

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

RTO Border Utility Issues

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Docket No. AD06-9-000

Technical Conference On Seams Issues For RTOs And ISOs In The Eastern Interconnection

Thursday, March 29, 2007

Statement of JoAnn Thompson
On Behalf of
Otter Tail Power Com

My name is JoAnn Thompson and I represent Otter Tail Power Company. Otter Tail is located on the Western edge of the Midwest ISO footprint, and serves portions of North Dakota, Minnesota and South Dakota. While our service territory is quite large, about 50,000 square miles – or the size of the state of Wisconsin – it is very rural with low load density. Otter Tail serves about 423 communities with the average community population of 300.

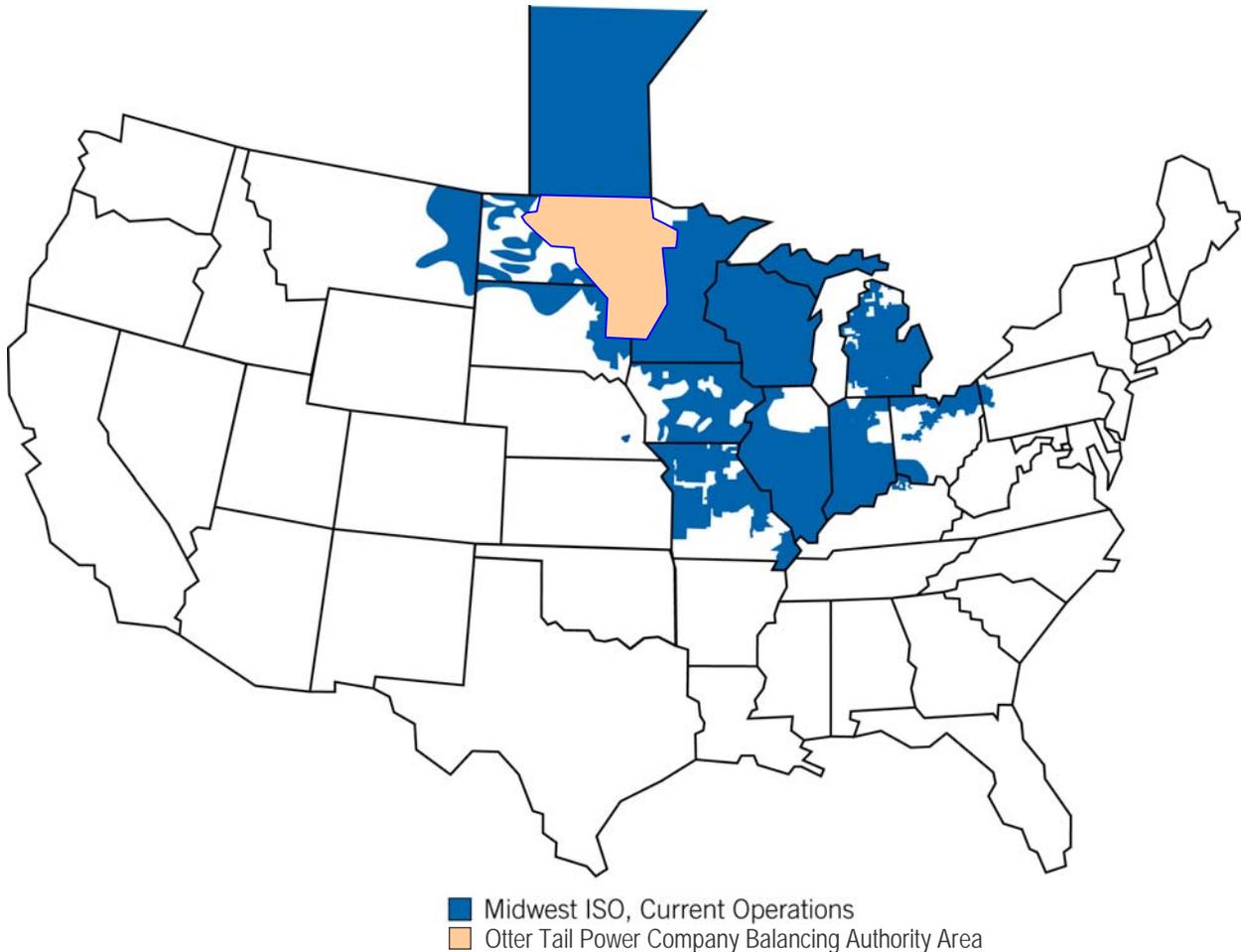
Otter Tail is also a Balancing Authority Area Operator and a Vertically Integrated Transmission Owner of the Midwest ISO. The Otter Tail Balancing Authority is unique because we are a minority within the Balancing Authority that we operate. Otter Tail makes up approximately 30% of the load, 40% of the baseload generation, and we have joint use ownership/rights for about 40% of the high voltage transmission system. Another distinction is that only about 50% of the Otter Tail Balancing Authority is in the Midwest ISO with the remaining 50% being non-Midwest ISO, which means we have a market to non-market seam within our own Balancing Authority.

