OMS

Organization of MISO States

ORGANIZATION OF MISO STATES, INC.
Board of Directors Meeting
Conference Call Minutes
November 9, 2010

Approved November 29, 2010

Valerie Lemmie, President of the Organization of MISO States, Inc. (OMS), called the November 9, 2010 meeting of the OMS Board of Directors to order via conference call at approximately 1:00 p.m. (CST). The following board members or their proxies participated in the meeting:

Sherman Elliott, Illinois
Rob Berntsen, Iowa
Bill Bowker, proxy for David Armstrong, Kentucky
Kurt Simonsen, proxy for Graham Lane, Manitoba
Monica Martinez, Michigan
Stuart Hanson, proxy for Tom Pugh, Minnesota
Robert Kenney, Missouri
Greg Jergeson, Montana
Jerry Lein, proxy for Tony Clark, North Dakota
Valerie Lemmie, Ohio
Jim Melia, proxy for Ty Christy, Pennsylvania
Brian Rybarik, proxy for Lauren Azar, Wisconsin

Absent
Indiana
South Dakota

Agency members participating
Chris Ericson, Randy Rismiller – Illinois
Parveen Baig, Chancy Bittner, Jeff Kaman – Iowa
Bill Bokram – Michigan
Brian Dekiep – Montana
Don Neumeyer, Randy Pilo – Wisconsin

Others on the call
Bill Smith, Julie Mitchell – OMS Staff

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

Approval of Minutes from October 14, 2010

Bill Bowker moved to approve the October 14, 2010 minutes. Robert Kenney seconded. The motion was passed by unanimous voice vote.

Treasurer's Report – Robert Kenney

The beginning balance as of October 1 for the Wells Fargo Business Performance Savings Account was $29,731.30. Interest earned for this month was $1.26. The October 31, 2010 balance was $29,732.56.

The beginning balance as of October 1 for the Chase Bank One Checking account was $109,966.95. The total disbursements from the checking account for October 2010 were $37,404.83. Deposits and interest were $50,001.04. As of October 31, 2010, the checking account bank balance was $126,421.62 and the book balance was $122,563.16 (with 7 checks outstanding).

The total savings and checking account balances as of October 2010 is $152,295.72.

Robert Kenney moved to accept the October 2010 treasurer's report. Greg Jergeson seconded. The motion was approved by unanimous voice vote.

Review of the Executive Committee Meeting

The October 28th OMS Executive Committee Meeting was cancelled.

Administrative Report

Bill Smith mentioned that the written Executive Director's report had been distributed, he highlighted the upcoming officer transition and the next activity in the Black Sea Partnership, a meeting tentatively scheduled for February 28 – March 2, 2011 in either Istanbul or Kiev.

BUSINESS

1. MISO Advisory Committee Issues

- Don Neumeyer reported on the major action item on the A/C agenda – the capacity market. The Resources Work group responded to the two sets of questions. Don summarized the OMS response and Illinois' additional comments.
- The Board then discussed the OMS position on capacity markets and what problem MISO is really trying to solve. As a result of that discussion, Don Neumeyer will take the first paragraph from page 5 (the added Illinois comments) and move it to the beginning of the document.

Sherman Elliott moved to start the presentation by expressing strong opposition to a capacity market of any kind and then addressed the questions posed by MISO. Monica Martinez seconded. A roll call vote was taken:

Illinois – yes
Indiana – absent
Iowa – yes
Kentucky – abstain
Manitoba – abstain
Michigan – yes
Minnesota – yes
Missouri – yes
Montana – yes
North Dakota – yes
Ohio – yes
Pennsylvania – abstain
South Dakota – absent
Wisconsin – yes

The motion passed with 9 yes votes; 3 abstentions, 2 absent. Changes in vote are due by Monday.

2. Planning Advisory Committee – Rob Berntsen

- Rob Berntsen had distributed a written report prior to the meeting. The PAC held its leadership election and the leadership will remain the same.
- Parveen Baig spoke about the PAC RSV & MSV chairs meeting to discuss common issues. She suggested the OMS offer wind integration as one of those issues. Valerie Lemmie suggested coal plant retirement as another issue.

3. OMS Reply Comments on FERC's Transmission Planning and Cost Allocation NOPR – David Johnston & Randy Rismiller

- Randy Rismiller presented the reply comments prepared by the Transmission Cost Allocation Work Group. It addressed one issue, expresses support of a group called the Joint Commenters and urges FERC to reexamine their incentive rate policy in light of any new policies that they adopt with respect to Transmission Cost Allocation in this particular NOPR.

Valerie Lemmie requested a roll call vote on accepting the reply comments to FERC:

Illinois – yes
Indiana – absent
Iowa – yes
Kentucky – abstain
Manitoba – abstain
Michigan – yes
Minnesota – yes
Missouri - yes
Montana – yes
North Dakota – yes
Ohio – abstain
Pennsylvania – yes
South Dakota – absent
Wisconsin – yes

The motion passed with 9 yes votes, 3 abstentions, 2 absent. Changes to votes are due on Friday.

4. Midwest Governors' Association Letter to MISO – Valerie Lemmie

- A letter from MGA was distributed prior to the meeting. The letter requested a continuation of the relationship that had developed under ARGUS and UMTDI.
- A meeting has been scheduled at the end of November to begin discussions.

5. MISO Presentation to Entergy – Valerie Lemmie

- Valerie Lemmie has requested information from MISO regarding the impact of Entergy on the MISO footprint and the Board discussed what those potential challenges might be.

6. Eastern Interconnection Planning Process – Brian Rybarik

- The next meeting will be held in conjunction with the NARUC meetings. Brian Rybarik discussed the topics and structure of upcoming meetings.

Updates and Work Group Status Reports

Demand Response WG

- No Report;

Transmission Cost Allocation WG

- Written report follows minutes;

Markets and Tariffs WG

- Bill Bokram reported MISO is currently working on answers to the questions the work group submitted regarding ELMP. Bill and Chris are working with Mike Proctor and MISO to schedule a meeting with that will explain more about ELMP. A written report follows minutes;

Resources WG

- A written report follows minutes;

Regional Planning WG

- Jerry Lein reported that the draft letter requested at the last meeting regarding feedback on the MTEP '10 process had been distributed and should it come from the Board or the Work Group. Valerie Lemmie recommended everyone review the letter, give their input to Jerry and the work group and that the letter be approved by the Board in the next meeting;

Governance and Budget

- The report submitted suggested the ranking of the Hot Topics for next year;

Modeling WG

- Written report follows minutes;

ADJOURNMENT

The OMS Board of Directors meeting adjourned at 2:05 pm CDT.

