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February 23, 2005

Roger Harszy
Midwest ISO
701 City Center Dr.
Carmel, IN 46032

RE: American Transmission Company's Day 2 Operational Readiness Concerns

Dear Roger:

This letter, which was drafted prior to our telephone conversation yesterday, provides additional detail in regard to American Transmission Company's (ATC) concerns than my e-mail to David Sapper of the Public Service Commission of Wisconsin, on which you were copied, sent Monday, February 21, 2005. I propose to schedule a conference call after you and David Zwergel have had a chance to review the contents of this letter. I appreciate your responsiveness to ATC's concerns.

Reliability Redispatch of Generators Owned by Non-Market Participants

ATC is raising this issue here because it is imperative that a process to redispatch non-market participant generation for reliability purposes be finalized, particularly in the case of the Upper Peninsula (U.P.) of Michigan. The U.P. of Michigan is an area that has been classified as a Narrowly Constrained Area by the Independent Market Monitor. Historically, ATC has frequently had to redispatch in the U.P., at times with all available resources, in order to avoid load shedding. Without the ability to dispatch non-market participant generation in the U.P., MISO will likely increase the frequency of load shedding in the U.P. This would be a degradation of service from what these customers experience today and it is an unacceptable outcome to ATC. Therefore, it is imperative that a procedure be in place to activate (dispatch) and compensate non-market participant generation prior to the start of the market on April 1, 2005, to minimize the amount of load shed.

ATC views this issue as requiring a two part solution, the first part being an operational procedure to call upon non-market participant resources and the second part being a methodology for compensating parties for their actions. In regard to the first part, ATC (Mike Zahorik) is working with MISO (Dave Zwergel) to draft an operational procedure entitled, "MISO Day 2 Upper Peninsula Market Dispatch & Constraint Control." A copy of this draft procedure is enclosed with this letter as an attachment. In regard to the second part, ATC (Bobbi Welch and Dan Sanford) has met with MISO (Lori Spence and Kevin Soultz) on February 3, 2005, to brainstorm potential alternatives to compensate non-market participants for use of their generation in reliability redispatch. Three potential alternatives were identified, including: (1) convince non-market participants to register as Market Participants, (2) require host control areas

to consummate agreements with non-market participants to pay for reliability redispatch services, and (3) in the case of the City of Marquette, investigate the ability to classify the termination of a Power Purchase Agreement as the termination of a System Supply Resource (SSR) which would then fall under the purview and associated requirements of MISO's Energy Markets Tariff (EMT). A complicating factor is that the majority of non-market participants are municipals and/or cooperatives that are not subject to FERC jurisdiction and/or the MISO tariff.

MISO representatives (Kevin Soultz and Rick Hensley) are scheduled to meet with one of the non-market participants in the U.P., the City of Marquette, during the latter part of February 2005. Their goal is to sell the City of Marquette on the benefits of participating in the MISO market and get them to register as a scaled-down market participant. In the event that the city of Marquette is unwilling to do this, MISO will need to take further action.

In addition, MISO will need to define what actions are necessary to operate and compensate other non-market participants for the provision of their generation resources as well. For a list of non-market participant generation in the U.P., please reference the enclosed attachment entitled, "MISO Day 2 Upper Peninsula Market Dispatch & Constraint Control."

Access to Day 2 Operational Data

As mentioned in my earlier letter to you, dated February 2, 2005, ATC currently has insufficient access to MISO real-time Day 2 constraint and binding constraint information. In this regard, ATC is working with MISO, under the leadership of Dave Zwergel, to rectify this situation. We are mentioning this item as an open issue here, even though we have made substantial progress with MISO in this regard, because it is imperative that a process to share data be completed prior to the start of the market on April 1, 2005. At this point in time, there are only a few loose ends remaining to be addressed from our original list of data requests outlined below:

1. Comprehensive list of "Coordinated Flowgates" able to be bound
2. List of projected constraints in the ATC footprint (week ahead, day ahead)
3. List of active constraints in the ATC footprint (real-time)
4. Net Scheduled Interchange for each of the Balancing Authorities in ATC's footprint
5. Net Actual Interchange for each of the Balancing Authorities within ATC's footprint
6. RAC for the ATC footprint (week ahead, day ahead, intra-day)
7. Load forecast information for the Balancing Authorities in ATC's footprint
8. Generator availability for the units in the ATC footprint (week ahead, day ahead, real-time)
9. Notification of when a constraint is being bound.
10. Notification of when resources are depleted to the point that there are not additional resources within the market available to solve the constraint.

ATC will be outlining its remaining issues in a response to Dave Zwergel by the end of today.

Completeness of the ATC System in the MISO EMS Model

It is ATC's understanding that MISO's EMS model contains ATC's entire 69 kV system. ATC would like written confirmation of this fact.

ICCP Mapping of All Available 69 kV Data Points

It is ATC's understanding that MISO has not mapped all of the available ICCP data for the 69 kV points to the 69 kV nodes in the model. In fact, it is our understanding that the only value utilized by MISO in the area of the U.P. is the loading on the Indian Lake transformers. As a result, the MISO EMS is calculating values for the remaining points on ATC's 69 kV system where measured (more accurate) values are available. At times, this lack of information (observability) is causing the MISO Reliability Coordinators to draw conclusions that call for less than optimal security actions. For example, on January 31, 2005, MISO Reliability Coordinators requested system separation in the U.P. of Michigan by opening at Hiawatha as the result of an incorrect calculation of loading on the Hiawatha transformer, 65 MVA versus 29 MVA. This action leaves ATC at a heightened level of vulnerability because when we open the system at Hiawatha, we go from a thermal limit to a stability limit. In addition, once the situation has rectified itself and ATC is allowed to close the system back in, this reconfiguration solution again presents difficulties as a result of the large variations in phase angle which make this difficult to do.

As this is a reliability concern, ATC is requesting that MISO complete the mapping of the remaining available 69 kV ICCP points prior to its market implementation on April 1, 2005. ATC is also requesting that MISO apply its Metric 51 standard to the 69 kV facilities in the U.P.

***Metric 51 states:** On all other branches (greater than 100 kV) within the Midwest ISO footprint, the absolute difference between the telemetered flows and the State Estimator flows on transmission lines and transformers are within ten percent (10%) of the base rating. All other branches (elements) will be inside the observable Midwest ISO model. MISO will also complete a benchmark review of the reliability coordinator's contingency analysis results.*

Incorporation of Post-Contingency Actions into MISO's Constraint Binding Process

ATC is requesting written confirmation (and ultimately a process) from MISO that in binding a constraint, MISO will recognize the impact (or partial impact) of post-contingency operating guides as appropriate. The MISO Forward Operations Group indicated that post-contingency operating guides would be permitted during the Security Analysis Focus Group meeting that ATC (Frank Bristol) attended. However, ATC is not aware of any documentation that codifies how this process will be managed and implemented by MISO.

Conclusion

We look forward to working with the Midwest ISO to address these open issues prior to the start of its market on April 1, 2005.

Sincerely,



Harry Terhune
VP, Operations & Planning

Cc: Dave Zwergel, MISO
Ken Copp, ATC