

**ORGANIZATION OF MISO STATES, INC.  
EXECUTIVE COMMITTEE MEETING MINUTES  
JANUARY 30, 2004**

**NOTE: Amended and Approved February 27, 2004**

Commissioner Susan Wefald, President of the Organization of MISO States, Inc. (OMS), called the January 30, 2004, Meeting of the OMS Executive Committee to order via conference call at approximately 2:00 p.m. Central. The following people participated in the meeting:

Susan Wefald, North Dakota  
Bob Nelson for Laura Chappelle, Michigan  
Bert Garvin, Wisconsin  
Diane Munns, Iowa  
Steve Gaw, Missouri  
Bill Smith, OMS

Kevin Wright, Illinois

The directors and proxies listed above established the necessary quorum of three (3) Executive Committee members.

**Agenda Item 1: Approval of the December 30, 2003 Executive Committee Minutes**

Comm. Nelson moved that the Executive Committee approve the minutes as distributed from the December 30, 2003 Executive Committee meeting. Comm. Gaw seconded the motion. The motion passed.

**Agenda Item 2: Commissioner Wefald's and Bill Smith's Meetings in Washington, DC**

Comm. Wefald said that she and Bill Smith went to Washington, DC, for meetings. Bill Smith reported that he met with Jimmy Glotfelty and Larry Mansuette at the DOE about projects that might be suitable for OMS and DOE to work on together. There are several such projects and Bill will further describe the projects in his weekly e-mail report. Comm. Wefald noted that the DOE is interested in working with the OMS.

Comm. Wefald said that she and Bill had met with staff members from the offices of FERC Comms. Kelly and Kelliher. They discussed the purpose of the OMS. Comm. Wefald and Bill also met with FERC Chairman Wood and his economic advisor, Rob Gramlich. They mainly discussed OMS procedural issues and the OMS comment schedule and what OMS is expecting in the next two months.

Comm. Wefald and Bill also met with Cynthia Marlap (FERC General Counsel), Dan Larcamp (FERC Office of Market Oversight and Investigation) and Mike McLaughlin (Dan's deputy in charge of the MISO region). Comm. Wefald said this was an excellent meeting and

that they discussed MISO's schedule for its LGIA and its TEMT tariff and how the OMS has a procedural schedule on those issues. Comm. Wefald said she invited FERC staff to share any ideas with the OMS working group chairs about what OMS should put in its comments. They decided to do this through conference calls. Bob Nelson asked if working groups could include FERC staff on e-mails, etc. Comm. Wefald said yes. Mike Proctor mentioned that Udi Helman and Bud Earley have been participating on FTR WG calls. Jan Karlak said MISO staffers are included in RAWG e-mail distribution lists, and asked if she should continue that or involve someone from FERC. Susan said FERC would contact Jan if they wanted to be involved. Bill Smith pointed out that FERC staff are very busy and that OMS WG chairs should only contact them once every two or three weeks to invite their input and keep the OMS on their "radar screen".

Bill also met with EEI about study of siting requirements with Liz Stipnieks. That study is ready to proceed, but needs fine-tuning per e-mails with IUB staff. Bill will circulate work plan for EEI/Brattle Group study. Bert pointed out that many laws recently changed in Wisconsin. Bill Smith said that he would distribute the plan for the EEI/Brattle Group study, or a short version of that plan.

Bill also met with MISO's federal legislative office in Washington, DC. Bill found out that MISO has assigned a key staff person to be a liaison to each state. Bill will try to get a full list and share that information.

Bill also met with EPSA. It was a relationship-building meeting; EPSA is very interested in OMS activity. EPSA offered to provide the OMS with briefing material before OMS Board meetings. Bill advised EPSA that might not be the most helpful thing, since OMS would then have to give the same opportunity to others and then the OMS Board would be flooded with information. Instead, Bill offered to work with EPSA to make sure that EPSA's thoughts are available to the OMS when it is appropriate.

