BEFORE THE

FEDERAL ENERGY REGULATORY COMMISSION

IN THE MATTER OF:

PJM/MISO JOINT BOARD ON SECURITY:

CONSTRAINED ECONOMIC DISPATCH:

Hyatt Regency on Capitol Hill
400 New Jersey Avenue, N.W.
Washington, D.C.

Sunday, February 12, 2006

The above-entitled matter came on for a conference, pursuant to notice, at 12:30 p.m.

PRESIDING:

NORA BROWNELL, Commissioner
COMMISSIONER BROWNELL: Could everybody sit down, please? We're going to try to stay to a semblance of a schedule here. Thank you.

Unfortunately, many people obviously have been snowed out. I do want to take this moment, on a personal level, to thank the many FERC Staff who are here. I sent an e-mail at about 7:00 this morning, saying everybody can stay home; I don't want anyone getting in an accident.

I think the fact that they are here, is either a testimony to their commitment or the fear of letting me do this unsupervised.

(Laughter.)

COMMISSIONER BROWNELL: I choose not to guess which one it might have been, but, in any event, my personal thanks. My thanks to Commissioner Wright. My Vice Chair and Commissioner Schisler didn't arrive. He's probably snowed out on the Eastern Shore.

Many people are attending by webcast. One of my Staff members is coming in by webcast, so I'm not doing my homework here; I'm waiting for her to tell me when to send her something.

Thank you very much for your participation.

As I said before, I think it's the wonderful
beginning of a model that I hope will be continued to 
resolve issues that are thorny and difficult, but because of 
the shared nature of our jurisdiction, I think it will be 
increasingly important to use forums like this to address 
issues that are regional, but obviously have state 
implications.

I'm going to start and talk a little bit about 
process, because that's what we do as Commissioners; we talk 
about process a lot. That is, you have before you, a draft 
that was put together by our Staff, based on the transcript 
and any comments, although there were few comments that we 
received after our first Joint Board meeting.

It is just that; it is an effort to consolidate 
the comments and the themes of what they heard. But, going 
forward, I am going to ask Chairman Schisler and Commissioner 
Wright to take charge of the drafting, because this is 
supposed to be a state report, not a FERC report.

We will happily offer any technical support 
that's required, but we really don't want to have a hand in 
drafting, because I think that defeats the purpose. They've 
already generously offered to do that, in addition to their 
day jobs, and I'm very grateful.

In terms of process today, today's transcript 
will be posted. There will be a 21-day comment period, both 
for Commissioners and outside parties, which will be
considered as they are drafting.

Then there will be a draft deployment. The goal, as articulated by the Chairman, is to have a final draft ready by May 3rd. If required to do conference calls or anything like that in the interim, we'll certainly organize that as the Vice Chairs ask us to do that.

A couple of housekeeping details: Please turn off your cell phones. It's very distracting. If you want to talk on the telephone, please go outside in the hallway to do that.

I shouldn't have to say that, but, unfortunately, we do. Please speak into the microphone. We don't have enough, and I apologize, but it's very important for my friend who is doing the transcriptions, in order to get that right.

I think you have everybody's name, but it's also helpful if you say your name. At the end, if we have time, we'll take some comments from the floor, but this is really the Commissioners' opportunity to explore exactly what is on the paper, what they'd like to see on the paper, and explore other issues.

With that, I'm going to turn it over to the Vice Chair, who is here, Commissioner Kevin Wright.

MR. WRIGHT: Thank you, Madam Chairman. Chicago is not under snow, but I do understand that all flights from
Chicago, from O'Hare to National, were cancelled today, so those from the Midwest may be having a deeply difficult time getting here, as those from the Mid-Atlantic and New England.

Thank you. We will take our task from you, both Chairman Schisler and I, through our staffs, we will work with the Joint Board members and their staffs in developing the final report. A lot of it, most likely, will be done by e-mail, but we will take that charge and meet your deadline of May 3rd.

As I look at it then, we will need to develop a timeline for the development of the draft report. We need to take a look at today's recommendations, to see if there is general consensus on those recommendations.

Are there gaps and holes in the current draft? I think that's a very good starting point, and I thank the FERC and FERC Staff for the development of that.

But are there some areas where we need some further development? If so, is it in the record evidenced now, or do we need to get additional information from the comments that are likely to occur after today, or through data requests or what have you, to adequately shore up areas where there might be come gaps or holes?

Then I also note that there are specific issues that have been raised. Mr. Spinner, from the Virginia
Commission, has raised several issues, as has Commissioner Craig Jergeson and Commissioner Ervin. I also notice that Commissioner Ken Nickolai has a couple of additional recommendations.

All of that needs to be considered and how best we might go about addressing those issues. That, obviously, will be a part of today's discussion. With that, I'll turn it back to our Chair.

COMMISSIONER BROWNELL: Thank you. I'd like to just hand the mike for a couple of seconds to Bill Meroney, who is part of the drafting team headed by Bud Earley, who is snowed in in his back yard, just to review, kind of overall, what the report currently says, and perhaps how it was developed.

Bill?

MR. MERONEY: I just wanted to give you a general overview of the material we put together. It's sometimes called a draft; sometimes it's called study materials, but it's all intended to provide some technical assistance from Staff.

There are really three separate things that we provided: One is the general overview of economic dispatch. It's a general statement of a couple of pages.

Then for each of the regions, we also provided a fairly short description of how dispatch was done in the
regions.

Then, finally, we summarized a series of recommendations. The general overview is really just culled largely from the presentation that was given at the initial meeting.

Again, it's intended to be a reasonably neutral starting point that the Board is certainly free to alter at this meeting, and the descriptions of the regions are also aimed at trying to give a reasonable starting point from which to continue the report.

Finally, the recommendations are culled directly from the record. None of these are Staff recommendations; in fact, we tried extremely hard to be reasonably complete, and, again, neutral.

In the case of this region, there's a fairly long list of things, in a fair amount of detail, but we certainly felt that rolling them up and paraphrasing them, was less effective and more likely to misunderstand, so it's very important to remember that what's here is not Staff's opinion or point of view, but really what we hope is this is a place that the Board can start from today in trying to craft the recommendations on their own.

COMMISSIONER BROWNELL: Thanks, Bill. Unless people seriously disagree -- and this is a democratic process, so feel free to -- I thought that we would start by
letting you ask any questions of Bill in terms of the security-constrained economic dispatch basics or how it is described in the regions, if there are any questions, concerns, or whatever.

Then, we'll largely review the recommendations that are there, where there are concerns, where there is disagreement, where people think there are more to be added, and take up what I think are really some good recommendations by various people.

If anybody disagrees with that process, feel free to do so.

(No response.)

COMMISSIONER BROWNELL: We're used to people disagreeing with us. So, with that, are there any questions of Bill in terms of the opening, the basics, anything you feel was not accurately represented?

Yes?

MS. WEFALD: It's my understanding that the report was written for the PJM-MISO Region. I wondered, when we get to the very final page, 17, recommendations from the DOE for Congress, I wondered whether those recommendations -- how we feel they particularly relate to MISO and PJM, the three recommendations, particularly the first one, *consider conducting in-depth reviews of economic dispatch in investor-owned utilities to determine how they
conduct economic dispatch.*

   Does that particularly relate to PJM-MISO, or
does that perhaps relate more to an area that does not have
an ISO?

COMMISSIONER BROWNELL: If we make it through the
day without knocking down the water at this table, I'll be
astonished.

MR. MERONEY: Or the coffee. We put the DOE
recommendations in each region. We stated them the same
way.

   I think that if you look at the first sentence,
it focuses on investor-owned utilities, but it was thrown
out there as a review. If the Board or any of the RTO
regions wanted to correct it in some similar way, this type
of similar region, that would probably be appropriate.

COMMISSIONER BROWNELL: Susan, I do recall some
discussion at the meeting, that, in fact, there were some
differences in and among the RTOs, that ought to get looked
at in terms of perhaps using different software with
different protocols.

   I think that is also in the list of
recommendations, but I suspect that's what happens to be
relevant. But I agree with Bill, that we could make that
more tailored to what we want to look at here.

   There was even some discussion, if I recall, at
both this Joint Board and the New York-New England Board, about should all of the software be standardized in terms of criteria and protocols, around the country; one, because it drives down costs, and, two, because it gives more transparency in terms of what is actually happening, because the differences tend to yield different outcomes, some more dramatic than others.

That is less true in organized markets than in unorganized markets, but it is, I think, slightly true, although the RTOs may correct me here, but I remember Ben Wiley saying you might want to look at this and standardize it.

MS. WEFALD: I have another question. Should I ask it now?

COMMISSIONER BROWNELL: The floor is yours.

