



ARR LTTR Presentation

● August 23, 2007

○ Motivation for Change

- The current allocation process attempts to balance the competing interests of:
 - Stability: Rights based on historical transmission usage
 - Flexibility: Rights that change as transmission usage changes with, for example, generation additions or retirements or changing contract positions
- The current allocation rules will fail to maintain that balance over time

○ Issue

- Network Resources designated by Market Participants as required pursuant to EMT Module E form the basis of FTR entitlements
- Changes to Network Resource designations alter the pattern of FTR injections and withdrawals and resulting flows on the transmission system
- To the extent changes in Network Resources increase competition for constrained flowgates, historical rights are diminished

○ Issue (continued)

- Experience in PJM has demonstrated that such flexibility in designation of Network Resources, combined with a linkage between Network Resources and FTR rights provides gaming opportunities
 - Sham capacity transactions may be entered into for the purpose of acquiring valuable FTRs
 - Competition for FTRs on valuable paths increases congestion on those paths and reduces FTRs available to those with prior rights

○ Introduction

- MISO staff proposed changes to the annual FTR allocation process in mid-2005
 - In part to avoid problems experienced in PJM
- The MSC passed a motion on January 10, 2006 to develop new allocation procedures
 - Vote of 31 for and 9 against
 - Motion included a timeline with expectation that revised rules would be finalized for MSC consideration in October 2006

○ Stakeholder Action

- The Transmission Rights Task Force (TRTF) has been meeting since January 2006 to consider changes to the annual FTR allocation process
 - Based on the approved motion at the Market Subcommittee, the current PJM allocation rules were taken as a starting point, including:
 - Auction Revenue Rights (ARRs) and FTRs
 - An initial allocation phase based on a set of fixed historical resources

○ Historical Resources: Objective

■ Goal of defining Historical Resources:

- Assure that market participants are eligible to receive ARR/FTR value commensurate with the value of the transmission system for which they have paid (currently and in past)
 - *ARR/FTR rights based upon historical payments and physical transmission usage*
- Eliminate known gaming incentives and opportunities

FERC Order

- FERC Order No. 681
 - On July 20, 2006 FERC issued a Order No. 681 titled:
 - Long-Term Firm Transmission Rights in Organized Electricity Markets
 - The Order required RTOs to incorporate long-term transmission rights (LTTRs) into existing financial transmission rights markets
 - The order provided regional flexibility, but established seven guidelines that all proposals must follow
- Midwest ISO submitted new FTR/ARR tariff sheets on January 29, 2007 in compliance with Order No. 681
- On May 17, 2007 FERC issued an order that accepted – subject to further compliance requirements - the January 29 filing and directed the Midwest ISO to implement the new allocation rules in 2008

LTTR Guidelines

1. LTTRs as Point-to-Point instruments
2. Full funding of LTTRs
3. Availability of LTTRs for transmission expansions
4. LTTRs must have a term of at least 10 years
5. LTTR priority for load serving entities over non-load serving entities
6. Ability to re-assign LTTRs when another entity acquires the load obligation
7. The initial allocation of LTTRs shall not require recipients to participate in an auction

○ LTTR Proposal Overview

- In order to comply with the May 17 FERC Order, the Annual FTR Allocation procedures were modified in the new tariff sheets to:
 - Transition from an allocation of FTRs to an allocation of Auction Revenue Rights (ARRs)
 - Provide certainty that Network Load may nominate and receive LTTRs
 - In the form of ARRs that may be self-scheduled as FTRs in the Annual FTR Auction
 - From base load generation resources
 - In a quantity sufficient to cover base load (50% of annual peak)
 - For a 10 year period
 - Annual ARRs with roll-over rights

○ Auction Revenue Rights

- Auction Revenue Rights are entitlements to a share of the proceeds of an FTR auction
 - ARR are defined in the same manner as FTRs
 - From a CPnode source (RSP)
 - To a CPnode sink (ARR Zone)
 - For a specified MW quantity
 - For a seasonal on or off-peak period
 - Financial obligations (may have positive or negative value)
- Feasible ARRs may be directly converted (“self scheduled”) in the Annual FTR Auction

Note: FTRs provide a financial hedging mechanism for managing the risk of congestion charges reflected in Day Ahead LMPs.

