE] NERC and the REs claim *no enforcement authority over planning reserve requirements and neither do some of the States. Energy output transactions in a wholesale market are assumed to cross State borders as do many of the territories of the capacity resource owners. Area-wide enforcement*

in a multi-state area is problematic and should therefore be addressed in the RTO tariff with sufficient *financial consequences* to discourage "*leaning" on the system by load serving entities* with *capacity deficiencies.* Financial consequences may be in the form of a sliding scale with lesser obligations paid for being slightly deficient so that consequences for borderline deficiencies are less severe and bilateral capacity trading prices are less affected by the obligation amount.

- **SAWG (External Stakeholder)Comments:** *Enforcement should be via the MISO Tariff. The States should be informed of the position of the load serving entities in their states.*

  The MISO must work with the States to develop a penalty structure that is designed to dissuade providers of capacity from bending the rules, while at the same time recognizing that an onerous penalty structure would significantly affect the number of resources willing to participate in such a program. The MISO should not develop rules that are punitive as that is either a State's right or falls under FERC's jurisdiction.

  The RA product should not require an ex-post investigation of a daisy chain of transactions to determine whether an RA resource exists and/or complies with the RA obligations.

  [S]upports the RAWG in that MISO should be responsible for enforcing the minimum requirement and any higher standard required by a State if requested to do so by the state. This should be addressed by the MISO tariff.

III. DEMAND RESPONSE

Inclusion of enhanced demand response measures on a par with, as an alternative to capacity, or to forestall construction of new capacity resources.

A. <u>DEMAND SIDE OPTIONS:</u>

Enhanced demandside options should include both demandside programs as well as distributed generation, and should be included on a cyclical basis whenever enhanced transmission is under consideration (e.g., large placeholder projects should be reviewed on a 4-year as well as a 2-year strategic cycle for more detailed updates).

- **RAWG Internal Comments:** *Demand response resources should have the opportunity to offer into and clear in MISO's markets. DR Offers shall only be made by the LSE serving the load source of DR. Legacy retail demand response* *programs that are counted as resources under Module E should be "grandfathered" to continue their exemption from must-offer requirements.*

- **SAWG (External Stakeholder)Comments:** *Supports demand response provided performance can be verified. Demand resources should set the clearing price when they are marginal.*

  [D]oes not support using day-ahead DR for economic reasons. As stated earlier by the OMS, price signals alone are not enough to ensure demand resource additions. [T]he history of voluntary emergency demand programs across the country shows irrefutable proof that energy prices are not the driving motivator for demand resources. From an economist's point of view, demand should be correlated to price. When C&I customers are viewed in the aggregate energy prices tend to be a small portion of their expenses (4 to 6%). If the MISO is interested in having a robust DR program, DR should be used to protect the grid from possible collapse. Using forecasting tools the MISO should be able to determine with adequate precision on a day-ahead basis whether activation of DR is needed for reliability reasons. [R]ecognizes that forced outages, whether they be from a supply source or a transmission source, are impossible to predict. However, NERC standards as well as the redundancy built into the grid reduce the risks of collapse to acceptable levels. For those cases where a very small percentage of outages are related to forced outages, we suggest that the MISO contract with resources for backup generation that is automatically activated by low voltage levels.

  [A]grees that demand side options should be considered, but more details are needed. Duke Energy believes that DR programs used to meet a RA requirement should be considered on an equivalent basis with generation.

IV. FINANCIAL ISSUES

Financial issues to include:

- Mechanisms for regular capacity payments [included in the day-ahead market offers] for both generators and special case demand response (mandatory commitment) for being callable by MISO;

- Revenue stream from voluntary offers and buyer designations of capacity and demand response on MISO "***eCap***" electronic bulletin board .

A. <u>MECHANISM FOR REGULAR CAPACITY PAYMENTS:</u>

Capacity resources should realize a minimal return on investment for annual operational viability, including expense for maintenance and operating staff to keep the resource in stand-by mode.

- **RAWG Internal Comments:** *The above statement does not address the fundamental issue: What in the RAWG proposal provides the financial incentive for investors to build needed generation capacity? The primary issue is not setting in place a reserve requirement. This is an obligation for the LSE. This creates a demand for capacity, but does not provide a financial incentive for supply. Moreover, in state where generation has been separated from load, we can no longer assume the obligation to build. The primary issue is how can we be reasonably sure that the capacity will be there (supply) when it is needed (demand)? As of today, there are only two possible methods for doing this: a capacity market vs. energy only market. Which of these two is the RAWG proposal?*

  Capacity resources should have a reasonable opportunity to recover prudently incurred operating expense plus a reasonable return on investment used and useful for the service and convenience of the public. Such reasonable opportunity will come from retail sales rates, wholesale energy sales into the energy or ancillary services market including any revenues from scarcity market pricing, bilateral trades of energy and/or capacity between suppliers, and from obligations paid by other LSE's that did not meet their minimum planning reserve requirements during the previous year.

- **SAWG (External Stakeholder)Comments:** *I also disagree that there is a need for a MISO capacity market to be put in place in order to implement a MISO-wide minimum reserve margin standard - put the standard in place with sufficient penalties and let market participants figure out for themselves the best way for them to meet standards in the future, whether by building on contracting for capacity resources to meet their future requirements*

  Rather than being proscriptive about the level of compensation the OMS should advocate a mandatory (non-bypassable) planning reserve margin with enforcement that creates a robust bilateral market. The OMS should consider having the requirement go out more than one year, possible 3 to 5 years, to allow price signals to be sent and time for construction of new facilities (generators or transmission lines)

  Agrees with OMS that price signals alone will not be sufficient to ensure adequate and timely long-term capacity and demand resource additions. [Our] position on financial costs comes from a different perspective than the RAWG's. These costs can be very substantial. [C]ustomers' costs manifest themselves as lost profits from operations, shutdown costs, loss *of revenue to cover fixed costs, startup costs, and potentially the costs described by the RAWG (activation readiness costs) .*

Sees the value of uniform reserve margins across the MISO footprint, but can and does work in environments that have localized requirements.

It would be beneficial to clarify whether the intent is "minimal" or "minimum". It seems the use of "minimum" would be more consistent with the comment. You may consider removing the word "minimal", since the sentence would still condition the ROE as the strawman recommends.

