



Organization of MISO States

**ORGANIZATION OF MISO STATES, INC.
Board of Directors Meeting
Conference Call Minutes
October 9, 2008**

Approved November 13, 2008

John Norris, President of the Organization of MISO States, Inc. (OMS), called the October 9, 2008 meeting of the OMS Board of Directors to order via conference call at approximately 1:00 p.m. (CDT). The following board members or their proxies participated in the meeting:

Randy Rismiller, proxy for Bob Lieberman, Illinois
John Norris, Iowa
Jeff Johnson, proxy for David Armstrong, Kentucky
Monica Martinez, Michigan
Tom Pugh, Minnesota
Greg Jergeson, Montana
Tim Texel, proxy for Eugene Bade, Nebraska
Susan Wefald, North Dakota
Hisham Choueiki, proxy for Valerie Lemmie, Ohio
Jim Melia, proxy for Kim Pizzingrilli, Pennsylvania
Greg Rislov, proxy for Gary Hanson, South Dakota
Lauren Azar, Wisconsin

Absent

Indiana
Manitoba
Missouri

Agency members participating

Christine Ericson – Illinois
Dave Johnson – Indiana
Robb Mork – Indiana UCC
Jeff Kaman – Iowa
Rick Bertleson - Kentucky
Bill Bokram – Michigan
Burl Haar – Minnesota
Jerry Lein – North Dakota
Heather Forney – South Dakota
Randel Pilo, Wisconsin Staff - Wisconsin

Others on the call

Bill Smith, Julie Mitchell – OMS Staff
Warren Day – ATC

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

Approval of Minutes from September 11, 2008 Board of Directors meetings

Monica Martinez requested removal of the words "Bill Bokram and" from page 2, business item #1, bullet point 2. Lauren Azar moved approval of the corrected minutes. Greg Jergeson seconded. The minutes were approved by unanimous voice vote.

Treasurer's Report

Heather Forney presented the Treasurer's Report in Gary Hanson's absence.

The beginning balance as of September 1 for the Wells Fargo Business Performance Savings Account was \$109,200.32. Interest earned for this month was \$127.06. A transfer of \$50,000.00 was made to the Checking account on September 23, 2008. The September 30, 2008 balance was \$59,327.38.

The beginning balance as of September 1 for the Chase Bank One Checking account was \$38,407.86. The total disbursements from the checking account for September 2008 were \$41,290.17. There was one deposit, a transfer from savings, in the amount of \$50,000.00. As of September 30, 2008, the checking account bank balance was \$51,563.93 and the book balance was \$47,117.69 (with 7 checks outstanding).

The total savings and checking account balances as of September 30, 2008 are **\$106,445.07**.

Lauren Azar moved to receive the Treasurer's report. Monica Martinez seconded. The treasurer's report was received by unanimous voice vote. Susan Wefald asked when it was time to resume payments from MISO. Bill Smith replied that it was when the combined balances reached \$75,000 and in consultation with the treasurer, that had been done.

Review of the Executive Committee Meeting, September, 2008 – Bill Smith

There following items were highlighted:

- Mike Holstein addressed the committee on the topic of delay of the ASM to January 6, 2009.
- There were administrative updates regarding renewal of the office lease. Options are still being considered.
- The personal committee is working on the details of finalizing a 401(k) plan for the staff.
- There were no changes in the Annual Meeting plans.
- Discussion on the voting for the PAC chair.

MISO Developments regarding Credit Issues – Mike Holstein

Mike Holstein was on the call to give the Board an update on how the recent financial crisis is impacting MISO both through market participants and through its own financial dealings – Lehman Brothers, AIG and Wachovia specifically. There have been no payment or credit defaults by market participants to this point. MISO is monitoring the situation daily with a four-person team. He then took questions from the Board and staff.

Administrative Report from Executive Director – Bill Smith

There is a FERC technical conference on November 12th on market expansion & module F. Commissioner Norris, John Feit & Bill Smith are planning to attend that conference. An agenda will be out next week.

Susan Wefald asked when a final decision from FERC might be expected on resource adequacy. Bill Smith answered that a decision had not been made and the upcoming election was complicating predicting when it might come out.

BUSINESS

1. MISO Advisory Committee Issues/October Hot Topic – Lauren Azar

- October Hot Topic – Financial Transmission Rights. The draft document from the working group follows the minutes. There were no questions about it from the Board.
- Action Items – (1) RSG recommendation from the MSC. The recommendation was explained and discussed. The AC reps were instructed to vote yes on this motion by unanimous voice vote. The other action items were quickly reviewed: motion to create an FTR funding working group and a minimum generation working group; there is also a motion to adopt some language regarding the governance guide and one regarding the stakeholder input process for MISO FERC filings.

2. MISO Planning Advisory Committee – Lauren Azar

- There is a vote on the nomination for the new chair. Julie Voeck has been nominated for chair & Beth Sohlt for vice-chair. The Board voted to support the nomination slate by voice vote. Ohio abstained.

3. OMS Comments to FERC on MISO's Status Report on RECB Cost Allocation, FERC Docket No. ER06-18

Bill Smith gave the Board some background on the comments. There is no due date on the comments because they are an informational filing and not a statutory filing. It was discussed that the document could be either filed with FERC or sent to Graham Edwards and MISO as a letter. It was also debated whether it should be sent as a letter to one and copied to the other. The Board also discussed the purpose of the document and whether there need to be changes to the wording. It was decided to send the document back to the work group to work in the additional language that Wisconsin wished to have included. The new draft would then be considered by the Board in November.

4. Reply Brief on RSG, FERC Docket Nos. EL07-86, EL07-88 and EL07-92

Jim Wottreng gave the Board background information on this brief and took questions from the Board and staff about it. Montana stated they wanted to maintain their footnote and North Dakota was willing to join with them. South Dakota stated that if they were included in the footnote in the original document, they would want to be included in the final draft as well.

Lauren Azar moved to approve the brief. Tom Pugh seconded.

A roll call vote was taken. Vote yes to approve the brief:

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

Yes – 7, No – 0, Abstain – 5, Absent – 3

The motion failed to pass because there were insufficient yes votes at this time. Eight are required to pass. States were allowed to amend their votes until the filing date, October 23, 2008.

5. TPSWG Recommendation regarding Comments to DOE on Congestion Study

Bill Smith reported that TPSWG recommends not commenting. The Board agreed to not comment by unanimous voice vote.

6. Comments to MISO on 2009 Capital Budget

Burl Haar reported on the governance work group's recommendations regarding MISO's capital budget.

Lauren Azar moved that the draft letter the work group wrote be sent to Mike Holstein at MISO over Bill Smith's signature. Tom Pugh seconded. The motion passed by unanimous voice vote.

7. Comments to FERC on MISO's ASM

Jeff Kaman briefed the Board on the comments document.

Monica Martinez moved to approve the comments but giving the work group the authority to make appropriate edits that don't change content. Jeff Johnson seconded.

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

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

Yes – 10, No – 0, Abstain – 2, Absent – 3

8. Future Comments to FERC on MISO on other ASM concerns: zonal cost allocation, market monitor involvement, initial reference price

Bill Bokram talked about how his work group would be handling several ASM concerns in the near future.

9. OMS Strategic Objectives

The Board discussed the strategic objective document to make sure that it is ready for consideration at the Annual Meeting.

Bill Smith reminded everyone attending the annual meeting that they must register with MISO because of building security.

ANNOUNCEMENTS

- OMS Annual Meeting: **October 14, 2008** from 9:00 am to 2:30pm EDT, Carmel, IN
- Next OMS regular Board of Directors meeting, **November 13, 2008** at 1:00pm CST
- Next OMS Executive Committee meeting – **October 23, 2008** at 1:00pm CDT

ADJOURNMENT

The OMS Board of Directors meeting adjourned at 1:55 pm CDT.



