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BEFORE THE

FEDERAL ENERGY REGULATORY COMMISSION

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 IN THE MATTER OF: : Docket Numbers
 MIDWEST INDEPENDENT TRANSMISSION : ER08-637-000
 SYSTEM OPERATOR, INC. : ER08-637-001
 : ER08-637-004
 - - - - - x ER08-637-005

Commission Meeting Room
 Federal Energy Regulatory Commission
 888 First Street, N.E.
 Washington, D. C. 20426

Wednesday, November 12, 2008

The above-entitled matter came on for technical conference, pursuant to Commission Order, at 9:05 a.m.

APPEARANCES:

COMMISSIONERS PRESENT:

- CHAIRMAN JOSEPH T. KELLIHER (Presiding)
- COMMISSIONER SUEDEEN G. KELLY
- COMMISSIONER MARC SPITZER
- COMMISSIONER PHILIP MOELLER
- COMMISSIONER JON WELLINGHOFF

P R O C E E D I N G S

(9:05 a.m.)

CHAIRMAN KELLIHER: Good morning. I'm impressed by how quiet everyone got. It's five after, so we'll start the conference.

I'd like to welcome everyone to the conference today. I think the issues that we're going to discuss, are very important, regarding the future of regional transmission organizations.

Fundamentally under the MISO's market service proposal, a market service customer would be permitted to have generation on its system, incorporated into MISO's market, without becoming a full-member transmission owner of the Midwest ISO.

Under the proposal, a market service customer would maintain operational control over its transmission facilities, retain its own open access transmission tariff, and retain its through and out or pancake transmission rates.

In addition, under the proposal, market service customers would not be subject to MISO's planning process or its cost-sharing mechanism for new transmission expansion.

While the impetus for the proposal is the desire for closer integration between the Midwest ISO and members of MAPP, in order to address seams issues, market service

1 would be offered to any qualifying transmission provider.

2 That would include existing full members,
3 transmission owners of MISO, or any other neighboring RTO,
4 and those owners could avail themselves of MISO's market
5 service, upon satisfying notice and financial obligations
6 and receiving appropriate Commission approval on the part of
7 the respective RTO.

8 In addition, any transmission provider bordering
9 the ISO or any market service customer, would also be
10 eligible for market service.

11 In summary, this proposal presents an issue of
12 first impressions for the Commission. On the one hand, the
13 proposal permits and RTO to enlarge its energy market and
14 other benefits to customers within its footprint and within
15 the market service customer's footprint.

16 Such benefits would include: Reducing
17 administrative costs to existing transmission owners,
18 increasing generation choices in the marketplace, as well as
19 increasing reliability.

20 But, on the other hand, there are legitimate
21 concerns that approval of the market service proposal, could
22 impair MISO transmission operations and the quality of
23 transmission service.

24 Rate pancaking could arise within the existing
25 MISO territory, and both RTO transmission planning and

1 expansion efforts, could be damaged.

2 The market services proposal would provide
3 expanded access to markets to wholesale customers outside
4 RTOs, and doing so could come at the expense of effective
5 RTO transmission operations, planning, and expansion, and,
6 if so, I believe that is too high a price.

7 In some respects, the market services proposal
8 may be inconsistent with Order Number 2000, and the
9 Commission must ask itself, which is more important,
10 expanded market access, or the core transmission functions
11 envisioned for RTOs in Order Number 2000?

12 Because of the broad policy and technical
13 implications of this proposal, we have scheduled a two-part
14 technical conference today to explore the issues raised, so
15 the Commission can make a well informed decision on the
16 merits.

17 During the first session, my colleagues and I, as
18 well as members of the Staff, will explore the broader
19 policy issues raised by the proposal, and during the second
20 session in the afternoon, Staff will lead a discussion of
21 the technical aspects of the proposal.

22 I just want to thank the panelists for taking
23 time to submit comments and to be with us here today to help
24 us make our decision. I'll turn to my colleagues.

25 Commissioner Moeller?

1 COMMISSIONER MOELLER: Thank you, Mr. Chairman.
2 I think your opening statement quite thoroughly and
3 appropriately set the stage.

4 Sometimes you go to the movies and you see the
5 preview and you see the whole movie in front of your eyes.
6 This time, you set the stage, but the decisions are before
7 us still.

8 That's why, in a case like this, we have to make
9 the tough decisions. For me, it comes down to this is a
10 good market. It's working well in providing benefits to
11 consumers.

12 The proposal before us, does it expand the market
13 or does it have the threat of unraveling the market?

14 That's what we're weighing. We have a terrific
15 set of people who have come, made a significant effort to be
16 here, and I want to thank all of them.

17 The Staff did a great job pulling together the
18 briefing materials and getting them into our hands two weeks
19 ahead of time, so they have set a new standard for the rest
20 of the Staff.

21 I'm looking forward to today. I appreciate the
22 fact that we're holding this conference, and, again, the
23 fact that we have panelists coming from across the Midwest
24 to be here.

25 CHAIRMAN KELLIHER: Thank you. Commissioner

1 Spitzer?

2 COMMISSIONER SPITZER: Thank you, Mr. Chairman.
3 I, too, appreciate the materials we received in advance.
4 They were very thorough and conscientious and help us frame
5 the issue.

6 You know, in thinking about how to summarize how
7 I look at this, I think you need to consider means and ends.

8 The ultimate objective, I think, is benefits for
9 ratepayers. But in the process of achieving those benefits,
10 it is important to distinguish the competing needs,
11 competing objectives, what are ultimate objectives and what
12 are issues that simply facilitate the means to achieve that
13 objective.

14 What is in counterpoint here, is the one concept
15 of markets and the other concept of open access,
16 nondiscriminatory transmission, and I'd like to -- I'll pose
17 more narrow questions, but in terms of an overarching view,
18 if one views markets as the ultimate objective, one might
19 reach one conclusion on this proposal.

20 If one views the ultimate objective as being
21 nondiscriminatory access to the transmission grid, one would
22 reach a different conclusion.

23 Similarly, I've been somewhat concerned over my
24 tenure here, and objections being raised to membership in
25 MISO, and, legitimately so, issues generally raised by, for

1 example, state commissions concerned with the cost to their
2 ratepayers, bear upon the administration to a lesser degree,
3 but, more broadly, cost allocation.

4 During my time in the West, the opposition to the
5 formation of the RTOs, was greatly influenced by engineers,
6 regarding reliability and control. The fact that the
7 Western Interconnection is different from the tight power
8 pools of the East, interestingly, particularly Mr. Edwards's
9 statements and testimony regarding the historical origin of
10 MISO, as distinguished from the Eastern RTOs, suggests that
11 there may be more similarity with the West than the Eastern
12 Power Pools.

13 It does seem to me that the concerns regarding
14 membership in MISO, from the incumbents -- and, of course,
15 this is relevant, because one of the questions posed by the
16 Staff, is, does this proposal make it more or less likely
17 that you have the threat of migration out of MISO,
18 voluntarily?

19 That, I think, leaves us with a requirement to
20 analyze the origin of the objections. Once we isolate those
21 objections, we can more accurately and definitively answer
22 the question as to whether this proposal would be a positive
23 or a negative in terms of migration.

