

October 14, 2010
OMS Board Meeting notes

Vice President Martinez called the meeting to order and Bill Bowker called the roll.

Attendance:

Illinois – Bill Vanderlinden (p)
Indiana – Dave Johnston (p)
Iowa – Rob Berntsen, Jeff Kaman
Kentucky – Bill Bowker (p)
Manitoba – absent
Michigan – Monica Martinez, Angie Butcher, Bill Bokram
Minnesota – Burl Haar (p)
Missouri – Robert Kenney
Montana – Brian Dekiep (p)
North Dakota – Jerry Lein
Ohio – Hisham Choueiki (p)
Pennsylvania – Ty Christy
South Dakota – Greg Rislov (p)
Wisconsin – Brian Rybarik (p)

Approval of the minutes – Sept. 9 & 23rd Board Meetings

Bill Bowker moved. Bill Vanderlinden seconded. Unanimous voice vote.

Treasurer's report – September, 2010

Hisham moved. Brian Dekiep seconded. Unanimous voice vote.

Review of the Executive Committee Meeting – September 23, 2010 & Administrative Update

Written ED report, announcements, annual meeting

MISO AC Meeting

Bill Bokram discussed the item #3a on the AC agenda – a motion to propose to extend the timeline for filing a comprehensive redesign of Module E. This is similar to what the OMS discussed at the last Board meeting within the Market Subcommittee.

Monica moved that the AC reps vote in favor of this – consistent with past votes.

Hot Topic: Nick Bowden discussed the redline changes made to the comment document by Illinois and took questions.

Monica moved to accept the Hot Topic Comments as circulated the day before. Bill Vanderlinden seconded. The motion passed by voice vote. Kentucky & Pennsylvania abstained.

PAC – Rob Berntsen

Rob discussed MTEP '10 & the feedback MISO received. Parveen Baig & Jerry Lein discussed what was circulated by MISO. The TPWG is preparing some comments to file.

Jerry asked if it was something that the Board wanted to file. The Board instructed the work group to finish preparing comments and then proceed to a Board review. Parveen pointed out that the PAC leadership is up for nomination. The rest of the meeting was summarized in a document that Rob will be sending out to the Board.

Last Minute Details

Please make OMS aware of any changes in plans.

WG Status Reports

Markets & Tariffs – Bill Bokram:

The next LMP task meeting will be Nov. 5th

Resources – Don Neumeyer:

The SAWG meeting is today. Don summarized what had occurred, stating that the process will be moving quickly.

A quorum was declared.

Adjourned at 1:38pm MDT

OMS

**Organization of MISO States
Report of the Treasurer
Robert Kenney, Missouri Public Service Commission
to the
Board of Directors
October 14, 2010
Report for September 2010**

CASH ON HAND

The beginning balance as of September 1 for the Wells Fargo Business Performance Savings Account was \$29,730.08 Interest earned for this month was \$1.22. The September 30, 2010 balance was \$29,731.30.

The beginning balance as of September 1 for the Chase Bank One Checking account was \$90,741.38. The total disbursements from the checking account for September 2010 were \$30,775.36. Deposits and interest were \$50,000.94. There was a \$(0.01) correction made to the disbursements. As of September 30, 2010, the checking account bank balance was \$96,440.30 and the book balance was \$109,996.96 (with 7 checks outstanding).

The total savings and checking account balances as of September 2010 is \$139,698.26.



TREASURER'S REPORT
Organization of MISO States
September 30, 2010

Wells Fargo Business Performance Savings Account

Balance as of 9/01/2010			\$	29,730.08
9/30/2010	DEP	Interest on Savings	\$	1.22
				<hr/>
Business Performance Savings Account Balance at 9/30/10				<u>\$ 29,731.30</u>

Chase Bank One Commercial Checking with Interest

Balance as of 9/1/2010			\$	90,741.38
9/13/2010	DEP	Midwest ISO	\$	50,000.00
9/30/2010	DEP	Interest	\$	0.94
Total Deposits				<hr/>
				\$ 50,000.94

Checks and Charges

Date	Check #	Descriptions		
4/26/2010	3448	VOID		
9/2/2010	3575	IA Travel Reimbursement	\$	451.33
9/2/2010	3576	MI Travel Reimbursement	\$	1,038.41
9/13/2010	3577	VOID		
9/13/2010	3578	VOID		
9/13/2010	3579	100 Court Investors	\$	1,686.42
9/13/2010	3580	Combined Systems Technology	\$	140.87
9/13/2010	3581	IA Travel Reimbursement	\$	216.94
9/13/2010	3582	MO Travel Reimbursement	\$	722.42
9/13/2010	WD	Chase	\$	3,441.06
9/20/2010	3583	IN Travel Reimbursement	\$	810.42
9/20/2010	3584	IN Travel Reimbursement	\$	804.27
9/20/2010	3585	Qwest	\$	244.07
9/23/2010	3586	VOID		
9/23/2010	3587	DWX Internet	\$	35.00
9/23/2010	3588	MT Travel Reimbursement	\$	598.80
9/23/2010	3589	IA Travel Reimbursement	\$	827.17
9/23/2010	3590	MB Travel Reimbursement	\$	58.68
9/23/2010	3591	IA Travel Reimbursement	\$	812.20
9/23/2010	3592	MO Travel Reimbursement	\$	505.80
9/23/2010	3593	MI Travel Reimbursement	\$	97.80
9/23/2010	3594	MN Travel Reimbursement	\$	494.90