Bill also met with Chris Mele at NARUC. They discussed the federal energy bill. There appears to be some movement in FERC and Department of Interior and possibly other federal agencies to start working on certain elements of the previous energy bill.

**Agenda Action Item 3:        Shall the OMS Executive Committee assign the Seams Working Group and the Market Rules and Implementation Timelines Working Group to work together on a recommendation for the OMS Board on the issue of the phased start up of MISO?**

Comm. Wefald pointed out that the Executive Committee or the Board should determine what working groups are working on what issues so that the OMS can coordinate its work. She noted that both the Seams WG and the Market Implementation WG have expressed an interest in the issue of staggered market implementation.

Comm. Nelson moved that the OMS Executive Committee assign the Seams Working Group and the Market Rules and Implementation Timelines Working Group to work together on

a recommendation for the OMS Board on the issue of phased start up of MISO. There was no second. The motion passed.

Comm. Wefald said the two WGs plan to have something ready for the OMS Board in time for the February Board meeting. Comm. Nelson said there will be a joint WG meeting next week.

**Agenda Action Item 4: Shall the OMS file intervention papers with FERC regarding the Large Generator Interconnection Tariff and ask for a 30 day extension?**

Comm. Wefald said that the OMS needs to ask for a 35 day extension in order to make a timely filing. Comm. Nelson made motion for the OMS to ask for 35 day extension on comment deadline, Comm. Munns seconded. Bill Smith suggested requesting an extension through March 15 to get past NARUC meetings. He recommended that the motion language not change but that Bill will specify 35 days in the pleading. Bill will file on Monday, February 2. The motion passed.

**Agenda Item 5: FTR issue update by Mike Proctor**

Comm. Wefald said Mike Proctor would like to know what information Board members need prior to the February 13 Board meeting and when they need it.

The report that Mike presented is attached below, as suggested by Comm. Wefald. Mike said his draft represents two documents that FTR WG plans to supply the OMS Board – FTR allocation and where MISO is going on the issue of grandfathered agreements. Mike described the draft he sent prior to Executive Committee meeting. He said that the FTR WG met to discuss how to find a compromise allocation method – working from MISO’s latest proposal. MISO recently took straw vote on different elements of proposed allocation methods. He said there was broad support among MISO stakeholders for MISO’s proposed four tier allocation method, and for providing counterflow to make certain types of FTRs feasible. There was some disagreement on how to allocate the cost of such counterflow given hold harmless considerations.

Mike pointed out that OMS needs to address the FTR uplift issue. The FTR WG discussed major issues like uplift sunset period. Mike said that the FTR WG was working on a set of guiding principles and procedures related to uplift – like the set of principles that the Pricing WG created for Order 2003 considerations. The FTR WG’s next meeting will be on February 2. WPPI will discuss specific issues related to the restoration of FTRs. The FTR WG may talk to other people to better understand these issues. Mike intends to send Comm. Wefald a presentation to distribute to the OMS Board by February 6 because the next Board meeting is February 13. Mike said almost every state has been active and that the FTR WG has been working hard.

Bert asked about prospect of resolving GFA issues soon so that we can better review the overall FTR allocation. Stakeholders will really have to think through the impacts of the GFA proposed solution. Mike thinks MISO's proposed treatment of GFAs within the FTR allocation process is fairly reasonable but had questions for Richard Doying. The next GFA meeting will be on February 3.

Jan Karlak asked to be added to the agenda. A copy of Jan's SAWG report material was sent out just before this meeting. Jan said they sent the report to the Executive Committee because of dramatic changes in MISO's plans: MISO's Market Subcommittee rejected MISO's Resource Adequacy White Paper, so the old MISO SAWG rewrote its charter and made OMS RAWG a partner in working through the issues. Should be able to share information better this way. Jan noted that FERC pointed out gaps in MISO's last tariff about resource adequacy and market monitoring plans and directed more work. The MISO SAWG now wants to include OMS but any language that will be in MISO's March tariff filing may not be known until late February. Jan said that Richard Doying said he would try to put in tariff language that reflects current efforts, so MISO's tariff may include interim plan with promise to quickly implement a permanent plan. The OMS RAWG is going to commend MISO for recognizing the states and their different approaches to resource adequacy. The OMS RAWG also plans to recommend that MISO do no financial or reliability harm and that MISO address related seams issues in East and West. The OMS RAWG will hold a webcast conference with participation from the NY ISO and NY PSC and Reliant regarding forward markets.