24 So, I'm certainly very much interested in
25 Chairman Norris's comments in that regard, regarding how

1 state regulators view the cost allocation issue and whether
2 this proposal would move the ball forward or not.

3 What we're left with, I think, is the ultimate
4 objective towards ratepayer benefits through the markets, or
5 nondiscriminatory access to the transmission grid.

6 I think a discussion of that issue, does a lot to
7 ultimately resolve this very difficult policy question.

8 Thank you, Mr. Chairman.

9 CHAIRMAN KELLIHER: Commissioner Wellinghoff?

10 COMMISSIONER WELLINGHOFF: Thank you, Mr.
11 Chairman. I apologize for being a little late here, but I'm
12 glad I got here in time to make a few opening comments.

13 I want to thank Staff for all the fine work they
14 did on this technical conference, and the information they
15 have provided us, has been very informative and helpful in
16 preparing for this morning.

17 Although I look at this, I think, with a little
18 bit different lens, perhaps, from what I've heard so far,
19 although I do agree with my colleagues' comments, that lens
20 relates to a meeting I just ran from, which was a meeting
21 convened at REA by the Energy Foundation, on the green power
22 superhighway strategies, how, in fact, we're going to
23 develop and build a high-voltage transmission system in this
24 country to do what we need to do with respect to climate
25 change initiatives.

1 So I am very interested, from that lens, how this
2 proposal fits into that overall construct; how, in fact,
3 when you bring somebody into a market, who doesn't have to
4 pay for transmission lines, how that's going to help us with
5 the Global Warming Initiative, to build that high-voltage
6 backbone transmission line they need to get that 400
7 gigawatts of wind out of the Midwest.

8 I'm very interested to talk about it from that
9 perspective and also the perspective of ratepayer benefits.
10 Consumer benefits are very important here. Thank you.

11 CHAIRMAN KELLIHER: Thank you. Commissioner
12 Kelly?

13 COMMISSIONER KELLY: I think that everything has
14 been said. I just want to join my fellow Commissioners in
15 expressing that this is probably one of the most important
16 decisions that we'll make in my tenure here.

17 I thank you all for being here, and I look
18 forward to actually hearing from you. I'm ready to move it
19 along.

20 CHAIRMAN KELLIHER: Thank you. I just want to
21 remind the panelists that they have five minutes to present.
22 I think speakers on this side, will be given a one-minute
23 warning.

24 I wanted to point out that if anyone needs
25 assistance, look for Staff with the green name tags. That

1 means they're a helpful FERC Staffer.

2 (Laughter.)

3 CHAIRMAN KELLIHER: More helpful than the normal
4 FERC Staffer.

5 (Laughter.)

6 CHAIRMAN KELLIHER: And we must need a lot of
7 help on this decision. This is the biggest panel that I
8 think I've seen since I've been here, so big that we've
9 actually spilled over to the side table.

10 I want to reassure the speakers at the side
11 table, they should not feel diminished by the seating
12 arrangement. We sit there pretty frequently. Perhaps, out
13 of sympathy, we might listen to you ever harder than some
14 other panelists.

15 Just for Commissioner Norris's point of view, we
16 did give our colleagues at the state level, a little bit of
17 grace, so, Staff, don't cut off Mr. Norris, rigorously at
18 five minutes. We'll give him a little bit of grace, but the
19 others, I really ask you to stick to five minutes, if you
20 can.

21 So, why don't we start with Graham Edwards, the
22 CEO and Claire Moeller, Vice President of Transmission Asset
23 Management, appearing on behalf of Midwest ISO.

24 MR. EDWARDS: Mr. Chairman, members of the
25 Commission, I'll do my best to stay within the five minutes.

1 I will talk as fast as I can.

2 I appreciate very much being with you all today.
3 This is a very important issue.

4 While we look at the narrow part of this, Module
5 F, the technical sides are one thing, but the policy
6 implications are critical.

7 I commend you for taking leadership in having
8 this conference and providing the transparency and dialogue
9 and the education and better understanding of what we're
10 trying to accomplish.

11 The Midwest ISO, since I have been there, really
12 1999 and 2000, we've been trying to be progressive in both
13 the offerings we make to the participants in our market, the
14 reliability correlation, tariff administration.

15 We started an energy market in 2005, and we'll be
16 starting service markets in January.

17 We recently received an Order from this
18 Commission on resource adequacy requirements, which will be
19 implemented in the Spring of 09. We have been working very
20 diligently on demand response and trying to project what
21 plug-in hybrids will be doing to the system, and taking all
22 that into consideration in what we do, moving forward.

23 We have been trying to be progressive in the
24 offerings within our marketplace in working with our market
25 participants. We think that we have probably come to the

1 end of the road on the status quo basis.

2 There might be some things going forward, but we
3 don't know what they may be at this point in time. We do
4 think that building up a transmission system, can be
5 critical for the backbone infrastructure, and we continue to
6 support that, and we even support that also in Module F.

7 As we take a look at what we're trying to
8 accomplish, the MAPP region, the agreements we have with
9 them, expired in February of this year. We had extended
10 certain parts, so we could provide some reliability
11 coordination and tariff administration for seams management
12 for them, until certain parties leave that service and go to
13 SPP for that service.

14 We all continue to work to a certain extent with
15 that, however, that's as much as we can do with that on our
16 side of the footprint. Thus, the creativity of Module F,
17 the basic question is, does the Commission want to continue
18 the status quo or do we want to be creative in trying to
19 bring about market participation, expanded market
20 participation, expanded benefits, as well as trying to
21 continue that competitive wholesale marketplace expansion
22 that all of us so direly need.

23 As we look at that, basically four questions have
24 come up from my perspective, that need to be addressed, and
25 I'd like to take just a moment and address those.

1 They have also been addressed in more detail in
2 my written comments to you.

3 First, will Module F undermine RTO membership?
4 Many of you have commented on that. We don't think it will,
5 because RTO participation right now, is voluntary.

6 We have already had people leave the Midwest ISO,
7 and come back to us after they have already departed.

8 LG&E departed, so it is already voluntary. We
9 don't think Module F would cause people to leave, on the
10 face of just Module F.

11 The Commission has established the criteria for
12 withdrawal, and we don't think Module F either adds to or
13 detracts from the standards that the Commission has already
14 established in this LG&E Order. Also, the Commission has
15 many tools to look at on a case-by-case basis, for
16 withdrawal of membership, if they so desire.

17 The second question is, does Module F violate the
18 Order Number 2000 on rate pancaking. We've come to the
19 conclusion that it does not.

20 Module F maintains the status quo in the region.
21 It does not create new pancakes. In fact, if you take a
22 look at the way that the MITS product and the transmission
23 services are developed, the current transmission owners
24 revenues are kept whole.

25 The folks from the market services, would be

1 providing their own transmission service and paying to come
2 into the marketing. In the transmission service, they're
3 doing no more than they're doing today. It does not create
4 new rate pancakes.

5 Some border utilities just cannot join an RTO
6 because of significant rate shifts that it would cause in
7 their current revenue stream that they collect for
8 generation and transmission. They just cannot afford to do
9 that.

10 The question is, do you want a fourth of a loaf
11 or none of the loaf? I don't think there's cajoling under
12 the current regime.