9/29/2010	WD	Paychex Payroll	\$	9,790.89
9/30/2010	WD	Paychex Payroll Taxes	\$	5,220.50
9/30/2010	327	401 K Distribution	\$	487.91
9/30/2010	328	401 K Distribution	\$	2,224.30
9/30/2010	329	401 K Distribution	\$	65.20

Total Checks and Charges \$ 30,775.36

CHECKING ACCOUNT BALANCE 9/30/2010 \$ 109,966.96

CERTIFICATES OF DEPOSIT, SAVINGS AND CHECKING ACCOUNT BALANCES AS OF 9/30/10 \$ 139,698.26

CHASE CHECKING ACCOUNT RECONCILIATION

	<u>Check #</u>	<u>Amount</u>
Bank Balance 9/30/2010		\$ 114,644.74
Less Checks OS	327	\$ 487.91
	328	\$ 2,224.30
	329	\$ 65.20
	3562	\$ 508.73
	3589	\$ 827.17
	3590	\$ 58.68
	3592	\$ 505.80
	Correction	\$ (0.01)
Book Balance 9/30/2010		<u>\$ 109,966.96</u>



Organization of MISO States

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OMS Executive Director Report October 1, 2010

FERC and DOE Activity

1. On September 10, the OMS filed comments on the Midwest ISO's cost allocation filing for Multi-Value Projects. FERC Docket No. ER10-1791.
2. The FERC held a technical conference on September 13 to discuss issues related to payments to demand response aggregators. Docket No. RM10-17.
3. On September 22, the Midwest ISO filed a proposal to provide an additional transmission service study option for Cross-Border projects to facilitate export of generation. Comments are due to FERC October 13. FERC Docket No. ER10-2869.
4. The Midwest ISO held a stakeholder briefing on September 27 to discuss its proposals for distributing any refunds that may result from a settlement in the MISO-PJM market-to-market error complaints. A further conference is scheduled November 3. (FERC Docket Nos. EL10-45, EL10-46-000, and EL10-60).
5. The OMS filed comments on FERC's Notice of Proposed Rulemaking on Transmission Planning and Cost Allocation by Transmission Operating Public Utilities, Docket No. RM10-23, on September 29. The FERC has invited Reply Comments by November 12.
6. The Midwest ISO requested additional time to make compliance filings with respect to various RSG orders. It also requested rehearing of the FERC's August 30 order.

OMS-MISO Activity

1. The OMS held its monthly call with the Independent Market Monitor on September 22.

2. Plans for the OMS Annual Meeting and the Black Sea Partnership meetings at Carmel during the week of October 18 are posted on the OMS website.
3. The OMS held a successful planning retreat September 9-10.

Public Relations

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

Upcoming dates:

- Next regular **OMS Board of Directors meeting: October 14, 2010** at 1:00 pm CDT
- Next **OMS Executive Committee meeting – October 28, 2010** at 1:00 pm CDT
- OPSI Annual Meeting, Dearborn, Michigan, **October 6-8**
- OMS Annual Meeting and Black Sea partnership, Carmel, Indiana, **October 18-21**
- Regular Board meetings: November 9 (Tuesday), November 29 (Monday), January 13.
- Executive Committee meetings: November 22, December 16, January 27.

Upcoming MISO Filings

Filing Date	Docket No.	Description	Pursuant to Commission Order	Working Group/ Committee where issue/change will be reviewed
10/1/2010	ER10-___-000	The Midwest ISO to submit a filing regarding Reserve Procurement Enhancement to address zonal reserve deliverability issues.	N/A	TBPSC PAC MSC

OMS Executive Director Report

October 1, 2010

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10/??/2010	ER10-___-000	The Midwest ISO to submit a filing regarding proposed revisions to its Tariff to support the Look Ahead Commitment (“LAC”) process that can be used to identify optimal near real-time resource commitment decisions.	N/A	TBPSC MSC RSC
10/??/2010	ER10-___-000	The Midwest ISO to submit proposed revisions to its Tariff regarding Dispatchable Intermittent Resources.	N/A	RSC MSC TBPSC
10/14/2010	OA08-14-006	The Midwest ISO to submit an Annual Informational Filing regarding operational penalty assessments and revenue distribution in compliance with Order No. 890.	Order No. 890	N/A
10/25/2010	ER10-394-000	The Midwest ISO to submit an Informational Report pursuant to the February 26, 2010 Order detailing its progress in developing the tools and operating procedures that will lead to the reinstatement of Dispatch Bands or some other alternative arrangements.	130 FERC ¶ 61,150 (2010)	N/A
12/08/2010	ER08-394-00_	The Midwest ISO to submit a Compliance Filing to develop a more permanent approach to addressing congestion that may limit aggregate deliverability of Planning Resources in the Transmission Provider Region and to comply with the Commission's April 21, 2010 directive to file a permanent solution regarding the Midwest ISO's Voluntary Capacity Auction and Load Modifying Resources..	131 FERC ¶ 61,228 and 131 FERC ¶ 61,057 (2010)	N/A