MS. WEFALD: My second question relates to efficient dispatch versus economic dispatch. That's addressed on page 7. Questions are raised about the difference between efficient dispatch versus economic dispatch, but there's quite a difference in how people are viewing those definitions. For example, it was stated in the report that AEP says, one utility, argued that efficient dispatch only considers how well a generator converts the input fuel source into electricity, as measured by heat rate, while economic dispatch improves an efficient dispatch
by taking into consideration, not only the heat rate, but also cost of fuel delivered to the plant, the variable cost of operation and maintenance, transmission losses, transmission constraints, et cetera.

Then it goes on to say that neither PJM nor MISO distinguished between these concepts. After reading this, I thought that perhaps that issue maybe should be resolved in this paper, but then it got to the end of the discussion, so I don't know whether there is a difference between efficient dispatch versus economic dispatch, or whether there isn't, and whether that's an important concept that needs to be distinguished in this paper.

COMMISSIONER BROWNELL: Did you want to comment on this particular issue?

MR. SPINNER: No, that had been up there before.

COMMISSIONER BROWNELL: Okay, I apologize.

I'm open. Although my recollection is that we had a considerable discussion, perhaps more considerable than New York and New England, about the differences between economic dispatch and efficient dispatch, and, in fact, put up one or two studies about the differences, including a study that was done in California by three independent experts in the field, that made a very clear case for this, my question about this is, because I think it was recommended by Commissioner Ervin, what is it more that we
want to study?

Do we want to include more of the studies that have been done? Do we want to ask PJM and MISO to update those studies, based on their experience, using the economic dispatch model, versus the efficient dispatch model?

Do we want to ask DOE, who did comment on this? I think they felt they looked it and felt economic dispatch was, indeed, the better model to use. But I'm not sure exactly what the specific questions are that people would like to have looked at.

I think we need to spell that out, and then I think we need to figure out who is best to look at it. I am assuming RTOs, because they have the practical experience.

I think there is a feeling that, given the disparity between gas prices now and the other prices, that maybe the model has changed. That's kind of my sense of the conversations, both at the meetings and from people who have asked us recently, but I don't know if anyone else wants to speak to this. Kevin?

MS. WEFALD: If the definition of economic dispatch offered by AEP -- is that the one being considered as the basis for this whole study?

That's what I need to know. Is economic dispatch, efficient dispatch, by taking into consideration, not only heat rate, but also the cost of fuel to the plant,
the variable cost of operation and maintenance, transmission
losses, et cetera? Is that the whole concept we're looking
at here, and is that the correct definition?

MR. MERONEY: It's a little difficult sometimes,
to distinguish exactly what people have in mind when they
talk about efficient dispatch and exactly how they would do
it. I think that's one of the issues that's been raised in
the context of some of these discussions.

I think that the issue of economic dispatch does
raise some of these other issues, as well, in any case. But
I think this is more of a general observation, that the
Board needs to decide, just the degree to which it's
important to consider these two issues.

I think the AEP definition looks to me to be
pretty close to the standard definition of economic dispatch
in that it includes a variety of factors in the basis for
the dispatch, rather than just the heat rate. So, to that
extent, the AEP is definitely fairly close to what we
described as the basic economic dispatch.

MS. WEFALD: Thank you.

COMMISSIONER BROWNELL: Commissioner Ervin?

MR. ERVIN: Madam Chair, I just wanted to
reiterate the two questions I raised in my initial comment,
directed to a couple of portions of the draft report, which
sought clarification of whether comments about unorganized
markets within the PJM-MISO region, as it is defined in the order convening this body, or whether we were talking about unorganized markets outside the PJM Region. It seems to me that we ought to be fairly clear about that.

I didn't think that the draft probably -- because you can't think of everything -- clarified that, but I've got a problem with talking about other regions. We're talking about conditions within the region that are outside the PJM-MISO areas, and I think that's an appropriate subject for us to talk about, although I wouldn't contribute very much to it, since I recommended that that question be dropped.

COMMISSIONER BROWNELL: The intent, clearly, is to bring in our comments, to what is, in fact, occurring in these markets, and, to the extent that they inform other regions, so be it.

But that needs clarification, I would agree.

MR. ERVIN: The second question I had was, on the specific statement that appears at the bottom of the paragraph in the middle of page 6, separate dispatches will result in higher costs, it may generally be true, but you've got to do some things in order to combine those activities *have cause, *depending on the circumstances within an area, you could get a situation where the cost of combining the dispatches, might outweigh the combined dispatch.
*I was a little bit troubled by that statement, just because I'm not sure it's nuanced enough.*

MR. MERONEY: I think we can easily agree with that, that the -- this is one of the statements that needs to be qualified, that these separate dispatches will inevitably, other things being equal -- and a lot of things have to be equal -- and there shouldn't be an implication -- I don't think there really is -- that the cost of achieving the dispatch might not exceed the savings, from what we save out of combining the dispatch. That's clearly still an issue.

COMMISSIONER BROWNELL: I'd like to see some quantification, then, of what those costs are that we consider, when we make a conclusion either way. It's a little bit like a cost/benefit study.

I can pretty much make it say anything I want it to. I think we need to understand kind of what we're looking at when we make the statement. Fred, then going around?

MR. BUTLER: I just wanted to comment on the question Susan raised, before we got too far. I think Susan has put her finger on something that's been bothering me throughout this draft, and that is, we talk about definitions and we talk about some alternative approaches and interpretations of those definitions.
I'm not sure we specify as clearly as we should, what definition we're using or what definitions might be close enough. I think your comment about how you saw the draft, having put it together, indicates to me that we may want to go back and be a little more specific, a little more exhaustive in having that discussion of definitions, because that's central to this discussion.

One of the comments I raised in Chicago, was that the whole idea of economic versus other and the impact of it, if we're not talking about the same definition of economic dispatch or efficient dispatch, then we're really talking past each other.

This report is too important to have that happen, so we probably need to spend more time refining it.

MR. MERONEY: That's probably a very good idea. The section on the basics was pretty much followup from the initial discussion that we had. In a lot of ways, it's very close to what DOE did, which people generally said, yes, it's fine, as far as it goes, but it may not go far enough for the purposes of -- particularly for the purpose of when we craft recommendations.

Then we need to be very clear about how you want it. It really is just a starting point and certainly if we keep it at that level, any further things that need to be defined better, that's good, but remember also that from
this point, it's more your report than our report. We're happy to give technical assistance, but the calls that need to be made are yours.

COMMISSIONER BROWNELL: As you're having this discussion to refine it, I would also look at the language in EPAct, as well as the DOE report. The EPAct language would suggest that AEP's definition is correct, but this is your report.

What we don't do is deviate, I think, considerably from accepted definitions had have definitions that are in the eye of the beholder, because I think that will add too much confusion.

Commissioner Hardy?

MR. HARDY: I was one of those in the trenches a number of years ago, and I did a number of drafts. I appreciate the draft. Thank you for doing that work.

We'll kick the draft, but you still did a good job and I thank you for getting started. I continue to have concerns that we are launching into a variety of theoretical benefits, without the anchor of figuring out what it costs.

I know there's a section on page 8 that mentions the need to establish the cost of these benefits. I know it's an initial effort that the RTOs had up and running for a long, long time, but I still fear we'll get to the end of the trail and decide that while a number of useful things,
in the abstract, have been done, it is something that was
done at a greater cost than warranted the effort.

I think a fundamental virtue of this examination
will be able to enable us to go back to our states, our
consumers, and our Governors, and say, yes, this was worth
the candle. We have got a net benefit and it hasn't all
been exercised.

I would continue to emphasize our need to create
that conclusion and support that conclusion, in order to
judge whether we have done something useful.

COMMISSIONER BROWNELL: Chairman Hardy, just for
my own purposes, to clarify, are you suggesting that one of
the recommendations of this study, be to do a cost/benefit
study of economic dispatch or of the RTOs themselves? I do
know that MISO has chartered someone, an independent
consultant, to do some work in that regard. I have no
details.

I just want to be sure, because it's a
frustration to all of us, candidly, that they haven't done a
good job of articulating what that balance has been.

MR. HARDY: There are really two answers: One,
what is appropriate to this proceeding, which I believe is
narrower? I would not be reluctant to see a conclusion on a
broader study of RTOs, but I believe that exceeds or goes
beyond the mandate of this group.
Perhaps you can conclude the virtue of the whole and extrapolate it to one of these specific functions from a larger study, but consistent with what I understand this group to be doing, it would be confined to economic dispatch.

COMMISSIONER BROWNELL: Thank you. Commissioner Spinner?

MR. SPINNER: Thank you. Let me see if I can take a shot at this business of economic versus efficient dispatch. For me, I've heard a lot about this. I did take some time and study a report that was put out by the Public Service Commission staff in Louisiana, which is on point to this issue of economic versus efficient dispatch, as I see it.