13 Module F should, however, provide significant
14 benefits to the current market participants, as well as the
15 new market entrants, from the standpoint of better
16 reliability, day-ahead scheduling, knowing what better
17 preparation for real-time dispatch, the five-minute unit
18 redispatch, less TLRs that have probably been experienced on
19 the seams; better economics, better reliability of the
20 system, better reserve sharing, all those issues are
21 positive to the ultimate consumer that we're there to serve.

22 Thirdly, reduces seams for transmission planning.
23 I will address that during questions and answers.

24 We do not think that it will impact planning.
25 Module F does require coordinated planning between the

1 market service customers and the Midwest ISO, as well as a
2 good-faith effort to construct, once those projects are
3 identified.

4 Last, cost-sharing for transmission: RECB was
5 excluded from Module F, both at the pleasing results of the
6 current transmission owners and the potential market service
7 customers.

8 Neither one wanted to share each other's RECB
9 costs, and, as a result, we ended up where we are. We think
10 it's a good outcome.

11 We think the planning side, however, will
12 continue to address the major backbone for the RIM
13 integration. As we go forward in that commitment to
14 construct facilities, looking at the simultaneous
15 feasibilities, we think it extends and expands Order 890 and
16 builds on that, so we're comfortable that the planning, as
17 well as the cost-sharing issue, can be accomplished and
18 dealt with.

19 In conclusion, let me just say that we will ask
20 for the Commission's favorable consideration of Module F, in
21 order to expand RTO benefits in a way that does not harm,
22 but helps existing customers, as well as potential new
23 customers.

24 We'd ask your favorable consideration of that. I
25 know I'm over my time, so I look forward to your questions

1 during the question and answer session. Thank you, Mr.
2 Chairman and members of the Commission.

3 CHAIRMAN KELLIHER: Thank you very much, Graham.
4 Next, I'd like to recognize Paul Jett, Director of RTO
5 Activities, with Duke Energy Corporation, also appearing as
6 Chair of the Midwest ISO Transmission Owners Committee.

7 MR. JETT: Thank you. Good morning. My views
8 expressed here today, do not necessarily represent the views
9 of Duke Energy. I am speaking on behalf of the MISO
10 Transmission Owners.

11 First, I want to note that Transmission Owners
12 joined the Midwest ISO's filing, solely to file Schedule 32,
13 the Market Integration Transmission Service. The Midwest
14 ISO Transmission Owners filing of Schedule 32, does not
15 necessarily indicate support by each transmission owner for
16 the entire Module F.

17 Furthermore, it should be noted that the
18 following comments do not necessarily represent the view of
19 all Transmission Owners regarding each of the issues
20 addressed.

21 The Transmission Owners generally support the
22 Midwest ISO's efforts to increase reliability and efficiency
23 of the transmission system operation in MAPP and other
24 regions.

25 In particular, the Transmission Owners are

1 hopeful that the Midwest ISO will realize the benefits it
2 expects from the western markets' proposals. Those are
3 revenue sufficiency guarantee reduction, reliability
4 benefits, and a reduction in energy and administrative
5 costs.

6 The Transmission Owners also recognize that there
7 are benefits to allowing entities to join the Midwest ISO as
8 market participants, rather than as full transmission owners
9 under the Midwest ISO agreement, particularly when some
10 entities may face impediments to joining as full
11 transmission owners.

12 The Transmission Owners, however, emphasize that
13 the best option and long-term solution for addressing MISO
14 to non-MISO, seems to be for transmission providers to join
15 the Midwest ISO as owners and signatories of the MISO
16 agreement.

17 In its June 13th Order, the Commission asked a
18 series of policy questions regarding the appropriateness and
19 effectiveness of the proposed market coordination service.

20 Specifically, the Commission inquired as to
21 whether market service will encourage existing members to
22 remain transmission owners under the Midwest ISO agreement.
23 Market services will not work, if existing Transmission
24 Owners are effectively encouraged to leave the Midwest ISO
25 as transmission-owning members.

1 If the Commission ultimately approves the market
2 services proposal, the Commission should mandate equitable
3 treatment for existing Transmission Owners and customers
4 taking market services.

5 Providing preferential treatment to market
6 services customers, would present existing Transmission
7 Owners with a disincentive to maintain their current
8 membership status.

9 The Commission also asked whether the proposal
10 will encourage market service customers to subsequently join
11 the Midwest ISO as Transmission Owners. Preferential
12 treatment of market service customers would discourage such
13 customers from becoming transmission-owning members under
14 the Midwest ISO Agreement.

15 In order for market services to be successful,
16 existing Midwest ISO Transmission Owners, must not incur
17 additional charges or face additional obligations relative
18 to market service customers.

19 If properly structured, the market services
20 proposal would neither encourage nor discourage
21 participation in the MISO, as a Transmission Owner.

22 To do this, the Commission should require the
23 MISO to take the measures to ensure that the proposed market
24 integration transmission service, does not provide
25 preferential treatment to market services customers, either

1 through rates or terms and conditions of transmission
2 service, as compared to network integration transmission
3 service used by existing Transmission Owners.

4 Also, under the current market services proposal,
5 existing Transmission Owners will be allocated a
6 disproportionate share of costs associated with facilities
7 under the MISO's RECB tariff provisions, and requiring
8 existing Transmission Owners to absorb the bulk of RECB
9 costs, would present a disincentive to their continued
10 participation in the Midwest ISO as Transmission Owners.

11 The Commission inquired whether the cost-sharing
12 mechanisms for transmission expansions, will cause
13 sufficient incentives for new transmission infrastructure
14 construction.

15 The inequitable allocation of RECB costs, would
16 likely thwart the Commission's goal of creating sufficient
17 incentives for new transmission infrastructure construction.

18 There is also a disincentive for Transmission
19 Owners to propose new transmission construction, if they are
20 forced to pay for the majority of new facilities, while
21 market services customers enjoy a free ride by benefitting
22 from new facilities, without being required to pay for them.

23 Finally, the Commission asked about the benefits
24 of the proposal on customers in the Midwest ISO footprint.
25 The Transmission Owners note that the Midwest ISO

1 calculation of benefits, assumes that most of the entities
2 in MAPP, will join the MISO under the markets proposal.

3 This is no longer the case. The entities in
4 Nebraska are joining the Southwest Power Pool, and the only
5 entity to file to join the MISO as a market services
6 customer, is MidAmerican Energy Company.

7 The Transmission owners thus question whether the
8 calculation of benefits of the market services proposal, is
9 meaningful in determining whether such benefits outweigh the
10 costs.

11 The Commission should bear this in mind, as it
12 evaluates the purported benefits and likely success of
13 market services. The Commission should also ensure that if
14 it does ultimately allow the market services proposal, that
15 the proposal is flexible enough to respond to actual
16 experience in integrating the western seams.

17 In closing, I would like to emphasize that the
18 only way that market services can work successfully and
19 avoid several of the potential disincentives that the
20 Commission has identified, is to treat participants under
21 Module F, in a manner that is equitable to treatment given
22 the existing Transmission Owners.