**Midwest ISO Advisory Committee
Carmel, Indiana
October 20, 2010
10am – 3:30pm EPT**

Dial-in and WebEx information available at www.midwestmarket.org

Agenda

- | | | |
|--|----------------|-------|
| 1. Administrative Items | Gary Mathis | 10:00 |
| a. Welcome/ Roll Call | | |
| b. Review / Approve Agenda | | |
| c. Approval of Meeting Minutes√ | | |
| d. Review Action Items | | |
| 2. Hot Topic – Adequate Price Signals | | 10:15 |
| 10 Minutes per Sector, including Minority Opinions | | |
| Midwest ISO Introduction | Todd Hillman | |
| a. Munis/Coop/TDU | | |
| b. Public Consumer Advocates | | |
| c. IPP | | |
| d. Transmission Owners | | |
| e. Power Marketers | | |
| f. Coordinating Members | | |
| g. OMS | | |
| h. Environmental | | |
| i. Eligible End User | | |
| 3. Resource Adequacy Construct Proposal and Timeline | Todd Hillman | 11:40 |
| a. Motion from the Coalition of Midwest Transmission Customers √ | Kevin Murray | |
| LUNCH | | 12:10 |
| 4. FTR Underfunding Updates | Steve Terelmes | 1:10 |
| 5. Wind Integration DIR vote in MSC | Scott Herbst | 1:35 |
| 6. PAC – MTEP 10 Update | Bob McKee | 1:45 |
| 7. Advisory Committee Items | Gary Mathis | 1:55 |
| a. AC Self Assessment Results Discussion | | |
| b. ADR Committee Nominations (2) | | |
| c. Nominating Committee of BOD Update | Ron Ryckman | |
| d. 2011 AC Leadership Nominating Committee | | |
| e. Review of AC Management Plan | | |
| f. 2011 Hot Topic Recommendations | | |
| g. 2011 AC Meeting Schedule | | |
| h. AC 2011 Membership | | |
| i. FSC Nomination (Public Consumers Rep) | | |
| j. November Meeting Discussion | | |

√ Denotes Potential Voting Item

* Denotes Report is Oral

8. Standing Committee/Other Stakeholder Committee Reports		
a. RECB Task Force Update	Paul Jett	2:30
b. Steering Committee	Paul Jett	2:35
c. Market Subcommittee Update	Marlene Parsley	2:40
d. Reliability Subcommittee Update	Tony Jankowski	2:45
e. Planning Advisory Committee Update	Bob McKee	2:50
f. Stakeholder Governance Working Group	Bill SeDoris	2:55
g. Transmission Owners*	JoAnn Thompson	3:05
h. Organization of Midwest ISO States	Bill Smith	3:15
9. New Business	All	3:20
10. Recap – Issues/Assignments	Amanda Brower	3:25

You are invited to join the Board of Directors Reception at 5:15 in Catlin A and B

Rotating Agenda Team November: Ann Scott
 Steve Gaarde
 Allan Silk

Upcoming Hot Topics:

December: Role of the IMM and IMM State of the Market Recommendations

√ Denotes Potential Voting Item

* Denotes Report is Oral

Motion for October 20, 2010

Midwest ISO Advisory Committee Meeting

Whereas, the Midwest ISO is required by the Federal Energy Regulatory Commission to submit two compliance filings regarding locational requirements for generation and demand response capacity resources by December 8, 2010.

Whereas, the Midwest ISO Staff has communicated to stakeholders the Midwest ISO intends to submit a comprehensive redesign of resource adequacy requirements contemporaneously with the December 8, 2010 compliance filings.

Be it resolved, the Midwest ISO Advisory Committee requests the Midwest ISO to extend the timeline for filing a comprehensive redesign of Module E (forward capacity market).

Motion offered by:

Seconded by:

1. MISO Extended Locational Marginal Pricing (ELMP)

At the 8/3 MSC meeting MISO, participants approved a motion for MISO to continue work on ELMP via a task team to develop details of a pricing approach based on the principles of ELMP.

The ELMP Task Team met on 10/4. We shared Mike Proctor's summary of the meeting with the WG. The ELMP IT reviewed the proposed design of the DA and RT pricing, shared overviews of approximation methods and other RTO practices, and proposed settlements treatments for uplifts. The next meeting is planned for 11/1.

Status: Continue to monitor. Potential future WG meeting.

2. MISO Hot Topic – Adequate Price Signals

Participated in developing OMS comments on an OMS-wide conference call on 9/30.

Status: Before OMS Board for approval.

3. Potential items coming up

- a. MISO proposed Reserve Procurement Enhancements and MISO proposed Dispatchable Intermittent Resource (DIR) Proposal. MISO plans on filing its DIR Proposal with the FERC on 10/29, as stakeholders approved it by e-mail vote on 9/7.
- b. MISO is continuing work on a method to allocate significant monies that it expects to receive from PJM for resettlement of transactions (once the pending dispute is resolved at FERC) under the market-to-market congestion management process of the parties' JOA.
- c. MISO proposed ASM Zonal Cost Allocation ER10-1361-000. This concerns the best method to use for zonal allocation of the costs of Operating Reserves. MISO and ICC have 8/30 requests for rehearing and clarification pending in response to the 7/30 FERC order rejecting MISO's proposal. If granted, we may have another opportunity to provide input.