Further, the statement should recognize that a return is earned only on investment, whereas maintenance and operation are expenses that should be recovered. Does the RAWG believe that the RA proposal would “allow generators to earn a reasonable return on investment and recover operating costs?” If so, substituting “reasonable” for “minimal” might be less confrontational.

[Company] operates in a deregulated market and has the same concerns as the OMS about the ability of energy price signals to assure Resource Adequacy.
In a deregulated market with energy-only pricing, tight capacity conditions do not necessarily build scarcity pricing into energy prices.

- *The capacity market could be extremely tight, but assuming High availability, the energy market could have a significant surplus.*

The OMS proposal to provide a minimal investment return for capacity resources addresses this issue and will support Resource Adequacy in a number of ways.

- *Helps maintain existing capacity during market price downturns.*
- *Lowers the cost and improve the timeliness of new capacity additions.*
    - *In deregulated markets, adding long-term capital-intensive projects contains much risk. A minimal investment return adds certainty to anticipated revenue streams, decreasing financial risk.*
- *Mitigating risk translated into a reduction in project risk premiums.*
    - *Lowers the cost and improves the timing of capacity additions since the market price needed to trigger new investment would occur at a lower and so presumably earlier time.*

As a general comment, deregulated markets provide much efficiency but also contain many complex aspects. [Company] would like to stress the importance of keeping competitive market characteristics in mind while formulating a long-term Resource Adequacy plan.

One minor comment on the matrix - I would suggest taking out the word "minimal" in the Financial section where you indicate that "capacity resources should realize a minimal return on investment" - I think this is a red-flag issue, as it almost implies that the RAWG is suggesting that state regulators (or MISO) get involved with determining how much profit a generator (particularly in

IPP) should be allowed to make - this would not be conducive to open market and competitive principles.

B. <u>REVENUE STREAM:</u>

- **RAWG Internal Comments:** *Prices provide market signals in both MISO -run energy and ancillary service markets as well as in MISO facilitated bilateral capacity trades. Financial incentives derive from RA requirements, financial consequences of RA enforcement, and future expectations of markets.*

  Capacity resources should have a reasonable opportunity to recover prudently incurred operating expense plus a reasonable return on investment used and useful for the service and convenience of the public. Such reasonable opportunity will come from retail sales rates, wholesale energy sales into the energy or ancillary services market including any revenues from scarcity market pricing, bilateral trades of energy and/or capacity between suppliers, and from obligations paid by other LSE's that did not meet their minimum planning reserve requirements during the previous year.

- **SAWG (External Stakeholder) Comments:** *Day-ahead must-offer obligation from RA resources into MISO day-ahead market.*

  MISO recall rights on energy exports in emergencies from RA resources.

C. <u>FACILITATE TRADING:</u>

MISO should facilitate an expanded electronic bulletin board for trading capacity, demand response contracts (using the standard EEI contract) that also allows for a secondary [resale] market for such commodities.

- **RAWG Internal Comments:** *MISO should facilitate an expanded electronic bulletin board for trading capacity, demand response contracts (using the standard EEI contract) that also allows for a secondary [resale] market for such commodities. MISO should facilitate a bilateral capacity trading program by serving as the broker or clearinghouse for capacity transactions. MISO shall not set the price or terms of the contract, but act as a facilitator to assist entities in completing transactions in order to meet minimum planning reserve requirements. As the clearinghouse for capacity transactions, MISO will be able to more clearly determine compliance and assure that no resource has been double counted.*

- **SAWG (External Stakeholder) Comments:** *A 3rd party platform (similar to ICE) would be a better avenue to pursue.*

[S]ees the value of the MISO facilitating an electronic bulletin board for trading capacity. However, we do not believe that this goes far enough to promote transparency. The MISO has identified that a market development will or has already formed for capacity. The MISO should take the initiative to bring the market under the control and regulation of the ISO and FERC. The act of bringing the market under the auspice of the MISO will create an environment of transparency and safety for all concerned LSEs, Suppliers, Traders, and State agencies. Further, Supplier reliability will become an issue if the straw poll conducted on July 18 is enacted. The MISO will have an obligation to protect buyers from mischaracterizations of supplier's unit or portfolio performance records.

Currently, the EEI contracts do not support trading either capacity or demand response products. If bilateral of trading Capacity and DR is useful, the RAWG may want to clarify the strawman to encourage the inclusion of contract terms in the EEI Master Sales Agreement.

[I]s skeptical as to the benefits of a MISO facilitated bulletin board for trading capacity or DR contracts, especially when other commercial solutions, such as ICE, are already in place. More discussion on the value of this compared to other alternatives may be useful.

OMS RAWG RESOURCE ADEQUACY STRAW PROPOSAL

DESCRIPTION, SCHEDULE &
INITIAL COMMENT SUMMARY

as of August 1, 2007

June 22, 2007: FERC Order

(Docket Nos. ER07-550 et al.)

- *Midwest ISO is not proposing to develop the type of capacity markets used in other RTOs, but one predicated on the price of energy reflecting all cost associated with resource adequacy.* [Special Note: May 2006 – OMS Board voted "no" to supporting a PJM-style capacity market for MISO]
- *The Commission will address long-term resource adequacy in the Midwest ISO when it has a comprehensive Phase II resource adequacy proposal to evaluate…The Commission has not mandated a particular method of providing the proper investment incentives to ensure long-term resource adequacy… .*

OMS Board asserts-

- ***February 8, 2007*** *Resolution:*

  Sovereign states and province represented in the OMS, together with their duly constituted regulatory agencies, have the primary role for electric generation and resource adequacy as recognized by federal law (Sec. 212(i) FPA) as well as most state or provincial laws.

- ***May 10, 2007*** *Revised Resource Adequacy Principles; OMS Board approves requiring load serving entities to maintain sufficient capacity to meet peak load plus minimum planning reserve margin require-ments at all times* (Principle #2),

- ***May 10, 2007 (cont'd)*** *MISO*

  must provide non-discriminatory opportunities for all resources including renewable and demand resources and a mix of firm contracts to meet annual forecast load (Principle #3), *and*

- *Forward planning reserve enforcement mechanism should become effective no later than June 2008 to help ensure resource adequacy in the transition to Phase II of the MISO Long-term Resource Adequacy Plan* (Principle #7),.