**ORGANIZATION OF MISO STATES, INC.
Board of Directors Meeting
Conference Call Minutes
September 11, 2008**

Approved with Corrections October 9, 2008

John Norris, President of the Organization of MISO States, Inc. (OMS), called the September 11, 2008 meeting of the OMS Board of Directors to order via conference call at approximately 1:00 p.m. (CDT). The following board members or their proxies participated in the meeting:

Bob Lieberman, Illinois
John Norris, Iowa
Jeff Johnson, proxy for David Armstrong, Kentucky
Wanda Jones, proxy for Monica Martinez, Michigan
Burl Haar, proxy for Tom Pugh, Minnesota
Brian DeKiep, proxy for Greg Jergeson, Montana
Tim Texel, proxy for Eugene Bade, Nebraska
Susan Wefald, North Dakota
Valerie Lemmie, Ohio
Jim Melia, proxy for Kim Pizzingrilli, Pennsylvania
Greg Rislov, proxy for Gary Hanson, South Dakota
Lauren Azar, Wisconsin

Absent

Indiana
Manitoba
Missouri

Agency members participating

Randy Rismiller – Illinois
Jeff Kaman – Iowa
Bill Bokram – Michigan
Mike Proctor – Missouri
Hisham Choueiki – Ohio
Jerry Lein – North Dakota
Heather Forney – South Dakota
Don Neumeyer, Randel Pilo - Wisconsin

Others on the call

Bill Smith, Julie Mitchell – OMS Staff
Joyce Davidson – MISO
Warren Day – ATC
Raksha Krishna - EEI
Jim Musial – Detroit Edison
Laura Chappelle
Dave Svanda

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

Approval of Minutes from August 14, 2008 Board of Directors meetings

Lauren Azar moved approval of the August 14, 2008 minutes. Bob Lieberman seconded. The August 14, 2008 minutes were approved by unanimous voice vote.

Treasurer's Report

Heather Forney presented the Treasurer's Report in Gary Hanson's absence.

The beginning balance as of August 1 for the Wells Fargo Business Performance Savings Account was \$109,044.12. Interest earned for this month was \$156.20. The August 31, 2008 balance was \$109,200.32.

The beginning balance as of August 1 for the Chase Bank One Checking account was \$64,104.30. The total disbursements from the checking account for August 2008 were \$25,697.04. There were no deposits, interest or adjustments. As of August 31, 2008, the checking account bank balance was \$42,605.62 and the book balance was \$38,407.86 (with 8 checks outstanding).

The total savings and checking account balances as of August 31, 2008 are **\$147,452.21**.

Valerie Lemmie moved to receive the Treasurer's report. Lauren Azar seconded. The treasurer's report was received by unanimous voice vote.

Review of the Executive Committee Meeting, July, 2008 – Bill Smith

There following items were highlighted:

- The Committee received the nominating committee report.
- The OMS 2009 draft budget was reviewed.
- There was discussion of options regarding renewal of the office lease.
- They discussed the first set of the notes on the strategic planning meeting.

MISO Developments regarding the ASM Launch Delay – Richard Doying

A pricing issue was identified during operations test that will delay the ASM launch. Richard Doying was on the call to brief the Board on what would need to be done to fix the issue (a tariff change). MISO representatives then took questions from the Board and staff.

Administrative Report from Executive Director – Bill Smith

October 15 is the deadline for comments to the DOE on the Congestion study. The last workshop is in Chicago on Sept. 17th. Randy Pilo pointed out that no agenda had yet been issued on this meeting. Wisconsin did prepare comments for submission. Randy Rismiller said he had a paper copy of the agenda (he believed that it was on the DOE website) and proceeded to tell the Board what was on it. Hisham stated that several people would be attending OPSI's annual meeting and would attend the congestion study as well.

Randy Pilo also mentioned that FERC issued a notice this morning of a technical hearing in November regarding the seams expansion/Module F issues.

BUSINESS

1. MISO Advisory Committee Issues/October Hot Topic – Lauren Azar

- There is no A/C Meeting for September.
- Hot Topic in October is FTR. Mike Proctor is planning to revive the FTR work group to put something together for this.

- Hot Topic for December is Cost Allocation. Lauren Azar plans to work with Bill Smith to get something started to help Peggy Ladd with the questions.
- RTST is dead as it stands with load-shedding. The Midwest ISO RTST work group is being disbanded.

2. MISO Planning Advisory Committee – Lauren Azar

- Julie Voeck, chair of the PAC, has changed jobs but has offered to continue as chair of the PAC. There will be one motion at the upcoming PAC meeting and it has to do with MTEP '08. Jerry Lein and the TP&SWG put together some answers to the PAC's questions regarding MTEP '08 – he went over the highlights of that document.
- There is not a draft motion yet, but motion will contain three parts: one will compliment MISO on this MTEP, the second will be to move the identified projects into appendix A and the third will say the MISO Board should heed the collected sector comments when it votes on the MTEP.
- It was pointed out that OMS historically refrains from voting on MTEP projects due to potential conflicts of interest with state siting issues. It was agreed that OMS will continue to abide by its historical precedent.

3. Nominating Committee Report – Susan Wefald

Susan Wefald presented the nominating committee's report (follows minutes). The report will be voted on at the OMS annual meeting. There was a question about when the new term would start. It was clarified that the new officers would begin their terms in January of 2009.

4. OMS Budget for 2009

The budget was presented for approval. There was discussion about the budget carryover, deficit spending and consultant spending. It was suggested to shift \$40,000 from line 69 (OMS technical training) to line 38 (Consultants) to alleviate concerns about the potential to spend more money on consulting and the ability to get more money from MISO in a timely fashion.

Lauren Azar moved to shift \$40,000 from technical training to consulting and approve the budget. Bob Lieberman seconded. The motion was approved by unanimous voice vote.

5. OMS Comments to FERC on MISO's Status Report on RECB Cost Allocation

Randy Rismiller gave a report on MISO's RECB I & II Cost Allocation status report. Randel Pilo asked about an extension so that OMS could file comments. Randy Rismiller pointed out there is no deadline. It was discussed that OMS advise FERC that OMS would be filing comments on this status report by October 9. Randy Rismiller volunteered the Pricing Working Group to work on the December Hot Topic.

6. OMS Strategic Objectives

- There are two documents – one on goals and one on working group structures. Bill Smith presented the two documents and the Board discussed how best to proceed with the "second phase" of these strategic changes.
- Lauren Azar gave an in depth explanation of the proposed work group structure changes.
- Susan Wefald suggested that if this plan was adopted that no state should have more than one person as a chair and that the work groups should elect their own co-chairs.
- There was further discussion about how some existing groups would be realigned.

7. Upper Midwest Transmission Development Task Force

John Norris gave an informational report on behalf of Minnesota, Iowa, Wisconsin, North Dakota and South Dakota explaining the Upper Midwest Transmission Development Initiative to provide policy input and focus to MISO's Regional Generation Outlet Study.

8. Update on Joint Combined System Plan (JCSP)

Don Neumeyer and Jerry Lein gave an update on the latest JCSP meeting at the end of August. The plan is on schedule to be done in 2009.

9. Planning for the Annual Meeting, Carmel, October 14

- The agenda for the meeting on the 14th and the schedule for the 3 days for state regulators have been distributed.
- The Board discussed options for having the OMS awards and recognition a lunch/dinner and a Commissioner lunch/dinner with the MISO Board.
- Bill Smith called everyone's attention to the registration process for OMS and MISO.