OMS

Organization of MISO States
Report of the Treasurer
Robert Kenney, Missouri Public Service Commission
to the
Board of Directors
November 9, 2010
<u>Report for October 2010</u>

CASH ON HAND

The beginning balance as of October 1 for the Wells Fargo Business Performance Savings Account was $29,731.30. Interest earned for this month was $1.26. The October 31, 2010 balance was $29,732.56.

The beginning balance as of October 1 for the Chase Bank One Checking account was $109,966.95. The total disbursements from the checking account for October 2010 were $37,404.83. Deposits and interest were $50,001.04. As of October 31, 2010, the checking account bank balance was $126,421.62 and the book balance was $122,563.16 (with 7 checks outstanding).

The total savings and checking account balances as of September 2010 is $152,295.72.

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TREASURER'S REPORT
Organization of MISO States
October 31, 2010

Wells Fargo Business Performance Savings Account

Balance as of 10/01/2010			$	29,731.30	
10/31/2010	DEP	Interest on Savings	$	1.26	
Business Performance Savings Account Balance at 10/31/10					$ 29,732.56

Chase Bank One Commercial Checking with Interest

Balance as of 10/1/2010			$	109,966.95
10/12/2010	DEP	Midwest ISO	$	50,000.00
10/29/2010	DEP	Interest	$	1.04
		Total Deposits	$	50,001.04

Checks and Charges

Date	Check #	Descriptions		
10/4/2010	3595	IA Travel Reimbursement	$	161.26
10/4/2010	3596	IL Travel Reimbursesment	$	403.50
10/4/2010	3597	IN Travel Reimbursement	$	557.80
10/4/2010	3598	ND Travel Reimbursement	$	458.40
10/4/2010	3599	Travel Reimbursement-Julie Mitchell	$	25.31
10/4/2010	3600	VOID		
10/4/2010	3601	MI Travel Reimbursement	$	1,259.60
10/7/2010	3602	IA Travel Reimbursement	$	178.65
10/7/2010	3603	IA Travel Reimbursement	$	642.30
10/7/2010	3604	MO Travel Reimbursement	$	276.80
10/7/2010	3605	WI Travel Reimbursement	$	512.04
10/8/2010	3606	MI Travel Reimbursement	$	154.90
10/11/2010	3607	MT Travel Reimbursement	$	395.80
10/12/2010	WD	Paychex	$	199.94
10/15/2010	WD	Chase	$	8,112.54
10/15/2010	3608	IA Travel Reimbursement	$	1,686.42
10/15/2010	3609	IA Travel Reimbursement	$	901.22
10/15/2010	3610	Combined Systems Technology	$	342.27
10/15/2010	3611	Conference Suite	$	1,078.05
10/15/2010	3612	MI Travel Reimbursement	$	75.90
10/15/2010	3613	MT Travel Reimbursement	$	130.00
10/15/2010	3614	Qwest	$	245.87

10/15/2010	3615	IL Travel Reimbursement	$ 505.20			
10/15/2010	3616	Sodexho	$ 874.25			
10/15/2010	3617	Triplett Office Essentials	$ 61.04			
10/20/2010	3618	DWX Internet	$ 35.00			
10/28/2010	WD	Payroll	$ 9,989.46			
10/29/2010	WD	Payroll Taxes	$ 5,360.40			
10/29/2010	333	401K Distribution	$ 86.71			
10/29/2010	334	401K Distribution	$ 2,243.86			
10/29/2010	335	401K Distribution	$ 450.34			
Total Checks and Charges				$ 37,404.83		
CHECKING ACCOUNT BALANCE 9/30/2010					$ 122,563.16	
CERTIFICATES OF DEPOSIT, SAVINGS AND CHECKING ACCOUNT BALANCES AS OF 9/30/10					$ 152,295.72	

CHASE CHECKING ACCOUNT RECONCILIATION

	Check #	Amount
Bank Balance 10/31/2010		$ 126,421.62
Less Checks OS	333	$ 86.71
	334	$ 2,243.86
	335	$ 450.34
	3599	$ 25.31
	3605	$ 512.04
	3615	$ 505.20
	3618	$ 35.00
Book Balance 10/31/2010		$ 122,563.16

OMS
Organization of MISO States

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OMS Executive Director Report
November 8, 2010

FERC and DOE Activity

1. The Federal Energy Regulatory Commission held a further conference November 3 in Washington. An outline of settlement was agreed to by PJM and Midwest ISO. The terms would provide for no money transfer between the RTOs and would include improvements in the operation of the Joint Operating Agreement and increased auditing to avoid future errors in market-to-market operations. The parties intend to file a final settlement agreement and the Joint Operating Agreement amendments by the end of the year. (FERC Docket Nos. EL10-45, EL10-46-000, and EL10-60).
2. Reply comments on FERC's Notice of Proposed Rulemaking on Transmission Planning and Cost Allocation by Transmission Operating Public Utilities, Docket No. RM10-23, will be considered by the OMS Board on November 9.
3. On November 1, the Midwest ISO filed tariffs revisions to provide for Dispatchable Intermittent Resources. (FERC Docket No. ER11-1991).

OMS-MISO Activity

1. The OMS held its annual meeting and elected officers for 2011 on October 19.
2. In conjunction with the annual meeting, the OMS hosted workshops with the Black Sea Partnership at Carmel during the week of October 18. Presentations are posted on the OMS and NARUC websites.
3. The OMS met in person with the Independent Market Monitor on October 19.

4. The Governance and Budget Work Group ranked subjects for Hot Topic treatment in 2011 for submission to Midwest ISO on November 8 after review by Work Group Chairs and Executive Committee.

Public Relations

1. Presentations:
   - None

2. Pending speaking/meeting invitations:
   - None

Upcoming dates:

- Next regular **OMS Board of Directors meeting: November 9 (Tuesday), 2010** at 1:00 pm central
- Next **OMS Executive Committee meeting – November 22, 2010** at 1:00 pm Ccentral
- Regular Board meetings: November 29 (Monday), January 13.
- Executive Committee meetings: December 16, January 27.
- Black Sea Partnership Workshop, Istanbul, February 28 – March 2.

Upcoming MISO Filings

Filing Date	Docket No.	Description	Pursuant to Commission Order	Working Group/ Committee where issue/change will be reviewed
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

10/14/2010	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
10/15/2010 (tentative)	ER10-___-000	The Midwest ISO to submit a filing regarding Reserve Procurement Enhancement to address zonal reserve deliverability issues.	N/A	TBPSC PAC MSC
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

OMS Responses to November 17 Advisory Committee Questions

1. Midwest ISO will be making a compliance filing to FERC on December 8, 2010 on deliverability and locational issues. What is your sector view of Midwest ISO's proposal for that filing?