For those interested, please note the following MISO meetings:

MISO Market Subcommittee - monthly meetings (11/3 next mtg)

MISO RSG Task Force – monthly meetings (11/4 next mtg)

MISO FTR Working Group – monthly meetings (11/4 next mtg)

MISO ELMP Task Team – as needed meetings (11/1 next mtg)

The **OMS Markets and Tariffs Work Group** covers: Energy and ASM markets, Market Monitoring and Mitigation. See <http://www.misostates.org/2008Oct14OMSWGstructureapprovedbyOMSBOD.pdf>

Christine Ericson and Bill Bokram, Markets and Tariffs Work Group co-chairs

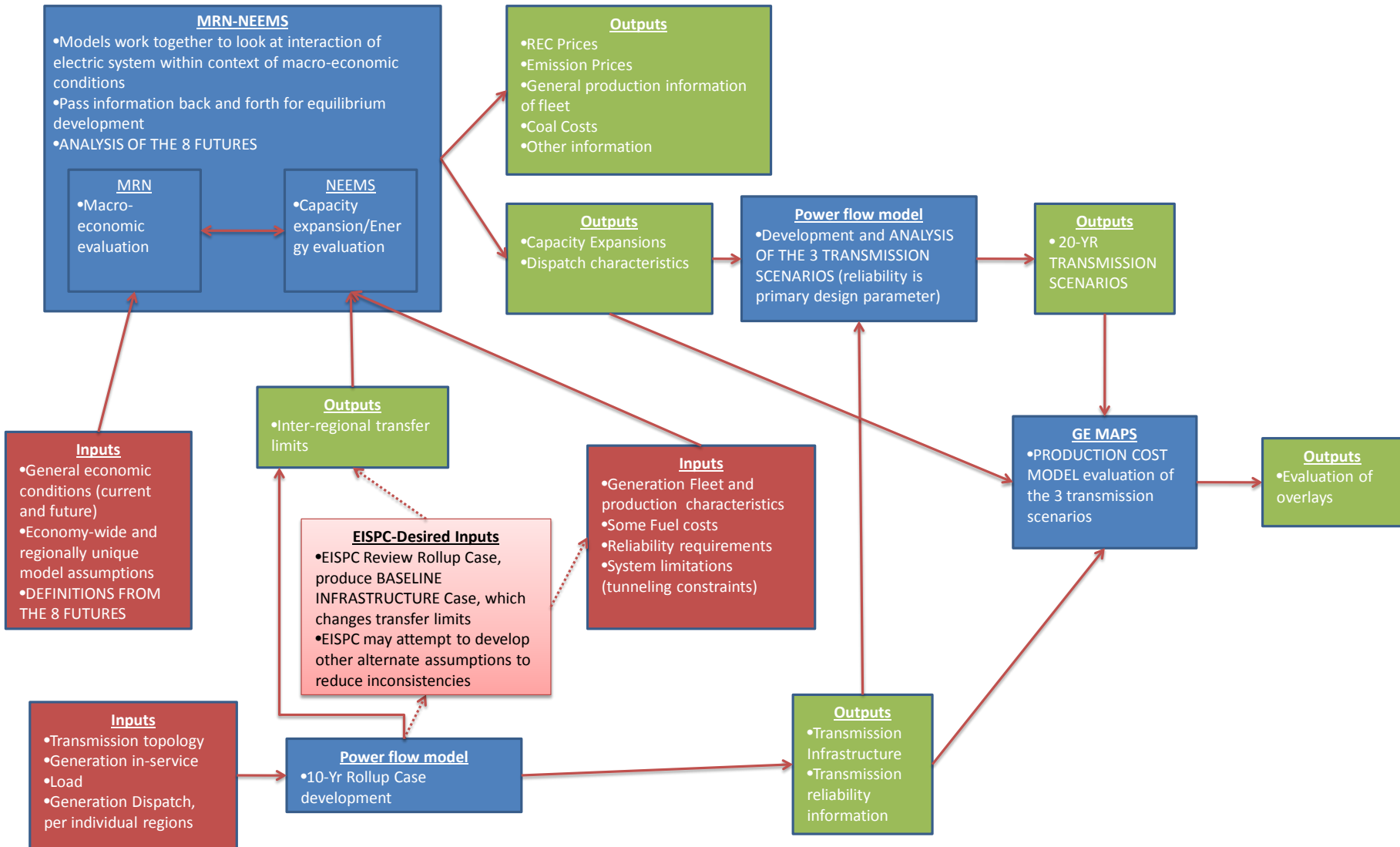
**OMS Modeling Work Group
Report for Oct 14, 2010 BOD meeting**

OMS Modeling WG staff continues to monitor and assist with ELMP summaries, questions for the Independent Market Monitor (IMM), for MISO's October Hot Topic on Pricing, and with updates for OMS Work Group Chairs on the Eastern Interconnection States Planning Council (EISPC) status and models being used related to that effort.

The Modeling WG has also provided the Midwest ISO staff with a list of questions concerning pricing and the IMM's state of the market recommendations. These questions remain unanswered.

Eastern Interconnection Planning Council (EIPC) is the planning authority version of the states' effort, EISPC. EISPC states are a major stakeholder in EIPC and the two efforts are related by DOE-ARRA funding and by design. Staff worked with MISO staff to develop the attached graphic, which helps to explain the models to be used by EIPC.