In simplest terms, the load-serving entity or the RTO or the integrated utility, whoever is responsible for serving the load, has a load obligation for a particular hour. They have a stack of units to choose from.

Each of those units has some costs, some operating constraints, and there may be transmission constraints associated with serving that load. In my mind, having been in the industry for a long time and just being more of an analyst, the economic dispatch takes into account, these constraints and provides a least-cost dispatch, given these constraints.
Now, in proceedings at FERC, I have brought up this issue of bids versus costs, and whether or not you're producing this at the least resource cost. That's what I'm talking about in my letter.

Not to talk about that just yet, but as I understand this efficient dispatch -- and I may be wrong, there are some other units that may be made available to the entity charged with minimizing costs. If those units are included in the dispatch, if they can be safely included, according to, in a secure fashion, keeping in mind the physical constraints with dispatching those units, it's possible there will be a lower operating cost, if these other units are included, versus what the integrated utility might have.

But, to me, the whole question is, how much is the owner of this other set of units, going to charge the ratepayer for the privilege of including those other units, those alternative units in that dispatch? If the charge for the privilege outweighs the fuel cost savings, then whoever's paying the tab is going to be worse off. That's what I'm looking to do about this, if that makes sense.

MR. MERONEY: Just keeping it within the tacticals here, that's a much more nuanced definition of efficient dispatch than I thought we heard.

The problem I think we had, in part, was, when it
was a little bit early, how do you define it? And if you try to define it generally, it would say you, as was characterized here, you dispatch, based solely on technical efficiency.

That would be a broad-based change in that whole dispatch map, rather than simply including other units, based on some minimal characterization or cost, which would be less than they would be willing to supply to the market, actually.

It's a slight different form of economic dispatch, because it's cost-based, not efficiency-based. One of the problems here, though, is that if you're going to try to tackle this question, as far as the Board, you have to decide how you want to characterize efficient dispatch. I don't think you can characterized it well enough to really tee the question up, unless someone is willing to sort of do that. I don't think we've had enough of a record to do it ourselves.

MR. SPINNER: I think I agree with that. I think I know what economic dispatch is; I don't know what efficient dispatch is.

COMMISSIONER BROWNELL: Could I suggest, in terms of building the record, I'm not sure if the Louisiana Commission study is in, but we should get that in the record. I would also suggest that there is considerable
debate in Louisiana, and I'm respectful of the concern that
we take information from other markets.

But to the extent you wish to do that, that's
fine, but I think we need to get, then, all of the studies
that have been done in Louisiana, because the customers, the
coops, the munis, the industrials, I think chartered a study
by Louisiana State, which takes issue, I think, with some of
the interpretations.

They are duly studied. I will only say that, but
I think we ought to look to what other relevant information
is out there in terms of refining the definition to just
make sure we're not taking only one kind of perspective,
particularly in places where there has been some discussion.

I don't want to confuse it, but there is not
consensus within that state, of what is the definition of
either economic dispatch or efficient dispatch.

MR. SPINNER: If I could just respond, one thing
I forgot to mention was, like I said, I think I know what
economic dispatch is. PJM does that. I don't know, but I
would dispute whether or not it is done at least cost,
because of the bid versus cost issue. I talked about that
in the letter.

For PJM, I don't know that there is some other
way to carry out -- I don't know if there's efficient
dispatch results, because as I understand the way PJM works,
all the units that physically reside in the PJM control area, are available for dispatch.

PJM minimizes that hourly cost of the constraints, based on the bids.

COMMISSIONER BROWNELL: I think one of the tools that is available, is to do any number of data requests to PJM or MISO that we need to do. If you'd like to recommend more data information, and have they looked at these side-by-side and how do they look at them, feel free to do so.

Also remember that we've chosen the option of considerable mitigation in all of these markets, so you're never going to get a pure picture. Commissioner Wefald?

MS. WEFALD: I have another question that I'd like the group to consider as we move forward with our report, and that is, are we looking at this from the perspective of the generation owners or are we looking at this from the perspective of the customers of the generation?

I think there's two different perspectives that need to be enunciated in our report, perhaps. That could be because -- now this is back to an old argument, but it bears repeating, just so that we can understand the stakes here -- that is, locational marginal pricing, as we've talked about on page 4 at the bottom here, the most expensive unit operates and sets the market clearing price for energy; all
sellers receive this price and all buyers pay this price.

So, when we're looking at the cost/benefit ratio, we have a cost/benefit study here. I'm sure you noticed it, too, in your regions. You know, we see the generation coming online and we look at the charge, and we see that at certain times, generation is put on.

Let's say that it's a gas peaking plant and it drives the price up, well, that's a definite plus, I concede, to all the generators, because they are the most expensive units that comes to the market clearing price for energy and all sellers receive this price and all buyers pay this price.

It relates to what Craig Jergeson had said earlier, for the extra power that customers need to buy that that time, that means they anticipate it in the day-ahead markets and the real-time market price they're having to pay. It could be higher than it was when it was just a regional market.

For example, in the upper Midwest, North Dakota and some of the states there, we do not have as much gas-fired generation that we're using on a regular basis, but because -- I'm saying there's not too many constraints across the whole system.

Let's say we need to put on the highest-price unit that comes on in the eastern part of the MISO region.
That drives up the price that customers in our region are having to pay for electricity in the real-time market, and so I can see that this study that we're doing about economic dispatch -- I want to make sure that the lowest-cost unit is going on at each time, based on the criterion of economic dispatch.

But when we do a cost/benefit analysis, I think we have to look at it from knowing what perspective we're looking at it in making that determination of the benefits that are being realized.

COMMISSIONER BROWNELL: Let me just play back and just add an observation. One of the issues that has been brought out is, is the clearing price option the best model? That's the underlying question that you have; fair enough.

And if people want to look at that, I think we did put, as I said, a study into the record that was done by Alfred Kahn, that also looked at this. But I also think, in MISO, we'll need to be careful, because I just spent some time looking at this and visiting with commissions, and one of the issues, I think, is that at the start of the market, people behave oddly.

There's been a lot of very, very conservative activity, both on behalf of MISO, but also the companies, something that I think we need to look at. So those gas peakers coming in, when it does not make any sense, I think,
is a separate issue.

But the fundamental issue of what kind of a model do you want to use, and is it impacted now, as I said earlier, by this disparity in gas prices, you know, may be worth looking at. I think, once again, the question is, teeing up the question, teeing up enough data requests from MISO and PJM, because you might get the benefit of a more mature market and what happened over time, as well as kind of what's going on in MISO, so that you can ask that one question -- not what's happening in MISO at this period of time, but which model is actually better, if I understand it.

Commissioner Hardy -- Chairman Hardy, I'll get it right -- King Hardy?

MR. HARDY: Yes, that's what my wife says.

(Laughter.)

MR. HARDY: She doesn't say it much anymore.

COMMISSIONER BROWNELL: And not when you're out of the room, sir.

(Laughter.)

MR. HARDY: I think you're dead-on with your observation, but it seems to me that we run the danger of the dreaded docket creep, because I think your second question and observation are absolutely accurate and one that I share, perhaps not one that's encompassed within this
docket.

And if that is, in fact, a fair question, are we the ones that determine the scope of this docket, or do we have something that guides us, that will be interpreted by someone on the staff or by the management of this docket, that will let us say this is a great question, but perhaps not here.

COMMISSIONER BROWNELL: Staff can jump in and correct me if I'm wrong, but actually that is, I think, a good point. The bottom line is, Congress did not ask us to look at 4,000 things; they asked us to look at economic dispatch, and I think we ought to be disciplined on that.

On the other hand, if this is an issue that Commissioners do want to look at, I think there should be another day. I don't know whether this is a topic that DOE at some point is planning to look at, or whether there are some people who think the question has been asked and answered, but I agree with you; I think it's really important not to use this vehicle as a chance to revisit everything we now would like to revisit.

That is not to say that we shouldn't always be challenging what we do, but I think that's a good point, because this could get hijacked and have no meaning at the end. So, I appreciate that.

Staff -- I'm sorry, Commissioner Wefald?
If I could just follow up on that, I want you to help me understand the focus. That is, the focus is on when you do a cost/benefit analysis of economic dispatch, you're only looking at the economic benefit to the generators who are involved; is that our focus?

COMMISSIONER BROWNELL: My own view is --

MS. WEFALD: Because you're wanting to make sure that the most efficient dispatch goes on in a timely manner, and when you do a cost/benefit analysis of that, you're only doing it on the basis of assuming the principles of locational marginal pricing and looking at it on the basis of, is everyone -- are the costs -- what the cost/benefit analysis that is only based on what -- because we're talking about cost/benefit analysis studies here.

