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BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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IN THE MATTER OF: :
CONSENT MARKETS, TARIFFS AND RATES - ELECTRIC :
CONSENT MARKETS, TARIFFS AND RATES - GAS :
CONSENT ENERGY PROJECTS - HYDRO :
CONSENT ENERGY PROJECTS - CERTIFICATES :
DISCUSSION ITEMS :
STRUCK ITEMS :
- - - - -x

872ND COMMISSION MEETING
OPEN MEETING

Commission Meeting Room
Federal Energy Regulatory
Commission
888 First Street, N.E.
Washington, D.C.

Wednesday, October 27, 2004
10:15 a.m.

1 APPEARANCES:

2 COMMISSIONERS PRESENT:

3 CHAIRMAN PAT WOOD, III, Presiding

4 COMMISSIONER NORA MEAD BROWNELL

5 COMMISSIONER JOSEPH T. KELLIHER

6 COMMISSIONER SUEDEEN G. KELLY

7 SECRETARY MAGALIE R. SALAS

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19 ALSO PRESENT:

20 JANE W. BEACH, Reporter

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P R O C E E D I N G S

(10:15 a.m.)

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3 CHAIRMAN WOOD: Good morning. This open meeting
4 of the Federal Energy Regulatory Commission will come to
5 order to consider matters which have been duly posted in
6 accordance with the Government in the Sunshine Act for this
7 time and place.

8 Let's start our meeting with the Pledge to the
9 Flag.

10 (Pledge of Allegiance recited.)

11 CHAIRMAN WOOD: Before we start our meeting
12 today, I'd like to recognize some special guests who are
13 here with a very good friend. The very good friend is Dr.
14 Michelle Foss, who is Executive Director and Assistant
15 Research Professor at the Institute of Energy Law and
16 Enterprise at the University of Houston in Houston. And her
17 colleague, Dr. Gergin Goolin, are joined by about 17 members
18 from the Energy Markets and Regulatory Authority from the
19 Republic of Turkey.

20 We're delighted to have such an esteemed group
21 here today. They're the gentlemen and ladies, I believe in
22 the back row. Please stand up.

23 (Applause.)

24 CHAIRMAN WOOD: I had the pleasure of meeting
25 with the President of the Authority about 18 months ago in

1 my office, and we discussed quite a bit of activities that
2 were going on in Turkey with regard to energy regulation.
3 As you know, they are very close to a lot of the production
4 of central Asian Caspian Sea natural gas and oil, and are at
5 the crossroads between Europe and Asia on a lot of the
6 energy issues.

7 In addition to being there on the infrastructure
8 front, it's my understanding that Turkey is also moving
9 forward on some open access and some market issues and have
10 experimented with having non-utility generation, independent
11 power producers for power generation, and have had some road
12 bumps on that, and are trying to learn from the different
13 countries around the world that are blessed with energy
14 resources, as we are, and how to balance that and work well
15 for the customers.

16 So, I understand you folks have been here,
17 Michelle, since, you said, late August?

18 MS. FOSS: Yes.

19 CHAIRMAN WOOD: And visited my former home and
20 the Public Utility Commission of Texas, and other places
21 around the country, to really get a good idea. This is the
22 brain trust of the EMRA.

23 I don't know how they're doing with you guys
24 being gone for this long, but we're glad you're over here
25 learning, and hope we can be of some use today. We're

1 having two days of meetings here at the Commission, and
2 we're glad you're here.

3 CHAIRMAN WOOD: Anything before we jump into
4 consent items? Happy Halloween.

5 (Laughter.)

6 CHAIRMAN WOOD: Halloween attitudes are always
7 welcome.

8 (Laughter.)

9 CHAIRMAN WOOD: All right, Madam Secretary.

10 SECRETARY SALAS: Good morning, Mr. Chairman and
11 good morning, Commissioners.

12 The following items have been struck from the
13 agenda since the issuance of the Sunshine Notice on October
14 20th. They are: E-3, E-21, E-30, E-45, G-1, G-2, G-4, G-
15 11, H-2, H-4, and C-3.

16 Your consent agenda for this morning is as
17 follows: Electric Items - E-1, 2, 4, 5, 6, 7, 8, 9, 10, 11,
18 12, 13, 14, 15, 16, 17, 18, 19, 20, 27, 28, 29, 32, 33, 34,
19 35, 36, 38, 39, 40, 41, 42, 44, 47, 49, 55, 56, 57, 58, 59,
20 60 and 61.