May 16, 2007 Dissenting Opinion, Illinois Commerce Commission

- *Opposes OMS revised Resource Adequacy Principles language referring to planning reserve margin requirements and long-term resource adequacy, claiming that only short term resource adequacy for operating reserves is needed.*

- *Further, planning reserve margin requirements for long-term resource adequacy:*
  - ✓ ***Do not accommodate load shifting in retail access states,***
  - ✓ ***Fail to treat DRR as a legitimate resource adequacy element, and***
  - ✓ ***Do not facilitate [“scarcity price signals].”***

June 9, 2007: Based on the OMS Resolution and Principles, RAWG drafts straw proposal for Phase II long-term resource adequacy.

- *During the months leading up to June, the OMS RAWG held discussion meetings with speakers from the Regional Entities, (formerly regional reliability councils), Clare Moeller, Jesse Moser and Richard Doying of the MISO Staff , FERC Office of General Counsel Staff, as well as Commissioner Bob Lieberman (Chair, Midwest Demand Response Working Group) and Commissioner John Norris (Chair, MISO demand Response Working Group).*
- ***The RAWG also helped to sponsor a Resource Adequacy Workshop for Commissioners for a review of Resource Adequacy topics at the MARC meeting in Minneapolis on June 20, 2007.***

July 10 and 18, 2007: Initial comments solicited from RAWG and SAWG, respectively, on 12 issue points of proposal organized as a matrix compared to MISO Phase II outline, FERC comments, Module E & OMS Principles.

Initial comments received as of August 1, 2007:

✓*RAWG members - edits and questions*

3 sets of comments

✓*SAWG members - comments expanding/supporting many of the elements, including demand response*

6 sets of comments

[Next presentation to SAWG August 22, 2007]

The June 9, 2007 RAWG 12 draft issue points in the Resource Adequacy Straw Proposal fall into four elements for capacity incentives

(assigned to 4 temporary RAWG task forces):

- ***I. Planning Reserve Metrics***

  for unforced capacity subject to testing and verification.

- ***II. Enforcement** of planning reserve requirements as an incentive for LSEs to acquire sufficient capacity to meet planning reserve requirements.*

- ***III. Demand Response Resources** (DRRs) as capacity assets to meet planning reserves*

- ***IV. Financial Mechanisms***

  (a) regular capacity payments (contributions to fixed costs) for generators and DRRs [included in Day-Ahead market offers], and (b) revenue stream from voluntary trading of capacity and DRRs on MISO-secure "eCap" electronic bulletin board as a way for LSEs to meet Planning Reserve requirements by buying or building capacity.

RAWG Phase II Long-term Resource Adequacy Products
(OMS Board electronic voting)

<u>Metrics:</u> ✓*MISO completion date –* ***August 2007; September 2007 for DRR*** . ✓*RAWG 1 hour informational meeting for OMS Board-* ***September 10, 2007*** ✓*Electronic Voting results announced at OMS Board Meeting-* ***September 13, 2007***	***<u>DRR</u> as capacity assets:*** ✓*MISO completion date –* ***November 2007*** ✓*RAWG 1 hour informational meeting for OMS Board-* ***October 8, 2007*** ✓*Electronic Voting results announced at OMS Board Meeting-* ***October 11, 2007***
<u>Enforcement:</u> ✓*MISO completion date – "****open question*** *"* ✓*RAWG 1 hour informational meeting for OMS Board-* ***November 5, 2007*** ✓*Electronic Voting results announced at OMS Board Meeting-* ***November 8, 2007***	***<u>Financial Issues - a. Revenue stream,</u>*** ***<u>b. MISO eCap trading:</u>*** ✓*MISO completion date –* ***December 2007*** ✓*RAWG 1 hour informational meeting for OMS Board-* ***October 22, 2007*** ✓*Electronic Voting results announced at OMS Board Meeting-* ***November 8,2007***

Questions, please?

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Midwest Independent Transmission System Operator, Inc. Informational Filing Regarding Broad Constrained Area Mitigation	)))	Docket Nos. ER07-1182-000

COMMENTS OF THE ORGANIZATION OF MISO STATES

Pursuant to Rule 211 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (FERC or Commission), 18 CFR 385.211, the Organization of MISO States (OMS) offers these comments in support of the Midwest Independent Transmission System Operator's (the Midwest ISO) July 20, 2007, filing seeking a permanent extension of the Broad Constrained Area (BCA) mitigation measures provided under the Midwest ISO's Open Access Transmission and Energy Markets Tariff (EMT or Tariff). By Notice issued July 25, 2007, the Commission established August 10 as the deadline for timely comments.

I. BACKGROUND

On August 6, 2004 and November 8, 2004, the Commission issued orders that, among other things, established market monitoring and market power mitigation for the Midwest ISO.[1] In the November 8 Order, the Commission approved the use of BCAs as a screen for the use of mitigation in the Midwest ISO Region for a one-year period.[2] The November 8 Order required the Independent Market Monitor (IMM) to submit quarterly reports to the Commission to allow the IMM to assess the use of BCAs and mitigation within those areas.[3] The November 8 Order also stated that, if the Midwest ISO determines that BCA mitigation is required beyond the one-

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[1] *Midwest Independent Transmission System Operator, Inc.*, *et al.*, 108 FERC ¶ 61,163 (2004) (EMT II Order), *order on reh'g*, 109 FERC ¶ 61,157 (2004) (November 8 Order).
[2] November 8 Order, at P 227
[3] *Id.*

year period, the Midwest ISO may file to extend such measures.[4]

On March 10, 2005, the Midwest ISO made a filing requesting an extension of the BCA mitigation provisions (March 10 Filing) in accordance with the November 8, 2004 Order. In the March 10 Filing, the Midwest ISO requested that the Commission extend the application of its BCA mitigation authority for an additional one year period. No protests were filed opposing the extension of the BCA mitigation authority.

On May 9, 2006, the Commission issued an Order rejecting the Midwest ISO's request and directing the Midwest ISO to remove the BCA mitigation provisions from the Tariff.[5] Numerous parties, including the OMS, filed Requests for Rehearing of the Commission's May 9 Order. On July 20, 2007, the Commission issued an order on rehearing granting the Midwest ISO's request for the extension of BCA mitigation authority for an additional year.[6] The July 20 Order stated that if the Midwest ISO was going to seek further extension of BCA mitigation authority at the end of the current year, it would be required to demonstrate that the benefits of such mitigation exceed its costs, in terms of over-mitigating versus under-mitigating the market.[7]

II. DISCUSSION

The Midwest ISO's July 20 filing seeks a permanent extension of BCA mitigation authority. In support of that request, the Midwest ISO provides an affidavit from Dr. David Patton, the Midwest ISO's IMM, that provides persuasive evidence that continuation of the BCA mitigation authority is not only necessary for a competitive market, but that the benefits of such mitigation well exceed the likely costs.