Comm. Wefald suggests that RAWG develop principles for OMS to adopt, like the Pricing WG did and the FTR WG is going to do. Jan said the OMS RAWG recognizes that there are several difficult issues to work through. Many different factors will affect the appropriate resource adequacy approach, but that we seem to be heading towards some kind of capacity market. There were no other questions for Jan.

Comm. Wefald said MISO told her that on February 11, MISO would issue drafts of tariff Module C (market rules of tariff, but most important) and Module D (market mitigation measures). Then on February 25, MISO will issue a draft of the entire tariff: Module A (common provisions), Module B (transmission service schedules), Module E (resource adequacy and credit provisions), as well as revised drafts of Modules C and D. Mark Volpe (MISO Director of Regulatory Affairs) explained MISO's tariff plans.

Comm. Wefald clarified that OMS WGs are expected to have draft comments on Modules C and D ready by February 18.

### **Administrative Item 1: Approve process for choosing OMS consultants**

Comm. Wefald said that she had asked WG chairs to send a note to Bill Smith and her about need for consultants. No WG chairs asked for help from consultants. Comm. Wefald suggested that this issue be held over until the next EC meeting. Mike Proctor said the OMS may want a consultant to review the OMS comments to FERC. The Missouri PSC will work on recommendations regarding consultants. Comm. Wefald noted that time is running short to find consultants to help with tariff comments.

## **Administrative Item 2: Update on OMS Insurance Portfolio**

Comm. Wefald said that OMS now has a “binder” from the insurance company that says that the OMS is covered for January 1, 2004 forward but nothing has been finalized or paid yet – still in progress. Bill Smith said he did not know what the premium would be, since that is a negotiating point, but that there was “movement in our direction”. There were no questions.

Comm. Wefald announced that the next Board meeting will be on Friday, February 13 at 2:00. The Next Executive Committee meeting has not been set.

Jan Karlak sent out Comm. Wefald’s work schedule to her RAWG. She asked if Comm. Wefald will revise the work plan based on MISO’s tariff filing plans. Comm. Wefald said that RAWG will need to adjust its plans accordingly.

Comm. Nelson moved to go into closed to discuss Julie Mitchell’s employment agreement. Comm. Munns seconded his motion.

# POLICY ISSUES IN FTR ALLOCATIONS

Report to the OMS Executive Committee from  
Mike Proctor, OMS FTR Allocations Working Group

## INTRODUCTION – BROAD POLICY OBJECTIVE

The starting point to understand the policy issues related to FTR Allocations is FERC's Order to MISO dated February 24, 2003, in Docket No. EL03-35-000. In that Order (at ¶64), FERC states (emphasis added):

The Midwest ISO states that its initial FTR allocation has several important objectives: 1) **to hold existing transmission customers whole with respect to congestion-related charges under MISO Day-2 operation to the extent possible given the objective of simultaneous feasibility**; 2) to provide an allocation of FTRs that is simultaneously feasible in a security constrained power flow; and 3) to provide an allocation that is fair and consistent with how the underlying costs of the system are recovered. We recognize that the Midwest ISO has the difficult task of trying to protect parties' existing rights while ensuring that FTRs are simultaneously feasible. While we believe it is important to balance all three stated objectives, **we give more weight to the first objective**. We continue to believe that customers under existing contracts, both real or implicit, should continue to receive the same level and quality of service under a standard market design. We remain concerned that the outcome of the initial allocation, especially the application of a pro rata mechanism, will not meet Midwest ISO's first objective of keeping customers whole.

