Organization of MISO States

ORGANIZATION OF MISO STATES, INC.
Board of Directors Meeting
Conference Call Minutes
February 10, 2011

Approved March 10, 2011

Monica Martinez, President of the Organization of MISO States, Inc. (OMS), called the February 10, 2011 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
Jim Atterholt, Indiana
Rob Berntsen, Iowa
David Armstrong, Kentucky (Bill Bowker assumed proxy during meeting)
Monica Martinez, Michigan
Tom Pugh, Minnesota
Robert Kenney, Missouri
Brad Molnar, Montana
Valerie Lemmie, Ohio
Ty Christy, Pennsylvania
Greg Rislov, proxy for Gary Hanson, South Dakota
Eric Callisto, Wisconsin

Absent
Manitoba
North Dakota

Agency members participating
Randy Rismiller – Illinois
Kari Bennett, Dave Johnston, Beth Roads – Indiana
Bill Bokram, Angie Butcher, Lisa Pappas – Michigan
Nancy Campbell (OES), Burl Haar - Minnesota
Adam McKinnie – Missouri
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 January 13, 2011

Rob Berntsen moved to approve the January 13, 2011 minutes. Robert Kenney seconded. The motion was passed by unanimous voice vote.

Treasurer's Reports – Jim Atterholt

The beginning balance as of January 1 for the Wells Fargo Business Performance Savings Account was $29,735.05. Total deposits were $2,000 and interest earned for this month was $1.29. The January 31, 2011 balance was $31,736.34

The beginning balance as of January 1 for the Chase Bank One Checking account was $143,359.08. The total disbursements from the checking account for January 2011 were $31,628.52. Deposits and interest were $50,001.38. As of January 31, 2011, the checking account bank balance was $162,193.99 and the book balance was $161,731.94 (with 1 check outstanding).

The total savings and checking account balances as of January 2011 is $193,468.28

Tom Pugh moved to accept January treasurer's report. Sherman Elliott seconded. The reports were then accepted by unanimous voice vote.

Review of the January 27, 2011 Executive Committee Meeting

Bill Smith highlighted the following items from the January 27, 2011 Executive Committee Meeting:

- 2011 goals development, a short version will be out shortly;
- The status of the new commissioner training; update on the Black Sea project;
- Review of the agenda for the upcoming February 10 Board meeting;
- Discussed the ReliabilityFirst loss of load expectation standard, with the Executive Committee. Previously the Board approved a letter on the topic to be sent to FERC;
- A review of attendance at upcoming meetings determined that OMS participation in a joint OMS-OPSI meeting in April should be cancelled.

Administrative Report

Bill Smith discussed the following items from his Executive Director's Report:

- Commissioner Training;
- Lunch with Entergy Commissioners is scheduled for Monday, February 14 at NARUC, staff is welcome to attend the luncheon;
- Black Sea meeting plans, OMS volunteers accepted;
- MGA will be working to schedule their meetings with new governors and staff on transmission issues;
- Grid School is March 7-11 in Charleston, the Executive Committee approved 5 scholarships/stipends for staff members to attend. Those interested should notify Bill by February 18.

BUSINESS

1. MISO Advisory Committee Issues –David Armstrong

- David Armstrong introduced the upcoming A/C debate-style discussion on proposed changes to resource adequacy. He asked Don Neumeyer to present the Resources Work Group's white paper responses to the questions. The Resources Work Group is prepared to develop bullet or talking points for those who will be participating. Commissioner Martinez requested clarification on the forecasting period and indicated Michigan will be offering a footnote due to legislative issues.

- Sherman Elliott offered an amendment from Illinois regarding clarification of vertical integration concerns and recommended that OMS not support the one-year forward planning requirement that MISO is proposing. Don Neumeyer stated he would work with Illinois on the language or insert a footnote addressing their concerns. It was also requested

that the phrase “vertical integration” be replaced with something that is more encompassing to states which are not vertically integrated.

Sherman Elliott moved to accept the Illinois amendments and discussed changes. Valerie Lemmie seconded. The motion passed by unanimous voice vote.

Sherman Elliott moved to accept the white paper as amended. Valerie Lemmie seconded. The motion passed by voice vote, with Kentucky and Pennsylvania abstaining.

2. Planning Advisory Committee – Robert Kenney

Robert Kenney highlighted the following from his written report:

- MTEP futures;
- EPA retirements update;
- Global energy partners demand response/energy efficiency update;
- Mid-year MTEP project approval;
- LOLE discussion;
- Business case metrics;
- Ratings used in reliability analysis.

3. ISO/RTO Metrics Meeting, Washington DC, February 12 –

- The meeting is Saturday, February 12, 2011 from 2 to 4pm at the NARUC hotel (Renaissance.) A call-in number will be provided, contact Bill Smith for information.

4. Reply Comments on MISO-PJM Settlement, Docket No. ER10-45

- Bill Smith explained the reply comments that were distributed. He indicated that the judge had granted the order to file out-of-time.

Indiana moved to strike out the highlighted portion of the draft that concerned having an additional settlement conference and a reference to the Commission Trial staff in the first paragraph. After discussion, no second was offered.

Eric Callisto moved to support the document. Illinois seconded. The motion passed by voice vote with Montana, Ohio and Kentucky abstaining. The voting will remain open until noon on Friday, February 11.

5. Intervention in P3 v. PJM Complaint – Bill Smith

- Bill Smith explained the issues involved in this complaint concerning power producers, and the reason for the notice of intervention.

Valerie Lemmie moved to support intervention. Sherman Elliott seconded. The motion passed by unanimous voice vote.

7. Intervention in NERC Penalty Case, Docket No. EL11-2798 – Bill Smith

- Bill Smith presented the case and outlined the reasons for intervening in this case that included: anonymous rate filings are not an appropriate way to regulate rates.

The Board voted to intervene on a consensus vote with no opposition.

8. OMS Comments to FERC on Variable Energy Resources (RM10-11)

- Bill Bokram discussed the FERC filing.
- The ICC and MN OES each submitted a document to the work group. Nick Bowden explained the ICC position on the Schedule 10 issue while Nancy Campbell explained the Minnesota document, which is generally supportive of the NOPR.
- Following discussion, it was decided for work groups to meet to draft OMS comments. The Board will then hold a Special Board meeting on February 28. Board members who are unable to attend are asked to submit their votes via email.

9. Update: Eastern Interconnection Planning Process – Brian Rybarik

- Brian Rybarik provided a written report.

- Monica Martinez noted that the EISPC nominating committee is working to select officers for the upcoming year. They will be installed at the March meeting. Valerie Lemmie offered to work with Monica Martinez on the nominating committee.

Updates and Work Group Status Reports

Demand Response WG

- No Report;

Transmission Cost Allocation WG

- Written Report;

Markets and Tariffs WG

- Written Report;

Resources WG

- Written Report;

Regional Planning WG

- No Report;

Governance and Budget

- No Report;

Modeling WG

- No Report;

ADJOURNMENT

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

OMS

Organization of MISO States
Report of the Treasurer
Jim Atterholt, Indiana Utility Regulatory Commission
to the
Board of Directors
February 10, 2011
Report for January 2011

CASH ON HAND

The beginning balance as of January 1 for the Wells Fargo Business Performance Savings Account was $29,735.05. Total deposits were $2,000.00 and interest earned for this month was $1.29. The January 31, 2011 ending balance was $31,736.34.

The beginning balance as of January 1 for the Chase Bank One Checking account was $143,359.08. The total disbursements from the checking account for January 2011 were $31,628.52. Deposits and interest were $50,001.38. As of January 31, 2011, the checking account bank balance was $162,193.99 and the book balance was $161,731.94 (with 1 check outstanding).

The total savings and checking account balances as of January 2011 is $193,468.28.