Dr. Patton's affidavit explains that while BCA mitigation is rarely used, it is necessary, as

[4] November 8 Order, at P 231
[5] *Midwest Independent Transmission System Operator, Inc.*, 115 FERC ¶ 61,158 (2006)
[6] *Midwest Independent Transmission System Operator, Inc.*, 116 FERC ¶ 61,068 (2006) (July 20 Order)
[7] July 20 Order, at P 22

the factors that create local market power in the BCAs are not transitory and will not naturally dissipate over time.[8] Dr. Patton also explains that BCA mitigation addresses market power that may be difficult or impossible to remedy by other means.[9] Dr. Patton's affidavit also provides analysis showing that when the Midwest ISO applies BCA mitigation, the mitigated supplier is almost always found to be pivotal for resolving the constraint, which means that the supplier did not face competition.[10]

With regards to the benefits and costs of BCA mitigation, Dr. Patton provides evidence that BCA mitigation was effective in significantly reducing potential revenue sufficiency guarantee (RSG) costs during periods of 2006 and 2007 when reliability issues required the commitment of units owned by a single supplier.[11] As Dr. Patton notes, RSG costs in that time period were $396 million and without BCA mitigation, could have been as high as $4 billion.[12] With regards to the costs of BCA mitigation, Dr. Patton explains that the conduct and impact framework employed by the IMM ensures that the mitigation measures will not hinder appropriate pricing during shortages, nor result in mitigation of a supplier that does not have market power.[13]

III. CONCLUSION

The OMS has supported the Midwest ISO's use of BCA mitigation in the past and does so again here.[14] Dr. Patton's affidavit provides significant evidence that there is a need for the Commission to extend the Midwest ISO's BCA mitigation authority. Dr. Patton's affidavit also provides evidence that the use of BCA mitigation by the Midwest ISO provides significant

[8] Patton Affidavit, at P 13 and P 51
[9] Patton Affidavit, at P 15
[10] Patton Affidavit, at P 27
[11] Patton Affidavit, at P 36
[12] Patton Affidavit, at P 36
[13] Patton Affidavit, at P 22 and 25
[14] See, Motion for Late Intervention and Petition for Rehearing of the Organization of MISO States, in Docket No. ER06-731, (June, 2006)

benefits to market participants and is highly unlikely to result in over-mitigation. Accordingly, the OMS urges the Commission to grant the Midwest ISO's request for permanent BCA mitigation authority.

The OMS submits these comments because a majority of the members have agreed to generally support them. The following members generally support these comments. Individual OMS members reserve the right to file separate comments regarding the issues discussed in 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
Public Utilities Commission of Ohio
Wisconsin Public Service Commission

The Manitoba Public Utilities Board and the South Dakota Public Utilities Commission did not participate in this pleading. The Pennsylvania Public Utility Commission abstained from these comments.

The Indiana Office of Utility Consumer Counselor and the Iowa Office of Consumer Advocate, as associate members of the OMS, participated in these comments and generally support these comments.

Respectfully Submitted,

William H. Smith, Jr.

William H. Smith, Jr.
Executive Director
Organization of MISO States
100 Court Avenue, Suite 218

Des Moines, Iowa 50309
Tel: 515-243-0742

Dated: August 10, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Des Moines, Iowa, this 10th day of August, 2007.

William H. Smith, Jr.

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Midwest Independent System Operator, Inc.	)	Docket Nos. ER07-550-000 and ER07-550-001

REQUEST FOR CLARIFICATION

I. INTRODUCTION

Pursuant to Rule 212 of the Federal Energy Regulatory Commission's ("Commission" or "FERC") Rules of Practice and Procedure, 18 C.F.R. §§ 385.212, the Organization of MISO States ("OMS") hereby requests clarification of the Commission's "Order on Ancillary Services Filing and Providing Guidance" issued on June 22, 2007, in the above-captioned dockets.

The OMS is submitting this Request for Clarification out of an abundance of caution to ensure that the OMS does not inadvertently fail to exhaust its rights to administrative remedies should the Commission interpret its June 22 Order to have made a finding regarding the justness and reasonableness of the Midwest ISO's February 15 ASM cost allocation proposal.

II. PURPOSE OF SEEKING CLARIFICATION

OMS seeks clarification of the Commission's statements that, "We agree with the Midwest ISO that allocating the costs of procuring and deploying contingency reserves on a market load ratio share, which includes export schedules, is a reasonable approach"[1] and "We find this cost allocation to be generally acceptable as discussed in the Cost Allocation section"[2]

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[1] ER07-550 Order on Ancillary Services Filing and Providing Guidance at P 104.
[2] *Id*. at footnote 70.

and "we consider a market-wide allocation of ancillary services costs to be reasonable."[3] The OMS seeks clarification that the Commission did not intend its statements to constitute approval of the Midwest ISO's February 15 cost allocation proposal or to constitute a finding that the Midwest ISO's February 15 cost allocation proposal is, or would be, just and reasonable.

The OMS interprets the Commission's statements on ancillary services cost allocation as keeping the door open to other cost allocation proposals, and expressing an intent and expectation to entertain alternative cost allocation proposals on re-filing. The Commission's Order gives support for the OMS's interpretation at various points in the text. The Order, for example, states, "To help facilitate progress on such a revised proposal in a timely fashion, we provide guidance, as discussed below, on the major design elements of the ASM proposal in order to preview the Commission's perspective and the factors the Commission will consider in reviewing a revised proposal."[4] The Commission's Order states that, "at this stage in considering the Midwest ISO's proposal, the Commission has not addressed all issues raised by commenters."[5] The Commission's Order directs the Midwest ISO to use the time available prior to re-filing to "improve stakeholder understanding of the proposal, and work with stakeholders on issues of concern."[6] Specifically, with respect to the cost allocation issue, the Commission stated that "it would be beneficial for the Midwest ISO to continue discussions with stakeholders on cost allocation issues . . ."[7]

As was explained in the OMS's Comments, the OMS has strong concerns about the Midwest ISO's ASM cost allocation proposal.[8] The OMS asks the Commission to clarify its

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[3] *Id.* at P 106.
[4] *Id.*at P 50.
[5] *Id.* at P 50.
[6] *Id.* at P 2.
[7] *Id.* at P 106.
[8] ER07-550 Comments of the Organization of MISO States, March 20, 2007 at 14-20.

intention and expectation for the Midwest ISO to work with the OMS and other interested parties on the cost allocation issue so that an improved proposal can be submitted by the Midwest ISO on re-filing.