23 That concludes my remarks. Thank you.

24 CHAIRMAN KELLIHER: Thank you very much. I would
25 now like recognize William Fehrman, President and CEO of

1 MidAmerican Energy Company.

2 MR. FEHRMAN: Good morning. Thank you for the
3 opportunity to discuss this very important issue.

4 Obviously, we strongly believe that this approach
5 provides significant benefits and we're very excited to be
6 here to discuss this.

7 In our case, we have several issues to consider
8 to look at alternatives for us to enter RTOs, be it MISO or
9 stand-alone or the other alternatives that we have available
10 to us.

11 In our case, our participation in an RTO, must be
12 consistent with a business plan that returns benefits to our
13 customers. That is our most important factor when we assess
14 our abilities and our desires to join into an RTO.

15 In our case, with regard to construction and
16 building of transmission, we continue to build transmission,
17 we're supportive of building transmission. In fact, in the
18 last five years, MidAmerican's gross transmission plant has
19 increased by over 50 percent.

20 However, in our case, we must be able to
21 reasonably estimate the costs going forward. So far, the
22 Midwest ISO planning process and the associated mechanisms,
23 have not allowed us to determine, on an going-forward basis,
24 what the costs might be, to allow us to quantify those
25 potential transmission costs.

1 Even if MidAmerican were ultimately to withdraw
2 from the Midwest ISO, in the absence of clarity on that
3 process and related cost allocations, market coordination
4 services provides us a valuable option to be able to enter
5 and join a broader RTO participation.

6 With regard to market coordination services, in
7 our case, it's our belief that the market will be expanded.
8 The Midwest ISO generation will be dispatched much more
9 efficiently.

10 Ancillary services will be provided in the most
11 economic manner possible, and MidAmerican will not have to
12 withhold any economic generation from the market, in order
13 to maintain the share of operating reserves that we have to
14 today.

15 Reliability will be improved, once the Midwest
16 ISO's security-constrained economic dispatch will allow
17 constraints to be addressed more promptly and more
18 economically than the current transmission loading relief
19 mechanisms.

20 Transmission service and transmission planning
21 will be much better coordinated. Available transfer
22 capabilities and available facility capabilities, will be
23 calculated consistently.

24 MidAmerican's transmission system will be
25 included in the region represented by the Midwest ISO under

1 its operating agreements with PJM. All of those things, we
2 feel, provide significant benefits over the way business is
3 done today.

4 MidAmerican and Midwest ISO have addressed
5 objections to market coordination services. MidAmerican
6 has designed its pricing of market integration transmission
7 service to minimize the impacts on bidding behavior and
8 market price, while respecting all of the cost causations.

9 We've ensured the market coordination customers
10 in Midwest ISO, meet their mutual obligations to maintain
11 simultaneous feasibility across the systems to serve network
12 load.

13 Finally, we have asked for prompt action on this,
14 so that we can continue forward with our planning process.
15 MidAmerican has told its customers that we expect to enter
16 the Midwest ISO markets under market coordination service,
17 on September 1st of 2009.

18 In order to make that commitment to our
19 customers, we need to register with the Midwest ISO by March
20 15th, 2009, and we need to file changes to our MidAmerican
21 Open Access Transmission Tariff, on or about February 1st of
22 2009.

23 Then we need to follow up and resolve all of our
24 regulatory issues with our state commissions. Obviously, we
25 can't do any of that until receiving an Order on the merits

1 of market coordination service.

2 We believe we need such an Order by early
3 January, 2009, to achieve a September implementation date.
4 Your guidance on MidAmerican's August 15th filing, would
5 greatly help us ensure that our ultimate Section 205 filing,
6 is consistent with the Commission's direction.

7 In summary, MidAmerican asks the Commission to
8 approve the Midwest ISO's market coordination services
9 proposal, as we firmly believe it will bring more efficient
10 operation of resources and ancillary services to a wider
11 region. It will expand the market; it will improve
12 reliability by reducing reliance on transmission loading
13 relief procedures, and by bringing more intertie capability
14 into the Midwest ISO's market dispatch.

15 MidAmerican and the Midwest ISO have worked to
16 mitigate objections to market coordination service, and we
17 believe the proposal adds value throughout the entire
18 Midwest region. Thank you for your time this morning.

19 CHAIRMAN KELLIHER: Thank you very much. I'd
20 like to now call on Lloyd Linke, Manager of Power System
21 Operations with the Western Area Power Administration.

22 MR. LINKE: Good morning. I appreciate the
23 opportunity to participate in this technical conference
24 regarding the Midwest ISO's Western Markets proposals.

25 I have a couple of comments that are unique to

1 Western, then Mr. Risan, from Basin Electric, will provide
2 more information on the background of the ISO and our major
3 concerns and issues with being able to join the Midwest ISO
4 markets.

5 The first concern unique to Western, is due to
6 our hydrological cycles. For other electric plants, Western
7 does not believe that it is appropriate to determine the
8 capacity of a hydroelectric plant, on a three-year average.

9 The high and low water years will have
10 significant impacts on the three-year averages. The Corps
11 of Engineers, who operate the bulk of our generating
12 facilities, uses a 40-year average to determine the average
13 water years.

14 Western believes that using a 40-year average on
15 generation, would also be appropriate to determine the
16 capacity level for a hydroelectric facility.

17 The other issue that Western has, in particular,
18 is how to model the individual units, the hydroelectric
19 individual units, and because of our relationship with the
20 Corps of Engineers, we think it would be good to model the
21 plant, instead of individual units, to the maximum extent
22 that is possible.

23 The reason for this is that the Corps of
24 Engineers, through their operating manual, have weighed
25 multiple criteria on the operation of the Missouri River

1 Environmental Concerns Unit run times and those types of
2 things, in balancing the operation of their facilities.

3 So, Western can request specific generation
4 levels at a plant, but we do not address specific units. If
5 it's possible that multiple units could be modeled as a
6 single plant in the market proposal, that would be more
7 beneficial to us.

8 It is our understanding that MISO is agreeable,
9 at least in principle, to these provisions, and is willing
10 to make those sorts of modifications to Module C, I believe
11 it is, in their tariff, if Module F is approved.

12 In closing, I would encourage the Commission to
13 adopt the market coordination service concept, so that
14 Western and other IS entities, have the option to
15 participate in the Midwest ISO market.

16 This option removes the largest barrier to our
17 participation in the Midwest ISO market, the cost-shift
18 issues, which Mr. Risan will explain in more detail, and it
19 allows us to make a business-case decision on whether to
20 join the Midwest ISO market. Thank you for the opportunity
21 to provide these comments. I look forward to your
22 questions. Thank you.

23 CHAIRMAN KELLIHER: Thank you. I'd like to now
24 call on the Honorable John Norris, the Chairman of the Iowa
25 Utilities Board and President of the Organization of Midwest

1 ISO States. John is accompanied by Bill Smith, the Director
2 of OMS. John?

3 Oh, I'm sorry. Mike Risan. I really apologize
4 for that. I promised that we wouldn't treat you with
5 disfavor.

6 (Laughter.)

7 CHAIRMAN KELLIHER: John, can you be patient? I
8 apologize. Let me call on Mike Risan, Senior Vice President
9 of Transmission with Basin Electric Power Cooperative. I
10 apologize.