21 Gas Items: G-3, 9, 10, 14, 15, 16, and 17.

22 Hydro Items: H-3, 5, 6, 7, 8, 9, and 10.

23 Certificates: C-2, 4, and 5.

24 As required by law, Commissioner Kelly is recused
25 from the following items on the consent agenda: E-1, E-5,

1 E-8, E-19, E-20, and E-41.

2 Specific votes for some of the items on the
3 consent agenda are: E-55, Commissioner Kelliher dissenting,
4 in part, with a separate statement; E-56, Commissioner Kelly
5 dissenting, in part, with a separate statement; E-57,
6 Commissioner Kelly dissenting, in part, with a separate
7 statement; E-58, Commissioner Kelly dissenting, in part,
8 with a separate statement; and Commissioner Kelliher votes
9 first this morning.

10 COMMISSIONER KELLIHER: Aye, noting my partial
11 dissent in E-55.

12 COMMISSIONER KELLY: I vote aye, with the
13 exception of those cases, as noted by the Secretary, from
14 which I am recused, and those cases in which I am
15 dissenting, in part.

16 COMMISSIONER BROWNELL: Aye.

17 CHAIRMAN WOOD: Aye.

18 SECRETARY SALAS: The item for discussion this
19 morning is A-3, together with E-62, Energy Markets
20 Readiness. This is a presentation by Mr. John Bear, who is
21 the Chief Operating Officer of Midwest Independent
22 Transmission System Operator, and he's accompanied by Steven
23 Kozey, Vice President and General Counsel of the Midwest
24 ISO.

25 MR. BEAR: I'd like to thank the Commission for

1 allowing us to address them today on our readiness and where
2 we are. What I'd like to do is to walk you through where we
3 stand in terms of our seams agreements.

4 CHAIRMAN WOOD: Is that on?

5 MR. BEAR: The red light is on.

6 CHAIRMAN WOOD: Just please speak a little
7 louder.

8 MR. BEAR: What I wanted to do was to give you a
9 sense of where we stand related to our seams agreements,
10 both managing our current seams, as well as executing the
11 existing seams agreements that we still need to get
12 implemented with TVA, SPP, and MAPP and others.

13 I also wanted to give you a sense of where we
14 stand in terms of our readiness to operate the markets, what
15 we're doing with our parallel operations, as our systems
16 come online and we allow our participants to experience the
17 market for the first time.

18 I'll finish up on where we are on participant
19 readiness and where they stand, both control area, as well
20 as participants, and talk a little bit about what our
21 operating model looks like in terms of how we're going to
22 operate our footprint.

23 Starting on page 2 with our seams agreements, the
24 thing I want to mention there is really two dimensions on
25 the seams: One, how we're operating our seam with PJM,

1 especially related to and noted to some items that happened
2 as the AEP and DPL were integrated into PJM.

3 We had what I would term as normal turbulence
4 associated with the integration of a market next to a non-
5 market. I think that the good news is that as that
6 turbulence took place across some of the different flow
7 gates that were not foreseen, we modeled with PJM at length,
8 as we looked at the market open up, in terms of which flow
9 gates to designate and which flow gates might cause
10 problematic issues associated with flows.

11 But it was impossible to accurately depict which
12 flows were going to happen where. Bids and offers happen
13 and those things work themselves out over the first week of
14 the integration of those folks into the market.

15 As that happened, we worked very closely with PJM
16 to manage those things reliably, and I think we did, and I
17 think the folks that really worked on the control room
18 floor, did a good job with that.

19 What we realized, as we stepped back from that,
20 though, is that we needed an additional tool to manage
21 market-to-non-market type situation. Audrey Zibelman and I
22 have been working very well together. We sat down with
23 Roger Harzey who leads our real-time operations and Mike
24 Kormos, and really, what we looked at was, what tools we had
25 to manage the congestion that was coming across the flows,

1 in a very reliable manner.

2 And what we realized was, we had TLR-type
3 emergency events on the one hand, and we had market flows on
4 the other, which gives you a pretty broad spectrum of items.
5 And what we designed is what we're calling a safe operation
6 mode.

7 And what that allows us to do is designate
8 additional flow gates, designate safe limits on those flow
9 gates, and operate under that mode, under a discrete period
10 of time, while we designate an officer. And we'll alternate
11 between Roger and Mike to resolve the problem with the
12 joint PJM-MISO team.

13 As we've worked this process, what we've seen is
14 that the amount of TLRs that have had to be called and the
15 market flow situations have stabilized themselves, and
16 things are operating nicely.

17 What we want to make sure that we do, however,
18 is, as these issues move west, as we open our market, that
19 we learn from this. And as we put our seams agreements in
20 place, which I'll talk about here in just a moment -- MAPP,
21 SPP, TVA, and others -- we want to make sure that we use
22 this mechanism and we learn from this and create forums to
23 do that.