III. BACKGROUND OF THE CASE

On February 15, 2007, the Midwest ISO filed with the Commission revisions and amendments to its Open Access Transmission and Energy Markets Tariff to implement an Ancillary Services Market ("ASM"). The Commission's June 22, 2007, Order rejected the filing without prejudice and provided guidance. The guidance was designed to enable the Midwest ISO to prepare and re-file a more complete proposal. The Commission's Order directs the Midwest ISO to use the time available prior to re-filing to "improve stakeholder understanding of the proposal, and work with stakeholders on issues of concern."[9]

The OMS seeks limited clarification of the June 22 Order regarding the cost allocation issue.

IV. DISCUSSION OF COST ALLOCATION

A. The Midwest ISO's Cost Allocation Proposal

Under the Midwest ISO's ASM proposal, locational marginal prices ("LMP") for energy and market clearing prices ("MCP") for operating reserves will be calculated for each hour in the day-ahead market and for every dispatch interval in the real-time market. LMPs and MCPs will be based on market participants' energy offers and operating reserve offers, including separate offers submitted for regulating reserves, spinning reserves, and supplemental reserves. The Midwest ISO asserts that through the simultaneous co-optimization algorithm, and based on the offers submitted, it will be able to commit and dispatch the resources that provide the least cost

[9] ER07-550 Order on Ancillary Services Filing and Providing Guidance P 2.

solution to serve energy and operating reserve requirements. LMPs are nodal-based and MCPs are zonal-based with the zones potentially changing daily.

While energy payments and energy cost allocation are aligned—both are based on the nodal price (i.e., load pays the LMP and generators receive the LMP) —the same is not the case with the Midwest ISO's February 15 ancillary services market design proposal. Under the Midwest ISO's ASM proposal, ancillary service suppliers would be paid the MCP in their zone, but load would not be charged that zonal MCP. Instead, load would be pro rata charged the system average cost of ancillary services under the Midwest ISO's February 15 proposal.

B. The OMS Comments

The OMS Comments opposed the Midwest ISO's arbitrary allocation of ancillary services costs to load. OMS recommended a more detailed evaluation of cost causation and ancillary services beneficiaries and advocated development of a cost allocation mechanism more finely tuned toward allocating costs to these cost causers and beneficiaries. The OMS Comments cited exports, for example, as ASM beneficiaries to which ASM costs should be allocated.

However, assuming *arguendo*, that ASM costs would be allocated to load, OMS objected to the Midwest ISO's proposal to allocate those costs pro rata across the Midwest ISO footprint. OMS stated,

> The OMS also has a concern on a separate, but related matter regarding cost allocation. An ASM design element calls for the development of operating reserve zones which may create additional cost allocation inequities. In accordance with the proposed ASM tariff, the Midwest ISO intends to utilize reserve deliverability zones across the footprint. An ASM market clearing price will be derived for each of the zones, resulting in the possibility of varying the cost to provide ancillary services across the footprint. The Midwest ISO recognizes the different levels of service, the different pricing curves used and the resulting effects on locational market prices and market clearing prices when it pays resources. Although the cost may vary significantly with location, especially during reserve deployment

> events, the Midwest ISO proposes to assign the costs across the entire footprint using a load ratio share allocation method. This approach is inappropriate because it makes no attempt to align costs with cost causers on the load side of the Midwest ISO's market. It is also inconsistent with the methodology used to allocate revenue to pay market participants. [footnote omitted] For revenue, the Midwest ISO calculates costs at each location to pay resources. [footnote omitted] The OMS plurality urges the Commission to require the Midwest ISO to develop an allocation methodology that recognizes the price differences across the Midwest ISO footprint.[10]

The OMS also stated,

> Additionally, OMS continues to be very concerned with the lack of matching the ASM revenues and the ASM costs assigned because of the ancillary services market design. Even if the generation of a load serving entity is chosen to provide its required ancillary services on a 100% basis, if it is located in a zone where the market price is below the system-wide average, the costs for ancillary services will exceed the payments that the load servicing entity will receive for providing ancillary services.[11]

The OMS Comments highlighted the inequity in the Midwest ISO's cost allocation proposal emphasizing the difficulty for a market participant seeking to gain a level of prior certainty between what it would pay for ancillary services and what it would be paid. The OMS Comments also described the inefficiencies inherent in the Midwest ISO's proposal, pointing out that obscuring the locational nature of operating reserve shortages would mute price signals that are critically important to curing operating reserve shortage problems.[12]

C. The Midwest ISO Answer

In its Answer to Commenters, the Midwest ISO continued to advocate for its filed proposal and expressed a belief that allocating operating reserve procurement costs on a reserve zone basis can lead to severe equity issues.[13] The Midwest ISO offered a three-zone example in

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[10] ER07-550 Comments of the Organization of MISO States, March 20, 2007 at 15.
[11] *Id*. at 22.
[12] *Id*. at footnote 16.
[13] Midwest ISO Answer at 32.

an effort to illustrate their argument.[14] In the example provided by the Midwest ISO, 40% of market load would not incur Operating Reserve procurement costs.[15] The OMS would agree that this would not be an equitable outcome. However, the Midwest ISO's example does not appear to constitute a reasonable depiction of the type of zones that the Midwest ISO's ASM proposal would actually create, the way that the marginal clearing price would be determined in each zone, or system constraints that limit the amounts of reserves allowed to clear in a zone. In MISO's example, 50% of the reserves are located in a zone that represents only 20% of the market. It is unclear to the OMS how 40% of market load can be outside of a Reserve Zone and thus not be subject to Operating Reserve Procurement Costs.

The Midwest ISO cited Commission Orders for California and New York as precedent for its proposal.[16] However, the Midwest ISO failed to acknowledge the distinction between the single-state ISOs in California and New York and the multi-state Midwest ISO, which is the geographically largest and most heterogeneous of the RTOs.