The majority of stakeholders who participated in the SAWG Ballot of LSE Coalition Motions of October 14, 2010 recommended that the Midwest ISO not propose a mandatory forward capacity auction as the means to comply with the FERC's April 21st and June 8th orders. OMS supports this position.

FERC Ordered the Midwest ISO to make two compliance filings by December 8, 2010. The April 21, 2010 Compliance Order directs the Midwest ISO "to file a permanent solution to ensure the deliverability of load modifying resources in the monthly voluntary capacity market." The June 8, 2010 Compliance Order requires that the Midwest ISO "develop a permanent approach to address congestion that limits aggregate deliverability and examine whether a locational capacity requirement is needed to ensure reliability." In regards to the June 8th Compliance Order, the Midwest ISO began its effort based on the presumption of a mandatory forward capacity auction, and then developed deliverability rules under the mandatory forward auction pretext. The Midwest ISO proposal establishes local capacity requirements for planning reserve areas defined by grouping local balancing authorities. The Midwest ISO's presentations to the SAWG over the past five months have centered on satisfying the June 8th compliance filing through a mandatory forward capacity auction with minimum and maximum zonal clearing limits. The Midwest ISO is proposing an interim solution to the Load Modifying Resource provisions that allows for their participation in the current Module E construct, but the Midwest ISO envisions the mandatory forward capacity auction as a permanent solution to the FERC April 21 Order as well.

The OMS does not think the Midwest ISO's proposal of a forward capacity auction is necessary in order to comply with either of these orders. Based on what has been presented to the SAWG, it is difficult to determine if the LMR and aggregate deliverability compliance filings will be compatible with the current bilateral PRC construct. The OMS had a meeting with the Midwest ISO on November 5, 2010 to discuss the December 8th filing and the capacity construct redesign more generally. In that meeting, the Midwest ISO asserted that the locational constraints limiting aggregate deliverability could theoretically be implemented in the voluntary auction construct, but the December 8th filing will outline a plan that does not foresee or propose a voluntary capacity auction. Therefore, OMS is not supportive of the plan that the Midwest ISO proposes to file on December 8, particularly with respect to addressing the June 8th compliance order.

2. Does your sector want a market price for capacity in the Midwest ISO?

The current construct provides a market price for capacity through the monthly voluntary capacity auction. The monthly voluntary capacity auction is a market for residual amounts of capacity needed to meet a regulated month-ahead requirement. The low market participation in the MISO voluntary capacity auction reflects the LSE's ability to contract bilaterally for the majority of capacity required for monthly operations. The low voluntary capacity auction market price shows that the residual amounts of capacity obligations not met bilaterally are far smaller than the currently available supply of capacity.

While the voluntary capacity auction does not provide a price that necessarily reflects the future state of capacity supply and demand; it should be able to reflect congestion which limits aggregate deliverability if locational restrictions were developed for the current Module E construct. This would allow for locational prices in the voluntary capacity auction and comply with the June 8th Order. However, the Midwest ISO has shifted emphasis away from direct compliance with the substance of the June 8th Order and towards the idea of providing a forward price signal through the use of a forward capacity auction. The Midwest ISO's current proposal to recognize the limits to aggregate deliverability implies full participation in a centralized forward capacity auction.

Since most of the LSEs in the Midwest ISO self-supply capacity or procure it through bilateral contracts, a forward market price for capacity in the Midwest ISO would provide LSEs that need to purchase capacity with another transparent source of information about the value of capacity. However, there is no reason to assume that the "market" price in a mandatory forward capacity market will be an accurate signal of capacity's future value. Errors in parameter estimates and changes in industry policy and economic conditions could result in forward market prices which are not reflective of the future state of capacity needs.

The theoretical promises of mandatory forward capacity markets are yet to be realized. Neither the PJM nor the ISO-NE mandatory forward capacity auctions are efficient markets. The PJM auction is mitigated on a regular basis. "Before each BRA (Base Residual Auction) the market monitor conducts a market structure screen to determine whether offers in each LDA (locational deliverability area) should be mitigated. LDAs always fail the screen, resulting in a heavily mitigated market." [1] There are several design issues of the ISO-NE forward capacity auction that are under review by the FERC. ISO-NE has proposed a three year extension of its price floor to prevent price collapse. [2]

The OMS is also concerned that a drastic change to the Module E resource adequacy construct could have unintended consequences. Module E was intended to provide the Midwest ISO with the ability to incent load serving entities to contract independently for capacity needed for the reliable operation of the system. Module E provides LSEs with an incentive to compensate resources for required capacity; a penalty incents LSEs to pay resources to commit for the month prior to the operating month.

[1] The Brattle Group, "Capacity Market Designs," presented to the SAWG July 19, 2010.
[2] *Ibid*.

The forward capacity auction is constructed as a means to both compensate existing resources with missing money and to provide potential entrants with the signal to enter. The FERC did not order the Midwest ISO to undertake either of these two generally, but instead specifically ordered the Midwest ISO to introduce locational constraints into price determination. Instead of directly addressing locational price formation, the Midwest ISO is attempting to more generally redesign the capacity market without providing sufficient explanation of the need or analysis of the potential consequences of doing so. If the Midwest ISO has either of the two objectives, distributing missing money or incenting new entry, then that end should be clearly outlined, and the means should be developed consistent with accomplishing it. If either one of the objectives is singularly the goal, then a potential for a separate construct to distribute missing money or incent new entry might exist. This separate construct could be less costly and more effective, then a complete revision of the Module E.

Should the Midwest ISO develop a mandatory forward capacity auction for all Midwest ISO load and resources to determine the market price? Why or why not?

The Midwest ISO should not develop a mandatory forward capacity auction for all Midwest ISO load and resources. Creating transparent competitive markets that generate informative price signals can serve the public interest. However, poorly designed auctions are likely to lead to market failure. Almost all the load in the Midwest ISO is subject to state regulatory jurisdiction, which has primary authority over the corresponding LSEs regarding resource adequacy and the ordering/approval of new generation and/or demand response resources. A mandatory auction raises federal-state jurisdictional issues and, in traditionally regulated states, would likely violate the federal-state jurisdictional boundaries in the Federal Power Act.

One reason given by the Midwest ISO for creating the capacity market is to meet NERC reliability standards. There are many areas in the U.S. that meet the same standards without having a mandatory forward capacity construct. Currently, the Midwest ISO has an excess of installed and available capacity, and new generation is being approved by state authorities and constructed to replace older base load coal units.