OMS

TREASURER'S REPORT
Organization of MISO States
January 31, 2011

Wells Fargo Business Performance Savings Account

Balance as of 01/01/2011				$ 29,735.05	
1/19/2011	DEP	Visa Points Program Redemption		$ 2,000.00	
1/31/2011	DEP	Interest on Savings		$ 1.29	
Business Performance Savings Account Balance as of 01/31/2011					$ 31,736.34

Chase Bank One Commercial Checking with Interest

Balance as of 1/1/2011			$	143,359.08
1/1/2011	DEP	Midwest ISO	$	50,000.00
1/31/2011	DEP	Interest	$	1.38
		Total Deposits	$	50,001.38

Checks and Charges

Date	Check #	Descriptions		
12/8/2010	3651	IA Travel Reimbursement	$	303.85
12/21/2010	3670	MI Travel Reimbursement	$	139.65
12/21/2010	3671	OH Travel Reimbursement	$	485.30
12/28/2010	3673	DWX Internet	$	35.00
12/28/2010	3674	WI Travel Reimbursement	$	818.56
1/7/2011	3675	Court Investors	$	1,706.42
1/7/2011	W/D	Chase	$	962.89
1/7/2011	3676	Energy Bar Association	$	65.00
1/7/2011	3677	Indiana Insurance Company	$	2,330.00
1/14/2011	3678	Combined Systems Technology	$	227.05
1/14/2011	3679	Conference Suite	$	300.10
1/14/2011	3680	Qwest	$	248.51
1/17/2011	3681	Doubletree Gues Suites	$	105.28
1/17/2011	3682	Wisconsin PSC	$	462.05
1/20/2011	3683	The Company Corporation	$	150.00
1/20/2011	3684	DWX Internet	$	35.00
1/20/2011	3685	Julie Mitchell	$	42.37
1/20/2011	3686	Mike Proctor - Consultant	$	5,311.85
1/26/2011	3687	Expert Plan	$	150.00
1/28/2011	WD	Paychex Payroll	$	9,705.19

1/31/2011	WD	Paychex Payroll Taxes	$ 5,064.84	
1/31/2011	353	401K Distribution	$ 665.05	
1/31/2011	354	401K Distribution	$ 2,243.86	
1/31/2011	357	401K Distribution	$ 70.70	
Total Checks and Charges				$ 31,628.52
CHECKING ACCOUNT BALANCE 01/31/2011				$ 161,731.94
CERTIFICATES OF DEPOSIT, SAVINGS AND CHECKING ACCOUNT BALANCES AS OF 01/31/2011				$ 193,468.28

CHASE CHECKING ACCOUNT RECONCILIATION

	Check #	Amount
Bank Balance 01/31/11		$ 162,193.99
Less Checks Outstanding	3682	$ 462.05
Book Balance 12/31/2010		$ 161,731.94

OMS

OMS Treasurer Report for Month of January 2011

Wells Fargo Business Performance Savings Account

Beginning Balance	29,735.05	
Deposits and Interest Earned this Month	2,001.29	
Withdrawals		
Ending Balance		31,736.34

Chase Bank One Checking Account

Beginning Balance	143,359.08	
Total Disbursements	(31,628.52)	
Deposits/Interest/Adjustments	50,001.38	
Ending Balance		161,731.94
Bank Balance	162,193.99	
Outstanding Checks	462.05	
Book Balance		161,731.94
Total Savings & Checking Balances as of January 31, 2011		**193,468.28**

1 check outstanding as of 01/31/2011

Organization of MISO States

100 Court Avenue, Suite 315
Des Moines, Iowa 50309

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

OMS Executive Director Report
February 4, 2011

FERC and DOE Activity

1. Settlement documents were filed on January 4 to improve the operation of the MISO –PJM Joint Operating Agreement and avoid future errors in market-to-market operations. Comments were filed January 24. The OMS Board will consider Reply Comments on February 10. Nos. EL10-45, EL10-46-000, and EL10-60.
2. Rehearing petitions were filed on January 14 on the Commission's December 16 order conditionally approving Midwest ISO's cost allocation proposal for Multi-Value Projects, Docket No. ER10-1791.
3. The Commission has invited RTOs and RSCs to participate in a meeting in Washington, Saturday, February 12, to discuss RTO/ISO performance metrics. The related RTO report was filed December 6 in Docket No. AD10-5. RTO presentations were made to the Commission on January 20.

OMS-MISO Activity

1. Resource adequacy discussions continue in the Midwest ISO's Supply Adequacy Work Group. The Advisory Committee will have a special discussion of resource adequacy issues on February 23.
2. OMS Training was presented in Iowa on January 24. The Montana PSC has scheduled a presentation on March 21-22.

Public Relations

1. Presentations:
   - None

2. Pending speaking/meeting invitations:
   - None

Upcoming dates:

- Next regular **OMS Board of Directors meeting: March 10, 2011,** at 1:00 pm CDT
- Next **OMS Executive Committee meeting – February 24, 2010** at 1:00 pm CDT
- OMS – ERSC lunch, February 14
- Regular OMS Board meetings: April 14, May 12, June 9
- Advisory Committee and MISO Board meetings, New Orleans, February 22-24
- OMS Executive Committee meetings: March 24, April 28, May 26, June 23
- Black Sea Partnership Workshop, Istanbul, March 7 – March 9
- Energy Bar Association, Midwest Energy Conference, Carmel and Indianapolis, March 14-15.

Upcoming Midwest ISO FERC Filings

Filing Date	Docket No.	Description	Pursuant to Commission Action	Working Group or Committee where issue/change will be reviewed
02/07/2011	ER11-2053-000	The Midwest ISO to submit a compliance filing pursuant to the Commission's January 7, 2011 Order regarding The Midwest ISO's filing of an errata to its October 29, 2010 compliance filing regarding the redesign of the allocation of Revenue Sufficiency Guarantee costs ("RSG Redesign compliance filing").	N/A	RSGWG
02/09/2011	RM10-13-000	The Midwest ISO to submit compliance filing pursuant to the Commission's Final Rule on Credit Reform in Organized Wholesale Electric Markets regarding unsecured credit in all FTR markets.	Order No. 741 133 FERC ¶ 61,060 (2008)	CPWG
02/14/2011	ER10-1791-000	The Midwest ISO to submit a compliance filing in the RECB Cost Allocation proceeding to revise the tariff to be in compliance with the December 16, 2010 Order.	133 FERC ¶ 61,221 (2010)	N/A

03/02/2011	RM10-11-000	The Midwest ISO to submit comments to NOPR regarding Variable Energy Resources ("VERs").	133 FERC ¶ 61,149	(2010)
06/01/2011	ER10-1791-000	The Midwest ISO to submit a compliance filing to describe what changes to its allocation of congestion rights are necessary to reflect the allocation of Multi Value Project costs.	133 FERC ¶ 61,221	(2010)

State Regulatory Authorities Sector Responses by OMS

To the February Advisory Committee Questions

February 10, 2011

Opening Statement

The Organization of MISO States (OMS) once again reiterates its opposition to the Midwest ISO's proposed changes to resource adequacy. OMS remains unconvinced that the Midwest ISO's proposal for a forward capacity auction is a solution to an 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. OMS is not convinced that a forward capacity auction is the efficient means to retain membership.

The Midwest ISO has not been consistently clear about the goals of the proposed forward capacity auction. One expressed goal of forward capacity "markets" is recovery of so called missing money. Missing money, or revenues missing from the energy and operating reserves markets, has not been and will not be a significant problem in the Midwest ISO footprint given the vast majority of generation capacity is regulated under the traditional vertically integrated structure. Under the vertically integrated structure, generation assets are fully compensated by inclusion into retail rates for costs that they incur for expenses as well as capital investments. Therefore, the vast majority of generation assets in the Midwest ISO are not experiencing "missing money" problems. In Illinois, a restructured state, generation assets are no longer rate base items and therefore are merchant plants with no "guarantee" of full cost recovery through utility rates and ratepayers. The Midwest ISO's proposal seems to suggest that merchant plants in restructured states are "missing money" due to market revaluations of their asset base and that, therefore, they are or should be compensated through a capacity market payment to recover lost revenues ("missing money") due to the actual functioning of the marketplace seems extremely prejudicial to the States' policies with regard to restructuring. This appears to fully, or more fully, compensate the asset owners on a par with regulated, rate based plants without the associated State rate base/rate of return regulatory oversight.

Another expressed goal of a forward capacity "market" is to incent new generation. The market clearing mechanism of the PJM Reliability Pricing Model (RPM) is a variable resource requirement. This downward sloping demand curve is based on the theoretical cost of new entry of a peaking plant. Theoretically, the model is expected to return, on average overtime, and in combination with energy rates, revenues equal to the cost of new entry of a combustion turbine power plant. The RPM and other forward capacity markets are promulgated on the premise that they provide a forward expectation of revenue to investors who could potentially construct a new combustion turbine power plant. The inconsistency between states' rights and objectives and RPM capacity auctions is well illustrated by a bill recently passed in New Jersey that will subsidize the construction of 2,000 MW of base load capacity for up to 10 years. The bill says the state must take action to ensure that enough generation is available in the region because the incentives under the PJM RPM have failed.[1]

[1] "New Jersey bill would subsidize 2,000 MW of new generation." Electric Power Daily, January 10, 2011, plattsenergyweekly.com.