ANNOUNCEMENTS

- DOE Congestion workshop – **September 17, 2008**, in Chicago
- OMS Executive Committee Meeting – **September 25, 2008** at 1:00pm CDT
- OMS Board of Directors meeting – **October 9, 2008** at 1:00pm CDT
- OMS Annual Meeting – **October 14, 2008**, Carmel, IN

ADJOURNMENT

The OMS Board of Directors meeting adjourned at 2:55 pm CDT.

**OMS Nominating Committee Report for the 2009 Slate of Officers
August 2008**

Nominating Committee:

Kim Pizzingrilli, Pennsylvania, *Chair*
Susan Wefald, North Dakota
Tom Pugh, Minnesota

In accordance with the bylaws, the Nominating Committee recommends the following slate of officers for 2009. The criterion regarding geographic balance was considered in our recommendation.

Proposed 2009 Officers:

President	(EAST)	Lauren Azar	Wisconsin
Vice President	(EAST)	Valerie Lemmie	Ohio
Secretary	(WEST)	Greg Jergeson	Montana
Treasurer	(WEST)	Tom Pugh	Minnesota
At-Large	(EAST)	David Armstrong	Kentucky

Bylaws:

ARTICLE V – OFFICERS

3. GEOGRAPHIC BALANCE. Two of the officers shall be Directors from states predominantly west of the Mississippi River. Two of the officers shall be Directors from states predominantly east of the Mississippi River.
4. DUTIES. Under this section, the Vice-President will serve as the lead state representative on the MISO Advisory Committee (Ohio - retail choice state) and the Secretary (Montana) will also serve on the MISO Advisory Committee.

OMS

Organization of MISO States
Report of the Treasurer
Gary Hanson, South Dakota Public Utilities Commission
to the
Board of Directors
October 9, 2008
Report for September 2008

CASH ON HAND

The beginning balance as of September 1 for the Wells Fargo Business Performance Savings Account was \$109,200.32. Interest earned for this month was \$127.06. A transfer of \$50,000.00 was made to the Checking account on September 23, 2008. The September 30, 2008 balance was \$59,327.38.

The beginning balance as of September 1 for the Chase Bank One Checking account was \$38,407.86. The total disbursements from the checking account for September 2008 were \$41,290.17. There was one deposit, a transfer from savings, in the amount of \$50,000.00. As of September 30, 2008, the checking account bank balance was \$51,563.93 and the book balance was \$47,117.69 (with 7 checks outstanding).

The total savings and checking account balances as of September 30, 2008 are \$106,445.07.



TREASURER'S REPORT
Organization of MISO States
September 30, 2008

Wells Fargo Business Performance Savings Account

Balance as of 09/01/08			\$	109,200.32
9/23/2008	TRANS	Transfer to Checking	\$	(50,000.00)
9/30/08	DEP	Interest on Savings	\$	127.06
				<hr/>
Business Performance Savings Account Balance at 09/30/08				<hr/> \$ 59,327.38

Chase Bank One Commercial Checking with Interest

Balance as of 09/01/08			\$	38,407.86
9/25/2008	DEP	Transfer from Savings	\$	50,000.00
				<hr/>
		Total Deposits	\$	50,000.00

Checks and Charges

Date	Check #	Descriptions		
9/3/2008	2740	IL Travel Reimbursement	\$	1,127.11
9/3/2008	2741	IL Travel Reimbursement	\$	1,297.06
9/3/2008	2742	IN Travel Reimbursement	\$	1,882.88
9/3/2008	2743	IA Travel Reimbursement	\$	435.12
9/3/2008	2744	IA Travel Reimbursement	\$	411.86
9/3/2008	2745	IA Travel Reimbursement	\$	847.77
9/3/2008	2746	MI Travel Reimbursement	\$	406.98
9/3/2008	2747	ND Travel Reimbursement	\$	1,044.02
9/3/2008	2748	ND Travel Reimbursement	\$	869.46
9/3/2008	2749	OH Travel Reimbursement	\$	1,248.94
9/3/2008	2750	PA Travel Reimbursement	\$	518.22
9/3/2008	2751	IA Travel Reimbursement	\$	709.77
9/10/2008	2752	IA Travel Reimbursement	\$	710.05
9/10/2008	2753	MI Travel Reimbursement	\$	533.16
9/10/2008	2754	MI Travel Reimbursement	\$	1,178.00
9/10/2008	2755	OH Travel Reimbursement	\$	378.45
9/10/2008	2756	ED Travel Reimbursement	\$	360.78
9/10/2008	2757	Used in June 2008	\$	-
9/10/2008	2758	Used in June 2008	\$	-
9/10/2008	2759	Used in June 2008	\$	-
9/10/2008	2760	MISO A/R	\$	40.00
9/17/2008	2761	Infomax Office Systems	\$	173.14

9/17/2008	2762	Intercall	\$	1,835.03
9/17/2008	2763	Chase Card Services	\$	1,865.42
9/17/2008	2764	100 Court Investors	\$	959.21
9/17/2008	2765	Qwest	\$	243.36
9/17/2008	2766	IA Travel Reimbursement	\$	1,123.59
9/17/2008	2767	IA Travel Reimbursement	\$	774.10
9/17/2008	2768	MN Travel Reimbursement	\$	819.41
9/17/2008	2769	MO Travel Reimbursement	\$	426.59
9/17/2008	2770	MT Travel Reimbursement	\$	1,032.73
9/23/2008	2771	IN Travel Reimbursement	\$	445.90
9/23/2008	2772	IN Travel Reimbursement	\$	241.20
9/23/2008	2773	IN Travel Reimbursement	\$	235.95
9/23/2008	2774	IN Travel Reimbursement	\$	68.25
9/23/2008	2775	IN Travel Reimbursement	\$	98.88
9/23/2008	2776	IN Travel Reimbursement	\$	345.43
9/23/2008	2777	IA Travel Reimbursement	\$	1,061.24
9/23/2008	2778	IA Travel Reimbursement	\$	744.56
9/23/2008	2779	WI Travel Reimbursement	\$	665.72
9/23/2008	2780	DWX Internet	\$	35.00
9/10/2008	W/D	Paychex Invoice	\$	90.63
9/29/2008	W/D	Paychex Payroll	\$	9,081.49
9/30/2008	W/D	Paychex Taxes	\$	4,923.71

Total Checks and Charges \$ 41,290.17

CHECKING ACCOUNT BALANCE 09/30/08 \$ 47,117.69

CERTIFICATES OF DEPOSIT, SAVINGS AND CHECKING ACCOUNT BALANCES AS OF 09/30/08 \$ 106,445.07

CHASE CHECKING ACCOUNT RECONCILIATION

	<u>Check #</u>	<u>Amount</u>
Bank Balance 09/30/08		\$ 51,563.93
Less Checks OS	2468	\$ 74.00
	2741	\$ 1,297.06
	2747	\$ 1,044.02
	2773	\$ 235.95
	2774	\$ 68.25
	2777	\$ 1,061.24
	2779	\$ 665.72
Book Balance 09/30/08		<u>\$ 47,117.69</u>



Organization of MISO States

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OMS Executive Director Report October 6, 2008

FERC and DOE Activity

1. The DOE will hold its final workshop on factors for consideration in its 2009 congestion study in Chicago on September 17.
2. On October 14, the FERC will conduct a technical conference on Transmission Barriers to Entry in Docket AD08-13.
3. On November 12, the FERC will conduct a technical conference on the Midwest ISO's Market Coordination Service (Appendix F) in Docket ER08-637. President Norris has been invited to participate.
4. Various orders issued by FERC are listed at the end of this report.

