Organization of MISO States

ORGANIZATION OF MISO STATES, INC.
Board of Directors Meeting
Conference Call Minutes
April 10, 2008

Approved June 12, 2008

John Norris, President of the Organization of MISO States, Inc. (OMS), called the April 10, 2008 meeting of the OMS Board of Directors to order via conference call at approximately 1:00 p.m. (CST). The following board members or their proxies participated in the meeting:

Randy Rismiller, proxy for Bob Lieberman, Illinois
Greg Server, Indiana
John Norris, Iowa
Jeff Johnson, proxy for Mark David Goss, Kentucky
Monica Martinez, Michigan
Tom Pugh, Minnesota
Jeff Davis, Missouri
Tim Texel, proxy for Eugene Bade, Nebraska
Susan Wefald, North Dakota
Valerie Lemmie, Ohio
Kim Pizzingrilli, Pennsylvania
Gary Hanson, South Dakota
Randel Pilo, proxy for Dan Ebert, Wisconsin

Absent
Manitoba
Montana

Agency members participating
Robert Mork – Indiana UCC
Parveen Baig - Iowa
Rick Bertelson – Kentucky
Angie Butcher – Michigan
Burl Haar, Nancy Campbell – Minnesota
Joe Buckley, Dorothea Hives – Ohio
Jim Melia – Pennsylvania
Don Neumeyer – Wisconsin

Others on the call
Graham Edwards, Roy Jones – MISO
Don McCormick, SAIC
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 from 2008 Board of Directors meetings March 6, 13, 24, & 28, 2008
Valerie Lemmie moved for approval of the March 6, 13, & 24, 2008 OMS Board of Directors meeting minutes as distributed to board members. Greg Server seconded the motion. The minutes were approved by a unanimous voice vote of the directors. Valerie Lemmie then moved for approval of the March 28, 2008 OMS Board of Directors meeting minutes as distributed to board members. Greg Server seconded the motion. The minutes were approved by voice vote with Wisconsin abstaining.

Treasurer's Report –Treasurer Gary Hanson

Treasurer Gary Hanson presented a summary of the March Treasurer's report:
The beginning balance as of March 1 for the Wells Fargo Business Performance Savings Account was $58,516.01. Interest earned for this month was $82.92. The March 31, 2008 balance was $58,598.93.

The beginning balance as of March 1 for the Chase Bank One Checking account was $125,910.55. The total disbursements from the checking account for March 2008 were $31,302.90. Deposits, interest and adjustments were $40,000.00. As of March 31, 2008, the checking account bank balance was $143,393.55 and the book balance was $134,607.65 (with 14 checks outstanding).

The total savings and checking account balances as of March 31, 2008 is $193,206.58.

Gary Hanson moved to accept the treasurer's report. Greg Server offered a second. The motion passed by unanimous voice vote of the directors present.

Administrative Report from Executive Director – Bill Smith
Bill Smith highlighted items from the Executive Director's Report (follows minutes)

- The upcoming FERC activity
- Thank you to the Commissioners for the success of the recent OMS retreat
- Asked Randel Pilo to speak briefly about the Wisconsin Impact Study, which looked at the impact of MISO on rates in Wisconsin. OMS will post a link to the study on the website.
- Board members were asked to consider if OMS should sponsor a Smart Grid or technology review meeting within the next few months. Opinion of the Board was favorable and it was suggested that such a meeting be linked to a MWDRI meeting to both boost attendance and save cost.

BUSINESS

1. **ASM Readiness Discussion –** Readiness Advisor, Don McCormick, SAIC

Don McCormick discussed the information contained in a power point display distributed to board members prior to the meeting. That information included:

- Benchmarking
- Readiness reporting
- OMS's role in the Ancillary Services Market

Roy Jones was also on the call to answer questions about testing.

2. MISO Planning Advisory Committee Issues – Randel Pilo

Randel Pilo reported the following regarding the MISO Planning Advisory Committee:

- Participation at the PAC meeting is on the increase and communication is now more of a two-way street.
- MTEP08 is at the top of the priority list for PAC, along with targeted studies & long term expansion studies.
- There is an upcoming meeting in St. Paul that will be looking at several PAC issues. Parveen Baig and Don Neumeyer talked briefly about the purpose of the meeting in St. Paul and what the PAC hoped would be accomplished.