11 MR. RISAN: Thank you for this opportunity to
12 participate in this technical conference regarding MISO's
13 proposal. My name is Mike Risan, the Senior Vice President
14 of Transmission for Basin Electric Power Cooperative.

15 My comments, therefore, will reflect the policy
16 perspectives of Basin Electric's transmission function.

17 Basin Electric is a member-owned and consumer-
18 controlled transmission and generation cooperative serving
19 the supplemental power supply needs above base allocations
20 from the Western Area Power Administration, of 126
21 distribution coops serving 2.6 million consumers across nine
22 states.

23 I'd like to begin by providing some background
24 information, which I hope you will find useful in the
25 ensuing dialogue. Basin Electric's transmission facilities

1 in the Eastern Interconnection, have been jointly planned
2 with those of the Western Area Power Administration and
3 others in the area for over 45 years, and they are jointly
4 operated.

5 That joint transmission system is known as the
6 Integrated System or IS. WAPA is the operator and
7 administrator of that system.

8 In addition to Basin Electric and WAPA, Heartland
9 Consumers Power District is a co-owner of the IS. The IS
10 offers nondiscriminatory transmission service through an
11 open access transmission tariff on file with the Commission
12 as a safe harbor tariff.

13 The IS is priced on a non-pancaked postage stamp
14 basis. The predecessor of the IS, which was in place before
15 the advent of the Commission's open access policies, was
16 known as the Joint Transmission System or JTS.

17 The JTS was also planned on a single-system basis
18 and was priced a rolled-in, non-pancaked basis.

19 Basin Electric is a long-time advocate of postage
20 stamp pricing for transmission qualifying elements of the
21 existing system, and for new transmission facilities, which
22 are required by the network customers of that system.

23 Basin Electric is not a transmission-only member
24 of the Midwest ISO.

25 One of the primary reasons, from a transmission

1 perspective, is because of MISO's license-plate pricing
2 philosophy. The IS transmission facilities were originally
3 built to deliver the output of WAPA's hydro resources to
4 WAPA customer load, some of which resides beyond the
5 electrical border of the IS.

6 Basin Electric and Western's subsequent
7 transmission facilities to serve network load growth, which
8 are currently planned to integrate with the original
9 facilities and are priced on a rolled-in postage stamp basis
10 for qualifying facilities.

11 At the present time, the annual transmission cost
12 of the IS, is approximately \$150 million. The rate is
13 approximately \$3 per kilowatt month, and approximately one-
14 third of the IS network load is beyond the electrical border
15 of the IS transmission system.

16 If the IS members were to join MISO, under its
17 current license plate pricing regime and rate zone
18 definitions, this would translate, in rough numbers, to a
19 \$50 million annual cost shift to IS customers within the
20 WAPA balancing area.

21 This would increase the IS rate to roughly \$4.50
22 per kilowatt month, a 50-percent increase.

23 This is the first of two fundamental reasons why
24 the IS is precluded from direct participation in MISO. It
25 should be self-evident by now that Basin Electric, WAPA, and

1 Heartland, cannot realistically consider individual
2 membership in MISO, because we are essentially connected at
3 the hip, from a transmission perspective.

4 MISO is aware of this cost-shift dilemma, and I
5 believe this is a very significant reason for MISO's market
6 coordination service offering that's currently under
7 consideration by the Commission.

8 Basin Electric appreciates the efforts by MISO to
9 provide this offering as a potential option for
10 consideration by our merchant function. Basin Electric and
11 Western transmission functions, work closely with MISO in
12 the development of the market integration transmission
13 service, or MITS concept.

14 MITS, as envisioned by the IS, could enable
15 market participation of IS merchant functions, if they so
16 desire, without jeopardizing the integrity of the IS and
17 without introducing the cost-shift issue.

18 Even if market coordination service and MITS are
19 formally adopted, however, this introduces the second of two
20 fundamental reasons affecting Basin Electric's potential
21 participation in MISO, and that is, is there a business case
22 to warrant participation in the MISO market?

23 WAPA's merchant function is currently evaluating
24 the impacts of MISO's market participation through a public
25 process. However, that process is delayed until the market

1 coordination concept is finalized.

2 Basin Electric's merchant function and its
3 members, all as customers of WAPA, will actively participate
4 in WAPA's public process. The bottom line is that the
5 decision to participate as a market coordination customer,
6 will be a joint IS merchant function decision, based on the
7 business case.

8 I would, however, urge the Commission to adopt
9 the market coordination service concept, so that IS merchant
10 functions and others, have an option to participate in
11 MISO's market. This option allows more flexibility than the
12 stand-alone status quo or MISO TO status, which is a non-
13 starter for the IS, as previously described.

14 Before I close, I would like to offer two more
15 observations related to potential participation in MISO's
16 markets:

17 The first is, exposure to MISO's RECB regional
18 expansion process, while not directly involved in the RECB
19 dialogue, our observation is that the RECB cost allocation
20 process is flawed and is a further impediment to full MISO
21 participation, even if the cost shift issue is resolved.

22 The RECB process appropriately allocates the cost
23 of new transmission to those that have already heavily
24 invested in the system. This is of particular concern with
25 respect to potential wind development in the Dakotas, to

1 meet RPS standards and mandates in distant states.

2 The second observation is that any implementation
3 of market coordination service, needs to honor the
4 integrated systems contract pathway to cross the constrained
5 North Dakota export boundary.

6 Thank you for the opportunity to provide these
7 introductory comments. I look forward to your questions.

8 CHAIRMAN KELLIHER: Than you very much. I now
9 turn to the Honorable John Norris. John?

10 MR. NORRIS: Thank you, Mr. Chairman and members
11 of the Commission for inviting me and OMS to be here today.
12 I must say, as both President of the OMS and the Chairman of
13 the Iowa Utilities Board, I know I might capitalize on your
14 offer to go over five minutes, but I will make someone made
15 in my comments today.

16 Let me first characterize OMS's position. The
17 best way, I think, I can describe this, is that there's a
18 level of uncertainty, but that we can see some value and we
19 generally support Module F. We should also recognize the
20 work that MISO has put into this in its effort to further
21 this.

22 There are three outcomes that OMS would like to
23 see. One is that the benefits, in theory, on this can be
24 better explained, and that there are metrics in place so
25 that we can actually quantify and see those benefits.

1 Two, that there be an improved planning process;
2 and, three, that market operations could be enhanced,
3 perhaps simplified.

4 Those are outcomes that OMS would like to see.
5 We recognize that MISO maintains and can see that they have
6 potential reductions in seams issues, better regional
7 cooperation, coordination, and resource planning.

8 With covering a large area, congestion management
9 can be enhanced, and with the dispatching of a larger fleet,
10 there is market enhancement and perhaps will contribute to
11 the success of the outcoming ASM in MISO.

12 In evaluating the filing, OMS requests that FERC
13 should be guided by the overall objectives of broadening
14 access to low-cost market-based wholesale power, and
15 improving regional coordinating resource planning.

16 Specifically, we ask you to consider three key
17 things here: One is market service should not result in
18 unfavorable financial impacts on existing MISO market
19 participants.

20 The word that comes to mind, to me, there,
21 following up on what Commissioner Moeller says, is "let it
22 not unravel."