○ ARR Registration - Definitions

- Auction Revenue Rights (ARR): A Market Participant's entitlements to a share of the revenues generated in the Annual FTR Auction
- Long-term Transmission Right (LTTR): ARRs allocated in Stage 1A of the Annual ARR Allocation process. LTTRs carry annual rollover rights lasting ten (10) years or more
- Reference Year: March 1, 2004 to February 28, 2005
- Baseload usage: 50% of the forecasted peak load for a Market Participant (MP) for the upcoming allocation year
- Year 1: ARR Allocation year for the period of June 1, 2008 to May 31, 2009
- ARR Zones: Electrical areas defined for the purpose of allocating ARRs based upon locations where a Market Participant serves Load

ARR Registration – Definitions (contd.)

- Reserved Source Point (RSP): A resource that has met the Resource Qualification Requirements for an ARR Zone
- Baseload Reserved Source Set (BRSS): RSPs that have 50% or greater capacity/scheduling factor
- Peak Reserved Source Set (PRSS): All RSPs corresponding to an ARR Zone
- ARR Entitlement: The transmission usage, upgrades or other basis for Market Participant's right to nominate and be allocated ARRs
- Eligible Base ARR Entitlements: ARR Entitlement sourcing at a Baseload RSP with an average historical capacity/scheduling factor of 70% or greater

○ Purpose of ARR Registration

- Market Participants are required to provide information that will establish:
 - ARR Zones (Category 1 and Category 2)
 - Reserved Source Points (RSPs)
 - Baseload Reserved Source Set (BRSS) based on the capacity and scheduling factor information
 - Eligible Base ARR Entitlements based on the capacity and scheduling factor information

○ ARR Registration - Steps

- Year 1 will consist of 2 steps
 - Step 1: Initial data gathering
 - Step 2: Registration through the ARR Admin Tool
- Data collected in Year 1
 - Will determine the eligibility of transmission services for the ARR process
 - Will define the set of ARR Entitlements assigned to each MP
 - MPs that do not own generation resources must provide a written approval of the usage of those resources for NITS, GFA and PTP services from the corresponding asset owning MPs during the ARR Registration data gathering process, and the owners must comply with such request.

ARR Registration - Transmission Rights Eligibility

- Transmission services eligible for obtaining Stage 1A and 1B ARR in the Annual ARR Allocation
 - Network Integration Transmission Service (NITS) valid during the Reference Year
 - Yearly firm Point-to-Point (PTP) transmission service valid during the Reference Year
 - Grandfathered Agreements (GFAs)

ARR Registration Timeline

Start Date	Stop Date	Activity
Aug 1, 2007	Aug 29, 2007	Phase I data gathering for NITS - Category 1 ARR Zones and RSPs
	Sep 20, 2007	Phase II data gathering for NITS - Category 2 ARR Zones and RSPs
	Oct 4, 2007	Phase III data gathering for GFA and PTP - Category 1 and Category 2 ARR Zones and RSPs
	Nov 15, 2007	Phase IV data gathering for capacity and scheduling factor information
Nov 1, 2007		Deadline for confirmed Point To Point Transmission Service Requests to be included in Stage cap calculations
Dec 4, 2007	Jan 4, 2008	Phase I ARR Registration in the ARR Admin Tool
Jan 7, 2008	Jan 18, 2008	Phase II ARR Registration in the ARR Admin Tool
Jan 21, 2008	Jan 25, 2008	Phase III ARR Registration in the ARR Admin Tool
Jan 28, 2008	Feb 4, 2008	Midwest ISO to perform post registration validations

Annual ARR Allocation and FTR Auction

- The Annual ARR Allocation will be conducted in March – April of 2008
- The Annual FTR Auction will be conducted in April – May of 2008
- The effective period of the ARRs and FTRs will be June 1, 2008 – May 31, 2009

○ ARR Registration - Acronyms

- Acronyms used in this presentation –
 - ARR – Auction Revenue Rights
 - BRSS – Baseload Reserved Source Set
 - FTR – Financial Transmission Right
 - GFA – Grandfathered Agreement
 - LTTR – Long Term Transmission Rights
 - NITS – Network Integration Transmission Service
 - PRSS – Peak Reserved Source Set
 - POD – Point of Delivery
 - POR – Point of Receipt
 - PTP – Point-to-Point
 - RE – Responsible Entity
 - RSPs – Reserved Source Points
 - SFT – Simultaneous Feasibility Test
 - TSR – Transmission Service Reservation



Questions?