OMS-MISO Activity:

1. The Joint Combined System Plan held a Conceptual Transmission Refinement Workshop on October 2 in Carmel. The final JCSP report will be released in December 2008.
2. The August Advisory Committee meeting resolved the issues related to the Real-Time Sufficiency Tool, deciding that it will not be used for targeted load shedding.
3. The Midwest ISO has rescheduled the commencement of its Ancillary Services Market for January 6, 2009.
4. Following the OMS directors' discussions of OMS goals and strategies on August 19, the Work Group Chairs have offered recommendations for improving the OMS work group process.
5. The MWDRI held a demonstration of several end-user Smart Grid technologies for state agency staff on September 5.

Public Relations

1. Presentations:

- Bill Smith participated in the Licensing and Market Committee of the Energy Regulators Regional Association on September 11-12 and its Tariff and Pricing Committee on September 15-16.

2. Pending speaking/meeting invitations:

- None.

Upcoming MISO Filings of Regional Interest

October 2008	ER09-____-000	The Midwest ISO to submit proposed revisions to Schedule 10 of the Tariff in order to revise the Energy Demand split from 60/40 to 50/50.	N/A
October 2008	ER09-____-000	The Midwest ISO and Minnesota Power to submit proposed revisions to the Tariff for HVDC transmission service.	N/A
Fall 2008	ER08-__-000	The Midwest ISO to submit proposed revisions to Schedule 17 regarding the Redesign of the Cost Adder Schedules.	N/A
1/29/2009	ER06-18	The Midwest ISO and PJM Interconnection to submit their proposal of cross-border projects regarding the elimination of RTOR.	118 FERC 61,209 (2007) and 07/30/08 Notice granting extension of time

FERC Orders Issued in MISO dockets:

124 FERC ¶ 61,167 (ER08-404-001 and ER08-404-002) Order Denying Rehearing and Accepting EDR Filing

On August 18, 2008 the Commission issued an Order denying rehearing and accepting the compliance filing regarding EDR.

124 FERC ¶ 61,169 (ER08-416-001, ER06-1552-000, ER06-1552-002) Order Accepting in Part and Rejecting in Part Manual Redispatch Make-Whole Payment

On August 18, 2008 the Commission issued an Order accepting and rejecting in part the Tariff regarding manual redispatch make-whole payment.

124 FERC ¶ 61,173 (EL07-86-000, EL07-88-000, and EL07-92-000) Order Commencing a Paper Hearing

On August 21, 2008 the Commission issued an Order regarding the commencement of a Paper Hearing in the Ameren docket in regards to RSG

charges.

124 FERC ¶ 61,180 Order Denying RSG Complaint

On August 22, 2008 the Commission issued an Order regarding the complaint filed by Michigan South Central requesting that the Commission direct the Midwest ISO to resettle and refund certain RSG.

124 FERC ¶ 61,183 (ER08-1169-000) Order Accepting Queue Reform

On August 25, 2008 the Commission issued its Order Accepting the Queue Reform.

124 FERC ¶ 61,246 (ER08-1146-000) Order Rejecting Appendix I Agreement

On September 18, 2008 the Commission issued an Order rejecting the Appendix I Agreement between American Transmission Company and the Midwest ISO.

124 FERC ¶ 61,280 (OA08-123-000) Order On Notification Filing

On September 24, 2008 the Commission issued an Order regarding the July Notification filing informing the Commission that the Midwest ISO had processed more than 20 percent of the System Impact Studies and Facilities Studies outside of the 60-day due diligence deadline.

124 FERC ¶61,219 (2008) Order regarding Duquesne Withdrawal from PJM and Integration into MISO

On September 3, 2008, the Commission issued an Order Addressing Conditional RTO Withdrawal Request, As Revised, Proposed Integration Plan, Requests for Rehearing, and Compliance with Prior Rulings.

Letter Order (ER08-884-001 and ER08-913-001) Order Accepting Appendix H

On August 28, 2008, the Commission issued an Order regarding proposed revisions to Appendix H.

Other upcoming dates:

- Next OMS regular Board of Directors meeting: **October 9, 2008**, at 1:00 pm CDT
- OMS Annual Meeting, Carmel, **October 14, 2008**, 9:00 – 2:30 EDT
- Next OMS Executive Committee meeting: **October 23, 2008**, at 1:00 pm CDT

**October 2008 Advisory Committee and Board of Directors Hot Topic
Financial Transmission Rights / Auction Revenue Rights
Response of OMS FTR Allocations Working Group**

1. Do we need financial Transmission Rights (FTRs)? If yes, why? If no, why not?

Yes. The alternative to FTRs/ARRs is to use a system of physical transmission rights that are applied financially to forgive congestion.¹ Economists generally agree that the alternative to FTRs results in less efficient incentives for market participants in the energy market.²

The downside of FTRs/ARRs is the inability to equate the allocation of FTRs with the congestion costs faced by market participants. This occurs for at least two reasons: a) fixed nature of FTRs compared to the varying nature of generation used to serve load; and b) under funding of FTRs. The first can result in market participants receiving either more or less in FTR payments than they incur in congestion costs. The second indicates that the most likely result of the allocation of the fixed FTR product is that FTR payments will not cover these congestion costs. Under funding of FTRs occurs when there are insufficient revenues collected by MISO to cover the FTRs that have been allocated and purchased in the seasonal and monthly FTR auctions. For example, in 2007 FTRs were under funded by 19%.³ Under funding of FTRs, if significant and persistent, results in an increased level of price uncertainty such that the ability of FTRs in achieving their goal of managing congestion risk is impacted.

It appears that the primary cause of under funding is due to differences that occur in actual operating conditions on the Midwest ISO transmission system; e.g., from unexpected loop flows and unexpected line and unit outages. When simultaneous feasibility of power flows modeled

¹ The Southwest Power Pool currently uses this system of transmission rights, but is performing an analysis to determine whether or not moving to a day-ahead market with FTRs is cost beneficial.

² See 2007 IMM State of the Market Report at slide 29.

³ See 2007 IMM State of the Market Report at slides 28. Also see slide 149 where the funding shortfall for 2007 was reported as \$121 million and FTRs funded for \$602 million. This appears to calculate as a 16.7% shortfall = $(\$121/(\$121+\$602))$. In either case, the shortfall is large.

for FTR allocation are not simultaneously feasible in actual operations, FTR holders have rights that are not valid, resulting in under funding for those rights.

It appears that in order to prevent under funding of FTRs, the solution is to use more conservative assumptions in the modeling of FTRs available for allocations and the monthly auctions.⁴ Using conservative assumptions regarding loop flows or outages can, however, result in insufficient auction revenue rights to cover actual congestion, or a greater allocation of counterflow ARR. This means greater financial exposure for market participants. Therefore, the Midwest ISO has to strike the appropriate balance when addressing the under funding of FTRs through modeling assumptions.

Submitting physical transmission rights day-ahead for the purpose of financially hedging transactions from generation sources to load sinks allows the simultaneous feasibility to be more accurately determined. However, this approach leans heavily on the use of short-term physical transmission rights (e.g., day-ahead) and associated bilateral transactions rather than a day-ahead (energy) market. Whether or not this approach can be effectively applied in the context of a day-ahead market is a topic currently being analyzed by the Southwest Power Pool along with the impact that this approach might have on the efficiency of benefits from a day-ahead market. In this regard, the Midwest ISO should monitor and carefully consider the results of the Southwest Power Pools evaluations of physical transmission rights. Until such time that alternative approaches are found to be cost-effective, the Midwest ISO should continue with its current use of FTRs/ARRs.