It's not clear that the current system doesn't serve the same purpose that the Midwest ISO claims the redesigned construct is aimed at accomplishing. The Midwest ISO needs to present evidence that the current system won't be effective to minimize the risks it is concerned about. The Midwest ISO has provided no tangible evidence that a dramatic change in policy is warranted. Concerns expressed by Midwest ISO officials about reliability stemming from the vulnerability of the current generation portfolio to policy changes (e.g., emissions, renewable standards) needs to be supported by some indication of the extent of the actual risk to the Midwest ISO. The Midwest ISO has not presented an estimation of the costs associated with the design, implementation and monitoring of a forward capacity auction to the SAWG. In the discussion with OMS on November 5th, the Midwest ISO estimated that the first and second year costs would amount to approximately $1.5 million and one half million dollars respectively. No cost figure for subsequent years was provided. We do not know at this point if the benefits of the auction will outweigh the costs.

Should the Midwest ISO maintain a voluntary capacity auction framework and create voluntary auctions with different forward periods?

Yes, we would favor voluntary auctions with different forward periods. This will allow LSEs to readjust their capacity needs based on more accurate forecasts as the delivery period approaches.

3. If there is a mandatory forward capacity auction, or a voluntary auction with different periods, what forward period(s) should be used? One year? Three year? Five year? Explain the reasons for you preference.

If auctions are truly voluntary, then the forward period for those auctions could extend further into the future, and occur at regular intervals between the current time period and the furthest forward period determined to be reasonable. In the case that a mandatory forward auction is implemented, the states favor a three year forward period with reconfiguration auctions along the way. This would make the MISO construct more compatible with PJM and facilitate cross border sales. Three states (Minnesota, Michigan and North Dakota) favor shorter forward periods.

Additional Remark of the Illinois Commerce Commission

The Illinois Commerce Commission is not convinced that the Midwest ISO's proposal for a forward capacity auction is a solution to identified problem. The clear definition of a problem may dictate a different solution. Currently, the Midwest ISO's development of a forward capacity auction appears to be an attempt to retain voluntary generation membership. A forward capacity auction may not be the efficient means to accomplish this goal. Nevertheless, if the Midwest ISO implements a forward capacity auction, then the Illinois Commerce Commission supports mandatory participation of all loads and supply. Meaningful mandatory participation by all load and supply resources increases the likelihood that the outcome of the auction is competitive. Allowing portions of load and supply to opt out through any bilateral arrangement will deteriorate the level of competition in the auction. Lower numbers of competitors will tend to leave load subject to greater potential for exercises of market power. As the number of suppliers in the market decreases, the ability for remaining suppliers to exercise market power through collusion or unilateral behavior increases. In order to facilitate the most competitive outcome a definition of supply which must participate is imperative. To be clear, the Illinois Commerce Commission is not implying that 100 percent of forecasted load must be procured in the forward auction but that all load serving entities must participate and procure the designated amount of capacity in the forward auction. The reconfiguration auction could be used to procure the supply resources for any procurement less than forecasted load plus the planning reserve margin from shorter lead time or uncommitted supply resources in the year or three months prior to the delivery period. The Illinois Commerce Commission is not supportive of the 100 percent procurement of load five years forward, and instead believes that a fraction of that forecasted load should not be procured in order to allow load serving entities with the flexibility to reduce load during the forward period to meet capacity obligations for reliable operations.

October 27, 2010 MISO Planning Advisory Committee Summary
OMS November 9 Board Meeting

Global Energy Project Update

MISO discussed key points of the EGEAS workshop held on October 26. Participants had questions regarding EGEAS modeling. Stakeholders would like to discuss not only the possibility of inclusions and effects of DSM. It was suggested that the PAC in the future will review the results of the EGEAS analysis(that includes DSM) all five scenarios used in MTEP 10 and have a broader discussion about MTEP 11 modeling.

2011 Candidate MVP Portfolio Analysis

MISO is working on the finalization of 2016 and 2021 wind generation modeling, the FCTIC analysis, development of the powerflow and PROMOD models, and the set up of transient stability data and models and will begin the powerflow reliability analysis. MISO also will finalize the study work plan and short circuit analysis approach MISO is planning to send a data request to TOs for short circuit data in November. A project scope data request will be sent on Nov. 1st as well. Status updates will be sent every week.

Resource Adequacy and LOLE)

Resource Adequacy -- MISO has been addressing Resource Adequacy and Module E since market start. MISO commented that it feels that FERC would like them to move forward on this as soon as possible.

LOLE -- The main difference in the 2011 study is that MISO will have to establish local requirements which means MISO will need to learn the zones, transfer requirements, and the reliability needed to maintain them.

Capacity Zones -- MISO is proposing to begin capacity zone configuration with the Local Balancing Authorities, then group the LBAs by state boundaries and further defined them based on the strength of the interconnections and zone size considerations. This will be refined as needed. There was discussion on how not to separate single utilities into multiple zones Target to finish capacity zone configuration is Mid-Novemeber.

Transfer Limits -- MISO will use the First Contingency Total Transfer Capability limits for each zone based on MTEP summer peak models.

Resource Limits – MISO reviewed a two step proposal to calculate the minimum resources to sustain each zone at 1 day in ten years as well as the modification to the maximum clearing limit.

The PAC requested that it receive an update on revised resource adequacy construct, particularly the capacity zone configuration, in the next couple of months.

PAC Leadership Election

Bob McKee will continue as elected Chair of PAC and Julie Voeck will continue as elected Vice Chair.

PAC Issues for Common Issues Meeting

PAC, RSC and MSC chairs will meet to discuss common issues. PAC participants were asked to provide possible topics for discussion at the Nov. 15 “common issues” meeting. An e-mail was also sent to stakeholders on the PAC e-mail list asking them to provide possible topics

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities	)))	Docket No. RM10-23-000

REPLY COMMENTS OF THE ORGANIZATION OF MISO STATES

Pursuant to the Notice issued by the Federal Energy Regulatory Commission ("Commission") on September 29, 2010, setting the date for reply comments as November 12, 2010, the Organization of MISO States ("OMS") files these reply comments in the above-captioned docket.

I. BACKGROUND

On June 17, 2010, the Commission issued a notice of proposed rulemaking ("NOPR") on Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities. The OMS submitted initial comments on September 29, 2010. The OMS appreciates the opportunity to respond to initial comments filed by other parties in this proceeding.

