



Network Customer Meeting

February 28, 2008

Regulatory Update

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Transmission Pricing Issues

Inter-RTO

- For what MISO terms “Baseline Reliability Projects” most issues between MISO and PJM were agreed upon
- The sole issue of whether counterflows should be considered in the DFAX load flow analysis (MISO yes; PJM no) was decided in MISO’s favor
- FERC lifted the indefinite extension of time for Cross Border II (economic upgrades), which will be due August 1st, 2008

Transmission Pricing Issues

inter-RTO

- FERC denied rehearing of its *Opinion No. 494* and upheld the continued viability of the “license plate” rate design
- FERC also denied AEP’s Section 206 complaint that alleged that MISO and PJM loads should pay a postage stamp rate for all existing and new facilities. As with *Opinion No. 494-A*, the Commission affirmed the reasonableness of the license plate rate design.

Transmission Pricing Issues

intra-RTO

- FERC approved MISO's use of the license plate rate design for existing facilities, noting that it avoids significant "cost shifts."
- FERC notes that the Midwest ISO RECB process handles the cost allocation protocols for proposed reliability and economic transmission projects.
- FERC rejects MSAT/Wolverine proposal to postage stamp the costs of new EHV projects, citing the lack of widespread stakeholder support and lack of record evidence that projects aren't getting built.

Transmission Pricing Issues

Next Steps

- The PJM and MISO Transmission Owners and their respective RTOs will meet frequently to meet the August 1st deadline to handle economic upgrades that are built in one RTO and also benefit the other RTO.
- MISO and its stakeholders have the opportunity to advise FERC by August 1st how well the current RECB II protocols are enabling new transmission projects to be built (or not).

Post-Transition Transmission Revenue Distribution

- FERC approved the Midwest ISO Transmission Owners' December 3rd proposal to impute transmission revenues that are collected in bundled retail rates.
- The MISO TOs had agreed to make a second filing that would provide detail useful to MISO Settlements staff to administer the distribution of revenues for Schedules 1, 7, 8, and 9.

MISO Schedule 2-A

Compensation for Reactive Power

- Schedule 2-A would only compensate for reactive power supplied/absorbed outside the G-T specified power factor deadband.
- FERC Staff issued a deficiency letter, which MISO and its TOs responded to on Jan 31st.
- IPPs used this opportunity to renew their criticisms of the proposal.
- MISO and MISO TOs may file an Answer to these latest pleadings

MISO Schedule 2-A

Compensation for Reactive Power, Cont'd

- About half the TOs indicated that they'd move to Schedule 2-A from Schedule 2.
- Some protestors pointed at ATC as evidence that the affiliated generation owners are controlling this process.
- The solution for many protestors would be for FERC to condition approval on uniform application within MISO of either Schedule 2 or Schedule 2-A.

MISO Schedule 2-A

Compensation for Reactive Power, Concluded

- Assuming no further requests for information, an order will issue by the end of March.
- FERC might condition approval on uniform application across the Midwest ISO.
- Because MISO asserted software changes would delay effective date for 13 months, FERC may reject the rate proposal entirely “without prejudice” to MISO refileing the proposal pursuant to FERC guidance or conditions.

FERC Assessment

- All load under an RTO is counted as jurisdictional transmission service and therefore subject to FERC's costs. For TPs outside of RTOs, only unbundled service count!
- Several parties took FERC to court over this seemingly inequitable treatment. The Court ruled in the Commission's favor, provided FERC periodically review the justness of this treatment.

FERC Assessment, Cont'd

- Members of RTOs visited FERC Commissioners last fall to request a formal review or rule-making on this subject.
- Some Commissioners seemed sympathetic, but due to the press of other initiatives, to date there has been no action on this matter.
- MISO TOs plan to petition the agency to fix the inequity that they see. ATC wants to know if its customers concur with this effort.

Midwest ISO Module F

- The “Western Markets Proposal” would replace the MAPP Seams Agreement and also expand market participants:
 - Reliability Coordination Service and Interconnected Operations and Congestion Management Service are provided under MAPP agreement.
 - Market Coordination Service would allow transmission providers to participate in the market, but still control their systems and maintain their OATTs.
- Module F would be available to transmission providers that are not signatories to the Transmission Owners Agreement.
 - Market Coordination Customers would not participate in RECB.
 - Module F would be available to TPs electrically contiguous to MISO.
 - Module F participants would initially be required to participate in Module F services for an initial period of three years and renew every year.
 - Module F participants also would be required to pay an exit fee for MISO assets that were placed into service after 12/31/07 for Module F.
- Existing Transmission Owners can choose to pay their exit fees, withdraw from MISO and take service under Module F.

Midwest ISO Module F (cont.)

- Module F would create market efficiencies, enhance reliability and reduce costs to existing market participants.
- ATC supports the intention to achieve these benefits but is concerned that treating groups of transmission owners/customers inequitably could have unintended consequences.
 - Two classes of transmission owners/customers would be created: Those under the TOA would participate in RECB, while those under Module F would not participate in RECB.
 - ATC suggested creating a 3-year transition period after which a Market Coordination Customer would become a signatory to the TOA or withdraw as a Market Coordination Customer.
- Advisory Committee voted to support Module F, which is expected to be filed with FERC on March 3.

FERC NOPR on RTO Reform

- FERC proposed rules to improve operations in organized wholesale markets that focus on the following areas:
 - Demand response and market pricing during operating reserve shortages
 - Long-term power contracting
 - Market monitoring policies
 - RTO responsiveness to stakeholders, customers and consumers
- RTOs will be required to show how they either do, or will, comply.
- Proposal follows 2007 technical conferences and ANOPR. During the process, ATC's suggestions included:
 - RTOs should be required to show that stakeholders have effective direct access to their boards, or file a proposed method.
 - FERC should ensure that reforms to spur greater participation of demand response do not pose a threat to bulk-power system reliability.
- NOPR comments are due 45 days from publication in Federal Register.

● Questions?