⁴ The IMM State of the Market Report at slide 28 states that “the Midwest ISO has modified the assumptions on loop flows and limits used in the annual, seasonal and monthly auctions to use more conservative assumptions to account for: 1) expected differences in the average conditions modeled in FTR auctions versus actual hourly experience; and 2) unexpected line and unit outage and derates that affect transfer limits.”

2. Are there continuing concerns regarding profit taking from the FTRs sold in seasonal and monthly auctions?

The concern with profit taking is significantly less today, especially compared to the results from 2005. Profits occur when the price paid for the FTRs is less than the FTR payments received from congestion. This seems to have occurred during the first and second year of market operations because of the lack of maturity in the FTR markets. When there are few participants and a lack of competition for FTRs, those participating in these auctions can submit low bids without concern that the FTRs will be sold to a competitor making a higher bid. But as the FTR market has matured, it appears that submitting low bids relative to expected FTR payments has significantly decreased.⁵

3. Has the MISO process for re-assignment of ARR revenues for load shifting in states with retail choice been satisfactory?

An issue that has not been fully resolved is the re-assignment of ARR revenues to reflect load shifting from state retail choice programs. Under section 43.7.2 of the Midwest ISO's transmission open access and energy market tariff, the Midwest ISO is responsible for verifying that a load shift occurred in the event that a market participant acquiring the load requests a redistribution of ARRs to cover the additional load. The Midwest ISO revised its business practices manual to allow market participants in an ARR zone to designate a single entity that would acquire and process all load shift data for all market participants with network integration transmission service in that zone. This designated entity would be responsible for submitting the load shift data to the Midwest ISO, which will rely on that information as evidence that the load shift data is accurate. The business practices manual states that if all market participants in an

⁵ At slide 172 of the 2007 IMM State of the Market Report states that "average FTR profitability has declined from more than \$1.30 per MW in three months late in 2005 to less than \$0.20 per MW in most months of 2007. These results indicate that the liquidity and overall performance of the FTR markets has improved over time, causing FTR prices to more accurately reflect their value."

ARR zone do not designate and register with a single entity, the Midwest ISO will not process load shift data for that month. Thus, this approach assumes that there would be one entity, such as a local distribution company, that was willing and able to carry out this function, and agreement among affected market participants that the entity should serve this function. This may not be the case due to the costs involved for the designated entity to track this information, disagreements among market participants, or other reasons. Yet the business practices manual does not provide an alternate way for the Midwest ISO to verify load shift information in the event a market participant—in an area without a designated entity—seeks to be reassigned ARR revenues due to load shifts. While this issue may not yet have occurred, the potential issue exists and there is not currently an agreed upon solution. Therefore, the OMS recommends that the Midwest ISO continue to explore a cost-effective backup in the event that there is no designated entity to track load switching for all market participants in an ARR zone.

4. How do ARR allocations and funding of FTRs relate to seams?

An additional area of concern to the OMS relates to how the allocations of ARRs and the funding of FTRs relate to seams and seams agreements. While the OMS is not proposing a seams related solution for unexpected loop flows, clearly the allocation of rights to flow onto neighbors systems and their right to flow onto MISO's system has a significant impact on the availability of simultaneously feasible ARRs. In addition, it is clear that unexpected loop flows have a financial impact on funding available to FTR holders. There needs to be a coherent link made between these agreements on loop flows and the availability of ARRs, as well as a need for MISO to enter into agreements on loop flows with neighbors where those agreements do not exist today. In addition, where seams agreements on loop flows do exist (e.g. PJM), the OMS would support enhanced efforts to develop a single ARR allocation and FTR auction process.

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Ameren Services Company
Northern Indiana Public Service Company

Docket No. EL07-86-000

v.

Midwest Independent Transmission System Operator,
Inc.

Great Lakes Utilities, et al.

Docket No. EL07-88-000

v.

Midwest Independent Transmission System Operator,
Inc.

Wabash Valley Power Association, Inc.

Docket No. EL07-92-000

v.

Midwest Independent Transmission System Operator,
Inc.

REPLY BRIEF OF THE ORGANIZATION OF MISO STATES

Pursuant to the Commission’s Order Commencing Paper Hearing, issued August 21, 2008, the Organization of MISO States (“OMS”) files this Reply to the Initial Briefs filed by complainants¹ and to the Initial Brief of Wisconsin Electric Power Company filed in this docket. The OMS filed a notice of intervention and comments in this docket on March 24, 2008, so it is a party to these dockets. As discussed in greater detail below, the OMS respectfully requests that the Commission remove the reference to “actually withdraws Energy” from the tariff and require refunds back to August 10, 2007.² The OMS respectfully wishes to remind and encourage the Commission to address the period prior to August 10, 2007, and direct the Midwest ISO to

¹ Ameren Services Company and Northern Indiana Public Service Company, the Midwest Transmission-Dependent Utilities and Indianapolis Power and Light Company and Wabash Valley Power Association, Inc,

² The Montana Public Service Commission, the North Dakota Public Service Commission, and the South Dakota Public Utilities Commission do not support refunds or resettlements for periods prior to the potential refund effective date of August 10, 2007, established by the Commission in Docket Nos. EL07-86-000, EL07-88-000 and EL07-92-000.

resettle the market for the period prior to August 10, 2007, consistent with paragraph 26 of the November 5, 2007, Order on Compliance.³

Background

In August 2007, Ameren Services Company and Northern Indiana Public Service Company; Great Lakes Utilities, Indiana Municipal Power Agency, Missouri Joint Municipal Electric Utility Commission, Missouri River Energy Services, Prairie Power, Inc., Southern Minnesota Municipal Power Agency, and Wisconsin Public Power Inc.; and Wabash Valley Power Association, Inc. (collectively Complainants) filed three complaints pursuant to section 206 of the Federal Power Act against the Midwest Independent Transmission System Operator, Inc. (Midwest ISO). The Complainants alleged that the Revenue Sufficiency Guarantee (RSG) rate is unjust and unreasonable and asked that the Commission set for hearing the issue of the revisions to the Midwest ISO's Open Access Transmission and Energy Markets Tariff (TEMT) necessary to remedy this alleged discrimination.⁴

On November 28, 2007, in the Order on RSG Complaints, the Commission found that the Midwest ISO's existing RSG cost allocation methodology may not be just and reasonable. The Order on RSG Complaints established a refund effective date of August 10, 2007, and set the Complaints for paper hearing and investigation to review evidence and to establish a just and reasonable RSG cost allocation methodology. The paper hearing was held in abeyance pending the earlier of the stakeholder proceeding outcome or February 1, 2008.⁵

On August 21, 2008, the Commission ordered the commencement of the paper hearing and provided clarification on the scope of the paper hearing.⁶ Complainants have the responsibility to demonstrate, on the basis of substantial evidence, both that the rate in effect is unjust and unreasonable and that their proposed alternative rate is just and reasonable.⁷ September 22, 2008, was set as the date for the filing of Briefs by Complainants.⁸

³ Midwest Independent Transmission System Operator, Inc., 121 FERC ¶ 61,132 (2007) (Order on Compliance Filing)

⁴ Ameren Servs. Co., et al. v. Midwest Indep. Transmission Sys. Operator, Inc., 124 FERC ¶ 61,173 at P 2 (2008). ("Order Commencing Paper Hearing").

⁵ Ameren Servs. Co. v. Midwest Indep. Transmission Sys. Operator, Inc., 121 FERC ¶ 61,205 at P 4 (2007). (Order on RSG Complaints).

⁶ Order Commencing Paper Hearing at P 1.

⁷ Order Commencing Paper Hearing at P 9.