24 Additionally to note with our operations of PJM,
25 I think, is that we are doing some different things with the

1 operators, where Audrey and I are structuring different
2 issues that we're seeing across the systems, and having the
3 operators sit together in focus groups and talk about how to
4 resolve those issues and how to work them, whether it be
5 redispatch type issues on both sides of the seam that can
6 happen, or reconfiguration of the system.

7 So, things are going well there. There was some
8 turbulence. I would say it was normal and associated with
9 the integration, and we've learned from that. And the key
10 now is that we learned from that and pushed that into our
11 other agreements as we grow our market and have market-to-
12 non-market issues on the west side of our system.

13 The agreements with MAPP, SPP, and TVA are moving
14 along. We expect to have them completed in December. There
15 is really one issue associated with the unallocated portion
16 of flow gates going forward, and how that is allocated and
17 used between the two parties.

18 We are having joint discussions between SPP,
19 MAPP, and MISO, and have been doing so over the last two
20 weeks and are making good progress. I think that we'll have
21 this done in plenty of time, and I think we'll actually,
22 hopefully be able to improve upon the agreement that we had
23 with PJM, which we'll then come back and talk with them, and
24 they are involved in the discussions as well, so that we can
25 have consistency among these seams agreements.

1 It's not only important that we get them in
2 place, but that we have them consistent, so that we can
3 start the market in a reliable manner, and then we can focus
4 as a group on how to improve those seams agreements overall
5 to work on the discontinuities.

6 CHAIRMAN WOOD: When is the date that's needed by
7 MISO so that you can move forward with your full market
8 integration?

9 MR. BEAR: I think we really need to stick to the
10 December date. I mean, that's really the date that we've
11 got to have.

12 CHAIRMAN WOOD: Okay.

13 MR. BEAR: We're making good process.

14 CHAIRMAN WOOD: That's December what?

15 MR. BEAR: I would say --

16 CHAIRMAN WOOD: Early --

17 MR. BEAR: -- December 1st to December 15th is
18 the window that we've got to have these finished under.

19 CHAIRMAN WOOD: Okay.

20 COMMISSIONER BROWNELL: Make it December 1st.
21 Don't give it two weeks, because it will be December 30th.

22 MR. BEAR: December 1st.

23 I mean, there are system implications to these
24 and then others, especially operating issues that we need to
25 make sure get blended into the training and the preparation,

1 so we want to make sure that we have it done in plenty of
2 time.

3 CHAIRMAN WOOD: Good. Thinking about your map,
4 M-A-P map, you interface with Ontario. Do we need -- what's
5 the status of your seams relationship with the IMO?

6 MR. BEAR: We have a coordination agreement only
7 with the IMO. We do not have a seams agreement.

8 CHAIRMAN WOOD: And how would you define those
9 two terms in lay language?

10 MR. BEAR: A coordination agreement is really an
11 exchange of data so that we can understand where the flow
12 gates stand and where the flows are. It does not include a
13 congestion management process to then allocate those flow
14 gates and schedule all flows across the intertie.

15 CHAIRMAN WOOD: And so the JOA type agreement
16 what -- you're going to have that with the non-MISO members
17 in MAPP?

18 MR. BEAR: That's right.

19 CHAIRMAN WOOD: Which I understand are one
20 substantially lesser number than they were a week ago.
21 Congratulations on that.

22 With Great Falls in Minnesota, I read about that
23 -- Great River.

24 MR. BEAR: Yes.

25 CHAIRMAN WOOD: And with SPP and TVA, then you

1 had the one with the PJM, but the Canadian -- I assume we
2 have substantial flows. As I recall from the blackout, we
3 had them from Detroit over to the Neck, but through
4 Minnesota as well?

5 MR. BEAR: Yes, we do, and then probably the
6 largest issue we have is needing a congestion management
7 process between the IMO and the MISO.

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1 CHAIRMAN WOOD: For the nonjurisdictional, of
2 course, what role can the Commission play in helping to
3 bring that about? Because if we don't have all the borders
4 dealt with here, it is one big electrical motor running
5 across North America. Can the department help or can we
6 help on that issue?

7 MR. BEAR: I don't have the direct answer to your
8 question. Steve, do you have any comments?

9 MR. KOZEY: I'm sure the Canadians would welcome
10 politely your polite inquiry about us going forward. They
11 would like a world, they have told us, where the Midwest ISO
12 had a bigger job than we, in fact, have.

13 They would like us to be able to buy and sell
14 emergency power. They'd like us to look a little more like
15 their model where they can take title to electricity and
16 move it around, and that's not part of our deal.

17 The interfaces you mentioned are correct.
18 There's a Manitoba to IMO. There's a Minnesota to IMO.
19 And then Lower Michigan to the IMO. The Lower Michigan one
20 is the one of consequence. The other parts aren't giving us
21 any trouble.