Having a seam within the Otter Tail Balancing Authority has and continues to require additional time, resources, and added expense – for both Otter Tail and the Midwest ISO. While numerous issues remain, today I will quickly highlight three areas of concern that are exacerbated by the diversity of our Balancing Authority. The areas that I'll quickly highlight include: generation interconnection disparities, transmission-related inequities, and efficiencies around the dispatch of joint-owned units.

Generator Interconnection Disparities:

Back in my college days, when I went through Air Force ROTC. I recall the drill sergeant strutting up to me, getting in my face, and asking where I was from. I proudly replied, "North Dakota, Sir." He responded by saying, "I hear the only thing that North Dakota has is power poles, Cadet." He was close! There are over 5,000 miles of high voltage transmission lines (> 100 kV) in North Dakota with less than 30% of those lines transferred under the Midwest ISO's operational control. What that ol' Drill Sergeant didn't know was that North Dakota has about 5,000 MW of generation and those power poles carry only about 1/3 of that generation to North Dakota customers. And the generation is growing! North Dakota has an

outstanding wind resource providing more available wind for development than any other state. Factor in recent and proposed renewable standards and mandates and we anticipate increased generation interconnecting in the Dakotas and portions of Minnesota – the heart of Otter Tail’s Balancing Authority Area. If you look at a map of the western edge of the Midwest ISO, you will notice that it resembles a Holstein Cow with the Midwest ISO and non-Midwest ISO entities surrounding and/or intermingled with each other.



Due to the intermingled ownership in our area, it is not clear whether a generator interconnection is being made to Midwest ISO transmission or non-Midwest ISO transmission. In fact, there are situations where a substation is jointly owned between a Midwest ISO and non-Midwest ISO entity. This joint sharing of facilities and overlay of transmission systems presents some ambiguity when it comes to generator interconnections, such as:

- Who should the Generator submit the interconnection request to and whose process should it follow? The Midwest ISO’s? The non-Midwest ISO transmission owner’s? Both?
- Are there better market opportunities, less requirements, or less cost with one process over the other?

- Who does the Generator sign an interconnection agreement with? If the interconnection agreement is with the Midwest ISO, will the non-Midwest ISO entity also require contractual provisions? This oftentimes leads to additional costs and confusion for the interconnecting Generator.
- In the Mid-Continent Area Power Pool (MAPP)/Midwest ISO region, presently Otter Tail undergoes two layers of review, adding time, money, and complexity to the processes. For example, although a generator interconnects to a Midwest ISO facility and goes through the Midwest ISO generator interconnection process, if the transmission owner is part of the MAPP Generation Reserve Sharing Pool, the generator must also go through the MAPP Design Review Subcommittee and receive approval to be accredited. Common and agreed to practices between the two organizations should be developed to avoid this duplication and either party should recognize the results of the other party's analysis.
- We have experienced scenarios where the physical interconnection occurs to the Midwest ISO, but the neighboring non-Midwest ISO entity claims because the flows impact its system that the interconnection is to its system, which could be 10, 50, or even more miles away.
- Conversely, we are aware of another situation to "game" the system by extending the Midwest ISO footprint. In this case, a Generator is siting near a fuel resource located near a non-Midwest ISO transmission system, but in order to benefit from direct access to the Midwest ISO's energy market and avoid a transmission rate pancake, it is contemplating a line that is more than a hundred miles in order to interconnect to a Midwest ISO transmission owner. This "gaming" does not offer the least cost transmission plan, imposes additional costs on the Midwest ISO transmission owners and provides no incremental transmission revenues. Otter Tail and its neighboring transmission owners are seeking policy to address this.
- And there are other complexities that we are encountering with our jointly-owned, joint-use transmission – once the Generator is interconnected, who does it take transmission service from? The Midwest ISO or the non-Midwest ISO transmission owner? Both own and have joint use of the transmission facilities. And what about transmission revenues?
- Cost allocation issues are also an issue. For instance, let's say a generator interconnects to one of these joint use facilities. Will the Network Upgrade costs be allocated to the Midwest ISO transmission owner only? How can they be solely allocated to the Midwest ISO transmission owner when the non-Midwest ISO transmission owner benefits equally from the facility upgrade?