The Midwest ISO currently has significant excess capacity in its footprint. Therefore, a forward capacity auction in the Midwest ISO cannot be justified at this time based on the need to incent new entry, even for weather related summer peak demand. When viewed in terms of these goals, the construct is essentially an outside-of-market uplift to account for what is viewed, by some, as insufficient revenue from energy and operating reserves markets, including scarcity price revenues and by others as the market revaluing assets based upon market forces. This is contrary to the direction the Midwest ISO is taking with Extended LMP, which is to improve market design by minimizing out-of-market uplifts. The OMS is not convinced that the implementation of a centralized forward capacity auction will achieve any desirable goal.

The goal of resource adequacy should be to assure cost-effective, future reliability. Accomplishing this is a complex endeavor, carrying wide-ranging implications. For example, many states in the Midwest ISO are engaged in energy efficiency, peak demand reduction, and other smart grid policy initiatives aimed at reducing the need for future investment in generation, particularly during the summer peak. Since the price cost margins would be greatest for existing capacity or new capacity, or peak generators, such a market could result in further life extensions to aging generators, additions of peak capacity that may not be needed, and/or skewing the market for new generators toward peak capacity that is relatively inexpensive to build but expensive to operate. Establishing policies that would pay to retain aging capacity or incenting new capacity to meet a diminishing peak demand is contrary to the policy goals of state legislatures and will impose costs on customers that are avoidable through much less costly and more efficient management of electrical demand. Further, an auction that distorts balanced decisions needed in choosing the appropriate amounts and types of supply-side and demand-side resources would not be in the public interest. The OMS instead sees the effort to establish a forward capacity auction as a means to preserve generator membership at the expense of electricity consumers. The result is a wealth transfer from consumers to generators.

What elements of the Midwest ISO proposal do you like, and why?

● All LSEs are required to meet resource adequacy standards

The Midwest ISO proposal appears to continue the present resource adequacy requirement that all LSEs must procure sufficient resources to meet resource adequacy standards at a target established by the Midwest ISO or state regulatory authority. The emphasis here is on all LSEs. The OMS supports this as consistent with the OMS August 12, 2010 Revised Resource Adequacy Principles. The OMS does, however, have concerns regarding the excessive reserve requirements (that result from the Midwest ISO application of the standards) as discussed in the sections below about load forecast uncertainty and the download sloping demand curve.

OMS does like the proposal's concept of continuing to track contract changes between load and supplies to make sure there is comparability of service for resource adequacy.

● Vertical demand curve located at a quantity equal to the PRM

The current auction construct reflects a vertical demand curve located at the planning resource requirement. The OMS supports a vertical demand curve rather than a sloped demand curve.[2] With a

[2] PJM, for example, uses a sloped demand curve in its Reliability Pricing Model resource adequacy construct.

vertical demand curve, the resource requirement equals the amount necessary to meet reliability. However, with a downward sloping demand curve, the procured level of capacity could be less or more than the amount necessary for a specified level of reliability. With the exception of Illinois, the states in OMS where LSEs own generation (LSEGOs) are more concerned about procuring a specified level of capacity for a specified level of reliability than avoiding the consequences of price volatility associated with a vertical demand curve. This is because the prices, for the most part, are irrelevant, after the fact, and have little bearing on the states planning processes that typically look farther forward than the Midwest ISO construct. The overwhelming majority of OMS states regulate all segments of vertically integrated utilities, and therefore, load serving entities (LSEs) in coordination with their regulatory authority have greater control over the consequence of changes in price than they do over the consequences of changes in quantity.

The state regulatory authority can reallocate all funds regardless of auction price for the *planned* quantity, but payments to resources beyond that quantity, assuming that those resources are not under the state's regulatory control, represent financial outflows that cannot be reallocated by a state authority. An auction with a vertical demand curve clears the exact quantity of resources that a state commission understands it must plan for based on the Midwest ISO's planning reserve margin. An auction with a sloped demand curve has the potential to undermine a state's right to determine resource adequacy because it could obligate LSEs to purchase capacity beyond the planning reserve margin and make capacity payments to resources not under the states' regulatory control. An auction with a vertical demand clears the exact quantity that a state commission with LSEGOs must plan for based on the Midwest ISO's established planning reserve margin.

A vertical demand curve ensures that the equilibrium amount of capacity determined in the auction equals the planning reserve margin that meets the reliability standard. This is the target that the LSEGO states plan for, whereas a variable requirement from a sloped demand curve creates an unpredictable quantity that could result in an unnecessary increase in cost to ratepayers.

What elements do you oppose, and why?

● Different method for applying load forecast diversity factor

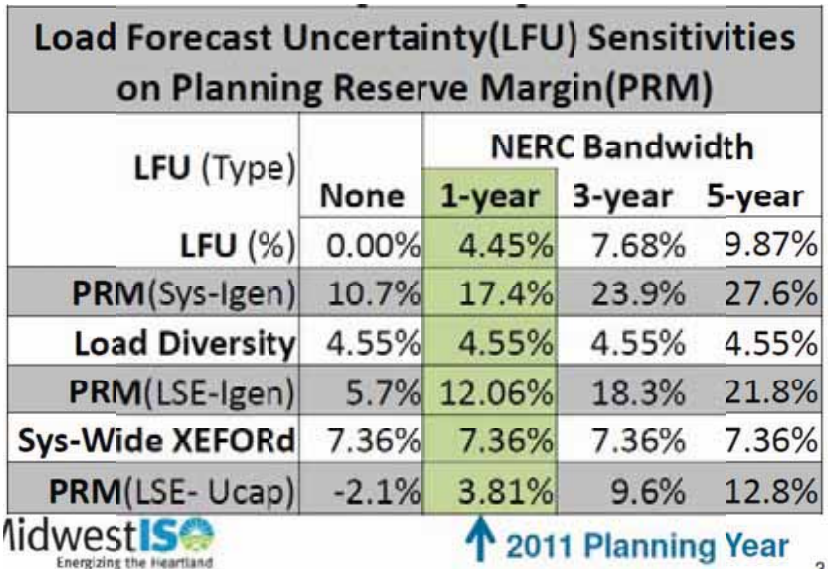
The Midwest ISO proposes to change the way it adjusts individual LSE peak load forecasts from a non-coincidental peak to a Midwest ISO wide coincidental peak. The current method uses a single system-wide diversity factor, recognizing the difference between the total of all LSE non-coincidental peak load forecasts and the lower Midwest ISO coincidental peak load, to reduce the Planning Reserve Margin (PRM) to that required to meet the lower coincidental peak load forecast. The factor for the 2011-2012 planning year reduces the PRM (Igen) from 17.4% down to 12.06%. The resulting single PRM, after changing to an unforced capacity (Ucap) basis, applies to all equally. Under the Midwest ISO's new proposal, the reduction due to diversity is individual, and depends on how much each LSE's forecasted peak requirement coincides with the Midwest ISO system peak load. The OMS has concerns with the new method, and is therefore leaning towards retaining the current "socialized" method of sharing load diversity as something that works and provides all with the benefits of being in a capacity pool. The current method seems to work well and is understood by all. The new method may be more complicated, difficult to implement, and will likely create new incentives for an LSE to construct forecasts that garner the greatest diversity for itself to the detriment of others. We say "may" because

the Midwest ISO has not yet provided details on how each LSE would adjust its forecast to the system-wide peak, or how it will address potential abuse from these new incentives that can introduce counterproductive outcomes with bias to abuse the pool sharing rules. When the Midwest ISO addresses these concerns, it will make it easier for the OMS to take a position.

●Use of Load Forecast Uncertainty (LFU) and the 3 Year Period

The Midwest ISO proposal still stands with 100% compliance (enforcement) of procured resources at 3 years. This proposal does not consider the methodology being used currently for the 1 year "planning" period. There is a subsequent enforcement at the next 30 days. The current LFU for one year is 4.45%. This incorporates the NERC Bandwidth Variance Calculations.

The LOLE team from the Midwest ISO estimated the change if a 3 year minimum compliance period for 100% of load to meet the various Planning Reserve Margins. Below is the presentation from the January 12th LOLE Working Group meeting.