The Midwest ISO failed to address the inequities in its own proposal that result from its dynamic zone proposal. The Midwest ISO also failed to convincingly support its argument that allocating so as to match ancillary services costs within the ASM zones to the load within those zones would be more inequitable than allocating those costs pro rata across all load in the Midwest ISO region. Furthermore, the Midwest ISO completely failed to address comments pointing out the market inefficiencies and poor price signals that would be created by its proposal.

D. The Commission's Order

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[14] *Id*.
[15] *Id*.
[16] *Id*. at 30.

Implementation of the Midwest ISO's disjointed approach between ancillary services charges and ancillary services payments would lead to numerous inefficiencies and inequities, some of which were mentioned in the Commission's June 22 Order. For example, the Commission notes in the "Hedging" section of its June 22 Order certain commenters' observation that, "market participants who self-schedule could receive less revenue for self-supply priced at the zonal clearing price, while paying a portion of the market-wide load ratio share"[17] Similarly, in the "Reserve Zone" section, the Commission notes FirstEnergy's comment about "a disconnect between zonal reserve requirements and reserve cost allocations, because reserve zones are set based on physical characteristics of the transmission system, but costs are allocated Midwest ISO-wide on a load ratio share basis."[18]

The Commission's June 22 Order does not address the equity issues arising from the disjoint in the Midwest ISO's proposal between operating reserve payments and operating reserve costs. Rather, the Commission's Order simply states, without explanation, that "ancillary services are provided for the benefit of the entire market."[19]

With respect to the market design efficiency issue, the Commission's Order states,

> "The Midwest ISO proposal provides that resources would be paid for reserves based on their marginal clearing price and market participants would be charged for reserves procured by the Midwest ISO on a market-wide load ratio share basis. [footnote omitted] Hence, while suppliers of reserves will be paid scarcity prices for each MW, buyers will not pay those prices, but rather will pay the average procurement price per MW, which is likely to be less than the scarcity price. Furthermore, the Midwest ISO anticipates that the hours of the highest scarcity prices (*i.e.*, \$3,500/MW/Hour) will likely be less than the 20 to 30 hours of total expected scarcity hours per year. While it is possible that market participants may pay more for reserves than their resources receive in payment, to the extent the resources are in low cost zones with low marginal clearing prices, we do not expect the difference between payments and revenues to represent a significant exposure to scarcity pricing, as commenters contend, and therefore we

[17] ER07-550 Order on Ancillary Services Filing and Providing Guidance at P 73.
[18] *Id*. at P 85.
[19] *Id*. at P 106.

> do not consider complete zone hedging to be necessary for the efficient functioning of the market."[20]

Accordingly, the Commission concludes its cost allocation discussion by stating that "it would be beneficial for the Midwest ISO to continue discussions with stakeholders on cost allocation issues . . ."[21]

V. CONCLUSION

The OMS agrees with the Commission that "it would be beneficial for the Midwest ISO to continue discussions with stakeholders on cost allocation issues . . ."[22] OMS seeks clarification that the Commission expects the Midwest ISO to engage in such discussions on the cost allocation issue so that MISO can re-file "a revised proposal in a timely fashion."[23] OMS seeks clarification that the Commission's June 22 Order did not approve the Midwest ISO's February 15 cost allocation proposal and does not contain any finding that the Midwest ISO's February 15 cost allocation proposal is, or would be, just and reasonable.

The OMS submits these comments because a majority of the members have agreed to generally support them. The following members generally support these comments. Individual OMS members reserve the right to file separate comments regarding the issues discussed in these comments:

Illinois Commerce 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

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[20] *Id*. at P 92.
[21] *Id*. at P 106.
[22] *Id*. at P 106.
[23] *Id*. at P 50.

Pennsylvania Public Utility Commission
Public Utilities Commission of Ohio
Wisconsin Public Service Commission

The Manitoba Public Utilities Board and the South Dakota Public Utilities Commission did not participate in this pleading. The Indiana Utility Regulatory Commission abstained from this pleading.

The Indiana Office of Utility Consumer Counselor and the Iowa Office of Consumer Advocate, as associate members of the OMS, participated in these comments and generally support these comments.

Respectfully Submitted,

William H. Smith, Jr.

William H. Smith, Jr.
Executive Director
Organization of MISO States
100 Court Avenue, Suite 218
Des Moines, Iowa 50309
Tel: 515-243-0742

Dated: August 10, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Des Moines, Iowa, this 10th day of August, 2007.

William H. Smith, Jr.

Comments of the Organization of MISO States
on the Midwest ISO's "Free Rider" Questions

August 14, 2007

1) Does OMS concur that the border utilities receive benefits from their neighboring RTO, but pay disproportionately less for them than the load of Transmission Owners in the RTO?

- Analysis is based on theory, not evidence
- Theoretical benefits must be quantified before charges can be proposed
- Five kinds of theoretical benefits are discussed in the Illinois staff analysis following this summary

  A. FERC Administrative Charge
  B. RTO Market Operation Charge
  C. Tariff Administration/Reliability Coordination Charge
  D. "Spill-Over" Effects of Regional Transmission Planning Transmission Upgrades
  E. Loop Flow

2) Does OMS believe the proposed introduction of tiered pricing would help mitigate the imbalance?

- Additional data is needed to show that proposed rates would match the nature and magnitude of the problem.
- Alternatives should be explored.
- The problem with the inequity in the allocation of the ferc administrative cost charge would best be taken up with ferc in a joint rto filing.
- The imbalance of benefits and costs of the midwest iso's market administration charge and transmission tariff/reliability coordinator charges has a range of potential solutions discussed above and we urge the midwest iso to collect more data on the problem and develop more details on the potential solutions.
- The transmission planning spill-over issue may largely solve itself as transmission planning and development improves in neighboring systems.
- The loop flow problem should be further analyzed, taking into consideration the issues raised in the individual state discussions, attached.

3) Does OMS have an opinion on the proper basis for establishing the higher administration cost to be charged?

- Before developing a tiered charge proposalthat would be susceptible to challenge on discriminatory grounds, the miso should better describe the alleged problem and explore the range of potential solutions. the miso should also be able to indentify and quantify the level of benefits it provides to external market participants.

4) Does OMS have an opinion as to which stakeholder group under the Advisory Committee structure should review any tiered pricing proposal?

- No, although the transmission owners committee should be involved.

5) Does OMS believe that a vote on the merits of any tiered pricing proposal be taken by the Advisory Committee prior to its submission to the Federal Energy Regulatory Commission?

