Network Customer Meeting

November 15, 2007

Regulatory Update

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Revenue Distribution

- The “transition period” ends in February 2008, after which all point-to-point and network service revenue short-falls (or surpluses) are to be shared among all Transmission Owners (TOs) based on revenue requirement.
  - This method for allocation is currently undefined.
  - How load-ratio-share billing and true-up provisions would be treated when pooled with historic processes is also unclear.
  - Socializing short-falls or surpluses may have made sense in a postage stamp world, but that is not the current environment.
  - ATC’s share of any shortfalls or surpluses would be ~18%.
- It is unclear if the change in revenue allocation is automatic.

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Revenue Distribution (cont.)

- The Ameren complication:
  - A settlement agreement among Ameren, MISO and the MO PSC requires Ameren's bundled retail load in Missouri to take service under its retail tariff, .i.e., the money is not sent to MISO and then returned to Ameren.
  - Under Ameren's interpretation, the company is entitled to recover its *pro rata* revenue requirement from MISO, even though it has not contributed to collections.
  - This would result in Ameren receiving $61 million annually; ATC's share of the shortfall would be $11.4 million.
  - The agreement cannot be canceled until October 2009 at the earliest.
  - Ameren's cost-benefit study on the benefits of MISO membership, released Nov. 1, identifies this revenue source as the largest single benefit to MISO membership and is anticipated to continue for the full ten-year study period.

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Revenue Distribution (cont.)

- The TOs on Nov. 13 voted on the following two motions to clarify the TOA and remediate the issues:
  - Revise the TOA to continue to direct assign Network Revenues.
    - Required unanimous agreement
    - Motion failed
  - File a 205 to revise the Tariff to impute the revenue for bundled load for revenue distribution purposes and seek subsequent filing to clarify definitions of revenue requirement and associated allocation calculation to address concerns of unique network tariff structures.
    - Required majority support
    - Motion passed

Manitoba Hydro

- Under Canadian law, MH cannot share network service revenues as contemplated after the Transition Period, per the TOA.
- The fluctuation of U.S. versus Canadian currency makes calculation of revenue requirements very complicated.
- MH seeks to continue under MISO as to reliability coordination and OASIS posting.

Manitoba Hydro (cont.)

- MH wants MISO to continue evaluating and processing requests for transmission service, coordinate system studies, settle transmission transactions, and administer the Seams Operating Agreement.
- MH agrees to continue paying Schedule 10 charges, and Schedule 16 and 17, when used.
- MH agrees to continue reciprocal waiver of transmission charges between MH and MISO.

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Manitoba Hydro (cont.)

- The principal change to the Coordination Agreement is to opt out of any revenue distribution, in order to comply with Crown statutory requirements.
- Manitoba Hydro will not participate in TO sharing of point-to-point revenues.
- MH sets the transmission compensation for generation in MH to load outside MH and also wheeling through MH zone.

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Attachment FF-ATCLLC

- FERC approved ATC's generator interconnection cost allocation and reimbursement, but the Michigan Public Service Commission sought rehearing, asserting:
  - The eligibility criterion does not properly match enjoyment of benefits with compensation for costs incurred; and
  - That FERC should have inserted a reasonable ceiling (cap) on rate recovery for network upgrades associated with generation interconnection.

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Attachment FF-ATCLLC (cont.)

- ATC on Oct. 5 submitted its compliance filing that reflects revisions directed by FERC. These revisions included:
  - Changing the eligibility portion of the proposal to be consistent with MISO's standard Attachment FF.
  - Removing the originally proposed $400/kW cap on amounts reimbursed to interconnection customers at the 100% level.
  - Revising the cost allocation portion to be consistent with the cost allocation provisions in MISO's Attachment FF.

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MISO Schedule 2-A

- MISO TOs filed a revision to the reactive power schedule, allowing a choice.
- The background of this approach includes:
  - The filing is based on an approach first proposed by Entergy.
  - This approach waived reactive power revenue for all facilities within a particular reactive power output range specified in the interconnection agreement.
  - Many other utilities have had similar proposals approved.
- MISO TOs want "Schedule 2A" to be available on a pricing zone basis.

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MISO Schedule 2-A (cont.)

- The principal objections to the proposal were:
  - The TOs cannot make this filing; they must first undertake a MISO stakeholder process.
  - The TOs must first prove Schedule 2 is unjust and unreasonable before proposing an alternative.
  - Reactive power compensation must have a common scheme across the entire RTO.

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MISO Schedule 2-A (cont.)

- The TOs' answer to the protests included:
  - The MISO TOA Appendix K ("Filing Rights Settlement Agreement") specifically allows this kind of proposal to be filed by TOs.
  - The TOs filed under FPA Section 205 which merely calls for a "just and reasonable" standard; they don't have to prove the current rate schedule is unjust/unreasonable.
  - Compensation can vary across zones; for example FERC approved ATC's and ITC's generator interconnection reimbursement filings.

Post Transition Cost Allocation

- Post transition cost allocation proposals filed with FERC on Aug. 1.
- On Sept. 17, AEP filed a complaint asserting that present transmission rate design is unjust and unreasonable. AEP wants to regionalize costs of all ***existing and new 345 kV and above facilities***.
- AEP's calculations show ATC customers would pay about $6 million more per annum now, and future PJM construction would add to this.
- AEP requests an effective date of Dec. 1, but would agree to Feb. 1, 2008.

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Post Transition Cost Allocation (cont.)

- Most TOs in PJM and MISO, and most LSEs, filed comments criticizing the AEP proposal. ATC joined a protest with Xcel, GRE, and SMMPA.
- OMS didn't like the AEP proposal, though PUCO was in favor.
- FERC likely to act on all these transmission rate design proposals (and the rehearing of *Opinion No. 494*) at its regularly scheduled January meeting.

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RTO Cost Recovery of ERO Penalties

- MISO in April proposed "Schedule 10-ERO" to:
  - Automatically pass through to all of its customers the cost of the RTO's reliability penalties.
  - However, MISO would directly assign penalty costs to a particular customer if the RTO could show that the customer caused the violation.
- FERC in May rejected MISO's request:
  - Filing raised concerns about RTOs/ISOs in general.
  - MISO proposal would give MISO authority that overlaps with NERC, FERC and the Regional Entities.
  - FERC ordered a technical conference to address issues.

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RTO Cost Recovery for ERO Penalties (cont.)

- ATC presented the following positions at the Sept. 18 FERC technical conference:
  - RTOs should not have an enforcement role with authority to assign penalties (this is NERC's/Regional Entities' role).
  - RTOs should be held accountable for reliability functions for which they are registered.
  - Funds needed by the RTO to operate and provide services must not be re-directed to pay penalty costs, since this could pose a threat to bulk power reliability.

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RTO Cost Recovery for ERO Penalties (cont.)

- RTOs should be allowed to pass through the cost of reliability penalties to their tariff customers:
  - Generally – Only through a FPA Section 205 filing (with no automatic pass-through mechanism).
  - Directly to Particular Customers – Only in cases where the RTO has contracted with the other entity to perform a reliability function.

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