The Commission clarified (at ¶68) that it was not directing MISO to abandon its proposed simultaneous feasibility test "at this time." Approximately two months later, FERC issued its White Paper. The White Paper states (at 10, emphasis added):

Under the Wholesale Power Market Platform, customers in RTOs that use locational pricing along with network transmission service would have firm physical transmission service, and customers with FTRs would be protected from congestion costs.

... FTRs allow customers to schedule service according to the paths specified in their rights, with no risk of congestion charges. There would also be no risk of curtailment, absent a force majeure event such as the loss of a transmission line.

... In the Final Rule, for RTOs or ISOs that have not already addressed this issue, **these rights would be allocated according to existing contracts and existing service arrangements in order to hold customers harmless**.

The White Paper's Appendix similarly provides specific assurance that existing firm transmission rights would be provided the opportunity for full protection from congestion costs through allocation of FTRs. (App. A at 7-8 & n. 8, emphasis added; footnotes 6 and 7 omitted):

If an RTO or ISO uses location pricing, it *must* ensure that each existing firm customer (including transmission owners with a service obligation for native load) has **the opportunity to obtain FTRs equivalent to that customer's existing firm rights**. We will ensure not only that existing customers retain their existing rights but also that they have the ability to obtain rights for future load growth. Customers who paid for Transmission for load growth can retain the FTRs for that capacity. The FTRs that are offered by the RTO or ISO must, in the aggregate be consistent with the physical limitations of the transmission system.

The OMS' role is to ensure that this opportunity to receive full protection occurs and address how to share possible uplifts when there is a revenue shortage resulting from the FTR allocation process. Appendix A (at 17) states that the OMS is to:

. . . ensure that each existing firm customer receives FTRs or ARR, based on the regional choice, equivalent to the customer's existing firm rights. This includes whether any revenue shortfalls would be recovered through an uplift charge that applies to all customers in the region or over narrower class of customers, e.g., only to customers in certain zones within the region.

The FERC's policy statements on FTR allocation indicate that

- 1. FTRs must first be allocated to protect customers from the cost of congestion they do not incur today under existing contracts and arrangements for firm transmission service.**

Given this broad policy objective, the FERC left to the OMS the policy issue of:

- 2. To what extent an allocation of FTRs could result in revenue shortfalls, and if so, how to collect such shortfalls.**

The remainder of this report will address how the OMS Congestion Management and FTR Allocations Working Group has been addressing these difficult issue.

## **1. ALLOCATIONS OF FTRs TO PROTECT CUSTOMERS FROM CONGESTION COSTS.**

a. Update on FTR Allocation Proposals

In the January 14 Advisory Committee meeting, a vote was not taken on what was characterized as the “Cinergy Proposal.” Instead, the Advisory Committee indicated that it wanted to see an FTR allocation proposal that had broader support among the stakeholders. The OMS FTR Allocations Working Group (OMS FTR WG) held a conference call on January 16, at which it presented to Richard Doying from MISO an alternative proposal, which it believed captured the strengths of the original MISO proposal and the Cinergy proposal. The MISO presented a variation of the OMS FTR WG alternative at the Market Subcommittee meeting on January 20, where a poll of participants at the meeting was taken to determine if there was greater support for this alternative proposal. The poll indicated the following:

- Broad Support for the four-tier approach proposed by the OMS FTR WG.
- Broad support (77%) for OMS FTR WG proposal to add counter flow base FTRs to restore nominated base FTRs that were prorated in the simultaneous feasibility test applied to the first two tiers.<sup>1</sup>
- Support (43%) for direct assignment of counter flow FTRs to those who have historically provided physical counter flow in serving their native load customers., with additional support (38%) for uplifting a portion of the cost of the counter flow FTRs.