22 But in the existing coordination agreement we've
23 designated who the contact people are for issues, we have
24 regular meeting schedules. It's clear what our reliability
25 functions are. But as John said, what we don't have is an

1 agreement to coordinate and allocate capacity on flow gates
2 in relation to congestion management.

3 MR. BEAR: We need to find a way to provide an
4 incentive for them to want to have a congestion management
5 process formalized with us.

6 CHAIRMAN WOOD: Does it cost them anything to use
7 your system with inadvertent loop flows?

8 MR. BEAR: Not currently.

9 CHAIRMAN WOOD: Is that the kind of incentive
10 that works?

11 MR. BEAR: Yes.

12 CHAIRMAN WOOD: Okay. Well I can be polite.

13 MR. BEAR: Thank you.

14 CHAIRMAN WOOD: All right. Great. I appreciate
15 it. I mean, we've come so far just in two years with the
16 whole seams arrangement thing.

17 I remember Gloria, you and I were sitting here at
18 our very first meeting at FERC that was back in June of '01,
19 and we voted price caps one day and then the next day we had
20 a seams arrangement which gave rise to the whole SMD
21 approach.

22 When we saw New England, New York, and PJM, at a
23 very rudimentary phase, trying to figure out how to bring
24 some consistency to their market so that the inefficiencies
25 of having three different systems didn't disadvantage a

1 customer, and we have just fast-forwarded in three years to
2 a much more sophisticated level of integration.

3 And I think it really was commenced by the
4 Alliance Company choices and our discomfort with that, how
5 to actually remedy that, and it began a really impressive
6 process that I know has come a long way and I'm glad to see
7 that it continues to evolve in a lot of what we learned with
8 the integration of AEP back earlier this month.

9 COMMISSIONER BROWNELL: Pat, I would like to
10 really specifically commend John Bear and Audrey Zimmelman
11 at PJM, who really have rolled up their sleeves and kind of
12 dealt with these issues one-by-one. And there are many to
13 go, but I appreciate kind of the operational experience that
14 the two of you have brought to this effort. And maybe we
15 won't have to have our Christmas Eve phone call with Dan and
16 Nora and some of the parties the way we did last year.

17 CHAIRMAN WOOD: Good.

18 MR. BEAR: We would hope to avoid that.

19 Lastly, I just want to say that as we open our
20 market up, we will exercise the same protocol we did during
21 the PJM -- the integration that we talked about, where we
22 had operators on each other's floors, control room floors,
23 and I think that helped facilitate a lot of interaction and
24 discussion and we'll be doing the same types of things, in
25 addition to the things we mentioned here in terms of

1 process.

2 CHAIRMAN WOOD: Yeah, I thought it was all done
3 when I left the PJM control room at 2:30 and then the flow
4 issues apparently showed up around 4 AM --

5 MR. BEAR: That's when it got started.

6 CHAIRMAN WOOD: It's good to have had those folks
7 on each other's floor, I agree. It was good to see them
8 there.

9 MR. BEAR: As we move closer to our market, we're
10 going to begin our parallel operations. We've divided that
11 up really into two phases and I'd like to talk just briefly
12 about what it is and what it consists of and what we're
13 doing there.

14 We're having a technical conference tomorrow,
15 actually in Carmel, to talk about what parallel operations
16 is. And what it is is that we have our day one systems we
17 call them -- which is our reliability coordination systems
18 that we run today -- we have created a separate set of
19 systems which is going to be our market systems. We've
20 taken our reliability coordination systems, we've copied
21 them over, we're now starting to bring in our market
22 software and integrate those different functionalities
23 within the software so the market is actually starting to
24 function.

25 As we do this, we're going to allow market

1 participants to come in and experience the market. And what
2 we'll do is we will -- we have scripted that in the past
3 under day in the life and day in the life enhanced to allow
4 them to participate in the market and now we will start to
5 move those scripts away, allow them to place bid and offers,
6 produce LMP prices, and see what's happening within that
7 market and see what the results of those things are.

8 As our systems continue to be integrated into
9 this environment that I mentioned, the amount of interaction
10 and the amount of functionality, and the amount of things
11 that the market participant can see will increase, and that
12 will be into Phase II, which allows them to really test not
13 only their own readiness but also our systems. So as our
14 systems are being integrated, we're going to be able to
15 really test them to see what they're doing, to learn from
16 that, to repair those kinds of things that we find that need
17 to be repaired to the extent that they're doing things we
18 don't expect them to do and it allows us to get it all done
19 before March 1st.

20 There's a lot of detail on page three, as well
21 as page four, and I'd be happy to hit any questions that you
22 all have around what's happening there. But I think really
23 what you're seeing is a ramp-up of the system functionality
24 over time, a Phase I, which is less functionality if you
25 will but allows the market participants to get involved and

1 start experiencing the market.