What is the benefit that the generators are getting? Do they have their own costs covered; is that the benefit?

COMMISSIONER BROWNELL: My own view is, not, because the studies I read are that although it seems counterintuitive -- and I know we had this debate in our office forever -- the benefit to the customers of this model are borne out by experiences in the markets and in other markets, as well, is that, over time, the benefit to customers is a lower cost, overall.

But that's just a conclusion of the studies that
have been done. If people want to do another one, that's fine, but I don't think Congress asked us, nor did we ever approach anything with what's best for the generators or the transmission owners or whatever part of the sector.

I think it's what, overall, delivers the best price, over time, to the customer. If anybody disagrees with that, I can't imagine doing a study of what's best for the generators, because I don't think that's our job.

Chairman Hardy?

MR. HARDY: That's well thought and well stated, but it still seems to me that while it does come sort of backing into cost/benefit, we're still a smaller task here. That's simply dispatching the system.

If we want to argue about how the energy is priced, then I think that's a different concept, although certainly it's related. But I don't think it quite fits here, at least as I understand that.

MS. WEFALD: I understand the difference, versus the cost of what's the most economic dispatch versus the final price that people pay for that. I understand your distinction, that there was a difference there. Thank you.

COMMISSIONER BROWNELL: David Sapper, who, by the way, is one of the unsung heros of the Midwest Market.

MR. SAPPER: Thank you.

COMMISSIONER BROWNELL: You had better be well-
behaved here.

(Laughter.)

MR. SAPPER: I'm nowhere in the upper echelon where Mike Proctor resides, but I appreciate that.

I think I see a connection, although I think it would be useful to do studies, gather data from both MISO and the PJM, the same sorts of data to take advantage of the methods and the more nascent markets. But I don't know if that's absolutely necessary to get into Commissioner Wefald's objective that she's throwing out here, to examine SCED operations from the perspective of the producer and the customer.

I think that one approach that does that, is the one offered by Mr. Spinner, to some extent. It tells you a lot about what the producers -- how they fare, as it relates to the SCED and the day-ahead markets.

All we have is the market clearing price, where the demand and supply curve intersected, but we don't know much about the demand curve, so we couldn't get to a really complete picture of the benefits to customers, but I think it's a nice start towards not killing two birds with one stone, but only seeing the extent to which SCED has operated in MISO/PJM and achieves at least, it seems to me, the definition that Congress adopted and also get at least half the picture of the different points of view.
COMMISSIONER BROWNELL: Help me explain -- I thought what I heard you describe, is, look at it in terms of the impact of the producer, which I don't think that's the whole picture. So help me, I don't know how that would be of value, because you're getting -- you're only getting half the picture.

I think that could be misconstrued in a whole bunch of different ways.

MR. SAPPER: In my mind, you would seek the data that Mr. Spinner has suggested, then you would construct different scenarios making different assumptions about basically the demand curve. Then you can get various estimates of consumer surplus in economic speech, and then the rest of the data would be basically various estimates of producer surplus.

Put those two together, and you get the overall benefits of the SCED through the markets that we see today. So, I appreciate the point.

The data request would only be half of the information, but I think we can put the rest together through different scenarios.

COMMISSIONER BROWNELL: It's up to you. I just want to be representative. I'm going to turn this over to my Vice Chairman, but first, I'm going to ask the Staff to speak on the issue of what Congress intended and the scope,
and what options there are for the report to address things
that might not be outside the scope.

I think Chairman Hardy has reminded us that we
were charged with a specific task here, so, to the extent
that you guys have spent a lot of time thinking about this,
do you want to make a comment? This would be Mary Orton,
who tells me what to do on a daily basis.

MS. ORTON: I'll observe that certainly those of
you who are participating or sat in on the Chairman's Joint
Board this morning, he raised a number of times -- he
essentially urged his Joint Board members to kind of think
hard about what was Congress's intent in terms of the scope.

The issue of sort of what is within the scope, is
kind of at two levels: Step one, clearly, is the Joint
Board's report, and that means it's up to all the Joint
Board members to kind of decide what they think Congress was
asking in terms of scope.

Then once the report comes to FERC and FERC is
handing it over to Congress, if FERC felt that something was
beyond the scope, it would have the option of reporting in
its report on the Joint Board reports that somebody maybe
was beyond the scope. But I think the first step, as I
think the Chairman was kind of working up this morning, was
for all of the Joint Board members to kind of decide what
Congress intended you to take a look at.
MR. WRIGHT: Thank you, Mary. I think that's right. I certainly don't claim to corner the market on what it was Congress intended, although certainly we can look at that language and try to divine what it is that Congress wants in addition to what the Joint Board members here have described.

I would just caution, not in an effort to derail or minimize certain concerns that have been raised, but to understand that we do have a reporting deadline that is around May, that we try to keep confined to what it is Congress charged us to do.

While there have been a number of issues raised that may fall outside the scope of the meeting here, perhaps those are things that are next steps after this report is issued and FERC issues it to Congress, that we could pursue.

But I'm -- while we want to give attention to these issues, I'm a little concerned about the undertaking that is being described here. Perhaps through some selective data requests to the MISO and to PJM, that describes benefits and detriments of the bid-based approach or cost-based or whatever, perhaps we can get at some of that.

But I would caution this Board on undertaking a huge study, by which we may not be able to ascertain the information to meet our deadline. It may very well be
outside the scope of what we're charged to do, at least at this point. Perhaps we can put that on a list of things that need to be studied in the future.
For our immediate focus let's try to stay focused and disciplined and do what we need to do to put in the basic report, which we can build on later.

COMMISSIONER BROWNELL: I would also offer this observation: Mary is correct. We could as part of our review of your report say 'We think these things need to be studied.' Obviously, so can you.

The second thing, I think, just in the 'why not' category, ask PJM and MISO, to the extent they have data that they would like to put in the record on this issue, certainly they're welcome to do so, encouraged to do so. Then you can draw your own conclusions as to whether that fits your needs or further work has been done.

Commissioner Ervin.

MR. ERVIN: Essentially you said what I was going to say. But I think one thing we do need to think about is if we are attempting to try to determine what is our scope -- and this was somewhat in the e-mail that included, too; I'll go ahead and say it now since we've gotten to this point.

It seems to me that we are talking about security constrained economic dispatch. Essentially the security constraint is, generally speaking, the existing infrastructure that you've got, what are the limits on the transmission system, what are the congestion points, things
like that, and in a way to try to cut off converting this process into a how would you fix the world if we could kind of an exercise. We maybe could bring the recommendation for the purpose of recommendations that would accommodate the existing infrastructure because that change would improve the infrastructure. It's very important and it needs to be looked at by somebody in some capacity.

COMMISSIONER BROWNELL: Build transmission.

Jimmy, I love ya. But let me make sure I understand.

That is, as perhaps part of the report, you would suggest this is the state of the art as it exists today. These are the barriers to a more efficient, or better -- more opportunity created for this model if we had, for example, the elimination of transmission constraints or consistent software or whatever.

MR. ERVIN: Madam Chair, that's essentially the way I've been looking at it. I would agree with that because as I understand the genesis of this whole process was DOE and this Joint Board. There were concerns that dispatch was not being done economically. And what we've been asked to do is to try to ascertain whether those concerns are legitimate or not. I think that's the core charge that we've been given.

COMMISSIONER BROWNELL: That's my understanding.

Thank you. Yes.
MR. JERGESON: I guess my question kind of follows on the questions that Commissioner Wefald has been raising, and that is the attention that this report should be paying to the outcome for consumers. I don't think that's going beyond the scope of what was anticipated by Congress to say that's something we need to look at and determine whether or not the implementation of various strategies is in the interest of ultimately the consumers out there who end up having to pay these bills.

I remember when I first got involved with all this going to a workshop in Chicago and there were all sorts of representations being made about what various things were going to happen. And finally I said, 'well, but to this layman, what does this mean to the widows and orphans in Montana.' And nobody could give me an answer. That's still the question that needs to be answered on any of this.

And I can't imagine the Congress would expect us to answer any other question. All of this is so much tactics and strategy to arrive at that. It's coming up with something that provides us first, apparently, to consider how such a mode of operating an electric energy system affects or enhances -- and there are two words in there -- reliability and affordability of service to customers.

I don't think focusing on the customer outcome is
an expansion beyond what Congress anticipated for this Board.

COMMISSIONER BROWNELL: And I certainly would agree. The only response I would have is that this is not what FERC said. This is a reflection of what was in the transcript. This is FERC's summary of what was discussed; not what FERC thinks. I want to just hold that thought. Bill.

MR. MERONEY: The reliability and affordability language is out of the legislation. In general, that's there.