The general principle being applied in this alternative FTR allocation proposal is that:

**If an entity was using a base-load generation source to serve its load prior to the MISO Day 2 market, it could not immediately opt out of continuing to do so by not taking a counter flow FTR in the FTR allocations process if by doing so it would result in the prorating of a base FTR that another entity had nominated.**

b. Unresolved FTR Allocation Issues

The OMS faces two issues regarding this proposal for allocating FTRs:

---

<sup>1</sup> For purposes of the MISO discussion, base-load generation is defined as a generation source having a 70% or greater capacity factor. Some market participants that would like to lower this eligibility requirement, even to the extent the intermediate generation sources would be included for FTR restoration if prorated.

**1. Over what period of time should the restoration of nominated base FTRs be restored through the requirement that non-nominated counter flow FTRs be taken?**

The initial proposal discussed by the OMS FTR WG was to limit this restoration process to the three-year period. In a follow-up meeting of the OMS FTR WG, held January 26, an alternative was discussed in which the time period would be extended to perhaps 5 years because this is a more reasonable amount of time to expect transmission upgrades needed to support full allocations of nominated base FTRs without counter flow FTRs. The OMS FTR WG concluded that this is an issue that should be discussed by the OMS Board of Directors.

**2. Are there circumstances in which a portion of the costs associated with counter flow FTRs be uplifted rather than directly assigned?**

In its January 26 meeting, the OMS FTR WG discussed various concerns that had been raised at the Market Subcommittee meeting on January 20.<sup>2</sup> Resolution of these concerns would result in the possibility of revenue inadequacy and the possibility of some form of uplift. As a general matter, the OMS FTR WG concluded that the OMS Board of Directors at a policy level should address the question of uplift before specific applications can be addressed

**2. GUIDING PRINCIPLES FOR UPLIFT OF REVENUE SHORTFALLS FROM FTR ALLOCATIONS**

As was presented by the OMS Pricing Working Group, the OMS FTR WG is currently working on a set of principles that will guide the OMS Board of Directors concerning the uplift of revenue shortfalls that could result from the FTR allocation process. These principles will also cover the MISO's proposal for treatment of Grandfathered Agreements (GFAs), specifically as

---

<sup>2</sup> These concerns included: 1) possible infeasibility of counter-flow FTRs; 2) Not requiring a participant to take counter flow FTRs in a period when the associated generation unit is down for maintenance; and 3) Minimizing the payments from counter-flow FTRs. Resolutions to the first two of these concerns could result in a revenue inadequacy for the MISO.

that proposal relates to and effects the FTR allocation process and the possibility of revenue shortfalls.

**Guiding Principles for Uplift of Revenue Shortages from FTR Allocations<sup>3</sup>**

Principle	Description
1	
2	
3	

The MISO has held meeting on January 21 and 28 at which it has put forth proposals to address several concerns with respect to GFAs: 1) Scheduling requirements; 2) Financial treatment of losses; and 3) Financial treatment of congestion costs. The MISO proposal is:

- 1) Allow GFAs to schedule transaction in the Day-Ahead market, but be subject to imbalance charges in the Real-Time market.
  - a. The yet to be resolved issue is who will be the scheduling agent.
  - b. If the parties to the GFA cannot resolve this question, MISO is proposing an arbitration process.
  
- 2) GFA transactions scheduled submitted in the Day-Ahead market would be directly refunded the difference between marginal and average loss charges.
  - a. It appears that this proposal is generally acceptable.
  - b. Concerns about different losses at different voltage levels will be discussed at the February 4 meeting.
  
- 3) GFA transactions scheduled submitted in the Day-Ahead market would be forgiven (not subject to) congestion charges on the scheduled transaction.
  - a. The MISO is proposing a specific treatment of FTRs for GFAs that would have MISO nominate FTRs in tier 1 for GFAs, but be subject to prorating.
  - b. To the extent that these FTRs over or under produce revenues for the MISO, the difference would be subject to some form of uplift or redistribution.

---

<sup>3</sup> This blank table is meant to indicate that the OMS FTR WG is in the process of developing a set of principles. We have a meeting scheduled for February 2, at which presentations will be made by Wisconsin Public Power Inc. regarding specific situations it faces with respect to counter flow issues and we will also be addressing coming up with principles for uplift.