2 Between December 17th and January 3rd or so, we
3 will then make any sort of changes in the systems that we
4 need to make to reflect what we've seen and what we've
5 experienced. We'll then start parallel operations two on
6 January 3rd and then we will move forward to start our
7 market on March 1stt.

8 CHAIRMAN WOOD: Go ahead, Cindy.

9 COMMISSIONER KELLY: John, what kind of
10 participation do you expect in the parallel program and will
11 it be enough to give you an accurate assessment of the
12 experience?

13 MR. BEAR: We had very good participation in our
14 last program, day in the life enhanced. Approximately 76
15 percent, I believe -- I've got a slide in here that denotes
16 that which we'll get to -- but I think that's a little bit
17 lower than reality because we have some participants that
18 are aggregated and being represented by others. So we think
19 that's actually closer to a 90 percent range.

20 But we anticipate having a lot of participation.
21 There's two things really driving that: one, the feedback
22 we're getting directly from the participants, and, two, our
23 customer outreach program which is working with them to make
24 sure that they are registered, that they're involved, and
25 that they're doing the things that they need to do.

1 It's also worth mentioning, probably here rather
2 than later in the presentation, some things that we're doing
3 within parallel operations to help the readiness, both for
4 ourselves as well as for the market participants. There's a
5 12 point plan that Jim Torguson and I have worked with --
6 worked with them on. And really what it is is to try and
7 get them more involved and actually in a little more
8 structured fashion -- and let me elaborate on what I mean by
9 that -- as these parallel operations take place.

10 And what I mean by that is there are certain
11 things that could happen within the market that folks are
12 concerned about. Well let's try to think backwards from
13 what those things might be and cause them to happen. So
14 let's put bids and offers in in a certain fashion and see if
15 we can't stress the system and see what happens and deal
16 with it then and understand what the implications are rather
17 than wait until after March 1st to do so.

18 COMMISSIONER BROWNELL: John, that's a great
19 participation rate. I'd love to see it be 100 percent.
20 Would you let us know who has not actually actively
21 participated, either in the day in the life or the Phase I?

22 We've had this discussion with the stakeholders
23 and the participants. It is critical that everyone come in
24 and do their homework. So let us know who hasn't made that
25 step yet, please.

1 MR. BEAR: We will.

2 Moving forward to page five and talking about
3 participant readiness -- I'm glad to see that my memory
4 works, I did have the right percentage that I told you,
5 Commissioner.

6 Really, there's sort of four or five different
7 things that we're doing to push this forward. And I want to
8 talk about each one of those. We are having CEO contacts to
9 myself and Jim and the market participant CEOs to talk about
10 what their concerns are to make sure we understand things
11 that they're experiencing and they're hearing and working
12 that back through our process. We have lessons learned from
13 both day in the life and day in the life enhanced which we
14 are incorporating into what we're doing.

15 We have a customer outreach program where we're
16 looking at the participants and seeing what their
17 interaction and level of interaction has been, and gauging
18 our customer outreach according to that to make sure that we
19 get everyone involved. We have DVD training material which
20 we have developed which would make a good Christmas present
21 for each of you, I'm sure.

22 And what we've done --

23 CHAIRMAN WOOD: I took the MISO LMB course --

24 MR. LARCAMP: We can't accept it if it's value is
25 more than \$20.

1 (Laughter.)

2 MR. *BEAR: And the value is subjective.

3 MR. BEAR: But we have taken a modular approach
4 to this so that we do have the DVDs. I've actually gone
5 through them myself and they are quite helpful. So we're
6 trying to make sure that all the mediums, to the extent that
7 folks aren't just participating in the day in the life and
8 the enhanced but also they can step back and study and see
9 what's happening from a training standpoint. So I think
10 these are very productive.

11 And then finally within the control areas we're
12 also working with them as well. There are a few -- and as
13 you can see I'll talk in more specifics in a moment -- where
14 we have some EMS issues with them in terms of their
15 completing the closed-loop testing that we require and that
16 we need, but most of those are associated with new EMS
17 systems being brought on-line on their part, which should be
18 good at the end of the day. And we anticipate those being
19 completed during Phase I of our parallel operations.

20 The stakeholder participation items that I
21 mentioned really -- I think we've talked a little bit about
22 this already -- but there are 12 items that we've brought
23 out. And really what they are is trying for us to find ways
24 as we prepare for the market to start to better include our
25 participants in that process. So as we do our simulator

1 training, for example, with our operators, we're going to
2 bring in some representatives from the market participants
3 so they can participate with us, so they can see what's
4 happening and they can give us insight on their
5 institutional knowledge and share that with us. As we go
6 into our parallel operations then on the control room floor,
7 we will also have participants there watching what's going
8 on, participating with us and, again, sharing their
9 institutional knowledge.