3. Goals for OMS-MISO Sector Meeting – President John Norris

President Norris led a brainstorming session to gather topics for the upcoming sector meeting with MISO. Issues included:

- Transmission planning, NOPR, tariff processes and confidentiality agreements, a new stakeholder work group and whether it should be comprised of staff or commissioners, market design and price demand, cost allocation on a multi-regional level, value proposition, wholesale costs to retail rates, interconnection queue.

A comprehensive list of the issues will be created and disseminated. Graham Edwards of MISO stated they will be prepared to meet as long as necessary to discuss the issues.

4. Preparation for MISO Stakeholder Meeting – President John Norris

President Norris stated he is participating in a demand response panel instead of giving an OMS report. He will have the opportunity to give a brief report on demand response and then sit on a panel discussion. The two primary topics are demand response and integrating wind. Anyone who has comments they would like President Norris consider for his remarks is invited to send him an email detailing their thoughts.

5. Update from the MISO Finance Committee – Joe Buckley

MISO is considering changing the way they fund Capital Expenditures (CapEx). Instead of issuing debt, MISO would fund CapEx each year with an additional charge. MISO is preparing a presentation for all the sector reps to provide to their sectors before the issue is brought up at the Advisory Committee. The Finance Committee would like to know if OMS agrees or disagrees with this change before it's brought to the advisory committee.

A full report was emailed to the board prior to the meeting and follows the minutes.

6. FERC NOPR on Wholesale Electric Markets – OMS Market Work Group/Bill Smith

The work group met previously. The work group does not recommend filing a comment on the ASM 30-day compliance. The work group prepared a draft comment on the NOPR and will walk the Board through the document in preparation for voting at the next board meeting.

- The first area of discussion was demand response and the ability to participate in the market. The work group had little discussion on that section and they are basically the same comments the OMS filed in the fall.
- The second area was long term power contracting, which is not a major issue for OMS.
- The third area was market monitoring policies. The work group had several healthy discussions on this. It goes to the point that OMS has been satisfied with the market monitoring relationships that exists while FERC wants to make changes. Wisconsin will likely be offering a footnote to the comments in this area.

- The last topic in the proposed rule is responsiveness of RTO's to stakeholders and customers. FERC's document expresses a tolerance for the hybrid Board; OMS's comment expresses disapproval due to the potential conflicts. FERC's document also recommends an advisory panel, which OMS feels is already fulfilled by MISO's advisory committee.

- Minnesota offered a few comments and changes to the document. Those changes were for consideration only at this time. They will email the exact language and support for it after the meeting.
- Illinois has some additional ideas regarding the RTO section and will distribute those when they are fully ready.

ANNOUNCEMENTS

- April 15 – OMS Sector meeting with MISO & Annual Stakeholder meeting – 8:30am EDT Meridian Hills Country Club [Indianapolis]
- April 15 – OMS Special Board meeting on Resource Adequacy – 11:30 EDT [Indianapolis]
- There were instructions & information on the schedule during the MISO stakeholder meetings.
- April 24 – OMS Executive Committee – 1pm CDT
- May 8 – OMS Board Meeting – 1pm CDT

ADJOURNMENT

The OMS Board of Directors meeting adjourned at 2:30 pm CDT.

OMS

Organization of MISO States
Report of the Treasurer
Gary Hanson, South Dakota Public Utilities Commission
to the
Board of Directors
April 10, 2008
Report for March 2008

CASH ON HAND

The beginning balance as of March 1 for the Wells Fargo Business Performance Savings Account was $58,516.01. Interest earned for this month was $82.92. The March 31, 2008 balance was $58,598.93.

The beginning balance as of March 1 for the Chase Bank One Checking account was $125,910.55. The total disbursements from the checking account for March 2008 were $31,302.90. Deposits, interest and adjustments were $40,000.00. As of March 31, 2008, the checking account bank balance was $143,393.55 and the book balance was $134,607.65 (with 14 checks outstanding).