EPIC Models Used



**Resources Work Group Report to OMS Board of Directors
October 14, 2010**

SAWG and the Midwest ISO RA Construct Enhancements

At the September 2nd SAWG meeting the Midwest ISO suggested a Forward “Planning Period” of 3 to 5 years with a transition. LSE’s could opt out of any auction with Self Supply and the use of Bi-Lateral Contracts. A December 8th tariff filing was targeted for the Planning Year 2012-2013.

The Sept 16th SAWG meeting had the Midwest ISO provided additional information on market zones concepts and retail load tracking. Stakeholder feedback was also reviewed. Don Neumeyer sent his observations to the Resources WG for their use in commenting to MISO. A few states commented back they generally agreed with the observations on areas of concern.

A motion was announced by a stakeholder at the Sept. 16th that would be set for the October 5th Market Sub Committee to delay the filing because of the complexity. The OMS Board at its special Sept. 23rd meeting approved a motion for the Oct 5th MSC also for delay. The OMS motion was posted in support of the Xcel motion for delay.

Don Neumeyer and Julie Urban sent in comments as individuals to MISO and they were posted for the Oct 7th SAWG meeting.

At the Oct 5th MSC the first motion for a general delay was discussed. The vote was 23 in Favor (OMS received 4 state proxies), 14 opposed, and 26 Abstained. The motion for a general delay passed and the specific date motions were tabled due a lack of information on the RA proposal due at the Oct. 7th SAWG meeting.

At the Oct 7th SAWG meeting, stakeholders agreed to keep the meeting descriptive and try to avoid a lot of discussion until the end because they covered an incredible amount of material with quite a bit of detail. The plan is not 3 years out. They presented 5 years out with 100 % coverage requirement. Self-supply and bilateral contracts would be added into the auction as price-takers, which is not a bad thing necessarily because it may hold prices down at 27% reserve level. They are proposing a descending clock auction. How the descending clock auction is designed is important so as not to be manipulated by computer offers as in the California market. The proposal did not match most comments. The Midwest ISO is still planning on a Dec 8 filing with the tariff language to stakeholders by 11/15.

The Midwest ISO said the RAR enhancements are in response to “a New 205 filing.” Attached is the Power Point on the RAR Filings at FERC that they discussed yesterday. It appears the design they are proposing is most similar to the ISO-NE construct but we don’t think this one goes out five years.

After the presentations Amy Jo opened it up to discussion and Alex Worsham suggested that there were some fundamental issues that needed to be resolved before we go on any further. It appears as if there is support for some sort of forward construct but not as described. The next SAWG meeting is scheduled for Oct 14th.

A set of Business Rules and a Frequently Asked Questions were posted Oct 11th. It appears to still be filed Dec. 8th.

The SAWG schedule follows:

- Thursday, October 14, 2010 9am – 5pm EPT
- Friday, October 22, 2010 9am – 1pm EPT
- Thursday, November 4, 2010 9am – 5pm EPT
- Monday, November 18, 2010 12pm – 5pm EPT
- Monday, November 29, 2010 12pm – 5pm EPT
- Tuesday, November 30, 2010 9am – 5pm EPT
- Thursday, December 9, 2010 9am – 5pm EPT

Submitted by Don Neumeyer, Chair of Resources WG

Transmission Cost Allocation Working Group

Monthly Report for the OMS Board Meeting October 14, 2010

The TCAWG worked on the Midwest ISO's effort to create a new method of cost allocation for transmission, along with a new category of transmission projects. Since the OMS created the Cost Allocation and Regional Planning (CARP) effort from 2009-2010, issues involving this work group were covered in the CARP process.

Since CARP ended in June 2010, the TCAWG worked on the Midwest ISO July 15, 2010 FERC filing (ER10-1791-000). The OMS comments on this filing were filed on September 10, 2010 (with an errata filing the next week).

The TCAWG also worked on the FERC Transmission Planning and Cost Allocation NOPR (RM10-23-000). The OMS Comments were submitted on September 29, 2010. As part of this work, the OMS Board requested that the TCAWG compose a list of questions on the Midwest ISO proposal to elicit feedback from the states. Several states responded to the questions, and the responses were very useful in helping the group discuss the OMS Comments that were drafted.

The TCAWG looks forward to the FERC order on the Midwest ISO proposal, as well as a potential final rule on transmission planning and cost allocation.

Materials related to the Transmission Cost Allocation Working Group (TCAWG) are located here: <http://www.misostates.org/WG4CostAllocationList2010.htm>

Organization of MISO States Response to the Midwest ISO October Hot Topic on Pricing

I. Day Ahead and Real Time Energy and Ancillary Services Pricing

Prices that Accurately Reflect the Marginal Cost of Energy and Operating Reserves are Adequate Prices, and not necessarily prices that ensure all suppliers cover their total costs.

The OMS believes the Midwest ISO achieves adequate real-time and day-ahead prices by facilitating markets which deliver a transparent price which accurately reflects the marginal cost of the energy or operating reserves traded. Accurate energy and operating reserves market prices will incent supplier participation that facilitates the Midwest ISO ability to coordinate the optimal dispatch given security constraints. The OMS does not believe that it is the Midwest ISO's obligation to construct prices which necessarily provide revenue to the point where all suppliers collect their fixed cost in addition to their marginal ~~cost~~ cost. OMS's first principle on resource adequacy revised on August 12, 2010 reflects the statements herein.¹

An important gauge of price accuracy is the amount of payments made outside the market to compensate suppliers for the cost of producing energy or operating reserves that are not reflected in energy or operating reserves market prices. Although eliminating all out of market payments may be ideal, developing market rules which minimize the value of these payments is the practical task for the Midwest ISO.