In its initial comments filed on September 29, 2010,[1] the OMS comments:

1. Concurred with the Commission's inclusion of public policy driven projects in transmission planning[2];

[1] The OMS Comments were conditionally supported by nine of its members. The Pennsylvania Public Utility Commission abstained from the vote on those comments. The Manitoba Public Utilities Board did not participate in the pleading. The Illinois Commerce and the Public Utilities Commission of Ohio did not support the comments.
[2] OMS Comments, at 2

2. Urged the Commission to order transmission planners to start with defined criteria but then to look further into more flexible options that could provide an optimal solution to a number of perceived needs[3];

3. Supported the Commission's efforts to induce more interregional transmission planning coordination through the proposed establishment of interregional transmission planning agreements between adjacent regions[4];

4. Made several recommendations intended to promote consistent interregional transmission planning efforts[5];

5. Urged the Commission to remain mindful of the roles that states play with regards to transmission expansion and defer to state preferences regarding rights of first refusal and obligations to build transmission[6]; and

6. Urged the Commission to review the filings made by the OMS and the individual OMS states in Docket No. ER10-1791, regarding transmission cost allocation.[7]

II. TRANSMISSION RATE INCENTIVE POLICY

A. The Commission's Transmission Rate Incentive Policy Must Be Re-Evaluated In Conjunction With Its Review of Transmission Cost Allocation Issues In This Proceeding.

On September 29, 2010, Comments were filed in this proceeding by a coalition of state public utility commissions, state consumer advocates, public power systems, rural electric cooperatives and end users referring to themselves as "Joint Commenters."[8] It is notable that Joint

[3] OMS Comments, at 3
[4] OMS Comments, at 4
[5] OMS Comments, at 5-11
[6] OMS Comments, at 11-16
[7] OMS Comments, at 17
[8] "Joint Commenters" are comprised of the American Chemistry Council, the American Forest & Paper Association, the American Public Power Association, the California Municipal Utilities Association, the California Public Utilities Commission, Electricity Consumers Resource Council, the Indiana Utility Regulatory Commission, the Modesto Irrigation District, the Montana Public Service Commission, the National Association of State Utility Consumer Advocates, the New England Conference of Public Utilities Commissioners, the New Hampshire Office of Consumer Advocate, the New Jersey Division of Rate Counsel, the New York State Public Service Commission, the Office of the Nevada Attorney General, Bureau of Consumer Protection, the Old Dominion Electric Cooperative, the Sacramento Municipal Utility District, the South Dakota Public Utilities Commission, the State of Maine, the Office of the Public Advocate, the Transmission Agency of Northern California, the Utility Reform Network, the Vermont Department of Public Service, and the Vermont Public Service Board.

Commenters include three OMS members: Indiana Utility Regulatory Commission, Montana Public Service Commission, and South Dakota Public Utilities Commission. The OMS wishes to reply in general support for some of the comments made by the Joint Commenters.

Joint Commenters address the interrelationship between the Commission's proposals in the NOPR and the Commission's implementation of its transmission rate incentive policy first adopted in Order No. 679.[9] Joint Commenters call on the Commission to reevaluate its transmission rate incentive policy in tandem with its review of transmission cost allocation issues in this proceeding.[10] Joint Commenters state that failure to revisit the transmission rate incentive policy issue in this docket will greatly complicate the Commission's efforts to develop a workable transmission cost allocation regime.[11] Joint Commenters state that the prospect of paying for undue incentives can cause resistance by transmission customers and consumer representatives to otherwise critical transmission projects and lead to protracted litigation, particularly where cost allocation debates turn to the total dollars involved in these projects and how, and from whom, these costs will be recovered.[12]

Joint Commenters state that, given such incentive rate awards, it is no surprise that the Commission has observed that "challenges associated with allocating the cost of transmission appear to have become more acute as the need for transmission infrastructure has grown."[13] Joint Commenters state that the Commission's failure to keep the costs of that additional infrastructure

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[9] *Promoting Transmission Investment Through Pricing Reform*, Order No. 679, FERC Stats. & Regs. ¶ 31,222 (2006), *order on reh'g*, Order No. 679-A, FERC Stats. & Regs. ¶ 31,236, *order on reh'g*, 119 FERC ¶ 61,062 (2007).
[10] Joint Commenters at 13-14
[11] Joint Commenters at 5
[12] Joint Commenters at 20
[13] Joint Commenters at 20-21 citing NOPR at P 152.

within reasonable bounds is contributing to a groundswell of opposition to the allocation of the resulting costs of such projects.[14] Joint Commenters state that exacerbating the problem is that incentives such as return on equity ("ROE") adders have been allowed to apply to the ultimate costs of the projects, not the project sponsors' estimated cost of the projects which gives transmission project developers the perverse incentive to bring their projects in over-budget, since they will earn a bonus return for doing so.[15]

Joint Commeters conclude that if the Commission wishes to solve the transmission cost allocation conundrum, it must also address the issue of transmission rate incentive packages that unreasonably inflate transmission revenue requirements and operate only in favor of project applicants.[16] Joint Commenters state that failure to do so will result in continued contentious litigation over the allocation of transmission costs, in part because those being asked to pay such costs will not concede that the overall costs they are being asked to pay are indeed just and reasonable, as the Federal Power Act requires.[17]

The OMS in general agrees with these statements of the Joint Commenters. Like the Joint Commenters, the OMS urges the Commission to undertake in this docket a full review of its transmission rate incentives policy, and after such review, to adopt a revised policy that limits the granting of incentives only to: (1) extraordinary transmission projects that are found to be needed and that would not be constructed but for the granting of such incentives; and (2) a reasonable package of incentive measures that, taken together, reduce the risk of the project to acceptable

[14] Joint Commenters at 21
[15] Joint Commenters at 16-17
[16] Joint Commenters at 23
[17] Joint Commenters at 23

levels for both project applicants and end use consumers, without resulting in unjust and unreasonable rates.

B. The Problems with the Commission's Incentive Transmission Rate Policy Are Exacerbated Where There is Transmission Cost Sharing Across States.

There is a critical connection between incentive rates and regional transmission cost allocation arising where the costs of new transmission facilities are shared between and among States.

In the traditional regulatory model, the costs of a new transmission facility were borne by the ratepayers in the State in which the facility was to be physically located, with that State usually having decisional authority over the project in the form of required siting and certification approvals. If the State found that the costs of the facilities to its ratepayers (including any incentive rate costs) would exceed the expected benefits of the project, the State could decline to issue a certificate of convenience and necessity. If incentive rates of return raised costs above levels the State deemed reasonable, the State could avoid paying those costs by not granting the certificate. Therefore, the State in which the facilities were to be located and paid for had leverage over what projects would be approved for siting and construction.