The total savings and checking account balances as of March 31, 2008 is **$193,206.58**

OMS

TREASURER'S REPORT
Organization of MISO States
March 31, 2008

Wells Fargo Business Performance Savings Account

Balance as of 03/01/08			$	58,516.01	
3/31/08	DEP	Interest on Savings	$	82.92	
Business Performance Savings Account Balance at 03/31/08					$ 58,598.93

Chase Bank One Commercial Checking with Interest

Balance as of 03/01/08			$	125,910.55
	DEP	MISO Remittance	$	40,000.00
		Total Deposits	$	40,000.00

Checks and Charges

Date	Check #	Descriptions		
3/7/2008	2582	IL Travel Reimbursement	$	333.00
3/7/2008	2583	MI Travel Reimbursement	$	274.05
3/7/2008	2584	MN Travel Reimbursement	$	725.14
3/7/2008	2585	OH Travel Reimbursement	$	360.78
3/7/2008	2586	OH Travel Reimbursement	$	64.22
3/7/2008	2587	OH Travel Reimbursement	$	116.15
3/14/2008	2588	DWX Internet	$	35.00
3/14/2008	2589	100 Court Investors	$	959.21
3/14/2008	2590	Qwest	$	242.20
3/14/2008	2591	Chase Card Services	$	1,682.37
3/14/2008	2592	Wall Street Journal	$	249.00
3/14/2008	2593	InterCall	$	1,510.01
3/14/2008	2594	IA Travel Reimbursement	$	577.67
3/14/2008	2595	WI Travel Reimbursement	$	111.37
3/14/2008	2596	WI Travel Reimbursement	$	479.72
3/14/2008	2597	WI Travel Reimbursement	$	215.34
3/14/2008	2598	ED Travel Reimbursement	$	24.50
3/26/2008	2599	IA Travel Reimbursement	$	1,308.30
3/26/2008	2600	IA Travel Reimbursement	$	763.53
3/26/2008	2601	MI Travel Reimbursement	$	276.01
3/26/2008	2602	MI Travel Reimbursement	$	117.67
3/26/2008	2603	MI Travel Reimbursement	$	227.94
3/26/2008	2604	MT Travel Reimbursement	$	1,092.53

3/26/2008	2605	OH Travel Reimbursement	$ 918.80			
3/26/2008	2606	OH Travel Reimbursement	$ 455.01			
3/26/2008	2607	Combined Systems Technology	$ 2,226.01			
3/26/2008	2608	Infomax Office Systems	$ 172.31			
	W/D	Paychex Invoice	$ 86.35			
	W/D	Paychex Payroll	$ 10,147.88			
	W/D	Paychex Payroll Taxes	$ 5,550.83			
Total Checks and Charges				$	31,302.90	
CHECKING ACCOUNT BALANCE 03/31/08						$ 134,607.65
CERTIFICATES OF DEPOSIT, SAVINGS AND CHECKING ACCOUNT BALANCES AS OF 03/31/08						$ 193,206.58

CHASE CHECKING ACCOUNT RECONCILIATION

	Check #		Amount
Bank Balance 03/31/08		$	143,393.55
Less Checks OS	2468	$	74.00
	2585	$	360.78
	2594	$	577.67
	2597	$	215.34
	2598	$	1,308.30
	2599	$	763.53
	2600	$	276.01
	2601	$	117.67
	2602	$	227.94
	2603	$	1,092.53
	2604	$	918.80
	2605	$	455.01
	2606	$	2,226.01
	2607	$	172.31
Book Balance 03/31/08		$	134,607.65

Organization of MISO States

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OMS Executive Director Report
April 8, 2008

FERC and DOE Activity

1. On March 21, The FERC issued an Order on Technical Conference in Docket no. AD08-2, addressing the technical conference held December 11, 2007, on Interconnection Queue Issues. While acknowledging its serious concerns about delays in processing transmission interconnection requests, the FERC agreed with suggestions that each RTO or ISO should be allowed to develop solutions tailored to its regional situation. It directed each RTO/ISO to file a status report on April 21, 2008. A comment opportunity will follow. 122 FERC ¶61,252.
2. On March 26, the FERC issued an Order on Resource Adequacy addressing MISO's Module E filing of December 28, 2007, Docket No. ER08-394. It largely accepted the framework of the proposal and allowed stakeholders to continue work on a financial settlements component to be supplied by June 25, 2008. 122 FERC ¶61,283
3. On March 21, 2008, the FERC accepted a settlement in the PJM Market monitor case, Docket No. EL07-56. Under the agreement, the MMU will operate independently from PJM management, with the ability to participate in stakeholder processes and to issue reports to PJM members, PJM management, state commissions and FERC. 122 FERC ¶ 61,257.