Load Forecast Uncertainty(LFU) Sensitivities on Planning Reserve Margin(PRM)				
LFU (Type)	None	NERC Bandwidth 1-year	3-year	5-year
LFU (%)	0.00%	4.45%	7.68%	9.87%
PRM(Sys-Igen)	10.7%	17.4%	23.9%	27.6%
Load Diversity	4.55%	4.55%	4.55%	4.55%
PRM(LSE-Igen)	5.7%	12.06%	18.3%	21.8%
Sys-Wide XEFORd	7.36%	7.36%	7.36%	7.36%
PRM(LSE- Ucap)	-2.1%	3.81%	9.6%	12.8%

Going to a 3-year full compliance would increase the installed system generation from 17.4% to 23.9%. That is a 6.5% increase. The PRM for each LSE, in Ucap, would move from 3.81% to 9.6% which is a 252% increase. To see the cost of such change consider the increased requirement of capacity and its associate costs. For example the Midwest ISO footprint is projected to have a coincident peak load at approximately 105,000 MW next planning year.[3] The increase in installed reserves would be approximately 6,800 MW (6.5% of demand). Assuming this increase would be met by one of the lowest cost technologies, Combustion Turbines, the compliance at $740/kW installed would increase the capital investment by $5 Billion. The annual weighted cost of capital would be approximately 8% or so. At a minimum the annual cost would therefore be an additional $400 million.

This added cost is a compelling argument to better balance the risk assessment with benefits and cost. One method for balancing the risk assessment is anticipating the "planning"

[3] "Planning Year 2011 LOLE Study Report." the Midwest ISO.

requirement but not committing 100% financially to meet every MW without adjustment. A more balanced approach is to identify where and what type of resources could be used going forward to meet the next planning year. The commitment would depend on the amount of MW needed, where and what type of resources will fill the requirement at the final planning period.

OMS support of a shorter compliance period does not indicate OMS preference on the length of the planning assessment periods.

● Downward-sloping demand curve

The OMS opposes a downward sloping demand curve for the resource auction. The Independent Market Monitor's (IMM) objections to a vertical demand curve are based on the theoretical assumption that reliability is a well-defined product for which buyers of capacity can accurately assess the marginal benefit of an additional unit of reliability. This does not accurately describe the reality of the electrical grid. There is little empirical data to define the willingness to pay for additional reliability thus the need for the demand curve to be administratively determined. The slope of any demand curve currently used for capacity auctions is administratively determined and not based on empirical data describing the behavior of market participants. The price determined by an administratively determined downward sloping demand curve is no more accurate than the price achieved through a descending clock auction with a vertical demand curve that is closely monitored by the IMM. See the vertical demand curve discussion above.

●One-sided incremental auction

The OMS prefers reconfiguration or incremental auctions which allow capacity to be released when capacity beyond the most updated reserve requirement is procured, to one that allows only additional capacity to be procured. Capacity may be released in incremental auctions when an updated forecast indicates that expected load has decreased relative to the forecast conducted at the time of the base auction. Other parameters such as transmission transfer capability or decreased planning reserve margins could also result in over procurement of capacity in the original or base auction, and would allow capacity to be released in the incremental auction while still maintaining the target level of reliability. This would require an LSE or the Midwest ISO on behalf of LSEs to place a sell offer for capacity procured at the time of the base auction that is no longer needed because of a change in parameters, e.g. load forecast that indicates that less load is needed than previously expected. This would allow capacity suppliers needing to replace capacity because of resource cancellation, delay or de-rate to purchase that replacement from capacity that is already committed, but otherwise not needed, thereby reducing the level of total procurement. This type of incremental auction, allowing both buying and selling of capacity would allow the most efficient result in the capacity auction.

●Transition auctions

The OMS opposes the use of transition auctions. Instead, once the length of the forward delivery period is decided, the forward auction should be held for the delivery year out to the full forward period and the current Module E mechanism retained for all of the interim months until the beginning of the steady state delivery year. Transition auctions are unlikely to incent new entry as the time between the auction and the delivery year are not sufficient or at least less likely to incent new entry, and therefore represent wealth transfers. Transition auctions exacerbate market power problems in capacity markets

because potential new entrants are not able to discipline the market resulting in a propensity toward greater wealth transfers. Therefore, the use of transition auctions can only increase the cost of capacity that is already in existence. Furthermore, eliminating transition auctions will address the expressed desire for a smooth transition into the new capacity construct. For example, existing bilateral contracts can remain in force longer if transition auctions are not held but will need to be renegotiated sooner if transition auctions are held. Finally, transition auctions will increase administrative costs for the Midwest ISO and for market participants. Therefore, the OMS recommends that if the decision is made to adopt a forward capacity program, transition auctions be avoided. Instead, the Midwest ISO should begin the program with an auction for the steady state delivery year and retain the current monthly mechanism in the interim.

What alternative approaches do you recommend?

Some of the OMS states do not believe that the current construct will meet the Federal Energy Regulatory Commission (FERC) directives without some modifications: "The February Order was intended to complement the Midwest ISO's traditional resource planning with market mechanisms, such as locational capacity requirements, which would allow the Midwest ISO to take advantage of the incentives that can be provided via price signals and market rules."[4] In light of this FERC directive we offer the following modification to the current construct as means of complying with the FERC Order[5].

Each year, the Midwest ISO will calculate for each local resource zone, the maximum amount of capacity, as a percentage of total load located in the resource zone, which each LSE can procure from resources outside of its locational capacity zone.[6] All LSEs within the Midwest ISO must demonstrate that they have the required amount of capacity (subject to import constraints) procured for the upcoming planning year (June 1st through May 31st) by March 1st of the planning year.

LSEs who do not meet their resource requirement will be required to participate in a mandatory *residual* capacity auction with import constraints. Under this construct the import constraints for self-supply and bilateral arrangements will be allocated based on load percentages and the import constraints for *residual* capacity will be allocated through the auction process.[7]

The 3 years forward period would be a planning period with declaration of plans to meet existing firm load of each year. The planning period could assess and clearly point out areas of import or export constraints. The LSEs could adjust their respective supply and demand side programs and/or transmission companies could provide a possibly less expensive solution.[8]

What information/details still need to be provided?

---

[4] Order on Compliance Filing (Issued June 8, 2010), Docket No. ER08-394-024, p. 8.

[5] This is a variation on the "Conceptual Elements of a Voluntary Approach" included in the **COMMENTS OF MGE, WPPI, and Wolverine submitted for the 1/20/11 SAWG meeting.**

[6] The ICC does not support the contents of this paragraph and the immediately following paragraph.

[7] This proposal is not necessarily supported by all of the OMS states.

[8] While the Michigan PSC supports the current practice of Midwest ISO multi-year planning, it opposes a requirement to procure capacity resources beyond the immediately forward 1-year planning period.

●State Integrated Resource Planning Type of Process

The proposed Resource Adequacy (RA) construct would broaden the scope of the Midwest ISO's activities and increase the potential for conflict with state statutes and state regulatory authority. Greater clarification is needed as to how the Midwest ISO plans to address this issue. One example is resource planning. The RA construct will broaden the scope of Midwest ISO's activities beyond strictly transmission planning for the Midwest ISO footprint to also encompass footprint-wide planning considerations regarding generation. Primary authority for resource decisions, generally, and resource planning, where it is required as a public endeavor, resides with the state regulatory commissions. Consequently, the Midwest ISO's obligation to ensure long-term reliability and comply with requirements of the FERC will necessitate coordination with the variety of resource planning processes in the various states comprising the footprint. This variety ranges from no public resource planning process to quite detailed resource planning processes with specific requirements that feed in to a host of other company-specific issues, including many that relate directly to ratemaking. Also, among those states with resource planning requirements, the processes currently are company-specific; i.e., they are not geared for planning considerations across an entire state or broader region. Therefore, a significant challenge for the Midwest ISO will be to work with states, including those with no current planning requirement, to develop a meaningful resource adequacy planning process that will address needs from the regional perspective while respecting individual state authority. The following are some specific issues that need to be addressed:

- The Midwest ISO needs to articulate and propose a process to collect information from utilities on the state resource plan decisions.
- The Midwest ISO needs to articulate and propose a process to integrate the information in the state regulatory decisions into a meaningful plan for the footprint. For example, this process needs to account for factors like the following: the frequency of state resource plan filings are likely to vary; the time periods covered in each utility plan very likely will not match; the states have different approaches and level of detail in the plans; states may treat energy efficiency and demand response in different ways, among other issues.
- The Midwest ISO need to develop a plan for consultation with state regulatory authorities over questions of interpretation of plan decisions.
- Likewise, the Midwest ISO needs to articulate and propose a process to resolve potential conflicts among plans— who may be a "winner" and some who maybe a "loser" and how that is decided for resource qualifications and potential risks to the other LSEs?
- The Midwest ISO needs to articulate and propose a method for considering the resource adequacy issues for utilities in states that do not have resource planning processes at all, or have ones that do not cover all utilities, or are limited in various ways.