10 I view this as not only something to help them
11 feel more comfortable in our ability to learn the market,
12 but also our ability to learn from them as we get ready to
13 run the market and do the things that we were planning to do
14 through Phase I and Phase II of parallel operations.

15 Finally I think, you know, the last piece that
16 has been discussed is some form of a testing where we run
17 the market with some financial binding settlements. It is
18 something that we are giving consideration to. I will tell
19 you that there's no consensus among the stakeholder groups
20 about that yet, but we are giving it consideration and
21 framing up the pros and cons associated with doing something
22 like that.

23 CHAIRMAN WOOD: Let me ask you. These 12 items
24 were identified -- where are they? Were they presented to
25 the Board last week, I mean, where are we on -- how are they

1 identified and how is this information --

2 MR. BEAR: This is information that we brought
3 together into the summary document that you-all have. We
4 shared that at the Advisory Committee meeting last week in
5 Carmel and we are working each of the items individually and
6 I believe there's some information in what you've got about
7 sort of the status of that and who owns it and what we're
8 doing there.

9 CHAIRMAN WOOD: Right. I'm just asking what's
10 the status of this document.

11 MR. BEAR: It is a working document.

12 CHAIRMAN WOOD: It looked pretty solid to me. It
13 covered a lot of the issues that we've certainly read about
14 in pleadings and heard about from stakeholder visits to the
15 Commission or calls to the Staff and it's very comforting.

16 MR. BEAR: I think the key thing that we've found
17 as we've put that together and as we visited with the
18 stakeholders and the participants was that there wasn't a
19 good understanding or comprehension of what we meant by
20 parallel operations and what we were really going to do
21 there and their level of participation and ability to work
22 within the market software during that time. So I think
23 that's helped. Communication is always good. I think the
24 understanding of that has helped, which tomorrow will go a
25 long way toward pushing that further and the other items

1 will help us as well.

2 From an operating model standpoint, we have a
3 very large footprint which has been, you know, shared and
4 pushed and concerned. The great news is that gives us a lot
5 of scale in terms of putting our market software in place.
6 And what we want to do is use that. So we have a central
7 dispatch, we have a centralized seams management and we have
8 a centralized overall control of our footprint.

9 But what we've done is just formalized a regional
10 focus underneath that to make sure that we have single
11 points of contact for seams management. So for example all
12 of the PJM seams issues will be managed from one region so
13 we have one point of contact there. Same thing with SPP and
14 TVA. We know based on our summer assessments as well as
15 some of the modeling we've done on how the congestion flows
16 inside of our footprint so we're able to create defined
17 seams within our footprint and then manage those
18 responsibly. I think this will give us a very very high
19 level of reliability and customer management and customer
20 service, if you will, as we manage our footprint going
21 forward. So we really feel like this is the best way for us
22 to manage this.

23 With that, I'll take any questions.

24 COMMISSIONER BROWNELL: John, you have an
25 enormous number of control areas to deal with. Tell me what

1 the conversation is about consolidating those control areas.
2 We talk about it, but it doesn't seem to make much progress.
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1 Are you comfortable that every one of those
2 control areas responds to every authority you have and will
3 respond to any direct orders from MISO?

4 MR. BEAR: To answer your second question first,
5 I am very comfortable that the control areas understand the
6 authority that we have. We have had various situations
7 arise on our system over the last three to four months, and
8 we have never had any concerns or issues associated with
9 directives we've given, from control areas.

10 COMMISSIONER BROWNELL: Okay.

11 MR. BEAR: So, you know, everything is going very
12 well, and the evidence -- the facts and the evidence are
13 what they are, and, I think, support that.

14 In terms of control area consolidation, we really
15 have not focused on that yet. We focused on getting our
16 market put in place.

17 What we need to do is get our ancillary markets
18 and our regulation markets put in place, which will then
19 change the role of the control areas. I don't know what
20 that would mean in terms of consolidation, but it will
21 change the role between the control areas and what we do,
22 but we've got to get those put in place.

23 COMMISSIONER BROWNELL: And if I understood you
24 correctly, the AFC issues -- and there are three or four
25 pretty major ones -- are on the table for you and Audrey to

1 reconcile. Is that correct? Do I understand that
2 correctly, that the calculation of available flow gate
3 capacity is different?

4 MR. BEAR: That's correct.

5 COMMISSIONER BROWNELL: And that is going to be
6 resolved by?

7 MR. BEAR: Well, Step One will be getting the
8 joint operating agreements in place around our seams.

9 COMMISSIONER BROWNELL: Right.

10 MR. BEAR: Step Two then would be addressing the
11 issues I think you're referring to, associated with whether
12 you decrement the flow gate when it --

13 COMMISSIONER BROWNELL: Exactly.

14 MR. BEAR: -- when an allocation, when a
15 transmission request comes in, or whether you do it when the
16 transmission request becomes approved. We've got
17 discontinuity across the whole Eastern Interconnect.