23 I hope this afternoon's conference segment of the
24 discussion, can give you some confidence that that can be
25 done.

1 We're also concerned that market service should
2 not create an incentive for current transmission members to
3 oppose the participation in the GO agreement. That's what
4 we're all trying to figure out, right?

5 The market service should create incentives and
6 obligations for market service participants to build new
7 transmission facilities in the region, that would benefit
8 existing market participants.

9 Some of this is addressed in the liabilities
10 sections of Part 22, and I believe that will lead to
11 economic benefits and how we can further that goal.

12 Currently, economic benefits will be a part of
13 the module efforts, and, frankly, the issue of what to do
14 with the RTOs, in general, OMS believes that the Midwest
15 ISO's explanations of the methods, remain somewhat
16 speculative and difficult to quantify.

17 We will just add that the Commission requires
18 MISO to develop metrics to assess the benefits to existing
19 market participants. OMS believes the transmission planning
20 can be better coordinated with new members, once they
21 improve access to MISO markets, as a result of their
22 membership, and the Commission has required those taking
23 services under Module F, to provide information necessary to
24 plan the transmission expansion, which is one of the
25 benefits I think we have to receive from this, if this is to

1 prove worthwhile.

2 Finally, on policy considerations, we ask that
3 you consider that the Midwest ISO has indicated that market
4 service will act as a transmission mechanism to full
5 participation under the Transmission Owners Agreement,
6 however, there is a concern that market service will not
7 result in transition to full participation.

8 That transition will continue indefinitely.
9 Perhaps there should be some consideration as we develop the
10 metrics, to see and quantify the benefits that this perhaps
11 not be allowed to continue indefinitely.

12 At some point, let's make a decision and allow
13 this to go forward, but keep in mind that there is a point
14 at which we're asking the participants to make a decision.

15 Finally, more comments from myself and not
16 necessarily comments from OMS, but the broader policy goal
17 here, I believe, is to have Module F be, in effect, to
18 enhance competitive markets. That, in my mind, is probably
19 an end run around, I think, the fundamental element of long-
20 term market development that is an expansion of the Midwest
21 transmission grid.

22 While we're all driving towards competitive
23 markets, if we don't get back to the key fundamental
24 question here about expansion of the transmission grid, we
25 really won't ever get there, in my mind.

1 So, does this enhance that or does it unravel it?
2 It's no secret here that it's a policy decision, I think,
3 that has to be made. Again, I'll repeat that it's critical
4 that no harm be done to current participants and maintain
5 the current members.

6 There are metrics that can measure the impact and
7 quantify the benefits. I also think, following up on
8 Commissioner Wellinghoff's comments, that it is going to be
9 increasingly important that we get to economic benefits,
10 especially as we look at getting wind out in the system and
11 levels to meet the possible state and federal RPS.

12 I think this can contribute. It brings folks to
13 the table, new market participants, but it has to eventually
14 lead to a full participation in MISO and the RTOs, that can
15 lead to economic benefits and get them onboard.

16 So, if we're doubtful about the impacts of this,
17 we have to accelerate expansion of the transmission grid for
18 both reliability and economic reasons, and, in general, OMS
19 thinks this can enhance that, but there are obvious concerns
20 that need to be addressed.

21 We encourage you to address those. Thank you.

22 CHAIRMAN KELLIHER: Thank you. Does Bill have
23 comments?

24 MR. SMITH: I have no comments today. My
25 President has spoken.

1 (Laughter.)

2 CHAIRMAN KELLIHER: Let me now turn to Ray Wahle,
3 the Director of Power Supply and Operations with the
4 Missouri River Energy Services, on behalf of the Midwest
5 TDUs.

6 MR. WAHLE: Thank you, Mr. Chairman, for allowing
7 me to participate today. I am representing the Midwest
8 TDUs. It's really a group of utilities, LSCs, if you will.
9 It's what we call a mixed bag.

10 Some of our members are within the load that's
11 currently within the MISO footprint. Some has load that's
12 out of the MISO footprint, but would come into the MISO
13 footprint under the proposed Module F.

14 In my own company, Missouri River Energy
15 Services, we currently have a fair amount of load already in
16 the MISO footprint, and the rest of that load, potentially,
17 could come into the MISO footprint under the Module F
18 expansion.

19 In all cases, all the entities that participate
20 in this filing, really do not think that the Module F is a
21 good idea.

22 We say that for several reasons: First of all,
23 most importantly, it continues to balkanize the transmission
24 system. It consists -- the only marginal benefit, would be
25 some economy of energy transactions from distant resources.

1 It really results in a day-two market without all
2 the benefits of the day-one RTO transmission rate planning
3 and configuration. It continues pancake transmission. That
4 is going to continue on into the future, and, really, quite
5 frankly, it's going to be hinder wind development in the
6 Midwest, particularly the state I'm from, South Dakota,
7 which is a large wind resource.

8 There is a very small amount of wind development
9 right now in South Dakota. One of the main reasons for
10 that, is because of the pancake transmission. Consequently,
11 there's a cost to do business, if you come into South
12 Dakota, and to get out.

13 Consequently -- and the border, by the way, runs
14 almost along the South Dakota-Minnesota border. If you look
15 at Minnesota, there's over a thousand megawatts of wind in
16 Minnesota, but only 50 megawatts just a few miles away in
17 South Dakota.

18 I should also note that the Governors of North
19 Dakota, South Dakota, Minnesota, and Iowa and Wisconsin,
20 have recently started an initiative, the Upper Midwest
21 Transmission Development Initiative.

22 The purpose of that initiative, was to build
23 additional transmission, to specifically try to have
24 economic transmission and to enhance renewable energy
25 objectives of those five states. I would submit to you that

1 institutionalizing the Module F, I think institutionalizes
2 the seam between the ISO and the Module F area, and that
3 institutionalization will institutionalize the pancake rates
4 and continue to hinder the wind development in the Midwest
5 regions of the Dakotas.

6 The other issue or the other problem that we have
7 with Module F, is that it does create an opportunity for the
8 current MISO TOs to actually exit what we would refer to as
9 integration MISO and come back in as a market coordination
10 customer.

11 I think that's really a bad idea. It continues
12 to balkanize the transmission system and if, for some
13 reason, there would be a large transmission hole in the
14 center of MISO, that precise exit and come back in as a
15 market coordination customer, and you've now just created a
16 huge seam right in the middle of MISO.

17 This is going to have a large impact on the LMP
18 markets in MISO, and I think it would cause all kinds of
19 problems. To us, it's really not clear, in all the filings
20 that have been done, what market coordination really means,
21 since there are significant differences between what MISO,
22 MISO TOs, and MidAmerican have to say about the market
23 coordination service and some of the filings that yet have
24 to be made.

25 It is interesting, some of the comments that Mr.

1 Jett had made, that the TOs have some of the same concerns
2 and raised some of the same issues that we have, so it's
3 interesting that a group of LSCs and a group of TOs, have
4 some of the same issues with the Module F.

5 The other question that I would ask, is, why are
6 we even here today? When you look at it, the Nebraska
7 utilities -- NPT, LES, and OVBD -- have decided to move
8 their transmission into SPP.