⁸ Order Commencing Paper Hearing at P 11.

On September 22, 2008, Briefs were filed by (1) Ameren Services Company and Northern Indiana Public Service Company (Ameren Brief), (2) the Midwest Transmission-Dependent Utilities and Indianapolis Power and Light Company (Midwest TDUs Brief), and (3) Wabash Valley Power Association, Inc. (Wabash Brief). Wisconsin Electric Power Company filed a Brief in Support of Complainants (WEPCO Brief).

Argument

A. The Commission Should Remove the Reference to “Actually Withdraws Energy” from the Tariff and Require Refunds.

The Complainants present evidence and argue that the Midwest ISO’s existing RSG cost allocation methodology is not just and reasonable in that virtual supply offers and generator deviations cause RSG costs to be incurred regardless of whether the market participant involved in such transactions physically withdraws energy in real time, but the currently-effective TEMT provisions assign RSG charges only to market participants physically withdrawing energy.⁹

The Commission already has found that virtual supply offers and generator deviations from schedule cause the Midwest ISO to commit units after the close of the Day-Ahead Market and therefore cause RSG costs to be incurred.¹⁰ The Commission has further concluded that virtual supply offers and generator deviations from schedule cause RSG cost incurrence regardless of whether the market participants involved also engage in physical activity in the following day’s real-time market.¹¹

The Order on RSG Complaints affirmed these cost causation findings, stating that a cost allocation was appropriate and parties would not be allowed to re-argue this issue in the paper hearings.¹² The issue at hand in this docket is whether sufficient cost causation analysis now exists to support a refined cost allocation of RSG costs proposed by a Complainant.¹³ Complainants present and argue cost analysis as just and reasonable support for the proposed methodologies for RSG cost allocation for Commission determination.¹⁴

⁹ Ameren Brief, p. 21; Midwest TDUs Brief, p. 16 - 19; Wabash Brief, p.14.

¹⁰ Ameren Brief, p.14; Order on RSG Complaints at P 81.

¹¹ Ameren Brief, p.14.

¹² Order on RSG Complaints, at P 84 – 85.

¹³ Order on RSG Complaints, at P 83 – 85.

¹⁴ Ameren Brief, p. 26 – 26, p. 39 – 41; Midwest TDUs Brief, p. 24 - 27; Wabash Brief, p.18 – 25.

Though Complainants do not have a uniform position as to what the optimal just and reasonable RSG cost allocation methodology should be going forward, it appears there is a solution that all Complainants agree is just and reasonable now and back to August 10, 2007. The Complainants all agree that removing the “actually withdraws Energy” language from section 40.3.3.a.ii of the TEMT would serve as a just and reasonable methodology for RSG cost allocation and for providing refunds from August 10, 2007, going forward.¹⁵

The OMS does not repeat the arguments but agrees with the Complainants that removing the “actually withdraws Energy” language from section 40.3.3.a.ii of the TEMT would serve as a just and reasonable methodology for RSG cost allocation and for providing refunds from August 10, 2007, going forward.

The OMS respectfully requests that the Commission remove the reference to “actually withdraws Energy” from the tariff and require refunds back to August 10, 2007.

B. Resettlement of the Market for the Period Prior to August 10, 2007, Consistent with Paragraph 26 of the November 5, 2007, Order on Compliance, Still Needs to Occur.

The WEPCO Brief argues that the Midwest ISO’s methodology results in two periods of RSG charges for which the Commission must reconcile costs with cost causation.¹⁶ The period beginning with August 10, 2007, the refund date established by the Order on RSG Complaints, and going forward is but one of two periods that require refunds.

The MISO resettlements under the existing RSG cost allocation methodology have many market participants whose actions cause RSG being shielded from RSG charges by virtue of the “actually withdraws Energy” requirement.¹⁷ Since the “actually withdraws Energy” exemption is only applied after the calculation of the rate it results in the development of an RSG rate based on volumes that would not then be subject to the RSG charge.¹⁸ As a result, for the period of April 2005 to August 2008, MISO has only collected roughly 43% of its RSG costs through the real-time RSG charge.¹⁹ Approximately 57%, or \$585 million, in unrecovered RSG costs for that period were recovered via the Revenue Neutrality Uplift charge from Load Serving Entities, whether or not they had deviations that cause RSG costs.²⁰

¹⁵ Ameren Brief p. 39 -41; Midwest TDUs Brief, p. 5; Wabash Brief, p.18.

¹⁶ WEPCO Brief, p. 6.

¹⁷ Midwest TDUs Brief, p. 11.

¹⁸ WEPCO Brief, p. 7.

¹⁹ Midwest TDUs Brief, p. 11 - 12.

²⁰ Midwest TDUs Brief, p. 12.

On November 5, 2007, the Commission had issued an Order on Compliance Filing²¹ and provided clarification with respect to the RSG rate and charge calculations and stated:

Based on our review of the Midwest ISO RSG charge and rate tariff provision, we provide the following clarification on the meaning of these provisions, to address Ameren's concerns. Per the terms of the tariff in the April 17 Filing, the denominator in the RSG rate in section 40.3.3.a.iii is based on the sum of the absolute values of the amounts in section 40.3.3.a.ii(a) – (d). We interpret this formulation to mean that the RSG rate denominator is the aggregate of the amounts for market participants withdrawing energy on that day, since they are entities being assessed the RSG charge in section 40.3.3.a.ii. Therefore, the amounts in the individual RSG charges in section 40.3.3.a.ii should sum to the same summed and aggregate number in the denominator of section 40.3.3.a.iii, thereby eliminating the possibility of developing the RSG charge and RSG rate on different bases and resulting in a shortfall in recovery of RSG costs.²²

The Commission directed the Midwest ISO to submit a compliance filing, pursuant to the requirements specified in the body of the order.

On December 5, 2007, the Midwest ISO, unsure of the Commission's intent, made a Compliance Filing that continued the cost shift resulting from developing an RSG rate based on volumes that would not then be subject to the RSG charge. The OMS requested that the Commission reject that Midwest ISO compliance filing and direct the Midwest ISO to modify its tariff provisions and resettle the market consistent with paragraph 26 of the Order on Compliance.²³

In the Order on RSG Complaints, the Commission stated that there should be no mismatch between the RSG charge and the RSG rate and that if the Midwest ISO has been in error in its interpretation of the RSG charge and rate, refunds will be required.²⁴ However, the Commission has not yet taken action with respect to that December 5, 2007, Compliance Filing.

²¹ Midwest Independent Transmission System Operator, Inc., 121 FERC ¶ 61,132 (2007) (Order on Compliance Filing)

²² Order on Compliance Filing at P 26.

²³ Protest of the Organization of MISO States, Docket No. ER04-691-089, December 19, 2007, p. 5.

²⁴ Order on RSG Complaints at P 86.

The WEPCO Brief therefore argues that failure to address the refunds that are required going from August 10, 2007, back to the start of the Midwest ISO market leaves in place rates that have been unjust and unreasonable.²⁵

The OMS respectfully wishes to remind and encourage the Commission to address the period prior to August 10, 2007, and direct the Midwest ISO to resettle the market for the period prior to August 10, 2007, consistent with paragraph 26 of the November 5, 2007, Order on Compliance.²⁶

Conclusion

The OMS respectfully requests that the Commission remove the reference to “actually withdraws Energy” from the tariff and require refunds back to August 10, 2007. The OMS respectfully wishes to remind and encourage the Commission to address the period prior to August 10, 2007, and direct the Midwest ISO to resettle the market for the period prior to August 10, 2007, consistent with paragraph 26 of the November 5, 2007, Order on Compliance.