COMMISSIONER BROWNELL: Commissioner Nickolai.

MR. NICKOLAI: Thank you, Madam Chair.

I hesitate to get into this discussion, but I'll offer up this for purposes of our report. We got into this discussion because Susan and others felt that the report was implying that we already knew that there were plenty of benefits relative to cost. Maybe what we just need to do is, as we draft this early on, we need to make it clear that some of the cost-benefit issues really are outstanding and there are questions out there that need to be further explored.

I think we need to analyze it just a little bit differently. We've got the one issue of what are the benefits that are accruing in the current system, which is
the market bid system; and then there's the other question
about would there be more consumer benefits if in fact we
used more of a cost-based approach.

But then there's another factor to this. And
this gets back to a point that Susan and Greg are making.
If we're trying to look at the ultimate consumers we have to
keep in mind that each of us is, as state regulators, are
really responsible for another layer of this. How much of
this and in what way are the customers in our states going
to see these costs. Let me give you an example.

In each one of our states there are base rates.
Some states have automatic adjustment clauses. Well, in
base rates now some of the costs associated with the buying
and purchasing of power, trading from the old system are
still on those base rates. So we can't go too far in doing
some sort of cost-benefit analysis to say what the actual
impact on the customer is unless you look at it on a state
by state basis.

It's our responsibility to make sure that
whatever those wholesale level costs and benefits end up
being that we also then look into the level in the states
and what we do with it. We don't want to go there other
than just mention that those are things that will need
further exploration for purposes of this report.

MR. SPINNER: The issue about bids versus costs,
let me just try and set forth my position a little more clearly, if I could.

Again, I'm not a lawyer, but reading the law, this is about affordability and lowest cost to reliably serve consumers. I think Congress is -- It would be reasonable to look into whether bids are a cost-based system to best serve customers. But if you determine that the bid-based system was not performing as well as it could, it doesn't mean that you necessarily scrap that. Again, it's just a way to try and inform one about how the mitigation procedures are working in these RTOs.

Whether or not now is the time to change the capacity ratio, whether or not generators need more money in a capacity payment, in an RPM or LICAP, I know these are issues before the Commission now. To me, looking at bid versus cost is really about how the market is working. It's not to argue for, hey, a big system, or it's not to argue for a return to cost-based regulation. It's how the market is working.

Unfortunately, because I know a lot of these people, this means you have to ask different kinds of economists and others -- but essentially economists -- their opinions about some outcomes. And that could lead to a hell of a lot of debate. I'm sorry for that, but that's what my interest is in this: Seeing how well the markets are
working for the purpose of trying to improve them if they're not working as well as they could be.

COMMISSIONER BROWNELL: Mr. Spinner, I actually have a greater concern about -- sorry to the economists of the world now -- asking the economists -- we have a lot of theory, but I think the benefit to the development of markets is we also now have some facts. So we can ask the economists their opinion based on the facts that are in the record.

But I think one of the issues that I hear raised around the country is, okay, theory told us to do this. Is the theory working? I don't want to get in the debate of the economists. What I want to do is take a look at what you -- What has been discussed is what is the impact of the regime that we have on the customer; what are the barriers that would get in the way of delivering more benefit. And to the extent that the record leads you to conclude that alternative regimes need to be considered, that's up to you.

I would encourage you: let's get away from the theory and look at the actual reality of the markets because I think it's the theory that some people are now saying, well, wait a minute; it doesn't work. We've been test-driving. Let's look at the outcome.

Commissioner Wefald.

MS. WEFALD: I'd like to move on to a more
specific issue included in this report on page ten. It talks about -- This is issues that people brought up earlier and that we may want to comment on.

Under Section B, Specific Dispatch Issues, and you go and you find one is sufficient transmission infrastructure needed to realize the full potential of SCED, and two is transmission planning process and how that is working. And the third is the possible topic of transmission investment, transmission pricing and cost allocation.

We've made significant advances since we met in November because we have filed a cost recovery plan for new transmission investments with FERC. And the FERC ruled recently on that transmission pricing plan for the transmission. And they said it's going to be rehearing one particular issue. But most of it was accepted by the FERC; at least that's my understanding.

Perhaps we want to comment on the fact in our report that we have made progress on this cost allocation, cost recovery for transmission investment issue and what has happened since we met together in November with regard to this matter.

COMMISSIONER BROWNELL: Good.

Any disagreement?

MS. WEFALD: Maybe that's a recommendation and
you wanted to cover that later.

COMMISSIONER BROWNELL: I think we want to finish here would be my -- I think we've teed up the issues around a couple of big issues at least, I think. I'm going to leave it to my vice-chair to make sure that discussion is fully developed. I think any comments on the kind of body of the report -- and we all have a list of the specific recommendations, some of which have been covered, some of which haven't.

But I'd like to move there, and then also get to the additional recommendations, unless there's any disagreement out there.

(No response.)

COMMISSIONER BROWNELL: At any given moment if the group wants to take a break, we're scheduled to go until three. And, as I've said, Michelle will be beating me about the face, but if you want to take a break about two o'clock, we can do that. I think everyone has the discipline to not get captured in hallway conversations.

Any other comments on the body of the report? Can we move on to the specific recommendations that are on the sheets?

Mr. Spinner.

MR. SPINNER: Sorry. Just the specific -- This part of the meeting was opened by an opportunity to ask Mr.
Meroney some questions.

While sitting at my desk one day I received an e-mail. Somebody said take a look at the Public Utility Spark, an on-line publication. In that publication someone had written a summary of the November 7th DOE report. Part of that summary talked about the recommendations. Those recommendations are the ones that you've listed in this report at the end on page 17, minus one of the recommendations that was in the DOE report which didn't make it into the list.

On page 17 was that recommendation, if you will, that I included in my letter about what one party or one industry observer proposed, is a study of an area that if one did have economic dispatch in real time markets, it compared the market clearing price outcomes and total cost against the true production costs of actual units dispatched. I was wondering why that wasn't included.

MR. MERONEY: I think if we left that one out it was probably largely -- it seemed not so much outside of the scope in terms of being technically relevant, but just that doing that study itself seemed beyond the scope of what the Board could accomplish in the time allotted.

MR. SPINNER: Thank you.

COMMISSIONER BROWNELL: And, Mr. Spinner, I think it gets back to the point I think that Chairman Hardy made
and others made. To the extent that the charge here and the
record here does not lead you to answer all of the questions
you have about the marketplace the Board can if they wish
include recommendations for further study, as can the FERC
itself. So I think that's an option.

You have certainly made clear what your
preference is, and that's subject to further conversation
with the Board.

    MR. SPINNER: Thank you.

    COMMISSIONER BROWNELL: Any other comments on the
body of the report?

    I'm sorry, Commissioner Ervin.

    MR. ERVIN: Based on what you've just said, I was
essentially going to say I think there's a difference
between what Howard is recommending and the kind of stuff I
was expressing concern about earlier in that if we are
supposed to look at the issue of are we in fact doing
security constrained economic dispatch within the PJM/MISO
area, the answer to that is either yes or no given the
statutory definition, depending on the relationship between
the bids and the cost.

    I believe this was the reason I had supported it
in my e-mail. I think his study, proposed study goes to the
heart of whether security constrained economic dispatch is
in fact resulting from the operation of the market. That
would be a different question than looking at the markets overall and asking are they a good or bad thing.

COMMISSIONER BROWNELL: And it would be my hope that MISO and PJM are prepared to submit data for you that may answer some of these fundamental questions. It may require further study, to be sure. But once again, I know that we have representatives of PJM and MISO in the room.

It would be great if you could make sure that to the extent that data can be made available expeditiously -- you don't have to wait the 21 days to facilitate the work of the Joint Board -- we would appreciate that, understanding that whatever you submit, of course, 47 people will also disagree with. But that's part of the Lord's work.

Commissioner Wefald.

MS. WEFALD: Sorry.

COMMISSIONER BROWNELL: Are we ready to move on to the specific recommendations?

(No response.)

COMMISSIONER BROWNELL: All right. Then I'm going to hand this over to Commissioner Wright because I'm tired of my own voice.

MR. WRIGHT: I'm not. It's actually a bit of a surprise. I thought I was just another name up here.

I think the task for the group now, with this Attachment C and the recommendations that were found in the
record, is to go through and see if there is a general comfort level in including these recommendations in our report or what other steps need to be taken. There are several here listed on Attachment C, on pages one and two and three and four, some of which I note are some that I suggested, which I will designate where so it accurately covers or covers in part because some of this may need to be scratched out because the report was done in 1983. I’ll be addressing some of those.

With that, I will open up the floor for Attachment C, the Recommendations for consideration by the Joint Board for comment in terms of your comfort level and where we need to go from here.