- Yes, but the miso should fully share its rationale and data analysis with the group soon enough to allow study before the vote.

OMS members supporting 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
Public Utilities Commission of Ohio
Wisconsin Public Service Commission

OMS members not participating:

Manitoba Public Utilities Board
South Dakota Public Utilities Commission.

OMS members abstaining:

North Dakota Public Service Commission
Pennsylvania Public Utility Commission

ILLINOIS COMMERCE COMMISSION FEDERAL ENERGY PROGRAM STAFF ANALYSIS OF FIVE THEORETICAL BENEFIT TYPES*

A. FERC Administrative Charge

We agree with the Midwest ISO that the allocation and recovery of the FERC administrative charge is inequitable as applied to load within an RTO. Outside of RTOs, the FERC administrative charge is levied only on FERC-jurisdictional wholesale transactions and unbundled retail transmission. Inside RTOs, the FERC administrative charge is levied on all load. This arrangement sets up disincentives for load serving utilities to join an RTO and incentives for load serving utilities to leave an RTO. We recommend that the Midwest ISO join with the other RTOs/ISOs and their load serving members in a Section 206 filing to FERC to change the current method for allocation and recovery of the FERC administrative charge. If the proper foundation were laid beforehand, it is likely that such a filing would receive extensive support from state commissions and consumer advocate organizations in RTO/ISO states.

B. RTO Market Operation Charge

With respect to market operation costs, it is true that any market participant that schedules in the Midwest ISO market pays the FERC-approved market administration charge in Schedule 17 of the Midwest ISO's tariff. This is as true of market participants outside the Midwest ISO as it is of market participants inside the Midwest ISO. In order for the RTO market to operate efficiently, all of the load and generation of the market participants within the RTO is submitted to the RTO market and bears the RTO's market administration charge. However, for market participants outside the RTO, their load is charged the RTO's market administration charge only for the transactions entered into through the RTO market.

The fact that all load and generation that schedules in the RTO market pays the RTO administrative charge doesn't answer the question of whether the benefits and costs of the Midwest ISO market are appropriately allocated among market participants inside and outside the Midwest ISO.

By coming together to form an RTO market, and by contributing the components that the RTO uses to make a market (transmission functional control and rights to generation dispatch) the market participants within an RTO enable the benefits of the RTO market to be created. By not joining the RTO and by not bringing valuable transmission and generation assets into the RTO market, the market participant outside the RTO obtain many of the same benefits of the RTO market by being able to sell and purchase energy on the margin. However, their contribution to the administrative costs is only made on the margin.

Four potential resolutions come to mind regarding the imbalanced relationship between market participants inside RTOs and market participants outside RTOs. First, FERC could require all transmission-owning utilities to be members of RTOs. Second, market participants outside of RTOs could be restricted from access to the RTO's spot market price and could be limited to transacting with market participants inside RTOs only on a bilateral basis, rather than a market basis. Third, attempts could be made to assess the value that the existence of the RTO market creates for the market participant outside the RTO and an additional charge (above and beyond that currently charged) could be levied on those market participants to better align charges levied and benefits received. Fourth, RTO spot markets could be eliminated.

* The Michigan Energy Markets staff supports this analysis. The Missouri PSC does not endorse this analysis.

FERC has already made a run at establishing standard market design and universal RTO participation. That didn't go over well and there is no indication that this approach is any more capable of implementation now than it was then. The fourth approach would be like cutting off the proverbial nose to spite the proverbial face. While the RTO markets provide benefits to the market participants within the RTO, they also provide benefits to others outside the RTO who do not pay proportionately to the benefits they receive. Eliminating those benefits by eliminating the RTO markets would be counterproductive. That leaves options two and three.

Option two would appear to accord with FERC policy because, in Order 890, FERC established that open access transmission provided on the basis of bilateral transactions is a perfectly acceptable manner of providing transmission access. There does not appear to be any reason why RTOs should hold themselves to a higher standard by providing transmission access to market participants outside the RTO that is arguably of a higher quality (by enabling spot markets with locational marginal pricing) than the transmission-owning market participants outside the RTO provide to the market participants inside the RTO. Market participants inside RTOs who have joined together to create and support markets would get the benefit of their efforts, but market participants outside RTOs who have not made such contributions would receive the type of market access that they provide to others. The down side to this approach is that generators outside of the RTO may opt to not participate in the RTO markets and in effect, reduce the amount of generation made available in RTO markets.

Option three, which is the "tiered charge" approach suggested by the Midwest ISO, would appear more likely to elicit accusations of undue discrimination when compared to option two. Arguably, market participants outside the RTO should pay RTO market administration fees calculated on the basis of their entire load. However, the difficulty would lie in accurately assessing the value that the participation by those outside the market contributes to the benefits of the RTO. Without analysis that identifies and quantifies benefits from outside participation, the RTO will not know at what level to set the access charge. If it sets the charge too high, then outside entities will not participate in the market, and the market will lose the benefit of their participation and this approach reverts to option 2. If the RTO sets the charge too low, then market participants within the RTO will be cross subsidizing the participation of those outside the RTO, incurring costs that exceed the benefits received from outside participation.

C. Tariff Administration/Reliability Coordination Charge

RTOs have made unprecedented investments in system modeling software and communications equipment to perform their tariff administration and reliability coordination responsibilities as well as to operate real time and day-ahead markets that contribute to maintaining system reliability. These investments and the operations they support provide widespread benefits because the power grid in the Eastern Interconnection is tightly networked.

Load in areas bordering RTOs arguably benefit as much, or nearly as much, from these RTO investments and operations as does load within the RTO. Nevertheless, it is load within the RTO that bears the burden of these costs.

The potential solutions to this misalignment of costs and benefits include assessing a surcharge on the beneficiaries of the reliability services that the RTOs provide from their investments in such resources.

However, this solution may require the RTO to be able to quantify the reliability benefits it provides to balancing authorities outside its geographic scope. It also raises very difficult questions regarding the level of interconnection that the outside balancing authorities have with the RTO.

D. "Spill-Over" Effects of Regional Transmission Planning Transmission Upgrades

RTOs have put in place detailed and elaborate regional transmission planning processes that are continually undergoing further improvement. These RTO transmission planning processes generally cover a much broader geographic scope than do the planning processes of individual transmission utilities outside RTOs. The RTOs' planning processes also attempt to serve a much broader range of stakeholder interests than do the traditional individual transmission utility planning processes.