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

Iowa Utilities Board
Michigan Public Service Commission
Minnesota Public Utilities Commission
Montana Public Service Commission
North Dakota Public Service Commission
Public Utilities Commission of Ohio
South Dakota Public Utilities Commission
Wisconsin Public Service Commission

The Illinois Commerce Commission, the Kentucky Public Service Commission, and the Nebraska Power Review Board abstained from the vote on this pleading.

The Indiana Utility Regulatory Commission, the Manitoba Public Utilities Board, the Missouri Public Service Commission and the Pennsylvania Public Utility Commission did not participate in this pleading.

²⁵ WEPCO Brief, p. 8.

²⁶ As noted at footnote 2, the Montana Public Service Commission, the North Dakota Public Service Commission, and the South Dakota Public Utilities Commission do not support refunds or resettlements for periods prior to the potential refund effective date of August 10, 2007.

The Iowa Office of Consumer Advocate and the Minnesota Office of Energy Security, as associate members of the OMS, participated in these comments and generally support this brief.

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: October 10, 2008

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 October 2008.

William H. Smith, Jr.

William H. Smith, Jr.



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October 10, 2008

Mr. Michael Holstein
CFO
Midwest ISO
701 City Center Drive
Carmel, Indiana

Dear Mr. Holstein:

Subject: Midwest ISO 2009-2011 Capital Budget

The Organization of MISO States ("OMS") hereby submits comments on the Midwest ISO's proposed 2009-2011 capital budget projects. The OMS appreciates this opportunity to offer comments.

In reviewing the Midwest ISO's proposed rankings, the OMS staff was guided, as in past years, by the principles OMS has consistently emphasized to the Midwest ISO Board; i.e., operational excellence, demonstrable benefits, cost control, greater emphasis on regional planning, commitment to resource adequacy, coordination with neighbors, openness, and support for the regional state committee concept.

The OMS does not oppose the rankings proposed by the Midwest ISO for the Required or Discretionary projects. Reasonable rationale has been provided for the projects deemed Required and prioritization of the Discretionary projects appear to be geared to promote operational excellence, and are generally well aligned with OMS principles. It is noteworthy that over half of the proposed projects deal with updating technology to improve system performance or address post-ASM implementation issues as well as FERC and NERC requirements.

The Midwest ISO also has asked stakeholders to provide feedback on whether any listed projects should be altogether removed from the list, or whether projects should be added to the list. The OMS identified no omissions or deletions at this time.

Mr. Michael Holstein
November 17, 2008
Page 2

It is also worth noting that the OMS comments on the 2009-2011 rankings provided herein should not be construed as constituting formal approval by any of the state commissions comprising the OMS membership.

The OMS staff would also encourage the Midwest ISO to continue to emphasize the critical importance of regular reporting to stakeholders concerning the status of its approved capital budget projects. Transparency on whether and how these projects are being carried out is of vital importance to all stakeholders.

Thank you again for this opportunity to participate in the development of the Midwest ISO's 2009-2011 capital budget. OMS stands ready to assist further on this project and others.

Very truly yours,

William H. Smith, Jr.
William H. Smith, Jr.
Executive Director

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Midwest Independent Transmission)
System Operator, Inc.) Docket No. ER09-24-000

NOTICE OF INTERVENTION AND COMMENTS
OF THE ORGANIZATION OF MISO STATES

Pursuant to the Commission's Notice issued October 7, 2008, the Organization of MISO States (OMS) hereby intervenes and files these comments in the above-captioned docket. The OMS continues to support the implementation of an efficient co-optimized Energy and Ancillary Services Market when, as explained herein, the Midwest ISO has conducted further operational tests and demonstrated that its proposed changes are successful via another readiness filing prior to expected market start-up .

Pursuant to Rule 214(a)(2) of the Federal Energy Regulatory Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214(a)(2), the Organization of MISO States files its Notice of Intervention in the above-captioned proceedings. Service of all pleadings, documents, and communications in this matter should be made on the following:

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

I. Background and General Observations

On April 1, 2005, the Midwest ISO began operation of a wholesale energy market using locational marginal prices to manage transmission congestion. On September 9, 2008, the Midwest ISO was to begin operation of a centralized and co-optimized Energy and Ancillary Services Market (ASM).

On August 26, 2008, the Midwest ISO filed with the Commission a notification of delay in the launch of the ASM. This was in response to concerns about market testing results and in response to related stakeholder comments and protests. The reason for delay, as stated by Midwest ISO, was “to provide the Midwest ISO the opportunity to resolve any substantive issues and to facilitate a successful ASM launch.”¹

In response to concerns about market testing results and related stakeholder comments and protests, the Midwest ISO filed, on September 26, 2008, with the Commission its Deferral of Effective Dates. The Midwest ISO has facilitated several stakeholder calls, including Market Subcommittee meetings on September 9, 16 and 23, 2008, to explain its findings and proposed improvements to ASM design, including tariff and business practice manual (“BPM”) changes.

On October 2, 2008, the Midwest ISO submitted a filing to the Commission outlining the scarcity price issues experienced in the ASM operational testing and proposing revised tariff provisions. In the filing, the Midwest ISO proposes tariff revisions that involve:

- (1) sharing of ramp capability between Energy and ASM products;
- (2) adjustments to the Tolerance Band to take into account ramp sharing and the amount of offered ramp capability;
- (3) adoption of additional ramp rate eligibility rules and requirements for Real-Time Offer Revenue Sufficiency Guarantee Payment (“RTORSGP”) and Day-Ahead Margin Assurance Payments (“DAMAP”); and
- (4) reduction of the Regulating Reserve Demand Curve price

The OMS supports the proposed tariff modification of the regulation demand curve price. Regarding the other three revisions, the OMS conceptually supports the tariff modifications to allow the sharing of ramp products and other tariff changes intended to reduce disincentives to ramp offers. However, the OMS is concerned that a definitive ramp sharing model could not be identified for tariff filing and that, instead, the Midwest ISO will retain flexibility to modify ramp sharing provisions in operating procedures. In practice this may circumvent transparency regarding offer and pricing issues for market participants, such as through Market Subcommittee discussion, and

¹ Midwest ISO filing dated August 26, 2008.

reduce review of reliability related issues with stakeholders in the Reliability Subcommittee. To address that concern the OMS therefore requests that the Commission direct the Midwest ISO to continue to review anticipated and operational impact of these changes with stakeholders in the Market Subcommittee and Reliability Subcommittee, and evaluate and report on the sufficiency of ramp offers for one calendar quarter following Energy and Ancillary Services Market start.

The OMS supports its recommendation to the Commission with comments on the following issues:

- A. The modification to the Regulation Demand Curve Price is reasonably calculated.
- B. The prevalence of regulation scarcity is artificial; tariff and BPM solutions are not clearly proportional and adequate.

II. Specific Issues and Analysis

A. Regulation Demand Curve Price

When regulation scarcity occurs, an administrative demand curve price is established. In the Midwest ISO's October 2, 2008 filing, Richard Doying concluded that scarcity price had previously been inappropriately determined based on the value of lost load (VOLL); however, loss of load is, in fact, not a logical outcome under the circumstances present.² Instead, if any action were taken during regulation scarcity, the most likely action for Midwest ISO would be a fast combustion turbine (CT) unit start or deployment of supplemental reserves. Therefore, the Midwest ISO proposes that the regulation demand curve price should be calculated from an all-in (incremental, startup and no load) CT cost. This price is to be derived from a Chicago city gate gas index price for three (3) weeks of the previous month and an average annual heat rate for a CT. This methodology proposed in Midwest ISO's October 2, 2008 filing results in approximately a 2/3 or more reduction in the scarcity price for regulating reserves.³

² Testimony of Richard Doying, page 15.