●Clear definition of zonal boundaries

Will they change? What conditions might require a change?

●How LSEs are supposed to forecast to the Midwest ISO's coincident peak in the future? How will the Midwest ISO know the diversity assumed by independent forecasts? How will the Midwest ISO assure accurate forecasting?

●How LSEs are supposed to do monthly forecasts for transition period

●Auction details

Shape of Demand curve

Will it still be descending clock?

How will existing capacity positions be treated in the auction?

Are they guaranteed deliverability under the import and export constraints? And for how long?

Distribution of excess revenue when a load zone price is greater than a resource zone price

What happens if the load zone price is less than the source load price?

●How will market power monitoring and mitigation be conducted for the auction? And what will be the cost of this?

●Credit requirement changes

●Administrative cost of implementing the current proposal versus alternative constructs or modifications that address the FERC directive

●Details of how capacity portability will work. Is there a way that capacity in the Midwest ISO or PJM can be dedicated to the other RTO in a manner that is similar to being a member of the other RTO?

Planning Advisory Committee Summary
January 26, 2011 & February 7, 2011

The following are highlights from the January 26, 2011, PAC meeting, and the follow up February 7, 2011 PAC conference call.

1. MTEP 11 Futures

MISO presented the comments from various stakeholders on the proposed five futures and the underlying variables related to the uncertainties in those futures. The five proposed futures are:

- Business as Usual with High Demand & Energy
- Federal RPS
- Combined Policy (Federal RPS + Smart Grid + Carbon Cap + Electric Cars)
- Business as Usual
- Carbon Constraint

Stakeholder feedback included suggestions to eliminate the Federal RPS future (which was ultimately done).

Another considered future was the proposed EPA regulations, discussed below in more detail in item 2. It was decided to continue studying that future, with the caveat to not focus on what was 2termed 'worst case scenario'.

After many motions, amendments to motions, and a procedural discussion, it was decided that a follow up call to approve the MTEP 11 Futures would be necessary.

For the February 7, 2011 follow up call, MISO Staff created a new futures matrix, making some adjustments to capital and fuel costs. For example:

Many stakeholders raised concerns that the $6.22 "Mid" value for natural gas used in MTEP10 is no longer a valid mid price. Therefore, Midwest ISO has updated the uncertainty variables matrix to include natural gas prices of $3.50, $5.00 and $8.00 for Low, Mid and High values, respectively.

In addition, various parties made motions to adjust uncertainties within scenarios, as well as one amendment proposed to a motion to vote on the futures individually instead of as a package.

At the end of the 2-7-2011 call, it was moved to approve the following four scenarios:

- Business as Usual with High Demand & Energy
- Combined Policy (Federal RPS + Smart Grid + Carbon Cap + Electric Cars)
- Business as Usual

- Carbon Constraint

The complete motion:

Motion: The Planning Advisory Committee (PAC) supports Midwest ISO beginning use of the proposed assumptions and scenarios posted on January 27 in the MTEP11 planning studies with the condition that Midwest ISO staff will present the effective demand and energy growth rates that are generated in initial EGEAS runs to the PAC and provide an opportunity for the PAC to give feedback.

Follow up: Continue to monitor through the PAC process, and await the EGEAS runs.

2. EPA Retirements Update

As mentioned above, there was a discussion at the January 26, 2011 PAC meeting regarding proposed EPA Regulations, and whether they would be looked at as a sensitivity to one of or all the futures, or whether the proposed EPA regulations would be looked at as a separate future.

There were concerns raised in the meeting that the current analysis regarding the proposed EPA regulations was a 'worst case scenario', and was not indicative of what would actually occur if the proposed regulations came into effect.

One of the interesting comments during the discussion was, in lieu of lengthy analysis regarding the proposed EPA regulations and existing coal plants, to instead look at the age of small coal units, and use that as a proxy for which units would be retired, thinking this would achieve a similar result for much less analysis.

A motion was presented to cancel the study of the impact of the proposed EPA regulations, which was successfully amended to the following:

Motion: The PAC recommends that the Midwest ISO modify current assumptions to more accurately model impacts and avoid worse case scenarios [in] the EPA Regulation Impact Study.

This motion passed.

3. Global Energy Partners Demand Response / Energy Efficiency Update

MISO presented information for both the January 26, 2011 meeting and the February 7, 2011 follow up call regarding the Global Energy Partners (GEP) assessment of Energy Efficiency (EE) and Demand Response (DR) in the MISO territory.

Regarding the potential for "double counting" EE and DR, MISO stated that existing levels of DR and EE are embedded into the base year demand and energy numbers.

Follow Up: This item was not voted on at either of these meetings or calls, but will be voted on in the future, in terms of presented demand and energy curves.

4. Mid Year MTEP Project Approval

MISO discussed its proposal on possible midyear (i.e., not December/January) MTEP project approval was presented and discussed. This mid year process would continue to utilize the subregional planning meeting (SPM) process, with the addition of a fourth SPM.

March and April would be the months for review for a mid year MTEP approval.

The most likely project to be on for mid year 2011 approval would be the Brookings County project. It is possible that other projects might be included in the a bundle with Brookings County in a portfolio approach, or that other "sub-portfolios" (to use MISO's term) may be up for discussion and approval.

The portfolio approach would look at projects that are reasonable to be combined with each other. For example, if one project to be approved is a wind collector project, and other project would move the collected energy to a load center, the two projects may be looked at in combination.

A motion was made to support the process laid out, which was amended to the following:

Motion: The Planning Advisory Committee (PAC) supports Midwest ISO's recommendation to designate projects for a mid-year approval. A project designated for mid-year approval would be identified to stakeholders during the SPM process. Midwest ISO would review the approval recommendations with the PAC in advance of Board approvals at the June meeting

The motion passed.

Follow up: Anticipate MISO recommendations regarding portfolios and / or individual projects to be brought to the PAC in the next couple of months.

5. LOLE Discussion

MISO presented the results of their 2011 LOLE study, and the anticipated Planning Reserve Margin (PRM) for the time period of June 2011 – May 2012, the 2011 Planning Year (PY-2011).

A major output of the study is the Wind Capacity Credit. A Wind Capacity Credit of 12.9% has been set for PY-2011, based on historical wind data.

Further, each CP Node for Wind is going to get its own Capacity Credit based on its 8 daily peak loads of previous 6 years.

6. Business Case Metrics

MISO made a presentation based on metrics, especially as suggested by FERC, in order to capture the full benefits and costs of transmission.

Potential metrics were discussed from the MVP Section of Attachment FF, including:

- Production cost saving
- Capacity loss savings
- Capacity savings
- Long-term cost savings
- Any other financially quantifiable benefit to Transmission customers

Follow Up: in February, the PAC will discuss additional metrics, and stakeholders have been asked to come prepared to discuss current metrics and potential additional metrics.

7. Ratings Used in Reliability Analysis

MISO discussed a process of what to do if a TO did not submit power ratings for three different categories. TO's were asked to review their ratings data.

Next PAC Meeting: Wednesday, February 16, 2011, in Carmel, IN

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Midwest Independent Transmission System Operator, Inc. v. PJM Interconnection, L.L.C.	Docket No. EL10-45-000
Midwest Independent Transmission System Operator, Inc. v. PJM Interconnection, L.L.C.	Docket No. EL10-46-000
PJM Interconnection, L.L.C. v. Midwest Independent Transmission System Operator, Inc.	Docket No. EL10-60-000

ORDER OF CHIEF JUDGE GRANTING LIMITED EXTENSION OF TIME TO FILE REPLY COMMENTS

(Issued February 8, 2011)

1 On February 3, 2011, the Organization of MISO States (OMS) filed a motion to extend its time to file reply comments until February 11, 2011. As grounds therefor, OMS states that the next regular meeting of its Board of Directors is not until February 10, 2011.

2. The Chief Judge shortened the time to answer until noon on February 8, 2011. On February 7, 2011, PJM Interconnection, L.L.C. (PJM) filed an answer objecting to OMS's extension request. PJM pointed out that OMS had been an active participant in the settlement negotiations and was present at the conference in early November 2010 where the terms of the Settlement were reached. PJM also pointed out that OMS did not file any initial comments. PJM noted that a small number of the numerous participants in the settlement proceeding suggested some modifications to the terms of the settlement. PJM states that it has no objection to OMS opposing proposals that seek changes to the terms.

3. Since OMS did not file initial comments, it is prohibited from objecting to any aspect of the Settlement. However, it can reply to the initial comments that would modify the Settlement. Under these circumstances, the Chief Judge hereby grants OMS an extension of time to file reply comments to the initial comments that would modify the Settlement until close of business on February 11, 2011. OMS cannot oppose any aspect of the Settlement in its reply comments.