To the extent that these regional RTO planning processes result in development of a more robust transmission network than would otherwise have been the case, then these regional RTO planning processes produce benefits that would not have otherwise been produced. Because the transmission grid is a network, the beneficiaries of the network upgrades resulting from the RTO's regional transmission planning process are likely to be broadly distributed and may well include beneficiaries outside of the RTO.

Measuring these benefits of RTO transmission planning processes and transmission upgrades that flow outside the RTO may currently be difficult and uncertain. We support efforts to improve RTOs' capability to measure such benefit flows across the seams of an RTO.

We also note the FERC's efforts in Order 890 to improve the transmission planning processes in areas outside RTOs. If that effort is successful, the gap in quality between the transmission planning processes outside RTOs and inside RTOs should diminish over time. As the robustness of the transmission grid outside RTOs improves, the disparity in the flow of benefits between RTO regions and non-RTO regions should become more equalized.

E. Loop Flow

PJM's testimony and comments in FERC Docket AD06-9 provide a detailed and informative discussion of the loop flow problems faced by RTOs.

Electricity does not flow according to contract paths, but, rather, obeys Ohm's law and flows along the path of least resistance. Loop flow results from actual flow patterns that are significantly different from scheduled flows due to the physical reality of the transmission system. The power system could be operated more efficiently and reliably if all flows were properly accounted for based on the physical characteristics of the transmission grid.

System operators can only control loop flows through proper real-time dispatch, and the industry can only achieve a "solution" to the loop flow problem if it develops a system that provides for the most efficient available dispatch to control loop flows and allocates the associated costs for that service on the parties to the transaction to which the loop flow is attributed. There is currently a considerable disparity in the congestion management process by the RTO's LMP-based market vis-à-vis what it receives in turn from the contract-path market. Continued use of the contract-path TLR method as the basis for addressing inter-control-area loop flows has meant that the LMP-based markets have been required to adapt to a method that meets the minimal needs of contract-path markets but is unsuited to and inadequate for the needs of LMP-based markets. This disparity results in an unequal cost burden.

The Midwest ISO and PJM have developed a dynamic congestion management approach for flows between their systems as set forth in their Joint Operating Agreement. There does not appear to be a technical obstacle why neighboring systems could not also adopt such a joint congestion management approach. Such an approach would better account for actual interregional power flows and confer greater general benefits without requiring any alternations to the market designs in control areas that do not have organized markets.

We recommend that the Midwest ISO pursue the following approach for dealing with the loop flow issue: (1) advocate for the collection and sharing of data on power flows by transmission operators throughout the Eastern Interconnection; (2) urge the adoption of requirements for all transmission operators throughout the Eastern Interconnection to report the flow impacts of their control area generation dispatch to serve load as well as inter-control-area transactions with flow reporting entered into the NERC IDC for all impacted flowgates; (3) continue to emphasize to FERC and the state commissions the economic and reliability costs of not solving these loop flow problems; and (4) redouble efforts to reach seams agreements with neighboring transmission operators to adopt and implement interregional congestion management protocols based on the approach reflected in the Midwest ISO/PJM Joint Operating Agreement.

IOWA STAFF QUESTIONS FOR MISO[†]

The regulatory sector might ask MISO the following questions to provide more information:

1. What data and conceptual analysis do you have to justify the conclusion that border utilities do not pay their fair share?

2. Have you integrated into your analysis the benefit that MidAmerican Energy Company (See comments filed in March 29, 2007 technical conference, AD07-7) argues border utilities bring to MISO? If not, how would this alter your prior analysis?

3. Have you integrated into your analysis the costs and curtailments imposed on non-RTO-members by the RTO for which there is no compensation? If not, how would that alter your prior analysis?

4. While apparently agreeing with MISO that something should be done to make sure border utilities are paying their own way, PJM reasons that the RTO administrative fees aren't the real issue and more appropriate avenues of reform exist. What other mechanisms have you considered and what reasons (and analysis) exist to justify their rejection.

5. How might the tiered pricing regime, and non-RTO members' likely responses thereto, affect reliability?

[†] The Iowa Office of Consumer Advocate joins in the submission of these questions.

OHIO PUC STAFF ADDITIONAL COMMENTS:‡

The term “free-rider” should not mean getting transmission service for free because all users pay for transmission service. The term better reflects the notion that some transmission owners and operators do not charge all users for the total impact they create on the interconnected system and therefore, are receiving “free” transmission service. This “free” service occurs because of the lack of information shared between interconnected owners and operators. The transmission service charged to a transmission user by one transmission owner or operator may not accurately reflect the effect all users have on their part of the system. Because individual owners and operators on the interconnected system do not share modeled impact data of their users, all share in the “free-rider” issue. PJM and MISO have taken steps to partially address this issue by sharing day-ahead and real-time dispatch and system model information that allows each RTO to model transmission service requests impact on each other. That sharing of information allows each RTO to see the effect of users outside their part of the system have on their piece of the system and allows each to charge each other appropriately. Re-dispatch in one RTO will affect the dispatch in the other RTO as-well-as other neighboring transmission owners and operators. MISO and PJM also have agreements with other neighboring transmission owners and operators that allow limited sharing of real time system modeling information as do other system operators. System operators constantly monitor and balance the effect users have on one part of the interconnected system with another parts of the system to keep the system reliable. This balancing act is dynamic and not accurately reflected in the transmission service charges which are based upon the cost of transmission plant and annual O&M costs of the owner or operator. RTOs administer their individual members transmission owner’s transmission service charge so there is no “free-rider” issue for service from one member to another within the RTO. All transmission user service among transmission owners within the RTOs are reflected and accounted for by the RTO. Individual transmission owner do not have “free-rider” issues within their piece of the system because there is no internal transmission service charge. The “free-rider” issue only occurs between parts of the interconnected system that are operated by different system operators.

Ohio PUC Staff recommends that MISO continue to develop day ahead and real time information sharing between neighboring system operators along with revenue quality metering of power flow into and out of their part of the interconnected transmission system. MISO should work towards developing a FERC approved cross border tariff that account for cross border energy flows not covered under the energy market tariffs. Current transmission service tariffs only charge those who request transmission service from the transmission owner or operator and do not capture real time energy flows that are not captured under energy market tariffs, bilateral contract obligations or point-to-point contracts.

‡ The Iowa Office of Consumer Advocate joins in the submission of these comments.