¹ The OMS revised principle number 1 is The Midwest ISO should continue to work on developing and improving the competitiveness and transparency of energy and ancillary services market design and to coordinate that market design with the resource adequacy program to improve efficiency. Such market design should seek to minimize, where possible, uplifts and other out-of-market payments that distort efficient market prices.

The OMS is generally supportive of the diligence the Midwest ISO is taking in a number of efforts to improve the accuracy of the price setting mechanisms in energy and operating reserves markets.

There are many outstanding market design issues that affect market prices in both the day ahead and real time energy and operating reserves markets. Many of these issues are being addressed in part or in whole through ongoing Midwest ISO stakeholder groups, including the Extended LMP and Wind Integration Initiative. The Midwest ISO appears to be diligently working to improve the accuracy or adequacy of energy and operating reserves market prices. The OMS is generally supportive of these initiatives and any concerns with the details will be provided in the various working groups developing changes. The OMS also recognizes the work of the Demand Response Working Group is complicated by the regulatory debate over the level of compensation demand response participating in the wholesale market should receive. Therefore, the OMS does not have any urgent recommendations for the Midwest ISO Board of Directors at this time concerning the development of energy and ancillary services markets.

The Midwest ISO should work to incorporate the price elasticity of demand into load forecasts to facilitate the accurate forecast of load in cases where retail customers rates are time differentiated.

The OMS recognizes that there is considerable push to invest in technologies that will facilitate a greater participation of demand in the balancing of the bulk power system. The system operators must be informed about the statistical relationship between price and demand of retail customers who consume electricity at time differentiated rates in the Midwest ISO region. The Midwest ISO's- day ahead and real time load forecasting should estimate demand

based on expected prices for those loads where customers are charged rates that are time differentiated. This will allow the system operator to more efficiently commit and dispatch supply resources offered into the market.

The OMS recognizes that the current procurement of headroom poses a barrier to achieving market efficiency.

The OMS believes that the commitment of resources to provide headroom is an area the Midwest ISO needs to address in the development of accurate and transparent price signals. The OMS has not yet invested the time or effort to determine how headroom would be most efficiently procured and priced. The OMS does recognize the possibility that headroom could be a product or service in its own right for which a market is developed and co-optimized with energy and other ancillary services.

II. Financial Transmission Rights Pricing

FTRs are a complex market because of the great number of possible sources and sinks involved in the auctions. Thus, “prices” are a difficult concept, as each source to sink combination is a different product.

Aggregate reporting of FTRs and “counterflow” FTRs frustrates the analysis of the market.

Transparency of FTR Auction values² and FTR Day Ahead congestion values³ are the relevant “prices” in the FTR market. MISO currently reports these values on a monthly basis,

² The FTR auction values are the dollars participants either paid to the auction or received in payments from the auction.

³ The Day Ahead FTR values are the dollars participants received in congestion revenues or paid in congestion costs.

but does so in aggregate by treating all payments to market participants as revenues and all payments received from market participants as costs. Unfortunately, this reporting does not convey an accurate picture of market activity as it combines those paying for FTRs in the auction with those receiving payments for providing “counterflow” FTRs – i.e., those taking an FTR with the expectation that congestion will be in the opposite direction of the FTR. Market participants expect a negative price, i.e. revenue not a cost, from the “counterflow” FTR in the auction accompanied with the obligation to make payments to the Midwest ISO for negative Day Ahead congestion. These “counterflow” FTRs expand the market by making FTRs in the opposite direction available to those wanting to hedge congestion costs.

If the data were separately reported for those paying for FTRs and those being paid for FTRs (“counterflow” FTRs) in the auction, and revenues and costs calculated separately for each, then a much clearer picture of what is occurring in the FTR auctions is possible. The IMM has made these types of calculations, and over the two-year period from June of 2008 through May of 2010, the data shows that approximately 75% of FTR MWs cleared the monthly auction at a negative price (i.e., participants received payments from the auction for these “counterflow” FTRs), and 89% of Auction Value paid by those buying FTRs at a positive price (i.e., participant made a payment to the auction). MISO should adjust its reporting of revenues and costs in the following ways.

- It should report results separately for those receiving a payment from the auction for “counterflow” FTRs and those that made a payment to the auction.
- For those receiving payments from the auction for “counterflow” FTRs, those payments, as well as positive Day Ahead congestion value associated with those “counterflow” FTRs, should be treated as revenues. Negative Day Ahead congestion value associated with “counterflow” ~~FTRs~~, FTRs should be treated as costs. Similarly, for those making payments to the auction for FTRs, those payments, as well as negative Day Ahead

congestion value associated with those FTRs, should be treated as costs, and positive Day Ahead congestion value associated with those FTRs should be treated as revenue.

- Day Ahead congestion value should be calculated on what was actually credited or billed to FTR holders to accurately reflect actual costs and revenues.
- For both groups, MISO should separately report the quantity of FTR MWs.