OMS-MISO Activity:

1. On March 13, 2008, the Midwest ISO announced that launch of the Ancillary Services Market (ASM) will be September 9, 2008.
2. The OMS Resource Adequacy Work Group and the MISO Supply Adequacy Work Group continued work on a Module E financial

settlement element to present to MISO stakeholders during June and to file at the FERC on June 25.

3. MISO's Interconnection Process Task Force advanced its recommendations for improvement of the interconnection queue. On April 10, 2008, the Task Force will consider sending those recommendations to the Advisory Committee and filing at FERC in late April.
4. MWDRI held a general meeting in Chicago March 7. Survey results were reported, MISO's experimental economics exercise was summarized, the FERC Notice of Proposed rulemaking was discussed, and dynamic pricing experiences were reviewed.
5. OMS directors met in retreat on March 28 to review the goals and directions of the Organization.

Public Relations

1. Presentations:
   - None
2. Pending speaking/meeting invitations:
   - None

Upcoming MISO Filings of Regional Interest

3/14/2008	N/A	The Midwest ISO to submit an annual report to the Planning Advisory Committee and the OMS that details the steps taken in the MTEP to develop a portfolio of projects that spread benefits throughout each sub-region.	118 FERC ¶ 61,209 at P 76 (2007)
4/11/2008	ER07-532-000	The Midwest ISO to submit a Section 205 filing to revise the settlement provisions for Carve- out and Option-B GFA losses.	N/A
Mid May	ER08-____-000	The Midwest ISO to submit its Amendment of Section 43.7.2 of the EMT to address use of ARRs for state and other similar retail choice programs.	N/A
6/01/2008	ER08-___-000	The Midwest ISO Transmission Owners to file a revenue distribution methodology for the Post-Transition Period (the period beginning February 1, 2008) pursuant to Appendix C of the Transmission Owners Agreement.	N/A

6/25/2008	ER08-394-000	The Midwest ISO to submit its Compliance filing regarding revisions to the tariff to revise Module E to address long-term Resource Adequacy Requirements and financial settlement.	122 FERC ¶ 61,283 (2008)
8/1/2008	ER05-6-044, *et al.* EL04-135-046, *et al.* EL02-111-064, *et al.* EL03-212-060, *et al.*	The Midwest ISO and PJM Interconnection to submit their economic cross-border cost allocation proposals in compliance with the Commission's Order on Cross-Border Facilities Cost Allocation.	122 FERC ¶ 61,084 at P 29 (2008)

<u>Other upcoming dates:</u>

- April 10 – OMS Board meeting
- April 15 – OMS Sector meeting with MISO management
- April 15 – OMS special Board meeting
- April 16 – MISO Stakeholder meeting – Indianapolis
- April 16 – OMS Work Group Chairs meet [Indianapolis]
- April 24 – OMS Executive Committee
- May 8 – OMS Board meeting
- May 22 – OMS Executive Committee
- June 12 – OMS Board meeting

EXECUTIVE SUMMARY

The Midwest ISO has prepared a White Paper for discussion with the Finance Subcommittee of the Advisory Committee on the option to modify our current formula rate in the Tariff to include a component to pay for capital expenditures “as incurred”. This would eliminate the need to issue new debt and incur interest expense in order to fund capital expenditures incurred in 2008 and thereafter. The long-term benefit of this approach is a lower administrative cost per MWh given the elimination of interest expense. In addition, this approach would reduce the financial obligations outstanding at given point in time, thereby reducing the Withdrawal Obligation or “exit fee” which is viewed by some transmission owners as a barrier to entry. A summary of the information in the White Paper is presented in this document.