Our Chair.

COMMISSIONER BROWNELL: Thank you.

On the first issue of developing a long-term planning process -- and this is a very selfish request of mine -- I would hope that the Board would consider what criteria you would look at in defining what is an adequate long-term process. By that I mean what are the elements that get looked at, who is included in that decision making process.

My own concern, and I hear this in all of the regions of unorganized and organized markets is that it's a limited club that looks at transmission, and in some cases
some of the outcomes benefit incumbents and don't necessarily deliver the value to customers that we would like to see from a long-term inclusive process. It also doesn't include new technologies.

I had an e-mail from someone last night, actually, after my visit to Minnesota and Missouri that said 'part of the reason we're not encouraging and seeing new technologies is that we still are incenting incumbent transmission owners to put as much big honking stuff in rate base as they possibly can as opposed to technologies that may not be as expensive and may bring more efficiencies. That's an observation that I hear increasingly.

And then the third aspect of transmission planning that I'm not sure I'm seeing here is some of the short-term fixes that one might look at that are not necessarily that expensive but that would add enormous efficiency to certain congestion points. We looked and raised in some hearings one that would actually facilitate some of the constraints coming into Washington, D.C.

So I don't know the answer. It's something that increasingly I'm concerned that we may not in fact get the benefits from economic dispatch because we're not really looking at the right criteria in an inclusive way in the transmission planning process. Candidly, the voluntary nature of how RTOs were developed may limit the RTOs.
And I think Commissioner Nickolai is going to speak to this ability to kind of push these. And I think maybe we could have state commissions on a state by state and regional basis perhaps push that more. I would just add that observation. We could do all we can with economic models and then limit the impact by inadequate infrastructure. I mean many different aspects of transmission infrastructure, not just 500 kV lines, although those are nice, too.

MR. WRIGHT: Thank you, Commissioner Brownell.

Further discussion.

Commissioner Wefald.

MS. WEFALD: This is supposed to be specific to the PJM/MISO region. And echoes -- I believe Commissioner Ervin had a comment earlier that there are some comments in the report later that talk about what's happening in other parts of the country as well as in PJM/MISO. And so is this specific to PJM/MISO? Because it's my understanding that both PJM and MISO have a long-term transmission planning process that is collaborative and inclusive. I don't know if it involves federal regulators, but I do know it involves state regulators, RTOs, local transmission owners and wholesale customers.

So what is the basis for this particular recommendation for our region? To make sure it involves the
federal regulators as well? Or are we saying that the process we have in both of those areas we're not happy with?

COMMISSIONER BROWNELL: I don't know who made this recommendation. I don't remember who made it.

But I would suggest to you that we have had any number of complaints -- from customers, from alternative solution providers, in some cases from the states themselves -- that the process is not working as described. It's one thing to say all those things on paper; it's quite another to say them -- to actually implement them. And so I would suggest in fact it's not that federal regulators be included.

The point is that the people who are supposed to be included have responded -- including some state commissions -- in a way that would suggest the process is neither as transparent or inclusive, nor considers the variety of options that they would like to see considered. I don't recall who made the recommendation, but that would be my point and that's based on what I've heard from both PJM and from MISO participants.

If somebody's here who made the recommendation, speak up.

(No response.)

MS. WEFALD: I know the recommendation, and I think it should be a bit more specific about what PJM and
MISO would like to see addressed because, if I am reading this, I thought I really had a transmission process -- planning process in place. I don't think that a lot of changes are going to occur in it unless you can state a bit more specifically what things need to be addressed on the demand side, whether it is planning, specific groups of people that need to be involved, et cetera.

COMMISSIONER BROWNELL: I would encourage comments on that from the people who have been commenting to me. And welcome to Commissioner Chappelle.

MR. BUTLER: I did not make this recommendation. But as you are well aware, New Jersey is a state where we need the transmission to get out of the near-term or future problems that might be coming down the road. I would support something like this being here.

My next question is: Is it your intention that we should clarify these recommendations, or is it something we can do by writing in the near term? How are we going to proceed with this, I guess is my question.

MR. WRIGHT: I haven't necessarily cleared this with my co-vice-chair, but I think our intent would be after today that could be clarified. Both Ken and I are willing to coordinate the final drafts through our staffs with Board members and their staffs. And perhaps this particular recommendation is one where we need to do some e-mailing and
some discussion back and forth to firm up what we want this
particular recommendation to say.

    I would agree with Commissioner Wefald. It's
very clear that PJM and MISO have long-term transmission
planning processes and plans. Folks may not like the
outcome of those but they are in place and they appear to be
-- at least the MISO one that I'm familiar with -- very open
to stakeholder participation and disagreement.

    But if we can clarify and define, I think that's
something that we can begin after today, a process that Ken
and I will try to honcho with you all and our staffs.

    MR. BUTLER: That's fine. And we will comment on
this.

    COMMISSIONER BROWNELL: I think the goal of this
process, once again -- if anyone disagrees -- is just to go
through these and make sure that where clarification is
needed we can identify that; where we may have
misinterpreted an interpretation. But obviously all of
these -- and the record actually has some clarification --
the staff attempted to summarize to make sure that we hit
the high points of the information right.

    With that, then, we'll move on to the next dot
point, a series of points. If there are comments or
questions Board members may have in terms of the specific
recommendations and the need for clarity.
Susan. Commissioner Wefald.

MS. WEFALD: Thank you.

This relates to my earlier comment on the fact that at least in the MISO region our cost allocation methods have been developed for when new transmission is built. I'm not sure where that issue is in PJM; but we perhaps would want to again comment on where we are with those, with both reliability and economic upgrade. And we may want to comment on, for example in the MISO region, we know there's a whole other step in that process that needs to be completed this year.

And also the ones that are for regional -- What is the correct word? -- regionally economically beneficial projects or something that still need to be developed. And we're anticipating that that would be filed with the FERC in June. So perhaps we could put a short summary of what has been happening in both regions. We don't want this paper to get exhaustive, but again to show this has developed. And I think we want to go in that area for new transmission that's being built, both PJM and MISO.

MR. WRIGHT: Thank you, Susan.

Chairman Hardy.

MR. HARDY: At the risk of being practical --

COMMISSIONER BROWNELL: Oh, please, God, do.

MR. HARDY: This is a grassroots movement. We're
trying to get it to spread.

Realistically -- and a lot of these are great stuff -- I just don't see that given the sixty days, roughly, that we have before we have to file a report -- May the 3rd -- that debating the individual issues really comes down to can we get something useful assembled in the time available that is responsive to the point. Great points. But I think it's more points than we have time for.

MS. WEFALD: You don't think we should comment on developing appropriate cost allocation if it has already been done? We should remove it from the list?

MR. HARDY: I think someone needs to look at the list and say 'This is doable within the time available' and make that determination solely based on time rather than merit.

MR. WRIGHT: Commissioner Wefald.

MS. WEFALD: So what you're suggesting is rather than comment on each of these specific recommendations that we would pick and choose which ones of these we felt were most important to comment on, and shorten the list, rather than -- because you're saying that our report does not need to cover these.

MR. HARDY: My opinion is that the report can't cover all of these, given what we have available to answer. If we've got three or four general things that we really
believe we can offer a useful opinion on, that I think would better serve to do a better job rather than a cursory job on a number of points.

MS. WEFALD: And what you're suggesting -- I'm sorry for the back and forth here --

COMMISSIONER BROWNELL: No, that's what this is for.

MS. WEFALD: If we feel that we've already done some work on appropriate cost allocation for both reliability and economic upgrade, do we scratch that one?

MR. HARDY: Yes.

MS. WEFALD: Say that is not an important one.

COMMISSIONER BROWNELL: No, I wouldn't judge it. I would simply say we don't have time to do this.

Could I offer a comment?

MR. WRIGHT: Well, let me throw one out. And wasn't really my intent to go bullet point by bullet point, but more to get a discussion if there was a particular bullet point that folks had particular problems with or could not accept, or if there were other recommendations that are not included here that maybe we ought to consider.

I do agree with Chairman Hardy that we may want to -- certainly I won't say cut back on, but only identify those that are probably the most prominent. And where we can reach agreement, that's fine today. And that can
certainly carry on after today as we communicate back and forth.

To narrow this list is something a little more manageable.

COMMISSIONER BROWNELL: This comes as a surprise to people that I'm actually going to offer a compromise. But I can appreciate both of your viewpoints.

One observation that I would make is we don't have to have -- as we talked about earlier, these are things that may in fact need further work in order to leverage or maximize the benefits of the current model that we're using. You don't necessarily have to spend the time saying 'and here's the right way to do it.'

I completely agree: There is no way we will get this done. But in my opinion it might be of some value to provide some guidance as to further work as the OMS and OPSI kind of prioritize what they want to do. That's just my opinion.