Curtis L. Wagner, Jr.
Chief Administrative Law Judge

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Midwest Independent Transmission Service Operator, Inc. v. PJM Interconnection, L.L.C.	))))	Docket No. EL10-45-000 et al.

REPLY COMMENTS OF THE ORGANIZATION OF MISO STATES

The Organization of MISO States ("OMS") submits this reply comment out-of-time pursuant to its motion of February 3, 2011.

The OMS urges the Settlement Judge to give thoughtful consideration to the comments of the Wisconsin Public Service Commission and the Indiana Utilities Regulatory Commission, Potomac Economics, Ltd., and the Commission Trial Staff.

Wisconsin Public Service Commission and the Indiana Utilities Regulatory Commission

These state commissions urge a two-year limitation on claims to correct or adjust billings under the Joint Operating Agreement ("JOA"). The OMS agrees that a two-year period better matches the biennial review cycle established in the settlement documents and the complexity of discovering errors within the complex inter-RTO settlement process. There is a natural tension between commercial finality and accurate implementation of the JOA and the related tariffs. Because of the importance of accurate pricing of transactions between the PJM and the Midwest ISO markets, the balance should be struck in favor of accuracy.

Potomac Economics, Ltd.

Potomac Economics serves at the Independent Market Monitor for the Midwest ISO market. Potomac Economics raises concerns that modifications of the JOA under the section 20.1 of the settlement could grant too much control of changes internal to one RTO to the other

RTO. It is also concerned that section 8 could be interpreted to allow an RTO to evade market settlements where the other RTO has managed a constraint by limiting use of a transmission facility. Potomac Economics asks the Settlement Judge to clarify these provisions to avoid its concerns. The OMS suggests that the observations of the Independent Market Monitor are particularly deserving of the Settlement Judge's attention.

Commission Trial Staff

OMS supports Trial Staff's recommendation that the Settlement Judge convene an additional settlement conference to attempt to work out issues that arose in Comments on the filed settlement.

WHEREFORE, the OMS respectfully submits these Reply Comments from the OMS in this docket on February 11, 2011.

The OMS submits this request because a majority of the members have agreed to generally support it. Individual OMS members reserve the right to file separate pleadings regarding the issues discussed herein. The following members generally support this request:

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

The Manitoba Public Utilities Board and the Pennsylvania Public Utility Commission did not participate in this pleading. The Kentucky Public Service Commission, the Montana Public Service Commission, and the Public Utilities Commission of Ohio abstained from the vote.

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: February 11, 2011

CERTIFICATE OF SERVICE

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

Dated at Des Moines, Iowa, this 11th day of February, 2011.

William H. Smith, Jr.
William H. Smith, Jr.

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

PJM Power Providers Group

v. Docket No. EL11-20 -000

PJM Interconnection, L.L.C.

NOTICE OF INTERVENTION OF
THE ORGANIZATION OF MISO STATES, INC.

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

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

Respectfully Submitted,
William H. Smith, Jr.
William H. Smith, Jr.
Executive Director
Organization of MISO States
E-mail: bill@misostates.org
Tel: 515-243-0742

Dated: February 10, 2011

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.
Dated at Des Moines, Iowa, this 10th day of February, 2011.

William H. Smith, Jr

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Unidentified Registered Entity	)	Docket No. ER11-2798-000

NOTICE OF INTERVENTION AND PROTEST OF THE ORGANIZATION OF MISO STATES, INC.

Pursuant to Rules 211 and 214(a)(2) of the Federal Energy Regulatory Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.211 and § 385.214(a)(2), the Organization of MISO States ("OMS") files its Notice of Intervention and protest of the January 28, 2011, filing by an Unidentified Registered Entity ("URE") in the above-captioned proceeding. ("January 28 Filing")

Service of all pleadings, documents, and communications in this matter should be made on the following:

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

The January 28 Filing seeks the Commission's approval to recover the costs associated with a penalty resulting from an Abbreviated Notice of Penalty ("NOP") filed by the North American Electric Reliability Corporation ("NERC") on December 22, 2010, in Docket No. NP11-59-000. To remit payment of the penalty amount to the Reliability*First* Corporation ("Reliability*First*") in a timely manner, the URE requests that the Commission provide expedited treatment of its requests and make the filing effective on the date either that the Commission approves the NOP filed in Docket No. NPl1-59-000, or that such NOP becomes effective by operation of law.[1]

[1] January 28 Filing, at 8

The OMS notes that the January 28 Filing is posted on the "FERC Filings" portion of the Midwest ISO's website. Given that the filing is posted on the Midwest ISO's website, it is reasonable to assume that the Midwest ISO is either responsible for the NERC penalty or is attempting to collect the NERC penalty on behalf of one of its members. However, because of the heavy redacting of the January 28 Filing, the OMS is forced to file this protest out of an abundance of caution. Indeed, the OMS has no ability to determine if real interest is involved.

The OMS protests the January 28 Filing for two reasons. From a procedural prospective, the January 28 Filing is excessively redacted – to the point where it is impossible to determine the identity of the filing entity and the rate schedule to be changed. This is problematic in that the January 28 Filing therefore fails to satisfy the requirement of Section 205 of the Federal Power Act that tariff changes can be made only with notice to affected customers. The OMS notes that entities may attempt to circumvent this requirement by including tariff language intended to serve as advanced notice of such a filing. For example, Schedule 34 of the Midwest ISO's tariff states that the purpose of the schedule is to provide notice to all tariff customers and members that they may potentially be responsible for such penalty costs assessed against the Midwest ISO. However, such notice is not sufficient to comply with the Federal Power Act and also fails to provide affected customers with due notice of any proposed change to a rate schedule. Indeed, no customer can determine if it is affected by the change because of the filing's silence on these critical elements.

While the OMS is sensitive to the URE's desire to avoid public disclosure of a NERC penalty, this anonymity cannot be maintained while asking customers to bear the expense of that penalty.

The OMS is also concerned with the policy aspects of a not-for-profit entity's efforts to pass-through the costs of a penalty. The policy question requires consideration of the compliance and enforcement incentives invoked in any particular violation situation. If the Midwest ISO is responsible for the NERC penalty, then the OMS' concerns regarding a not-for-profit attempting to pass-through the costs of a penalty are real and need to be addressed by the Commission. The Commission expressed similar

concerns in its *Order Providing Guidance on Recovery of Reliability Penalty Costs*.[2] Specifically, that:

> If an RTO or ISO knows it could simply pass through the costs of those penalties, the incentive to comply with the Reliability Standards would be reduced. On the other hand, the Commission is mindful of the fact that some RTOs and ISOs operate as not-for-profit organizations, which may well find payment of substantial penalties difficult if not impossible to make.

This case calls for inquiry into the Commission's concerns in the context of a particular penalty situation. The OMS therefore asks the Commission to reject this filing or to set it for hearing or other appropriate procedural analysis.

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
E-mail: bill@misostates.org
Tel: 515-243-0742

Dated: February 10, 2011

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding. Dated at Des Moines, Iowa, this 10th day of February, 2011.

William H. Smith, Jr

[2] *Order Providing Guidance on Recovery of Reliability Penalty Costs*, 122 FERC ¶61,247 (2008), at P 26-27.

EISPC Update

RECENT MEETINGS

- **EISPC – January 26- 28, Washington, D.C. [EISPC finalized future descriptions, sensitivities and a number of modeling inputs/input sources]**
- **SSC – February 7-8, Washington, D.C.**

EISPC FUTURES[1]

EISPC discussed the specific descriptions of the futures that will be modeled. The detailed descriptions of the future components are described in this document:

http://communities.nrri.org/c/document_library/get_file?p_l_id=68970&folderId=147530&name=DLFE-4401.pdf

EISPC identified that these descriptions capture the ideas of the state members, but that language changes could be made by the Stakeholder Steering Committee (SSC). EISPC provided discretion to its SSC members to make modifications to language if changes are needed to reach consensus.

Recall that the SSC is made up of a variety of different stakeholders and is the official decision-making body for the Eastern Interconnection modeling effort. While EISPC has 10 members of the 29 member body, consensus among all members of the SSC is generally needed to move an issue forward.[2]

EISPC also identified that it desired to provide the SSC members discretion to modify the futures to be modeled to incorporate the Clean Energy Standard proposal that was identified during the President's State of the Union speech.