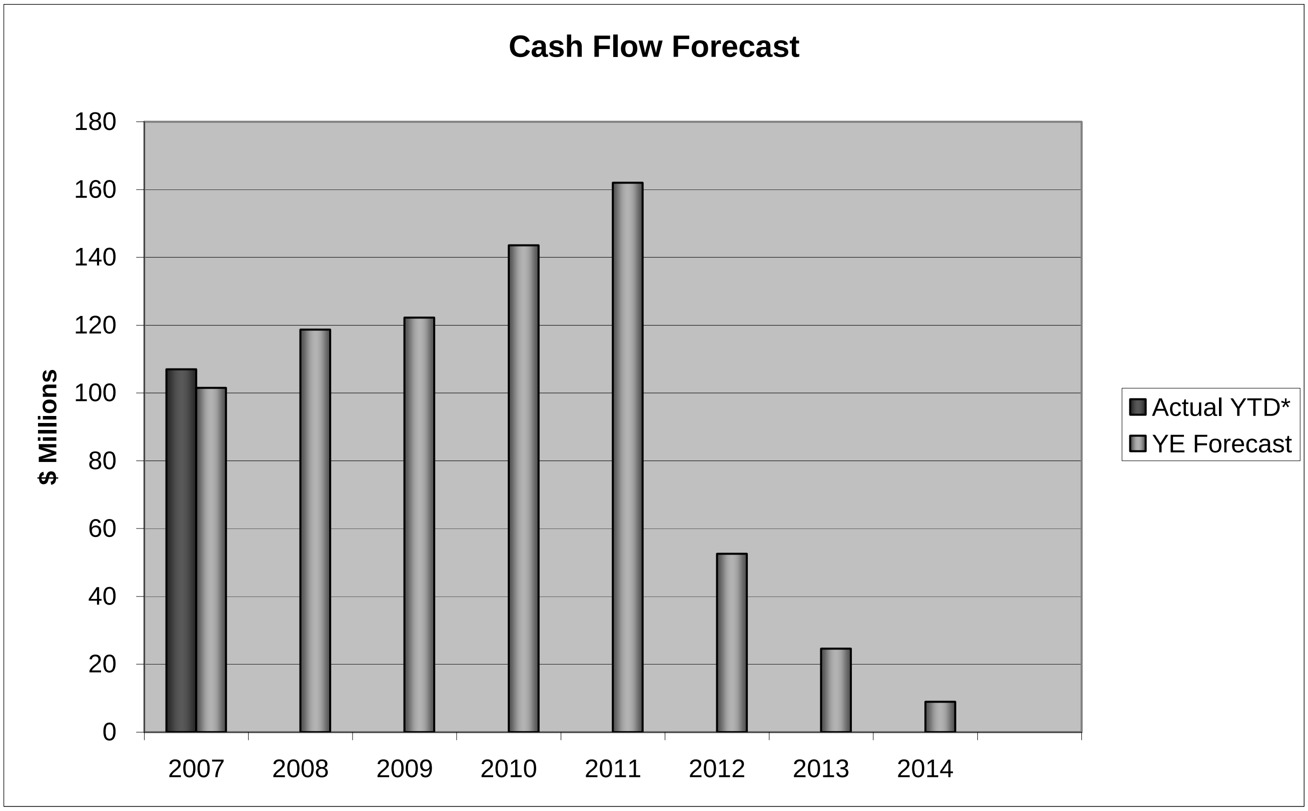
INTRODUCTION

Information regarding the existing debt obligations of the Midwest ISO is presented in Table 1 below.

Table 1 – Debt Repayment Schedule

	Amount Borrowed	DEBT REPAYMENT SCHEDULE						
		2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
2012 Notes	$100,000	$ -	$ -	$ -	$ -	$ 100,000	$ -	$ -
2013 Notes	$100,000	$ 14,286	$ 14,286	$ 14,286	$ 14,286	$ 14,286	$ 14,286	
2014 Notes	$125,000	$ 17,857	$ 17,857	$ 17,857	$ 17,857	$ 17,857	$ 17,857	$ 17,857
2009 Notes	$80,000	$ 20,000	$ 20,000	$ -	$ -	$ -	$ -	$ -
Total	$405,000	$52,143	$52,143	$32,143	$32,143	$132,143	$32,143	$17,857

The Midwest ISO remains on schedule to collect sufficient cash through depreciation and amortization charges in rates to make all required principal payments under all existing debt obligations. This is illustrated by the cash flow over time in Exhibit VI to the March 2008 Finance Report presented to the Midwest ISO Board of Directors which is reproduced on the next page.



	2007	2008	2009	2010	2011	2012	2013	2014
Actual YTD*	$ 107.0							
YE Forecast	$ 101.5	$ 118.7	$ 122.2	$ 143.5	$ 162.0	$ 52.6	$ 24.6	$ 8.9

NOTE 1: Forecast does not account for changes in accounts payable, accounts receivable or accrued liabilities
NOTE 2: Forecast assumed no new capital expenditures after 2007

As stated in Note 2 to Exhibit VI, the cash flow forecast assumes no new capital expenditures after the end of 2007. As such, additional funding will be needed to support all capital expenditures incurred in 2008 and thereafter.