When a regional planning process assesses new transmission facilities under a process that shares costs across multiple states, however, this useful check breaks down. In this case, as a State in which proposed facilities are to be physically located exercises its siting and certification authority, it would be reasonable to take into account only the facilities costs that will be allocated to ratepayers in its State. The State would reasonably grant the certificate if the expected benefits for the ratepayers in its State exceed the costs that will be allocated to the State and ignore the costs that will be allocated to other States. The other States in which the facilities will not be physically located, but to which costs will be allocated, may have no say in this matter. The ratepayers in these other States will be required to pay an allocated share of facilities costs (including a share of the incentives cost) without the opportunity to evaluate the planning equation with expected benefits. The sharing of costs across States invites over-investment in transmission facilities and invites even more excessive transmission rate incentives requests. The other States' only currently available avenue for remedy would be to file a Section 206 complaint case.

Therefore, regional cost sharing of transmission project costs creates a new problem and concern with FERC's incentive rate policy (and with the pass-through into retail rates of these costs). The remedy for this problem lies in a stronger role for States in the regional planning process that would regionalize the decision-making responsibility for projects where project costs are allocated among States. The OMS is eager to work with the Commission in developing and defining an appropriate process to address this concern.

III. CONCLUSION

The OMS appreciates this opportunity to provide reply comments. Like the Joint Commenters, the OMS urges the Commission to re-evaluate its incentive transmission rate policy in conjunction with its examination of transmission cost allocation policy in this proceeding. In addition, because of the relationship between the Commission's incentive rate policy and transmission cost sharing across states, the OMS believes States must have a stronger role in the transmission project planning and approval process in situations where there is transmission cost sharing across states. The OMS is eager to work with the Commission to address this process issue.

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 those comments:

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

The Manitoba Public Utilities Board did not participate in this pleading. The Kentucky Public Service Commission abstained from the vote on these comments.

The Indiana Office of Utility Consumer Counselor, as an associate member of the OMS, participated in these comments and generally supports these comments.

Respectfully submitted,

William H. Smith, Jr.
William H. Smith, Jr.
Executive Director
Organization of MISO States
100 Court Avenue, Suite 315
Des Moines, Iowa 50309
Tel: 515-243-0742

Dated: November 12, 2010

October 18, 2010

Mr. John Bear
Midwest ISO
PO Box 4202
Carmel, IN 46082-4202

Dear Mr. Bear:

The Midwestern Governors Association (MGA) continues to work with a large number of partners toward implementation of our ambitious energy goals. One of the key infrastructure pieces in the governors' *Midwestern Energy Infrastructure Accord* is a robust regional transmission system, which is critical to the economic vitality of the member states of the MGA. A well-designed regional transmission system is essential to realizing the full potential of the new energy economy, will help our states grow jobs and also will help to meet the MGA's renewable energy goals in a well planned and cost effective manner.

With the leadership of the Midwest ISO, our governors' energy staffs, utility regulators, transmission operators, generators and NGO's we have made great strides toward the regional transmission system of the future. States have completed selection of the Renewable Energy Zones (REZ) for each jurisdiction. The Midwest ISO has completed a long task force process to propose a new cost allocation tariff for regional transmission lines identified as Multi-Value Projects (MVP) and filed it with FERC. We are also happy to see that the work done within the Regional Generator Outlet Study (RGOS) has already contributed to the Midwest Transmission Expansion Plan (MTEP) process with the identification of a group of "starter projects" that can begin the review and approval process within the Midwest ISO.

Still, we are aware that much work remains to be done to achieve our joint vision. For example, there is a need to:

- Coordinate or, where possible, align states' planning and permitting processes for multi-state transmission proposals;
- Identify and coordinate the next steps needed to advance the critical regional transmission projects identified in the RGOS study (now scheduled for completion in November); and
- Coordinate with neighboring Regional State Committees on those inter-regional and inter-ISO issues that may come up regarding transmission and energy transfers among regional transmission organizations.

To work on these issues, the Midwest ISO may want to build on the examples set by the Upper Midwest Transmission Development Initiative (UMTDI) and Organization of MISO States (OMS) CARP processes and consider creating a successor entity made up of utility regulators and governors' energy policy staff from each of the states in the Midwest ISO footprint. This "Midwest Transmission Coordinating Council" could be created under auspices of the OMS and could facilitate region-wide coordination. The MGA would be pleased to sit down with you and others from the Midwest ISO and OMS to discuss this idea and others on how we can work together to achieve MGA's renewable energy platform goals.

Once again, thank you for your leadership and collaboration with the MGA on these important regional issues. We are eager to continue our partnership to promote a strong and robust regional transmission grid.