SENSITIVITIES

An issue addressed at the January EISPC meeting was finalizing the sensitivities for the Business as Usual Future. This Future has a large number of sensitivities because there are a number of issues that will be captured in sensitivity analysis rather than in separate Futures. This includes "Free

[1] As was identified in the last memo to the OMS Board members, the 8 futures that the SSC has identified are: (1) Business As Usual; (2) Federal Carbon Constraint National Implementation; (3) Federal Carbon Constraint Regional Implementation; (4) Aggressive Energy Efficiency, Demand Response, Smart Grid and Distributed Generation; (5) National RPS National Implementation; (6) National RPS Regional Implementation; (7) Nuclear Resurgence; and (8) Combined Federal Policy.

[2] The sectors and number of members on the SSC are as follows: Generation Owners and Developers (3); Transmission Owners and Developers (3); Other Suppliers (3); Public Power TDU's (3); End Users (3); NGOs (3); States/EISPC (10); Canada (1)

Market" analysis for the End Users and "Environmental Regulatory Curtailment"[3] (ERC) sensitivities to address EISPC ideas.

The sensitivities approved for the **Business as Usual Future** were:

- Revised Transfer Capability (using a soft constraint method identified in the next section)
- High load growth
- Low load growth
- Higher PHEV levels
- Increased generation costs
- No new non-carbon EPA regulations
- High gas prices
- Revised transfer capability (soft constraint)
- Achievable State EE / DR/ RPS requirements
- 3 sensitivities to address the End-User Sector's "Free Market" idea
- Environmental Regulatory Curtailment (ERC) 1: Reduce / remove interregional hurdle / wheeling rates (not "overload charges" identified by the revised transfer capability – soft constraint sensitivity)
- ERC 2: Reducing the existing RPS requirements by some percentage (in the range of 5%)
- ERC 3: TBD
- ERC 4: TBD

The sensitivities approved for the **Federal Carbon Constraint – National Implementation** were:

- Revised Transfer Capability (using a soft constraint method identified in the next section)
- High load growth
- Low load growth
- High gas prices
- Higher carbon costs
- Lower carbon costs
- Low gas prices
- Limited new / upgraded nuclear
- Lower carbon reductions in earlier years…higher in later years

[3] This set of sensitivities was originally called "Environmental Moderation" to capture the concept of the possibility that some environmental policies may not go into effect and that other environmental regulations may be lessened over time. The name of these sensitivities was modified at the request of some stakeholders who did not like the term "moderation."

- CCS never commercially viable (Note: KY – objected to this sensitivity)
- Increased imported Canadian hydro

The sensitivities approved for the **Federal Carbon Constraint – Regional Implementation** future were:

- High load growth
- High gas prices
- Higher carbon costs
- Lower carbon costs
- Low gas prices
- Limited new / upgraded nuclear
- Lower carbon reductions in earlier years…higher in later years
- CCS never commercially viable (Note: KY objected to this sensitivity)
- Increased imported Canadian hydro
- Low load growth
- Revised Transfer capability (may be used as a sensitivity if additional sensitivities are available at the end)

The sensitivities approved for the **Aggressive Energy Efficiency, Demand Response, Distributed Generation and Smart Grid future** were**:**

- High load growth
- High gas prices (use medium gas prices for base specification in this future)
- Increased imports of Canadian hydro
- Additional 1% of mandated consumption reductions – for a total of 2% per year
- Increased costs for DR / EE / SG (lower performance)
- Revised transfer capability (soft constraint)
- Increased base load growth
- Higher PHEV penetration
- Modified load block shapes in recognition of increased PHEV
- Increased economic activity
- Revised Transfer capability (may be used as a sensitivity if additional sensitivities are available at the end)

The sensitivities approved for the **National RPS: National Implementation future** were**:**

- Revised transfer capability (soft constraint)

- High gas prices
- Low gas prices
- Lower cost of renewables
- Higher cost of renewables
- Increased deployment of flexible resources – DR / Storage
- High load growth
- Modified load block shapes in recognition of increased PHEV
- No new non-carbon EPA regulations

The sensitivities approved for the N**ational RPS: Regional Implementation future** were**:**

- Revised Transfer capability (may be used as a sensitivity if additional sensitivities are available at the end)
- High gas prices
- Low gas prices
- Lower cost of renewables
- Higher cost of renewables
- Increased deployment of flexible resources – DR / Storage
- High load growth
- Modified load block shapes in recognition of increased PHEV
- No new non-carbon EPA regulations
- Increased imports of Canadian hydro

The sensitivities approved for the **Nuclear Resurgence Future** were**:**

- Revised transfer capability (soft constraint)
- High load growth
- Lower gas prices (to Medium level)
- EPA carbon regulations / limitations in place
- Remove nuclear plants without loan guarantees (i.e., force in only plants with Guarantees)
- Restrictions on Canadian hydro, and increased variable resource penetration (based on costs)
- Revised transfer capability (soft constraint)
- High uranium / disposal costs
- Low load growth (was identified as a possible one to remove if the SSC identified concerns)

The sensitivities approved for the **Combined Federal Climate and Energy Policy Future** were**:**

NOTE: It was agreed that only 4 sensitivities would be used in this future; EISPC identified that any 4 of the following sensitivities would be appropriate.

- Revised transfer capability (soft constraint)
- Increased economic activity
- Lower carbon reductions in earlier years…higher in later years
- Interregional barriers reduced
- Higher RPS (up to 40%) (Note: This was not the preferred choice of a number of representatives)
- Increased availability of nuclear
- Increased load growth
- Decreased load growth
- Increased gas prices
- Decreased gas prices
- High carbon price

EISPC agreed to provide discretion to the SSC members to adjust or modify sensitivities to achieve consensus at the SSC level.

SOFT CONSTRAINT TRANSFER LIMIT

As identified above, some sensitivities will be used to address an "increased transfer capability."

This issue is created because the Charles River Associates (CRA) model is a "pipe and bubble model" where a number of regions (bubbles) are connected through specific transfer limits (pipes). Therefore, the size and transfer capability of the pipes are a critical component of the model. The initial transfer capability will be set (with input from EISPC). However, as the model moves into the future, a revised and increased level of transfer capability may make sense.

CRA identified a way to address this issue using a "soft constraint" method that will identify an overload charge for increased transfer capabilities between the regions.

This method is further identified in the presentation available here:

http://eipconline.com/uploads/Transmission_in_MRN-NEEM_New_FINAL_12-30-10.pdf

MODELING INPUTS

EISPC identified that it is comfortable with the following modeling inputs (among others):

- EIA Annual Energy Outlook 2011 capital costs for generation. There was discussion of using different numbers for wind constructions, but it was not adopted.
- Energy and Peak Demand forecasts will be based on FERC and ACEEE sources after verification with state numbers.

- Variable resource integration for each region will be capped at 25%; however for purposes of this variable, regions may be combined (i.e., the Midwest ISO could be considered collectively for the 25% penetration limit)
- EISPC adopted workgroup recommendations for Fixed & Variable O&M costs; Installed Generation Capacity by NEEM[4] region; Emission reduction costs; Wind capacity factor by load block and NEEM region; Current generation fleet.
- EISPC adopted the AEO 2011 median gas prices. The high cost for gas was the 2010 high price because the high price has not yet been identified for 2011.

UPCOMING MEETINGS

EISPC will be meeting in Washington, D.C. on February 28 – March 2. The discussion will surround finalizing the sensitivities in all futures and identifying additional specific modeling inputs that will be used. EISPC will also address some governance issues that have arisen since its inception. An agenda for the meeting will be developed soon.

[4] NEEM is the name of the CRA expansion model. The NEEM regions are identified in this document: http://eipconline.com/uploads/EIPC_Recommendation_for__NEEM_model_Jan_18.pdf

1. MISO Extended Locational Marginal Pricing (ELMP)

After the 2/4/11 ELMP TT meeting, we shared a report from Mike Proctor that explains what MISO and participants have covered in the past five ELMP Task Team meetings, and Mike's impressions and preferences. Please note where there are many design elements where MISO still seeks input.

MISO's plans are to hold further ELMP Task Team meetings, vote on ELMP direction in May, then take the ELMP proposal to the MISO Market Subcommittee in June. MISO plans on preparing tariff changes and filing at FERC sometime this fall. The next ELMP TT meeting will be on 3/4/11.

Status: Continue to monitor.

2. FERC NOPR Integration of Variable Energy Resources RM10-11

FERC's 11/18 NOPR on Integration of Variable Energy Resources (RM10-11) proposes rules that would reform tariffs and large generator interconnection agreements to require them to offer certain services towards more efficient integration of variable energy resources (VERs). The required services include offering customers the option to schedule transmission service at 15-minute intervals instead of the current hourly scheduling, that interconnection customers with VERs provide meteorological and operational data to transmission providers, and that that transmission providers have the opportunity, through a newly proposed schedule, to recover costs associated with the integration of variable energy resources.