Commissioner Ervin -- I'm sorry, Commissioner Butler.

MR. BUTLER: I want to reiterate: I want to support what you just said. That's what I raised my card to say. We're not expected to do all of the work involved with some of these points that we're going to be raising that need to be considered as we go forward with this report.
The report, as is stated on page two of the draft, we're supposed to make recommendations with the commission regarding issues of how the mode of operation of the system affects or enhances reliability and affordability of service. Commissioner Jergeson brought our attention back to this point. We would be I think remiss if we did not highlight -- not do the work, Chairman Hardy -- but highlight some of the areas, as you said, Madam Chair, that need to be attended to going forward that may need more study going forward. I think that's part of our responsibility.

MR. WRIGHT: Thank you, Commissioner Butler.

Commissioner Ervin.

MR. ERVIN: In a slight variant of that, this list of issues really falls into two categories. It goes back to something that I said in the e-mail. I think a number of them -- I'm not going to give you an exhaustive list -- transmission capacity, a lot of that stuff -- they're all exceedingly important questions, and I think they're worthy of further study preferably by some body like this. But I've got reservations, as I said earlier, about whether they are within the scope of the charge that's been given to us.

Maybe one thing we could do -- and this is a variant of what a couple of speakers have just said. We
should say there are two categories of issues that have been raised. One of them -- Some people feel that some of these issues are not really related to security constrained economic dispatch but are important and are worthy of further study. And some others do relate to it. And some of these sub-issues specifically do relate to security constrained economic dispatch, and we will indicate which ones we think are. We haven't attempted to suggest all of them.

But there's no way, as Chairman Hardy says, that everybody could go through all the details on these things. I think we can maybe sort them into those two categories, if that would be helpful to try to resolve this discussion after it's over.

MR. WRIGHT:  Chairman Hardy.

MR. HARDY:  Well said.

We can do two useful things: One, we answer the question we were asked -- which is not often done.

(Laughter.)

MR. HARDY:  I think it's fair for us to say here are other questions that are equally valid and worthy of attention. Either we do them ourselves -- sort of ex officio -- or someone takes the hint and says, 'Yes, you're correct, those are worthy of additional attention,' and we establish, either again with our colleagues in Washington or
ad hoc, to look at those. A list of what we don't know is a useful list.

COMMISSIONER BROWNELL: Good idea. I also see my friends from DOE in the audience. So we can ask them to do anything because they're great at studying stuff.

So, David, do you want to stand up and say, 'yeah.'

(Laughter.)

VOICE: If we have the resources we'll do that.

COMMISSIONER BROWNELL: We'll ask Congress to give you more money.

MR. WRIGHT: I think reasonable minds are prevailing here. And I think we're coming to the conclusion of dividing this up into two buckets or two areas.

Why don't we, unless someone has a better idea, why don't we take a look at these recommendations and see which ones kind of fall into those buckets or categories and then we can kind of go on from there.

Susan?

MS. WEFALD: Did Commissioner Ervin already make a recommendation on that? I don't remember receiving that communication. Did Commissioner Ervin send out already a draft list dividing this into two?

Do you have that with you today?

MR. ERVIN: I have some general items. I did go
through the list line by line. And I think there are some
that are on the margin that could go either way. But I
specified that I thought they were probably in the category
of beyond the scope, or the expansion planning one, the cost
allocation. I think that's sort of questionable. The joint
and common market issues, those are the ones that I had
confirmed about as not being that important but as being
really not very directly related to security constrained
economic dispatch. There's some room at the margin for
disagreement.

MR. WRIGHT: Commissioner Butler.

MR. BUTLER: Don't we have to go a little farther
than what is related to security constrained economic
dispatch? Point two on what I thought was our charge is
consider how security constrained economic dispatch serves
reliability and affordability. So perhaps we shouldn't be
looking at these lists of recommendations as simply do they
apply or do they not, but are they important to our
understanding of how security constrained economic dispatch
affects reliability and affordability.

To that end, some of these recommendations -- the
first one, for instance, says develop a long-term
transmission planning process. Susan points out -- and
we're all aware that both MISO and PJM already have one. We
don't have to develop one. But maybe we need to have
another look at it to see if in fact it is worth doing with
guard to the charges that we have been given.

Secondly, develop an appropriate cost allocation.
I think the key word there is 'appropriate' because we
certainly have a cost allocation mechanism and maybe we need
to look at the current one and see if it's doing what it's
supposed to do vis-à-vis security constrained economic
dispatch and the effect it's having on reliability and
affordability -- maybe not here today. We can have a
discussion for a little bit.

Maybe we ought to go back and decide which of
these apply and which do not; which can be supplementary
recommendations, as the chairman had said, and submit that
as our recommendation. Then someone could put the list
together and see if we can come anywhere near agree3ing.

MR. WRIGHT: Thank you, Commissioner Butler.

Chairman Jergeson.

MR. JERGESON: When we contemplate making a
report to Congress by May 3rd, I don't know that Congress
should expect -- nor should we attempt -- to give them a
nice, neat little package and say -- it has the bow on it
and all the questions are answered and everything is fine
with the world.

I think it ought to be sufficient to report to
Congress what is going on, what kinds of things that we
think are answerable, and answers. And then list those things that are going to be ongoing items of concern and work. I think that this list, you know -- I can agree that we cannot report to Congress an answer to all of these issues.

But I don't think we should submit a report that doesn't at least identify what issues are out there that need to have ongoing work to be done on them. And I don't think we can tell them that, well, here it is; here is security constrained economic dispatch. It looks like this and it solves all the problems. I think Congress ought to be given a realistic picture that they can use our ongoing processes in matters of work.

MR. WRIGHT: Thank you, Greg.

Commissioner Nickolai.

MR. NICKOLAI: I do want to flag just another one of the bullet points so that we make it clear that these are ones of these things that we explore rather than something that we know today should be done. That has to do with all potential transmission developers should be allowed to bid.

Another reason I say this is that from our experience at the state level when we do all source bidding for generation and discovered that there are many more problems there than we ever anticipated to actually get the generation delivered. So something for us to explore rather
than something that sounds like we're absolutely endorsing it.

MR. WRIGHT: Thank you, Commissioner.

Further discussion?

Commissioner Wefald.

MS. WEFALD: I don't know how far we're going to get with the process today of defining which one of these questions or recommendations we want to move forward or not. But I would suggest that the second goal on the bottom of my page, it definitely relates to the PJM and MISO region.

"Further studies should be conducted on participation of non-utility generators in regions that do not have organized markets."

Why should that even be in? I'm sure someone said it at some point. But we're in an organized market. We don't even have that.

You see where that one is? On my page it's on the bottom of the first page. It comes under "further studies" at the top of page two.

MR. WRIGHT: "Further studies should be conducted on participation of non-utility generators in regions that do not have organized markets."

Why are we -- That should be out of there. We have an organized market. I would suggest we get rid of that one for sure. If others can find ones that actually do
not apply, let's just drop those off right now.

Thank you, Commissioner Wefald. Hand the mike to Mr. Welch of Kentucky. He wants to speak.

MR. WELCH: This will be quick.

Just in response to Commissioner Wefald, Kentucky has -- We have MISO, we have PJM, we have TVA, and we have people who aren't any of the above. This is the only Joint Board we're a member of. So this is the only place where we'd be able to talk about non-utility generators that do not have organized markets.

MS. WEFALD: And that's a major concern of yours.

MR. WELCH: We can put that in. But it would apply.

MS. WEFALD: Thank you. I appreciate that.

MR. WRIGHT: Chairman Jergeson.

MR. JERGESON: Mr. Chairman, about that particular bullet point, Susan, I am sensitive that we don't want to sit here in our region and tell Commissioner Ervin that this is what your region ought to be doing. And I don't think that that bullet really quite says that. But it may be interesting to study and be aware of what's going on in the non-organized regions as kind of a control against which we compare whether or not we're making progress in the benefits to consumers in our region as we proceed with our folks.
COMMISSIONER BROWNELL: I would just also add, respecting Kentucky's situation, there are also people on the fringe of the organized markets who also have raised this as an issue. And you have various states -- half of them are in the market, as you know, half of them aren't. So from that perspective we should pursue it.

MR. WRIGHT: Chairman Hardy.

MR. HARDY: One possible answer is we don't have enough information or we don't have enough time or thank you for your interest and we'll get back to you later. That may be the answer, if we need to make that the answer. I don't want to prejudge that we have to do 40 things; just that we looked at it.

MR. WRIGHT: Thank you.

David Sapper from Wisconsin.