Because of the intermingled Midwest ISO and non-Midwest ISO ownership in our region, what should be a simple and straightforward process becomes burdensome, complicated, inequitable, and costly, and requires more time and involvement by all impacted parties. These examples illustrate the need for coordinated seams resolution and a clear and defined process for all users of the bulk transmission system. To address these questions, policy needs to be developed that will facilitate a vibrant market and incent generators to locate within the market, but not cause undue harm to a transmission owner or Balancing Authority. We have to balance the benefits of open access with the transmission owner burden.

Transmission Operations:

I next briefly shift my attention to transmission operations. When considering new transmission projects in the Midwest ISO, numerous questions arise regarding whether the rules in place could distort investment on the seams, adversely affect obligations or impact proper cost-causation. Presently, there is no clear way of allocating new project costs across the market to non-market western seam. For instance, as the Midwest ISO is identifying projects under its Midwest Transmission Expansion Plan, projects that it identifies for the far western region will directly benefit the non-Midwest ISO transmission owners. However, because there is not a mechanism for allocation of cross border costs on the MAPP/Midwest ISO seam, the non-Midwest ISO entities will bear no cost obligation, but will receive the direct benefits of the more robust transmission system.

Recently, the Midwest ISO and MAPP noted in an informational filing that the Midwest ISO had given MAPP notice of termination of the MAPP/Midwest ISO Seams Operating Agreement (SOA) effective on January 31, 2008 and that the parties would be working together to develop a new SOA. Developing efficient cross-border solutions should be considered and addressed in the new SOA. It is important to point out, however, that these seams are more complicated because resolution needs to occur with the individual transmission owners/providers and the Midwest ISO – not between MAPP and the Midwest ISO. In other words, MAPP and the Midwest ISO can come up with an extraordinarily effective SOA, but unless all of the MAPP-member transmission owners/providers individually execute the SOA, it will have no bearing on those entities so these seams concerns will not be resolved absent all signing on.

If the Midwest ISO and non-Midwest ISO transmission owners come together to build transmission as we have historically done, several new seams questions arise:

- While historically, discrete ownership worked, must ownership now be undivided in order to avoid rate pancakes?
- How are transmission rights assigned? What about financial transmission rights? How about congestion and modeling? Can you model ½ a transmission line as in the market and ½ as out?
- How do transmission revenues get allocated?

These and other similar questions are ones that we are presently discussing and debating.

Operational issues:

Throughout my discussion, I have noted the jointly owned Midwest ISO/non-Midwest ISO transmission system of Otter Tail and other non-Midwest ISO entities. Otter Tail also has jointly owned units (JOU) that consist of Midwest ISO and non-Midwest ISO owners. This Midwest ISO/non-Midwest ISO JOU ownership structure presents some unique challenges now that we are in an energy market with centralized dispatch. Prior to having centralized dispatch, if the JOU was redispatched each owner's share would receive a pro rata reduction (or increase) so that all owners were on a level playing field. Now that the JOU is part Midwest ISO and part

non-Midwest ISO, the Midwest ISO-owned portion of the JOU is redispatched via the Midwest ISO's centralized function and the non-Midwest ISO portion of the JOU is not redispatched. This creates an inequity. The non-Midwest ISO portion of the JOU receives preferential treatment because the Midwest ISO does not adjust the non-Midwest ISO tagged interchange schedule. Thus, any redispatch that is needed only occurs on the Midwest ISO ownership shares of the unit. For example, if the JOU has been backed down for an unplanned operational issue, when the unit is released for full load the Midwest ISO will first seek to ramp the non-Midwest ISO JOU owner back to its full share in order to restore the non-Midwest ISO JOU owner to its tagged value. In fact, we have seen occasions where the Midwest ISO actually backed down the MISO JOU partners shares in order to keep the JOU within its ramp rate and to restore the non-Midwest ISO tagged value as quickly as possible. There have also been times that the non-Midwest ISO JOU owners received their full percentage share and the Midwest ISO JOU shares were not even dispatched. In either example, the Midwest ISO owners were forced to procure energy to serve their load from the market whereas the non-Midwest ISO JOU owners were held harmless. The equitable solution is that each owner is entitled to receive its share of any increases or reductions appropriately such that all shares would be commensurately adjusted. As MAPP/Midwest ISO develop new seams solutions, this is an area that should be addressed.