Sincerely,

Jesse Heier
Washington Director
Midwestern Governors Association

CC: Clair Moeller, Midwest ISO Vice President of Transmission Assets

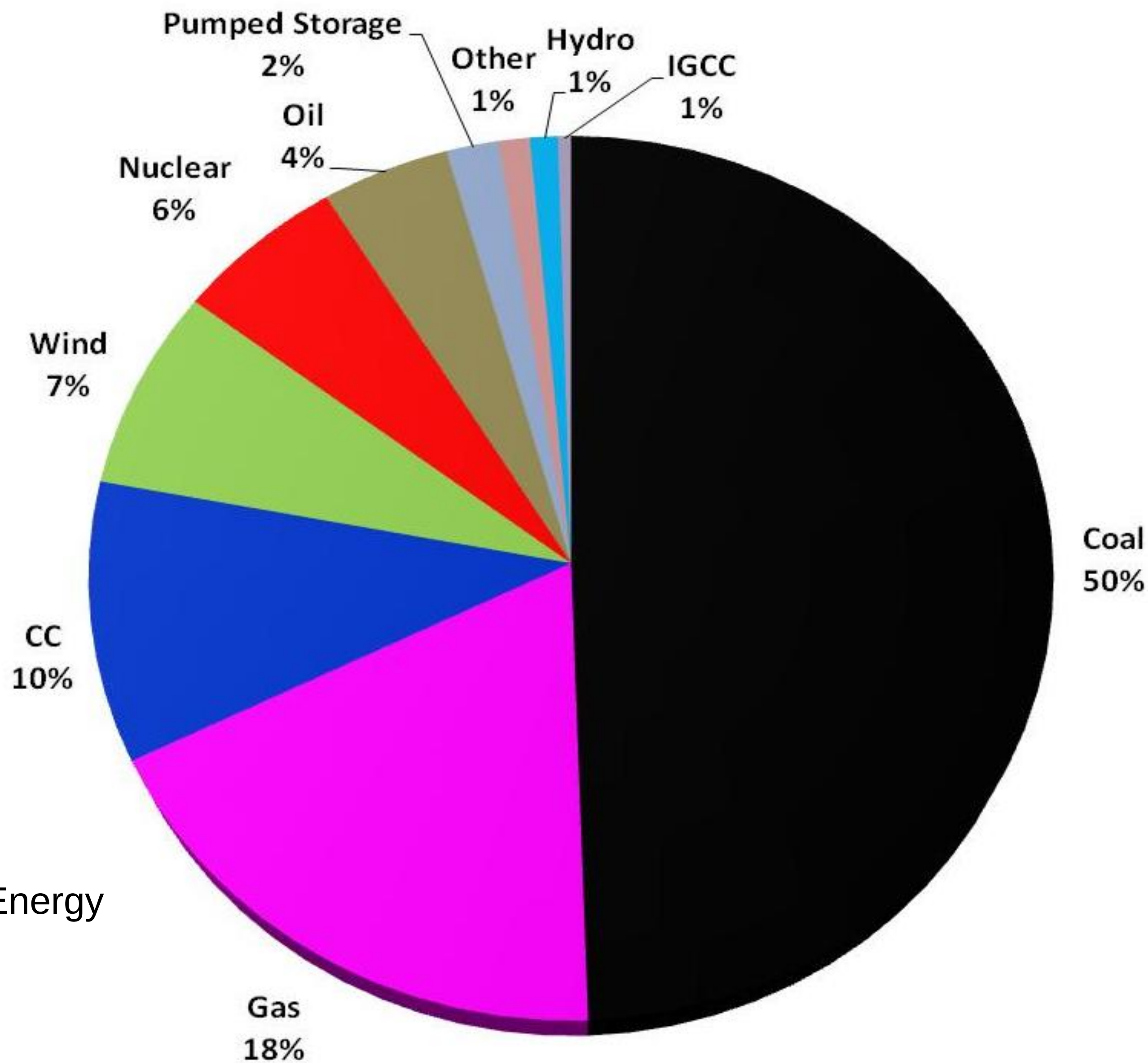
MISO & Entergy Resources

November 3, 2010

Category	MW
Coal	68,620
Gas	25,360
CC	14,222
Wind	10,206
Nuclear	8,195
Oil	6,172
Pumped Storage	2,490
Other	1,517
Hydro	1,335
IGCC	630

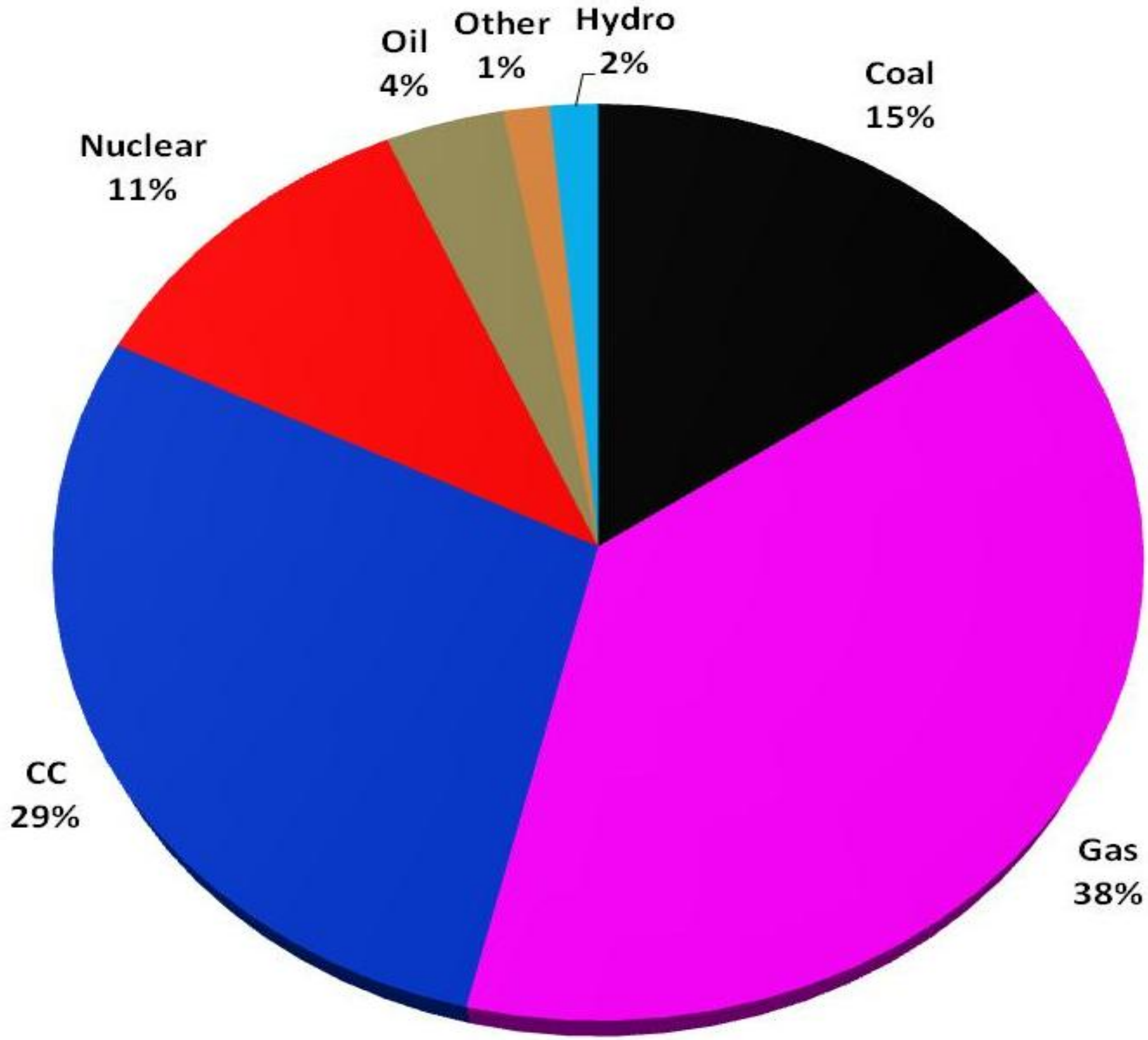
*** Does not include First Energy

MISO Resource Mix



Entergy Resource Mix

Category	MW
Coal	7,531
Gas	18,797
CC	14,010
Nuclear	5,436
Oil	1,786
Other	691
Hydro	723



MidwestISO
Energizing the Heartland

MISO & Entergy 2010 Demand

Region	Non-Coincident Peak Load (MW)	Coincident Peak Load (MW)
Midwest ISO	100,801	97,806
Entergy	31,522	31,332

*** Entergy values include CLECO (2,809 non-coincident MW)

MidwestISO
Energizing the Heartland

1. MISO Extended Locational Marginal Pricing (ELMP)

The M&T WG held a teleconference on 10/28 to discuss the status of Midwest ISO's ELMP Task Team. Mike Proctor made a presentation on his proposal for allocating start up costs using the Capacity Utilization Method. The M&TWG developed questions for MISO on ELMP, and those were sent to MISO on 10/29 along with Mike Proctor's proposed Capacity Utilization method for allocating start up costs to ELMP.