These statistics will provide participants with a more accurate view of MISO's FTR markets, and provide better understanding of the relationship between those markets and the issue of underfunding. Moreover, profits taken by those receiving payment from the auction are in part a result of transactions entered into by market participants who are willing to pay the offer price in order to obtain additional FTRs for hedging potential congestion costs that would otherwise not be available. Those transactions do not affect MISO's ability to fund FTRs.

III. Resource Adequacy Voluntary Auction Pricing

A forward capacity auction is contrary to the OMS principles for Resource Adequacy.

The proposed reconstruction of the Module E capacity construct is an important issue for the OMS. The Midwest ISO presented a general overview of its changes to the Module E Resource Adequacy requirement at the September 2, 2010 Supply Adequacy Working Group meeting. The proposal included a forward auction and obligation. At the October 7th meeting of the SAWG, the Midwest ISO actually presented a draft of the forward capacity auction.⁴ The Midwest ISO is planning to file tariff revisions to implement the five year forward capacity auction and obligation with transitions auctions to obligate loads for the four interim years.

⁴ Capacity Auction Design, Supply Adequacy Working Group, October 7, 2010, http://www.midwestmarket.org/publish/Document/35f529_12b1fc99e5a_-7d8a0a48324a?rev=1

The proposal lacked details about the level of mandatory participation, but without full participation auction prices would be more likely to inaccurately reflect capacity conditions. The changes being proposed conflict with the OMS resource adequacy principle number five.⁵ The OMS is concerned that the Midwest ISO's proposal to change the resource adequacy construct may increase supplier revenues without providing price information about capacity or incenting necessary and sufficient resource adequacy. The current monthly auction can produce accurate information about the current state of capacity, and expectations can be formed from that and other information without the use of a forward capacity auction. Therefore, the OMS would recommend that the Midwest ISO concentrate on developing locational attributes for planning resource credits rather than t a forward capacity auction.

Low voluntary capacity auction prices in MISO's current monthly capacity auctions reflect the current relative surplus of capacity in the Midwest ISO.

The near zero voluntary capacity market prices are consistent with current market conditions, a relative excess of capacity.⁶ In a December 2009 response to a Hot Topic on Resource Adequacy, the OMS expressed their belief that the relatively low monthly Voluntary Capacity Auction prices reflect the surplus of capacity at the present time. These accurate prices provide a transparent signal concerning the need for additional capacity at present.

Spot Capacity Prices provide information about the current state of capacity. Suppliers use this and other information to formulate expectations which drive their investment decisions.

⁵ OMS Principle Number 5 states the OMS, at this time, does not see the need for nor endorse a mandatory, centralized forward based market for all capacity operated by the Midwest ISO.

⁶ A September 22, 2010 Midwest ISO Filing in Docket No. ER10-2869 to revise Module B indicated that the Midwest ISO there is approximately 10,000 MWs of capacity beyond the reserve margin.

The Midwest ISO's current month-ahead voluntary capacity auction can be described as setting "spot" capacity prices. The question is whether or not spot capacity market prices, i.e. those cleared in the voluntary capacity auction, provide adequate information about the future need for capacity. The current Midwest ISO spot price for capacity provides potential suppliers, load-serving entities and state regulators with what appears to be accurate information on which to form their expectations about future capacity availability and needs. In addition, potential suppliers, load-serving entities and state regulators are able to ascertain other relevant information concerning the future market for capacity through available sources such as capacity cost information from publicly available surveys,⁷ capacity cost information from request for proposals, generation supplies being planned from the Midwest ISO generation interconnection queue and capacity needs submitted in state regulatory proceedings, on which to further form their expectations. Also, in traditionally regulated states, the investment decision is under the direct guidance of the state authorities. It is this guidance which has driven the investment decision in the past without the existence of forward price signals or power pool obligations.

Forward prices could reflect market participant expectations and auction parameter estimates made under uncertainty.

It is true that capacity auctions provide a forward auction price that is transparent. However, a forward price through the proposed Midwest ISO auctions would primarily be a consequence of market participant expectations and Midwest ISO auction parameter estimates. Auction prices are determined by the expectations of those market participants who offer supply into the auction and forecast demand. Therefore, prices are determined in part by the known

⁷ E.g. Electricity Market Module of the National Energy Modeling System Assumptions of DOE/EIA Annual Energy Outlook.

costs of existing resources or expectations about planned resources reflected in suppliers' prices and quantities offered into the auction. Expectations about the future costs associated with different generating technologies are subject to considerable uncertainty at this time.

The longer the forward time period, the greater the effect that forecasted auction parameters, e.g. load forecasts and available transfer capabilities, would have on the price cleared. Also, a forward auction for capacity with an opt-out provision could result in a market that is thinly traded and therefore less reflective of real capacity conditions as well as being more susceptible to manipulation. The Midwest ISO's proposal includes a number of transition auctions to be held in an expedited fashion. Increasing the number of auctions in any period is likely to increase inaccurate or irrational outcomes.

The length of the proposed forward period, legislative uncertainty, and the participation level all have predictable impacts on the accuracy of forward prices. The OMS believes that longer forward periods, greater legislative uncertainty, and lower participation all negatively impact the expected accuracy of forward auction prices. Of these three factors, MISO can only control the length of the proposed forward period. As discussed below, the OMS believes that adverse effects of obligating load on a forward basis outweigh the benefits. As such, the OMS would urge MISO to forgo any forward obligation. However, if MISO decides to install a forward capacity obligation, the MISO should minimize the length of any forward period. In addition to improving the accuracy of forward prices, limiting the length of the forward period limits the potential for unforeseen costs associated with the propagation of transition auctions.