There are multiple options for obtaining the additional funding, three of which include:

1. Issue senior, unsecured notes to Qualified Investors,
2. Bank financing, and
3. Modify formula rate in Tariff to fund capital as incurred.

Senior, Unsecured Notes

To date the Midwest ISO has chosen the private placement market and issued senior, unsecured notes as the preferred means of financing capital expenditures. Under this approach the Company retains a financial advisor to place the notes in exchange for a fee. The placement of the notes involves generating demand for the notes that exceeds the amount of debt to be issued and then conducting what amounts to an auction to establish the interest rate for the debt. The interest rate is based on a Treasury note of comparable duration plus a credit spread that is established via the auction.

Senior, unsecured notes provide the advantage of a fixed interest rate over the term of the note. However, the notes include a make whole provision that requires payment of the full amount of the interest owed over the remaining life of the note as a condition for paying off the note early. As such, early retirement of such notes is not generally cost justified.

<u>Bank Loans</u>

The Midwest ISO currently maintains a Revolving Credit Facility with a consortium of banks that includes JPMorgan/Chase as the lead bank. Typically banks will enter into a term loan longer than one year with a floating rate of interest. Interest expense on bank loans tends to be more expensive when compared on a fixed rate comparable basis to the interest expense for senior, unsecured notes. However, loans can be prepaid with no penalty and the floating rate can be swapped to a fixed rate (for a fee). As of the date of this memo this option is not viable given the current credit environment.

<u>Modify Formula Rate</u>

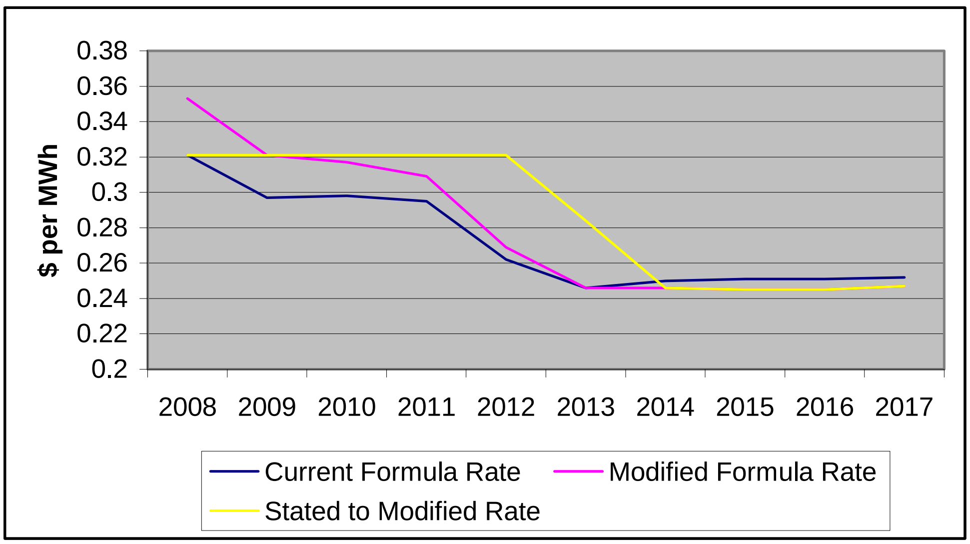
The Midwest ISO has prepared a White Paper for discussion with the Finance Subcommittee of the Advisory Committee on the option to modify our current formula rate in the Tariff to include a component to pay for capital expenditures “as incurred”. This would eliminate the need to issue debt and incur interest expense in order to fund capital expenditures. The long-term benefit of this approach is a lower administrative cost per MWh given the elimination of interest expense. In addition, this approach would reduce the financial obligations outstanding at given point in time, thereby reducing the Withdrawal Obligation or “exit fee” which is viewed by some transmission owners as a barrier to entry. Management has discussed the White Paper with the Finance Subcommittee. The Finance Subcommittee plans to obtain stakeholder feedback on this option from each sector in time for discussion and feedback to the Midwest ISO at the May Advisory Committee meeting.