We requested feedback from the work group. We received late draft comments that we forwarded to the OMS Board without work group discussion. The due date for comments is 3/2/11.

Status: Before the OMS Board for review and vote.

3. MISO Feb 1 MSC Meeting

From the last Market Subcommittee meeting, here are some items of interest:

Regarding the new Seams Management Working Group, MISO reminded folks to sign up for the e-mail list. The first meeting will be on 2/28, which will include writing a charter.

Regarding MISO's Wind Integration Initiative, the next project is Ramp Management/Load Following, which MISO expects a whitepaper by Feb/March 2011, then technical workshops in Mar/Apr 2011

For those interested, please note the following MISO meetings:
MISO Market Subcommittee - monthly meetings (3/1 next mtg)
MISO RSG Task Force – monthly meetings (3/2 next mtg)
MISO FTR Working Group – monthly meetings (3/2 next mtg)
MISO ELMP Task Team – as needed meetings (3/4 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

Resources Work Group Report to OMS Board of Directors
February 10, 2011

SAWG and the Midwest ISO RA Construct Enhancements

The February Advisory Committee will address Resource Adequacy in two different styles. The Midwest ISO asked for a whitepaper style response to four questions:

- What elements of the Midwest ISO proposal do you like, and why?
- What elements do you oppose, and why?
- What alternative approaches do you recommend?
- What information/details still need to be provided?

An eight page draft has been posted for the Board's review to be considered for posting and use at the Advisory Committee Meeting by the attending Commissioners.

It is expected that three debate style questions will be released soon. This is an additional format for discussing the resource adequacy issues.

The Midwest ISO proposal has been discussed by the stakeholders at the bi-weekly SAWG meetings. Incremental information about the design has been revealed. But no major decisions have been changed since the original proposal on such items as: commitment period vs. planning period, percent of load commitment with self-supply, auction design, price taker or just neutral, one-side true-up, vertical demand curve, Load Forecast Uncertainty, diversity factor only by Load Serving Entities, transition auctions, qualifications & verification of Integrated Resource Planning style program elements by States, and how would a zone with a shortage or trapped capacity allocate the cost differentials. The draft paper discusses these issues.

The February 3 SAWG was cancelled due to severe weather in the Midwest. The February 17th meeting has been extended one day to allow full discussion.

The Midwest ISO did ask for comments on three explicit topics for the next SAWG meeting:

- Existing Capacity Rights Scope and Proposal
- Planning Resource Auction Issues
- Seasonal Resource Proposal

The first set of responses has been shared with the Resources Work Group. The content editing is scheduled to reconvene on February 10th.

LOLE Working Group

The Midwest ISO staff of the LOLE WG provided additional information requested by the SAWG stakeholders on Load Forecast Uncertainty sensitivity when moving from a 1 year planning

period to a 3 year period. The planning reserve requirement increases significantly if deemed a 100% forward, compliant requirement:

- The system installed generation planning reserve margin moves from 17.4% to 23.9%
- The LSE installed generation planning reserve margin moves from 12.06% to 18.3%
- The LSE Ucap planning reserve margin moves from 3.81% to 9.6%

This increased forward commitment could cause almost 7,000 MW of more capacity to be installed, at a cost of over $5 billion, and have the associated annual revenue requirement of over $400 million. This is being discussed at the next SAWG.

Submitted by Don Neumeyer, Chair Resources Work Group

Transmission Cost Allocation Working Group

Monthly Report for the OMS Board Meeting
February 10, 2011

Midwest ISO Multi-Value Project Filing:

On December 16, 2010, FERC approved the Midwest ISO filing in ER10-1791-000. The FERC order approved the new transmission project category of Multi-Value Projects (MVPs) and the cost allocation of sharing the costs throughout the Midwest ISO footprint to MISO load. FERC rejected the MISO proposal to initiate an export charge to PJM for projects constructed in MISO that benefit PJM load. FERC directed MISO to make a compliance filing by February 14, 2011, on four items:

- Revise Tariff to state that MVPs will be reviewed on a portfolio basis (FERC Order ¶ 223)
- Clarify that the Monthly Net Actual Energy Withdrawals definition is consistent with the Filing Parties rate design objectives and does not result in double netting of Demand Response resources and Emergency Demand Response resources (FERC Order ¶ 389)
- Submit Tariff revisions to provide that wheel-through and export transactions to PJM are not subject to MVP charges (FERC Order ¶ 441)
- Clarify that the divisor of the MVP usage charge in Att. MM in fact reflects the MWhs of grandfathered service provided by each Transmission Owner to reflect an allocation of the costs of MVPs recovered under grandfathered agreements (FERC Order ¶ 452)

The OMS Board approved various sections of a draft rehearing comments that had been developed for the board meeting on January 13, 2011. The final document was filed on January 14, 2011. The OMS sought rehearing on the following issues:

- The Commission Erred in Accepting a Cost Allocation that Does Not Allocate Any Cost of MVPs to Interconnecting Generators.
- The Commission Erred in Eliminating the Midwest ISO's Proposal to Apply an MVP Charge to Exports Sinking in PJM.
- OMS Clarifies That There Was Not Full OMS Consensus of This Complex Cost Allocation Issue, However, There Was a Nine State Majority That Generally Supported the Midwest ISO's MVP Proposal.
- The Commission Erred in Accepting the Midwest ISO's Proposed MWh-Only Charge.
- The Commission Erred in Accepting a Portfolio Approach to MVP Project Selection.

The Midwest ISO also filed for rehearing, seeking to overturn FERC's decision to not allow the export charge to PJM.

Midwest ISO Reliability Expansion Criteria and Benefits Task Force (RECB), Phase III: Economic Projects

After spending 2009-10 working on issues that became the MISO MVP proposal, in 2011 the RECB Task Force takes up the last of its three tasks (the first was to address interconnection issues in low load areas, aka the "Otter Tail problem"), which is to reexamine the criteria and cost allocation for economic projects. These projects are also known as "RECB II projects" because in the first iteration of the RECB TF in 2005-2008, first reliability projects were dealt with ("RECB I projects") and then economic projects were dealt with; both resulted in FERC filings and tariff changes. An economic project is just how it sounds: a project that isn't needed for reliability but one that can produce benefits by relieving transmission congestion and lowering the costs of power for customers.

The Midwest ISO has asked RECB stakeholders to bring forth their own ideas on these issues at the February RECB meeting. It has laid out a timeline to discuss its current proposal in the next three meetings; review tariff language and business practice rules in the May meeting; and review the revisions with appropriate stakeholder groups in the June meeting. MISO is currently planning a July filing at FERC. It is not under any mandated deadline to file tariff revisions for these projects.

At the January 25 RECB meeting, MISO laid out its initial proposal to address these issues. Below is a comparison of the current vs. the proposed method (page break to allow the table to be on a single page):

Issue	Current	Midwest ISO Proposal
Study Period	10 years	20 years Rationale: Aligns with MVP analysis timeframe
Benefit/Cost Threshold	1.2 to 3.0 sliding scale	1.25 Aligns with the B/C ratio in the FERC NOPR
Benefit Calculation	Present Value of annual benefits for first 10 years after in service year; using 70% adjusted production cost and 30% Load LMP	100% Adjusted Production Cost for 20 year period. MISO reasoning is that APC better captures savings in traditionally regulated states, which will make up around 90% of the MISO load.
Cost Calculation	PV of project's annual revenue requirements for first 10 years after in-service year	Same, but use 20 year period.
Voltage Threshold	345 kV or higher; 345 kV facilities must represent at least 50% of the total project cost	Expand to include projects between 100 kV and 345 kV
Cost Allocation	80% of costs allocated on sub-region-wide basis to the three defined Planning Subregions based on the relative benefit for each subregion; 20% postage stamp allocation to all load	For projects less than 345 ALL costs are allocated based on the subregion calculation Rationale: Aligns with Baseline Reliability Projects and the use of different cost allocation methods depending on voltage; Recognizes that local congestion relief is not limited to solutions involving 345 kV facilities
Items Remaining the Same:		
Project Cost Threshold	$5 million	Same
No cost assignment	There is no cost allocation to Planning Regions that do not show benefits from a RECB II project	Same
Cost allocation for 345 kV and above voltages	80% subregional and 20% postage stamp (MISO-wide)	Same
Discount Rate	Based on stakeholder input	Same