The MISO ELMP Task Team met on 11/5. The ELMP TT continued reviewing the proposed design of the DA and RT pricing, providing further details on possible approximation methods, applying ELMP in RT Markets, market settlements examples, and examples of uplift (RSG, opportunity costs for committed resources and uncommitted resources). Many stakeholders continue to raise concerns and seek details regarding design details and difficult-to-understand concepts such as financial verses physical commitment and including opportunity costs in the calculation of new uplifts. Better understanding is necessary to determine if what appears to be a more complicated method that is based largely on assumptions can produce more accurate and transparent market price signals. It would be helpful if MISO would provide OMS access to Bill Hogan's analysis on this matter that we believe he has conducted for MISO, but so far that has not been an option.

Status: Continue to monitor.

2. MISO Hot Topic – IMM State of the Market

The AC deferred this December hot topic to be considered for next year. No action required.

3. Potential items coming up

a. MISO proposes RSG Indicative/Re-Design Training for early next year. MISO plans to review an outline for such training at the 12/8 RSG TF meeting (see meeting materials already posted). The training will explain each element of charges, settlement statements, and differences between the recent (10/29/10) RSG compliance flings and RSG Section 205 filing.

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. At the 11/2 MSC meeting, stakeholders tabled an allocation motion pending outcome of the 11/3 MISO/PJM settlement conference at the FERC.

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. FERC has not yet acted on MISO and ICC 8/30 requests for rehearing and clarification. At the 11/2 MSC meeting, MISO updated their reserve procurement enhancement update (agenda item 15) to revise it and proceed without waiting on the cost allocation filing. Under the revised reserve procurement enhancement (using the currently effective grouped zonal allocation method), reserves prices in binding settlement zones can be based on prices that are either more or less than the market-wide clearing price. MISO expects to file the revised proposal at FERC in January 2011 to go into effect 11/1/11.

For those interested, please note the following MISO meetings:
MISO Market Subcommittee - monthly meetings (12/7 next mtg)
MISO RSG Task Force – monthly meetings (12/8 next mtg)
MISO FTR Working Group – monthly meetings (12/8 next mtg)
MISO ELMP Task Team – as needed meetings (next mtg TBA)

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 November 9, 2010 OMS Board meeting

Value Proposition: Midwest ISO has announced updates to its Value Proposition and two stakeholder workshops (11/11 and 11/29) to review the draft Value Proposition. The draft includes 11 quantitative and 5 qualitative benefit streams from Midwest ISO. OMS Modeling WG will monitor the 11/11 workshop. We will have a Modeling WG call on 11/19 after the WG Chairs meeting to highlight the materials presented and help gather any questions and comments before the final 11/29 workshop.

ISO/RTO Metrics: On 10/25, FERC published a commission staff report on ISO/RTO Metrics, docket AD10-5. (Commissioner statements were also issued 10/25 and 10/29.) The Modeling WG will review the report and discuss it on our 11/19 WG call.

Report from OMS Regional Planning Work Group
November 9, 2010

Having reviewed the MTEP-10 report as well as stakeholder feedback and the Midwest ISO's responses to that feedback, the OMS Regional Planning Work Group (RPWG) offers the following comments as we look ahead to the development of MTEP-11. First, the RPWG wishes to congratulate the Midwest ISO planning staff on producing another solid MTEP report. We are pleased with the evolution of the Midwest ISO planning process and are looking forward to continued development in 2011.

We are looking forward to developing more specificity for Multi-Value Project eligibility and designation process requirements in the Midwest ISO tariff and business practice manual. And, with that, we are especially hoping to develop more clarity in distinguishing between Generator Interconnection Project upgrades and MVPs.

There was stakeholder feedback on MTEP-10 requesting better definition of benefits between zones. We realize that is not always obtainable, but we will appreciate the Midwest ISO's continued efforts to better quantify both hard and soft benefits of projects and to distinguish those benefits between market zones. Perhaps a benefits modeling working group would be helpful in this regard.

There was further stakeholder feedback critical that SPM meetings do not provide enough detail about projects and the technical studies that go into recommending projects. Many of us have been familiar with the MAPP SPG meetings where more interactive discussions between local planning engineers occurred. In that regards, we appreciate the Midwest ISO's formation of Technical Studies Task Forces (TSTFs) in the western and eastern planning regions. We believe these TSTFs can offer more of the traditional SPG atmosphere where there are more two-way communications. However, we remain concerned whether the geographic size of the regions is too large for effective communications, especially in the west where MAPP found that up to five SPGs were needed. We suggest that participants consider whether expanding TSTFs into the central planning region and forming smaller sub-regional TSTFs or sub-groups, especially in the west, could result in a more effective "bottom-up" contribution to Midwest ISO system planning.

Similarly, in the interest of increasing planning effectiveness, we have appreciated the participation of non-MISO MAPP members in Western TSTF meetings. We believe the fragmentation of MAPP SPGs and the MAPP / MISO seam generally has been unfortunate for our region and we hope to see continued efforts towards more joint coordinated MISO/MAPP planning.

Submitted by:
Jerry Lein and Parveen Baig

Transmission Cost Allocation Working Group

Monthly Report for the OMS Board Meeting
November 9, 2010

Update for November Board Meeting:

The TCAWG drafted reply comments to the FERC NOPR (RM10-23-000) that may be approved by the Board for this meeting. These comments support comments that were filed by a large group, known as the Joint Commenters, which urged the FERC to reevaluate its implementation of transmission rate incentives. The comments argue that transmission rate incentives are problematic because the prospect of paying for undue incentives can cause resistance by transmission customers and consumer representatives to otherwise critical transmission projects, complicates the FERC's efforts to develop a workable transmission cost allocation regime, and such policy can lead to protracted litigation, particularly where cost allocation debates turn to total dollars involved in these projects and how, and from whom, these costs will be recovered.

The OMS reply comments further state that the problems with FERC's incentive transmission rate policy are exacerbated where there is transmission cost sharing across states. The OMS argues that regional cost sharing of transmission project costs creates a new problem and concern with FERC's incentive rate policy (and with the pass-through into retail rates of these costs); and that the remedy for this problem lies in a stronger role for States in the regional planning process that would regionalize the decision-making responsibility for projects where project costs are allocated among States.

The work group sent out the initial draft to work group members, and edits were accomplished via email in light of the meetings and activities occurring with resource adequacy.

October Report:

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