There are two variations of this proposal. Alternative #1 is to modify the formula rate to include a component to pay for capital expenditures “as incurred”. Alternative #2 is to modify the formula rate to become a fixed or stated rate per MWh for a period of time termed the “Transition Period” and then convert to a formula rate that includes a component to pay for capital expenditures “as incurred”. Alternative #2 was suggested by the Finance Subcomittee. Information on the projected cost per MWh and impact on the projected financial obligations outstanding associated with debt and interest expense is presented next for each of these alternatives.

<u>DISCUSSION AND ANALYSIS</u>

For the purposes of this analysis and discussion the projected capital expenditure for the Midwest ISO in 2008 is $32 million and $24 million per year thereafter. These capital expenditures are assumed to be financed with $50 million of senior, unsecured notes issued every other year starting in 2008. The senior, unsecured notes are assumed to have a term of five (5) years and are amortized starting in Year Two. The assumed interest rate for this analysis is 5.71 percent.

Projected Average Administrative Cost Per MWh



The projected average cost per MWh for Alternative #1 – Modified Rate Formula and Alternative #2 – Stated to Modified Rate is the same in 2014 and thereafter. The interest expense saved under these two alternatives is projected to be on the order of $5 million to $6 million per year. This is because $50 million in debt assumed to be issued every other year under the current formula rate is eliminated. This translates into a projected average cost per MWh that is approximately $0.006 per MWh less than under the current formula rate approach with $50 million in debt issued every other year to pay for capital expenditures.

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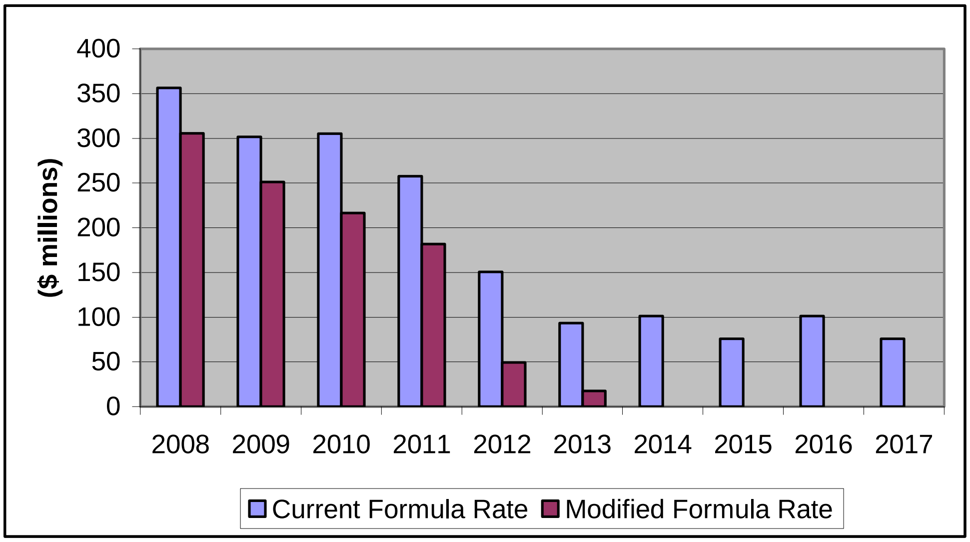
Projected NPV of Debt-Related Financial Obligations



The projected net present value ("NPV") of the outstanding year end financial obligations associated with existing and new debt is presented in the chart above. Both Alternative #1 - Modified Rate Formula and Alternative #2 – Stated to Modified Rate result in the funding of capital expenditures after 2007 through rates thereby eliminating the need to issue new debt. The elimination of a projected $50 million in debt to be issued every other year under the current formula rate translates into a reduction in the NPV of debt-related financial obligations on the order of $75 million to $100 million per year.

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<u>SUMMARY</u>

The Midwest ISO seeks stakeholder sector feedback through the Finance Subcommittee on the whether or not to modify the current formula rate to fund future capital expenditures through rates. The benefit of modifying the current formula rate is two-fold. First, it would reduce the financial obligations outstanding at any point in time due to the elimination of new debt. This reduces the portion of the Withdrawal Obligation or “exit fee” associated with debt. Second, after a four to five year transition period it reduces the administrative cost per MWh due to the elimination of interest expense associated with new debt.

If stakeholder sector feedback supports a modification to the current formula rate to fund future capital expenditures through rates instead of debt then further feedback is needed as to which of the two alternatives proposed in this document are preferred. The two alternatives are Alternative #1 - Modified Rate Formula and Alternative #2 – Stated to Modified Rate.