As previously noted, more than 5,000 MW of coal-fired generation is located in western North Dakota, while only approximately 30% is under the Midwest ISO's centralized dispatch. The Midwest ISO and participants have put forth extensive effort toward handling congestion management at the seams; however, achieving optimal congestion management is still lacking. As the Midwest ISO and MAPP seek to negotiate a new SOA a factor worthy to consider in light of the significant generation is developing a way to improve congestion management and provide the non-Midwest ISO generator owners with opportunities to participate. In the western region, there is not always enough Midwest ISO generation that can be consistently controlled to relieve the congestion. This could be improved if MAPP members had an agreement with the Midwest ISO to offer generation to participate in congestion management. For instance, when LMP prices become negative, the Midwest ISO could implement a mechanism to provide an incentive for the non-Midwest ISO generation in the Dakotas to help alleviate the constraint by lowering their generation. If the Midwest ISO could work with the MAPP members to develop a redispatch mechanism for relief and develop an agreement similar to that between PJM and the Midwest ISO for real time congestion management, it may be possible to allow more MAPP energy to flow and market efficiencies to be gained.

Some things to consider are:

- What needs to be done and what information is needed to make redispatch work?
- Are there opportunities to help congestion by getting rights to redispatch a plant outside the Midwest ISO?
- What is the appropriate compensation mechanism?
- Are there actions presently being taken that are for personal interest rather than market efficiencies?
- Is congestion being distorted due to these inefficiencies?
- Are there inequities or inefficiencies whether a flow gate is treated as reciprocally coordinated or not? For instance, the MAPP members don't want to share and

transfer AFC on the North Dakota Export flow gate. Reciprocally coordinated sharing and transferring permits either party to provide available transmission to a customer. However, the North Dakota MAPP entities prefer a method to sell the available transmission among the Transmission Providers. This is an added complexity for the customer and affects the efficiency of the congestion management process.

- Otter Tail suggests that FERC look at all seams agreements to find best practices.

Another unique operational challenge in the Otter Tail Balancing Authority is the method of handling Transmission Loading Relief (TLR). Because the Otter Tail Balancing Authority is considered in the market, but there are non-market entities serving load within the Otter Tail Balancing Authority, the non-market portion should be handled by TLR and the market portion handled under Midwest ISO dispatch. However, because NERC handles TLR on a Control Area-to-Control Area-basis, the energy resources serving non-Midwest ISO load within the Otter Tail Balancing Authority may not be correctly curtailed under TLR, but the Midwest ISO generation and load is redispatched to alleviate congestion. Furthermore, the Midwest ISO's congestion management via redispatch of individual generating units is more precise than TLR and TLR is only calculated for impacts down to 5%. Notwithstanding, MAPP insists that the Midwest ISO redispatch market flows down to 0% impacts whereas on the other Midwest ISO seams only a 3% threshold for market flows was recently approved for field trial by NERC. This is one more inequity forced upon the Midwest ISO Balancing Authorities to the benefit of the non-Midwest ISO entities.

Conclusion:

As I noted earlier, while there are numerous market to non-market seams concerns that remain unresolved, today I have highlighted a few of the issues that we are encountering out on the Western edge of the Midwest ISO. I spoke to the ambiguities that we are presently dealing with regarding generator interconnections. I identified a few of the transmission-related issues that are up for debate and I briefly noted the seams issues directly affecting the Midwest ISO/non-Midwest ISO Joint Owned Units and related congestion management improvements.

As MAPP and the Midwest ISO begin to engage in negotiating a new Seams Operating Agreement, Otter Tail encourages the Commission to direct these entities to develop solutions that are comparable to other seams within the Eastern Interconnection. Otter Tail advocates an unbiased solution that does not give a certain set of parties on either side of the seam preferential treatment or benefits to the detriment of those on the other side of the seam. In all practicality, an entity should be able to flip a coin, with heads being in the market and tails being out of the market, and it shouldn't matter whether the coin lands on heads or tails -- if the seams resolution is equitable. The resolution should offer clearly defined and equitable processes, inhibit barriers, and no one party or group should benefit to the detriment of others.

I thank you for your time and look forward to answering any follow up questions that you might have.