MR. SAPPER: I guess where I'm coming from, and the general message I was supposed to try to convey today was that we at least think that these studies of RTOs operations should be as robust and detailed as would be fitting such a major shift in policy as that RTO creation and development, and also benefiting the public interest, which I think is served by the RTOs now. So erring on the side of more robust investigations into these issues, I would point out that I think it's important to distinguish between the relative scope of the study and the data that
might be relevant for us to carry out any future studies.  
I also note in my mind at least that there's a difference between data availability and data accessibility.  
If people are looking for some website that has all the answers, data is not available in that sense. But the underlying data that might be useful, accessible at some reasonable cost -- for example, the market monitors have a lot of that information. That's a good independent source, it seems to me.

I just think we should keep those distinctions in mind.

MR. WRIGHT: Thank you.

Any further discussions.

(No response.)

MR. WRIGHT: I have just a bit of a suggestion.

Unless there's an objection, what I'd like to try to do -- and I assume Ken or his staff are listening in -- perhaps both he and I with our staffs and with OMS and OPSI can perhaps try to create this two-part category based on what we've heard today, circulate that for your consideration and make sure that we don't, as in the case of Kentucky, disregard something that may be very important to them but at first blush may not seem to be within the scope here. But that could be very much part of our responsibility to you in working with you to craft that two-
category list of recommendations versus things that we might
want to study in the future.

Would there be any objection to try to get that
effort and not try to resolve it here with the time that we
have left?

Commissioner Nickolai, before we conclude, if
we're getting close to that, I understand that, Commissioner
Nickolai, you might have --

MR. BUTLER: Before you go on, I just want to add
one addition to what you just suggested.

In addition to dividing the list in two, those
that are germane and those that may not be as germane, there
are also some opportunities, I think, on the list for
consolidation. I think there's one recommendation that
Commissioner Wefald identified on the top of the second
page, and really the next one is the same thing. Perhaps we
could get OMS and OPSI staff to look at it from that
perspective as well.

MR. WRIGHT: A very good point. Thank you.

Are there any other recommendations that folks
feel strongly about that we might want to entertain that are
not here? And I do believe Commissioner Nickolai has a
couple. We discussed that this morning.

Commissioner Nickolai.

MR. NICKOLAI: Thank you, Mr. Chairman.
I think everybody should have a copy of this. I have two of them I would like us to consider. The background of the first one is this. This is from my experience in my area, and I'm sure it's probably some of your experience in PJM.

I think the RTOs are struggling with the question of the extent to which they are dependent actors versus the extent to which they feel that they must be agents of their members and transmission owners. If we think about a recommendation for the long-term strength of these RTOs I think this recommendation is that we should review the governance of the RTOs to help assure that they truly are independent, to the extent that we can make them independent operators of the markets and the grid. We need that assurance of independence as we go into the future to have full confidence that the grid and the markets are going to be operated in a manner fully consistent with the goal of maximizing the economic benefit to the public.

I would urge that this is something we make sure we put into our report.

MR. WRIGHT: Commissioner Chappelle.

MS. CHAPPELLE: I was just telling Commissioner Nickolai that I supported especially his first point. I was just speaking last week with somebody in Michigan from the utility perspective that was voicing some initial concerns.
Again it could be wrapped with other things, but just expressing the need. And this is the first I've heard of it in at least six to eight months. But just expressing the thought that governance should continue to be independent.

So the only thing I would add in support of Commissioner Nickolai is maybe periodic governance, so it's not a one-time occurrence. We expect this is one of the founding reasons of the RTO is that it does independent and that type of review to make sure that it maintains its independence.

MR. WRIGHT: Thank you, Commissioner Chappelle.

Commissioner Nickolai.

MR. NICKOLAI: Thank you, Mr. Chair.

My second recommendation is I think from our discussion it's pretty clear that we feel that security constrained economic dispatch can be an efficient method of allocating scarce transmission resources. But I think in this report we should also make it clear, while it's a good method for allocating scarce resources, if all we had was scarcity what we're going to see is prices that can just go up and up and up.

So what we need to make sure is that the rules that govern the grid and market operation do include means for doing both, in addition to transmission capacity and a diverse portfolio of generation to markets.
What I wrote after that is another sentence to give a couple of examples. What methods or tools could be used to accomplish this, such as establishing minimum reserve margins and portfolio requirements, recognizing base load needs as well as diverse fuel types. I know a few of my colleagues are a little bit concerned about that last sentence, especially the piece that indicates state-established enforceable. But somehow I think we need to write a piece here that needs to make clear that it's going to take something enforceable in order to make sure that utilities are bringing additional resources to the table to keep those markets viable as the demand increases.

MR. WRIGHT: Thank you, Commissioner.

Discussion of that particular recommendation?

Commissioner Wefald.

MS. WEFALD: The only part that concerns me -- I thought about the second sentence or the third sentence where it talks about examples or methods. I realize that that's an example of that. So perhaps I don't have a problem, but I thought I did because it just serves as an example.

But portfolio requirements are very difficult when you have regional utilities and one state. Of course, we don't have that now, but it is portfolio requirements that would really be nice if they could be set regionally
instead of on a state by state basis. But right now it is being set on a state by state basis. I have concerns about how that works, one state maintaining one portfolio and then another state maintaining another portfolio requirement and putting the same requirements on the utility. But those are things that states I'm sure can work out in the future. So as long as it says 'examples --'

MR. WRIGHT: The underlying recommendation you don't have an objection to?

MS. WEFALD: I have no problem with that. In fact, I encourage it.

MR. WRIGHT: All right.

Any further discussion on possible recommendations that we might want to bring up and include in this report?

MR. SPINNER: I don't know if I need to say it. I have my letter here. But again, I think that the bedrock issue regarding SCED is a cost and affordability issue, receiving reliable electric service. Therefore I hope that it will at least mention that there ought to be some kind of comparison between what load pays and what the resource costs are that are expended in producing that electrical output.

MR. WRIGHT: Thank you.

I'll turn the mike back over to Madam Chair.
COMMISSIONER BROWNELL: Thank you for doing the tough work.

It has been a wonderful meeting. It's fun to work with Commissioners who are very informed. Sometimes that's a challenge for all of us because we all have opinions. But it's nice to have full understanding; it makes the outcome more positive.

I appreciate the time you have spent thinking about this. What I heard is that the report first and foremost needs to reflect the goal of providing the best possible outcomes for customers. And I don't think that Congress would for a moment not agree with that. In fact, I would encourage you to include that in the preamble.

I also heard that there are three tasks in discussing the recommendations. That is to consolidate those, which I think the staff anticipated; then to divide the list into that which we think informs this particular task and those which we believe need further refinement and work. And maybe we'll get some feedback from Congress on that.

And the other thing I think that is important to note -- and I'll say it again -- is that as you develop these in the first efforts I think you should identify any data requests that you have. I think we've made it pretty clear today that PJM and MISO could submit some information
pretty quickly. To the extent that there's anything that
didn't get raised, in fairness, I think we ought to see
what's out there.

I would include that we ought to look to the
market monitors to see what they already have and the state
of their market reports, both in terms of the regions. I
think some of this information may well be available. We
may need to get some permission to make some more things
public. And then I think we'll look at the data requests
and see if there's information that we have that might be
useful and informative. So that's to the extent some of
these issues have already been explored, maybe we can answer
that question.

And I am enormously grateful to the vice chairs
for offering to draft this. But I would encourage you to
offer staff support for them if you possibly can because
this is an exhaustive challenge. Further, we will offer our
staff -- Thank you, Bill, and those who aren't here -- with
the idea that we're there to offer technical advice. But
this is in fact your report. I'm very grateful.

This is a lot to do on top of your day jobs.
Water, gas, high gas prices, taxicabs in the case of
Pennsylvania, weights and measures in the case of
Commissioner Wefald. But we all have our challenges. But,
as I said, I think this is a wonderful opportunity to show
to each other, to the stakeholders, and, frankly, to Congress that we can work together. And while we may not agree on everything, we can add value to the debate, as we have it and as they have it.

Thank you for being here. Enjoy your stay at NARUC. I hope anyone who wishes to will come over to the Commission while you're here -- and if you have a chance, you can walk -- and visit with staff or us. We'll be around.

Thank you very much.

Mr. Wright, do you have anything to say?

MR. WRIGHT: It's always a pleasure working with Commissioners. It's been a joy being involved in forums like this. From henceforth we'll be working with you, both Ken and I, through our designated staffs, with OMS staff and OPSI to produce the report you believe ought to be sent to FERC.

Again, thank you very much for your constructive criticism and comments. We'll take that from there. Thank you.

COMMISSIONER BROWNELL: Thank you.

On time, on budget, and 27 minutes to go play in the hallway and get lobbied by others.

(Whereupon at 2:25 p.m., the Joint Board was adjourned.)