18 COMMISSIONER BROWNELL: Exactly.

19 MR. BEAR: And what we need to do is, after we
20 get stabilization, if you will, step back and look at it
21 from a higher level with all the parties at the plate, and
22 try to make sure we can get consistency.

23 COMMISSIONER BROWNELL: I think that this is one
24 of the areas, when you talk about consistency and similar
25 rules, this is a big one that we really need to focus on,

1 and maybe we can give a little help to that, some
2 encouragement.

3 MR. BEAR: As we move forward towards a joint
4 common market with PJM, it's not necessarily a binary event
5 of once you have a common portal that folks can go to, that
6 you're -- you know, it's there.

7 It's really a series of episodic steps that need
8 to take place. The first step was our joint operating
9 agreement associated with market-to-non-market. Our market-
10 to-market is another step.

11 Moving forward now, after we can get our systems
12 put in place, start our market on March 1st and stabilize
13 that market, then we can start focusing on discontinuities
14 of rules and issues that we can deal with an iron those out.

15
16 That's really kind of that next step that gets
17 you where we need to go.

18 COMMISSIONER BROWNELL: Okay. It sounds like you
19 have made enormous progress in dealing with stakeholders on
20 the communications issues. If I were a stakeholder, are
21 there any issues -- what would be my top three concerns as
22 we move to the marketplace?

23 And I'm asking you that also to kind of get an
24 opportunity out there to say that if there are any
25 stakeholders who have issues, it's their responsibility to

1 identify them.

2 When we're on the road, we kind of hear these
3 vague things, and I want to be sure that everybody puts the
4 in writing, so that you have a chance to deal with them.
5 But if I were a stakeholder, what would be my top three
6 issues at this point?

7 MR. BEAR: I think that really, as we head into
8 parallel operations, the issues are all around how is it
9 going to work?

10 Now, are we going -- as a stakeholder, are my
11 people going to be prepared and appropriately trained so
12 that I can interact and do the things that I need to do in
13 the market?

14 There is uncertainty, which, you know, everyone
15 is concerned about.

16 COMMISSIONER BROWNELL: Right.

17 MR. BEAR: And the second concern is, is MISO
18 going to be ready? Are you systems really going to work,
19 and are you going to be able to do this?

20 COMMISSIONER BROWNELL: And the answer to the
21 last question is?

22 MR. BEAR: We feel like we are.

23 COMMISSIONER BROWNELL: March 1st is the date.

24 MR. BEAR: We feel like March 1st is the date.

25 There is risk around that, but we feel like March 1st is the

1 date.

2 COMMISSIONER BROWNELL: I don't want to leave the
3 statement, "risk around that," out there, because I think
4 people will grab onto that. What risk around that do you
5 mean?

6 MR. BEAR: I would really put it on three
7 dimensions: One is, we have stakeholder preparation that
8 needs to be finished, and participant preparation, as we
9 talked about. We need to get the closed loop test done. We
10 need make sure our EMS system talks to the other control
11 areas' EMS systems.

12 Those things need to happen and need to get
13 finalized. We need to get the seams agreements put into
14 place, and we need to get them finalized.

15 And then, finally, we have, you know, a lot of
16 functionality that is being delivered and being incorporated
17 from various vendors, and it has to be delivered on time, at
18 the quality that we think it needs to be, at a high quality,
19 obviously, so that the testing and the integration goes
20 well.

21 And we're doing everything we can to work with
22 those vendors. We've got folks onsite; we've got individual
23 folks overseeing each piece of functionality in terms of the
24 quality of that and making sure that we address any issues
25 or questions that they have, real-time, so that when it

1 shows up in a completed form to be integrated into our
2 systems, it's of high quality.

3 COMMISSIONER BROWNELL: Is there anything more
4 you need from us?

5 MR. BEAR: I don't think so.

6 COMMISSIONER BROWNELL: Okay, go for it, Steve.

7 MR. KOZEY: The continued timely attention of the
8 Commission to Orders on Rehearing and settlements and
9 whatnot, that are part of it. I know Mr. McLaughlin's
10 people do an awful lot to help us make that happen, but that
11 can do things like solidify the control area balancing
12 authority issue, function splits between the Midwest ISO and
13 all of those folks, because we've reached settlement on that
14 with everybody who is one, and even folks like Duke, who
15 have a generation-only control area, who will be a balancing
16 authority, once those changes are made.

17 So that's my plea for the continue indulgence of
18 occupying your Staff and you guys reading the Orders and
19 thinking thoughtfully about them.