9 The initial reason that MISO offered market
10 coordination service, was to attract the Western utilities
11 into MISO. We had a large group of them that have elected
12 to move south.

13 Basin and WAPA have not yet made a commitment,
14 whether they are going to take advantage of the market
15 coordination service, so that basically leaves us with
16 MidAmerican. MidAmerican has raised some issues, so I guess
17 the question that I have, is, can we work with MidAmerican
18 and come up with a solution that works for MidAmerican and
19 eventually brings MidAmerican into MISO as a full TO, rather
20 than going through this lengthy process where you're really
21 kind of talking just about MidAmerican.

22 The other thing, I think, the question asked, is,
23 what do we lose if we offer this, if this is actually
24 implemented? I think we give up the opportunity to make
25 real progress on continuing a broad market for renewable

1 energy.

2 That was one of the things that I think we really
3 need to focus on. This creates a permanent seam, and I
4 think we would give up that opportunity to really have that
5 long-term benefit.

6 As I noted before, it institutionalizes the seam.
7 I think we need to be careful of that, and in terms of just
8 responding to Commissioner Moeller, I think it could
9 potentially unravel MISO and the MISO market as it exists
10 today, because of the benefit that other TOs would see by
11 actually departing MISO, regionally, as market coordination
12 customers.

13 I thank you for listening to my comments. I'm
14 looking forward to the questions.

15 CHAIRMAN KELLIHER: Thank you very much. I
16 recognize Steven Naumann, Vice President of Wholesale Market
17 Development with the Exelon Corporation.

18 MR. NAUMANN: Thank you, Mr. Chairman and
19 Commissioners, for inviting us outsiders to speak here. We
20 are supportive of expansion of the markets.

21 Exelon is really glad to see MISO put out this
22 proposal and MidAmerican's desire to take part as a market
23 coordination customer.

24 We do have a couple of concerns, and, hopefully,
25 some constructive proposals. The first has to do with seams

1 coordination, and it's not the seams coordination issue that
2 you've heard discussed.

3 I'm not going to repeat that, but it is the
4 coordination with PJM. This is not a hypothetical issue for
5 us. We sit on the border between MISO -- we're in PJM and
6 MidAmerican.

7 Exelon Generation jointly owns a nuclear unit at
8 Quad Cities Station in PJM territory with MidAmerican.
9 There's a generating station subsidiary of MidAmerican,
10 Cornova, attached to the PJM system, that can swing between
11 MidAmerican and PJM.

12 Our concern is that there be full coordination,
13 in the same way as any normal regular integration of a full
14 customer and that there be affirmative PJM signoff on all of
15 these things, to make sure that there are no problems when
16 this is implemented.

17 For example, we're still unsure about border
18 pricing and how that's going to be handled. We want
19 confirmation on how that's going to be modeled.

20 We want to make sure PJM is involved in any
21 determination and allocation of reciprocal coordinated
22 flowgates. That's going to be very important to both how
23 MISO does business and how we do business.

24 The expansion planning protocols, you've heard
25 some discussion about it. Our understanding is, in the case

1 of MidAmerican, the planning would be done under the MAPP
2 regional plan.

3 Will that account for expansion, for market
4 flows, as MISO and PJM do? If it doesn't, I don't think
5 that's fair, where we're building the system.

6 The bottom line on coordination is, we want to
7 make sure that it takes place and that PJM is affirmatively
8 involved and has to sign off before any integration is done.

9 The second issue is what Commissioner Moeller
10 brought up. It's unintended consequences that are our
11 concern. It is the unraveling of MISO and possibly even the
12 precedent of other RTOs.

13 The way I read your LG&E, and especially your
14 Duquesne decisions, I read them a little differently than
15 MISO does. It appears to me that the Commission will not
16 limit withdrawals outside of the explicit terms of the
17 agreements, in this case, the MISO TO agreements.

18 So we are very concerned as to whether you can
19 see a breakup of MISO, because of an actual or perceived
20 economic benefit for one small part of the whole package.

21 We understand that this Module F should not be
22 unduly discriminatory, but the word is "unduly
23 discriminatory."

24 I think there are a couple of things for the
25 Commission to consider: Possibly to add a stay-out

1 provision. For example, if you're now a full member of
2 MISO, in order to join under Module F, you have to wait
3 three to five years.

4 That way, there would be some assurance that
5 there's no issue of trying, for example, to push the RECB
6 costs onto the remaining members, because in these
7 particular years, there's a greater allocation within one
8 side to the other.

9 It's not unprecedented to have stay-out of
10 certain provisions to make sure you can't jump back and
11 forth or a special provision to somehow deal with the RECB
12 costs, so people aren't jumping back and forth to avoid them
13 and put them on other people.

14 Those are our two concerns and hopefully, some
15 constructive comments, and I look forward to answering any
16 further questions. Thank you very much.

17 CHAIRMAN KELLIHER: Thank you very much. I now
18 call on Doug Collins, Executive Director of ITC Midwest.

19 MR. COLLINS: Mr. Chairman and Commissioners,
20 thank you for allowing me to participate today. I'm making
21 these comments on behalf of ITC Holdings, which has three
22 independent transmission companies that are transmission-
23 only member of the Midwest ISO. They are: ITC Michigan,
24 Electric Transmission Company, and ITC Midwest.

25 I'm the Executive Director of ITC Midwest,

1 headquartered in Cedar Rapids, Iowa. The ITC Midwest
2 transmission system is historically part of the MAPP region,
3 and is thus highly integrated with the other MAPP utilities,
4 particularly in Iowa.

5 Because of our location on the grid and our
6 integration with MidAmerican Energy, all the theoretical
7 concerns of MISO's Module F filing, are practical concerns
8 to us and to our customers.

9 If you have in front of you, the map, you can see
10 how integrated our system is with the other MAPP utilities.

11 Because of ITC Midwest's location on the MAPP
12 scene, ITC supports the Module F Part I and II revisions,
13 provides the defined services to address MAPP/MISO seams
14 issues, coordinating seams issues and allowing greater
15 efficiencies with policy.

16 However, ITC has three concerns with market
17 coordination services currently proposed in Part III of
18 Module F, The MISO Transmission Energy Markets Tariff:

19 First, the coordination services proposed, is a
20 fundamentally flawed concept.

21 Second, market integration service customers,
22 have no responsibility for Midwest ISO regional transmission
23 expansion costs.

24 Third, Module F, Part III, does not provide for
25 effective integrated regional transmission planning.

1 To expand on our first concern, market
2 coordination service allows a market coordination service
3 customer, full access to the benefits of the Midwest ISO
4 energy market, without putting their transmission facilities
5 under the Midwest ISO functional control.

6 However, the operation of the Midwest ISO energy
7 market and use of the Midwest ISO transmission system, are
8 integrated. The regional tariff is the enabler of the
9 energy market, and energy market customers have broad and
10 flexible use of the Midwest ISO transmission system through
11 operation of the energy market.

12 Under this proposal, a market coordination
13 customer enjoys the benefits of the energy market, and
14 avoids the obligations of a Midwest ISO transmission owner.