³ Based on previous filing \$1000/MWh demand curve price and Midwest ISO Mr. Richard Doying's estimate of a \$250-350/MWh calculated CT proxy price, as stated at the September 16, 2008, Market Subcommittee meeting.

The OMS believes the logic to use a CT start proxy price is sound. Further, while other calculations of a CT proxy price may be offered by stakeholders, the OMS believes that several could be reasonable and Midwest ISO's methodology here is reasonable.

B. Prevalence of Regulation Scarcity

The OMS generally concurs with the proposed calculation of regulation demand curve price to be used when legitimate regulation scarcity exists. However, the OMS remains concerned about the separate issue of the frequency of occurrences of regulation scarcity.

The OMS believes the frequency of regulation scarcity and conditions under which regulation scarcity has been observed during testing illustrate that this scarcity is not due to actual resource shortages. Instead, it is due to the commitment and dispatch instructions to the various units offered for either energy or the reserve products. In short, this scarcity is artificial and is due to the dispatching algorithm. As noted in multiple places in the October 2, 2008 filing, the Midwest ISO acknowledges that "there were over 3000 MW of unloaded, online generation while, at the same time, prices observed in the dispatch were inaccurately indicating scarcity of Regulating Reserves."⁴

Midwest ISO proposes multiple changes in its tariff to improve the offers of regulation and spinning reserve. The major change proffered is the ability to share ramp capability between ASM products. In addition, the Midwest ISO proposes to make other modifications that comport with the ramp sharing provision and also tend to remove disincentives to offering ramp or offering ramp at less than a unit's capability. The Midwest ISO proposes to increase the tolerance band during ramp to provide an incentive to market participants to not be unduly conservative with their offers. The Midwest ISO proposes to eliminate Excessive or Deficient Energy Charges to a unit that has been dispatched for more than one product, to eliminate the penalty that could result when its dispatched ramp may be greater than its physical capability. Lastly, the Midwest ISO proposes changes to the Real-Time Offer Revenue Sufficiency Guarantee Payment (RTORS GP) and Day-Ahead Margin Assurance Payment (DAMAP) eligibility rules to

⁴ Supplemental Direct Testimony of Roger C. Harszy at 4.

encourage market participants to maintain real-time ramp capability at or above their Day-Ahead offers. The OMS highlights three concerns with these changes.

First, OMS concurs with the Midwest ISO that the over-relaxation of requirements may lead to gaming opportunities by market participants.⁵ The Midwest ISO reports that the IMM advised on the market design and, in particular, on the approach selected by the Midwest ISO.⁶ The OMS is particularly concerned with the lack of a formalized approach that the IMM will implement to monitor the offer parameters; such as ramp rates of generating units, and whether the proposed IMM approach is sufficient. The OMS is also concerned that the greater offer flexibility inherent in the Midwest ISO's proposal will increase opportunities to exercise market power. Accordingly, the OMS reserves the right to comment further on this issue after the IMM has officially submitted his position for the record. In any event, the OMS encourages the IMM to develop a formalized approach for monitoring ramp rate offers. Further, the OMS encourages the IMM to state clearly if he has all the necessary tools to fulfill the duty noted by Midwest ISO to "monitor and/or audit Offers or changes in Offer parameters, including ramp rates, that could constitute economic or physical withholding."⁷

Second, some provisions, such as the RTORSGP and DAMAP eligibility may come with additional cost that is not estimated. It is assumed these costs would be negligible compared to cooptimized energy and ancillary service market efficiency benefits. Nevertheless, having in hand a firmer estimate of these costs would improve confidence in the cost-effectiveness of the Midwest ISO's proposal.

Third, the sharing of ramp across multiple products could be considered less conservative and potentially have a reliability impact. While the Midwest ISO says that the sharing of ramp will not have an adverse impact on system reliability, Mr. Roger Harszy's statement that "increased ramp rates will have a positive impact on system reliability" is true only if the generator capability is improved.⁸ In this case, the proposed tariff changes eliminating disincentives serve only to produce increased offered ramp

⁵ Midwest ISO filing October 2, 2008 at 12.

⁶ Testimony of Richard L. Doying at 16.

⁷ Midwest ISO filing October 2, 2008 at 13.

⁸ Supplemental Direct Testimony of Roger C. Harszy at 6.

rates. The OMS questions whether there is any direct reliability benefit from the tariff changes such as increasing the tolerance band during ramp, provision for make whole payments to incent more aggressive real-time offers of ramp capability, and elimination of Excessive and Deficient Energy Charges when dispatch bands are disabled.

While proposals would all appear to result in more offers and lower prevalence of scarcity, the OMS believes the Midwest ISO did not quantify the frequency of this artificial scarcity or clearly explain that the proposed solutions are proportional and will correct the problem.

The initial recognition of the problem was defined as a price volatility issue.⁹ The OMS is concerned that this indicates major changes to the cooptimized dispatching algorithm, i.e. separate clearing of all reserve products was determined close to the scheduled launch date and only after clearly inappropriate market clearing prices were seen. To address these concerns, the OMS recommends that the Commission direct the Midwest ISO to conduct further operational tests to demonstrate, quantitatively, the impact of its proposed tariff changes on business practices and market design, and to submit another readiness filing no later than 45 days prior to expected market start-up. Testing should allow stakeholders to assess whether the unexpected and artificial scarcity conditions that were observed during open/closed loop testing will be sufficiently mitigated under the proposed changes, and that each of the proposed tariff and BPM changes is individually and in sum reasonable and appropriate.

The OMS also requests that the Commission direct the Midwest ISO to continue to review anticipated and operational impact of these changes with stakeholders in the Market Subcommittee and Reliability Subcommittee, and to file results and analysis, for one calendar quarter following ASM market launch, of the frequency and duration of events in which the regulation scarcity demand curve price is invoked.

III. Conclusion

The Organization of MISO States (OMS) continues to support the implementation of an efficient co-optimized Energy and Ancillary Services Market when, as explained herein, the Midwest ISO has conducted further operational tests and demonstrated that its proposed changes are successful via another readiness filing prior to expected market

⁹ Midwest ISO filing October 2, 2008 at 5.

start-up. The OMS anticipates that with further operational testing and review, the Midwest ISO can demonstrate that its proposed modifications will clearly and quantifiably address the anomalous scarcity seen during testing to date. The OMS requests that the Commission direct Midwest ISO to continue to review anticipated and operational impact of these changes with stakeholders in the Market Subcommittee and Reliability Subcommittee, and to file results and analysis, for one quarter following ASM market launch, of the sufficiency of ramp offers and the frequency and duration of events in which the regulation scarcity demand curve price is invoked. The OMS reserves the right to further comment on market design and market power issues after the IMM submits his position on the record of this case.

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

Iowa Utilities Board
Kentucky Public Service Commission
Michigan Public Service Commission
Minnesota Public Utilities Commission
Montana Public Service Commission
Nebraska Power Review Board
North Dakota Public Service Commission
Public Utilities Commission of Ohio
South Dakota Public Utilities Commission
Wisconsin Public Service Commission

The Illinois Commerce Commission and the Pennsylvania Public Utility Commission abstained from the vote on this pleading.

The Indiana Utility Regulatory Commission, the Manitoba Public Utilities Board, and the Missouri Public Service Commission did not participate in this pleading.

The Indiana Office of Utility Consumer Counselor, the Iowa Office of Consumer Advocate and the Minnesota Office of Energy Security, 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

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Dated: October 23, 2008

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 23th day of October 2008.

William H. Smith, Jr.
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