20 COMMISSIONER BROWNELL: MISO is our full-time
21 job, and we understand that, Steve.

22 (Laughter.)

23 MR. LARCAMP: We hate Steve.

24 (Laughter.)

25 CHAIRMAN WOOD: We are in the process now of

1 completing that Order on Rehearing on the TEENT, and we've
2 also got the settlement indoors, and there's some rehearing
3 on the grandfathered contracts issues. Those are the big
4 three that we've got. Are there others that are kind of
5 critical path items?

6 MR. KOZEY: No, there are not. And even under
7 the things John talked about, these 12-point items, we're
8 reviewing to see if there's any Order 889 kind of issues
9 that are associated with them, and if we could solve that
10 without coming to the Commission for a formal action, we'll
11 try to do that.

12 If our group decides that this economically
13 binding test business is what people really want to do,
14 we'll probably have to come forward with a pleading that
15 says, can we have parts of the tariff turned on and off,
16 which would -- you know, if we reach that conclusion, we'd
17 like to give you a full 60 days to think about that and act
18 on that.

19 But those are in the future, and possibilities,
20 not sure things.

21 MR. LARCAMP: I would just mention that in
22 addition to sort of the three items that were identified,
23 that Staff, I think, has about ten other items that will
24 require action between now and March 1st, so we've got a lot
25 of work to do on our side to get those filings that some are

1 in and some are expected to be in at certain deadlines,
2 processed to move it forward.

3 CHAIRMAN WOOD: And those are all on the big
4 ticket.

5 Nora asked you that from the point of view of the
6 stakeholders, what the top three items of primary focus
7 would be. Is that true also, from your job as the COO,
8 would you say those three -- training, seams agreements, and
9 vendor readiness -- would be the ones? What would be the
10 three?

11 MR. BEAR: The only one I would add is another
12 dimension to training, which is making sure that our folks
13 are where we need to be, from an operations standpoint,
14 rather than just the participant training that I referred to
15 earlier.

16 We're working very hard on a lot of different
17 forums to make sure that we are where we need to be to
18 operate the systems. Our control room folks are spending a
19 lot of time doing tabletop type discussions using what we
20 call swim lanes, which is nothing more than a big matrix
21 that talks about under normal and abnormal conditions, you
22 know, what needs to happen on a step-by-step, very detailed
23 basis to make sure we operate to market officially and in a
24 reliable manner. But I want to make sure we're where we
25 need to be, and we will be.

1 COMMISSIONER BROWNELL: It's a great team.

2 CHAIRMAN WOOD: Yeah.

3 COMMISSIONER BROWNELL: When you visit that
4 control room, you have a lot of confidence. I think people
5 have worked really hard, and they are to be congratulated.

6 MR. BEAR: Thank you.

7 CHAIRMAN WOOD: I would just say that from the
8 focus on the reliability side, I've been very impressed by
9 how adeptly MISO and the member companies in MISO, the TOs,
10 adapted to not just waiting for the findings of the Blackout
11 Report, but moving forward very quickly to get really 21st
12 Century technology in place so that that system can have a
13 lot of visual capabilities for your operators to really run
14 that well.

15 I just want to make sure that your neighbors keep
16 up, so that the Eastern Interconnect, which doesn't know the
17 difference between MISO, PJM, and SPP, and IMO, because the
18 electrons are flowing so fast they don't stop to look, that
19 they catch up as well.

20 I do hope there is a lot of discussion as the
21 seams agreement process goes forward, about common
22 technology, so that really the big customers, which are
23 these regional grid operators, do tell the vendors what they
24 want, as opposed to the other way around.

25 But we'll get there, but that's kind of my new

1 top agenda item, is getting this standardization of the
2 software, and particularly the platforms, so that the
3 competition becomes on the applications, not on the core
4 platform itself. But that's a lot of money, and I know that
5 you all spent some, PJM spent quite a bit, and the other
6 operators are looking at that coming pretty quickly.

7 And we just can't afford that for the reliability
8 of the system, to have anything that's not state-of-the-art,
9 but we've got to keep the costs under control, and I think
10 I'm seeing the ball, the start line up on that, but they're
11 not totally in focus yet, and I want to make sure that once
12 we get past some of the short-term stuff, we sit up and look
13 around at really these platform costs and how to keep those
14 under control and standardize those so that the costs stay
15 down for the customer.

16 That's all we've got, folks. Thank you, John,
17 Steve. Thank you for being here, and we'll keep in touch.
18 Anything else?

19 (No response.)

20 CHAIRMAN WOOD: We'll convene for a closed
21 meeting in 30 minutes. The meeting is adjourned.

22 (Whereupon, at 10:55 a.m., the open session was
23 concluded.)

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