The adverse effects of obligating load on a forward basis outweigh the benefits.

A forward capacity obligation could impose unnecessary capacity costs because of the pricing errors which result from uncertainty involved in estimating auction parameters and formulating supply offers and bids. Among other things, errors can arise from inaccurate load forecasts, legislative reforms which alter costs of different generation technologies, and the timing of transmission expansion. The greater the forward period for which the auction is held (e.g., 5 years out compared to 1 year out), the more uncertain are the assumptions which drive the outcome of the auction. At this time, the OMS believes that the Midwest ISO's push to obligate load on a forward basis would be more costly than beneficial.

Obligating load-serving entities on a forward basis limits the benefits that they might obtain from reducing future capacity needs through conservation and load management (efficiency/load shifting). The general uncertainty about the level of these demand-side efforts to reduce and improve efficiency in consumption can lead to false expectations about future capacity targets needed to clear the auction. If the expectations for capacity additions are falsely high because of conservative estimates of the impact on capacity need from demand-side management which does not participate in the auction, then forward auctions may incent capacity additions that are unnecessary, and while these can be adjusted through residual auctions (those following the initial auction), these adjustments are not at a zero cost to load-serving entities.

This same uncertainty regarding demand-side efforts exists in bilateral markets for capacity, and can result in short-term shortages or excess capacity for individual load serving entities. However, short-term bilateral transactions allow the market to adjust between short and long positions on capacity more fluidly. In addition, the current voluntary, monthly auctions at

MISO allow load serving entities that are short on capacity the ability to cover their obligations just before the delivery period for the capacity. This is the primary purpose of the current voluntary capacity auction. The price that results from the voluntary capacity market is only a consequence and secondary benefit of holding the monthly auction. Undertaking forward auctions and obligating load serving entities on a three to five year forward basis will likely result in payments to capacity resources which are not needed to incent entry or maintain needed capacity.

There is a difference between a voluntary forward auction and a forward obligation.

The OMS believes that the Midwest ISO could implement a voluntary forward auction or other market mechanism without imposing a forward obligation. If a market were truly voluntary then there would be no obligation to hold planning reserve credits on the same forward basis as the forward auction is held. Having a forward voluntary auction without an accompanying obligation would provide a transparent price signal in the instance that buyers and sellers had a need and ability to purchase and sell at a price that was reasonable to both. A forward auction could be held for the obligation period two months out, three months out, four months out, etc. for any forward time horizon desirable. Then, the obligation could remain one month forward with bilateral and auction prices reflecting the seasonal variation in capacity values.

The June 8th FERC Order did not require and the January Brattle Report did not recommend that the Midwest ISO implement a forward capacity obligation.

The OMS also notes that the June 8th FERC Order did not require the Midwest ISO to develop a forward obligation for capacity, nor did it assert that the use of a monthly capacity

auction fails to provide adequate signals for the investment community.⁸ The June 8th Order only required the Midwest ISO to develop locational attributes for its planning resource credits, where dictated by transmission transfer limitations. Planning resource credits with locational attributes would provide better information about locational constraints and the relative locational valuations of capacity. Locational compliance does not require that a resource adequacy construct utilize a forward market for capacity. Furthermore, the Brattle Group's January 19, 2010 report explicitly recommended that the Midwest ISO not develop a forward auction construct at the current time, but rather make adjustments to its current construct, including centralized load forecasting and the development of locational attributes for planning resource credits.⁹

OMS recommends the continued use of a monthly obligation met primarily through bilateral contracts.

For these above reasons the OMS continues to support the Midwest ISO use of a bilateral market for capacity with a monthly obligation, supplemented by the voluntary capacity auction. The Midwest ISO should concentrate on the development of locational attributes for planning resource credits to recognize locational deliverability limits within the Midwest ISO footprint for the December 8th compliance filing in FERC docket ER08-394-024. This will allow the market and state authorities to determine the path by which future capacity needs of load serving entities under their jurisdiction are met. The Midwest ISO should be concerned with addressing the direct deficiency recognized by FERC, namely the planning resource credit's lack of a locational

⁸ Midwest Independent Transmission System Operator, Inc., June 8, 2010, Order on Compliance Filing 131 FERC 61,228 at P 24.

⁹ Midwest ISO Resource Adequacy Construct: An Evaluation of Market Design Elements, The Brattle Group, January 19, 2010 at 3. www.brattle.com/documents/uploadlibrary/upload832.pdf.

attribute. The OMS believes that making a relatively drastic change, like the one proposed by the Midwest ISO, could result in obligating the load with in the Midwest ISO with capacity costs unnecessary for maintaining the optimal amount of capacity necessary to ensure resource adequacy.

IV. Minority Response of the Illinois Commerce Commission

The Illinois Commerce Commission believes that the most accurate prices for electric power would be achieved through an energy only market. An energy only market would produce a price per MWh which included the costs of the ancillary services needed to support that MWh and the capacity costs associated with providing that MWh. Incorporating all the components of producing a reliable MWh of energy would facilitate the most efficient solution to the problem of instantaneous balancing of the bulk power operations and produce a price that incents the most economic decision making by buyers and sellers.