15 We believe this service, as proposed, reduces
16 incentives for full RTO participation by additional entities
17 in the Midwest ISO's seams. There is also potential that
18 this service option could encourage existing transmission
19 owners to pull their transmission facilities out of the
20 Midwest ISO tariff and become market coordination service
21 customers.

22 Our second major concern that we raised in our
23 initial comments in this filing last Spring, concerns the
24 responsibility for Midwest ISO regional transmission
25 expansion costs. Midwest ISO is entering a period of

1 significant expansion of the regional transmission grid, and
2 has FERC-approved mechanisms to allocate these costs
3 regionally, to beneficiaries, through what are commonly
4 referred to as RECB-1 and 2.

5 The market coordination service customer will
6 realize the substantial reliability and economic benefits of
7 this regional expansion, without any obligation to pay for
8 the new regional expansion facilities under the MISO tariff.

9 While it is possible there could be some
10 reciprocity, assuming that the market coordination service
11 customer were to construct new facilities that benefit the
12 Midwest ISO region, there is nothing that ensures that, but
13 there certainly is a great possibility that they could
14 become a free rider.

15 As was discussed in greater detail in the October
16 14th technical conference on barriers to transmission, many
17 speakers talked about the cost allocation being an
18 impediment of regional transmission investment, allowing
19 entities to join the benefit of the markets, facilitated by
20 the grid, without the requirement to support the carrying
21 costs of the infrastructure, is not good policy.

22 Perpetuating the status quo cost allocation, will
23 likely not result in significant regional transmission
24 development. We share most of the concerns that are
25 presented today by the MISO TOs, relative to the specifics

1 of the proposed market integration transmission service.

2 This mechanism completely misses what is needed
3 to ensure comparability among the customers in the Midwest
4 ISO and market coordination customers.

5 Our third concern highlights why this free ride
6 is such a real possibility. The Midwest ISO regional
7 expansion planning is increasingly based on the assumption
8 of an RTO-wide market dispatch.

9 During its planning activities, the Midwest ISO
10 will identify new regional facilities needed, based, in
11 part, on what the market coordination service customers
12 need.

13 While recent Order 890 planning reforms have
14 required transmission providers to develop more transparent
15 processes to coordinate transmission planning activities,
16 coordinated planning between an independent RTO and a non-
17 independent transmission owner, is not likely to yield the
18 same outcomes as an independent planning for an entire
19 region by an independent organization.

20 A transmission provider that also has market
21 interests, will not ignore these interests during the
22 planning process. This will be the situation between the
23 Midwest ISO and its market coordination service customers.

24 Again, to further amplify the point, I refer you
25 to the October 14 technical conference and the comments of

1 our CEO, Joseph Welch.

2 Our recommendations: First, market coordination
3 customers should be subject to the same tariff requirements
4 as a Midwest ISO transmission customer, to pay for regional
5 expansion facilities.

6 Having this skin in the game relating to planned
7 facilities in the region, will facilitate market
8 coordination customer participation in regional planning
9 activities.

10 Second, market coordination customers should have
11 to integrate their planning process within the Midwest ISO
12 Order 890-compliance planning process. Doing so, should
13 ensure optimum expansion of the transmission grid to
14 facilitate competitive wholesale markets.

15 Third, transmission service over zonal facilities
16 from market coordination service customers, should be
17 provided through a coordination agreement similar to that
18 between the Midwest ISO and Manitoba Hydro, rather than
19 through the overly complex MITS proposal.

20 Under this type of arrangement, each party waves
21 any transmission charges for use of its system by the other
22 party, in order to have the same impact as the operation of
23 license plate rates among transmission owner systems.

24 Taken together, we believe these recommendations
25 will put the market coordination service customers on a

1 level playing field with the existing customers and
2 transmission owners, with requiring coordination service
3 customers to join the Midwest ISO as transmission owners.

4 It will also remove the unintended incentive for
5 current MISO transmission owners to withdraw from MISO, in
6 order to take advantage of the new arrangements. Thank you.

7 CHAIRMAN KELLIHER: Thank you very much. Now I'd
8 like to turn to Don Furman, Senior Vice President for
9 Development, Transmission and Policy, Iberdrola Renewables,
10 and also the incoming President of American Wind Energy
11 Association.

12 Don?

13 MR. FURMAN: Thank you, Chairman Kelliher. I
14 need to clarify that I'm not here today on behalf of AWEA.
15 I'm here on behalf of the people who pay my son's tuition.

16 (Laughter.)

17 MR. FURMAN: Iberdrola Renewables is sort of a
18 new name. We are an expansion company. We operate
19 approximately 3,000 megawatts of operating wind assets
20 across the country.

21 We also have a major investment plan. We also
22 are intending to invest significant amounts of money, again,
23 across the country, in wind resources.

24 We're here in support of the market coordination
25 service, which we think will facilitate markedly new wind

1 investment in the region, and we urge the Commission to
2 approve this as quickly as possible.

3 I think it's important to put this in
4 perspective. We have a new Administration in town, we have
5 a new Congress, and it's very likely that we're going to
6 have a federal RPS. We're certainly going to have wind and
7 renewable resources as a major part of energy policy, going
8 forward.

9 We also have RPS in half the states across the
10 country, so we have built-in demand for wind, going forward.

11 The Midwest is sort of the Saudi Arabia of wind.
12 If you think about it, it has the highest capacity resource
13 available in the country. The wind blows there a lot, as
14 those of you who live there know.

15 It's very important if we're to achieve the
16 policy initiatives we think are coming, that we're able to
17 access that wind resource in a cost-effective manner and in
18 a reliable manner.

19 You know, if you think about how development
20 always occurs, whether it's in the oil patch or natural gas,
21 or anywhere, you go after the most cost-effective resources
22 first, the ones that are easiest to get to.

23 We've done that, we've developed a lot of wind
24 over the past few months -- sorry, over the past few years
25 -- and naturally developers such as Iberdrola go after the

1 resources that are most cost-effective and that we can get
2 to market.

3 We're now approaching a point in the supply curve
4 where we're going to need more transmission built, as we've
5 talked about a lot, but we're also going to need a lot of
6 other things.

7 I suspect we're going to be appearing in front of
8 you a lot over the next couple of years, and as this
9 pressure to develop wind becomes more prevalent, we're going
10 to need more things from this Commission. Market
11 coordination service is one of those things that we think we
12 need.

13 We have developed a lot of resources inside of
14 the MISO footprint. MISO is a good market for us.

15 When we think about making an investment, we have
16 to look at the market that we're going to be selling into,
17 and organized markets are extremely beneficial to wind
18 development, and, for that matter, to any intermittent
19 resource, because they provide the market structure and the
20 market mechanisms in order to integrate efficiently.

21 They also provide all the benefits that every
22 market participant likes, which is transparent pricing, so
23 it's very important that we have access to this.

24 Now, the reason I'm here today, is, we have two
25 wind farms currently either under construction or in

1 advanced stages of development.

2 We've authorized the investment for both of these
3 in MidAmerican's service territory. As we look at the
4 market and we look at where we're going to sell that output,
5 having access to MISO, is extraordinarily important. It
6 gives us that liquidity, it gives us that access to market
7 mechanisms, and it fundamentally affects our decision on
8 where we're going to invest our dollars, so it's a very
9 important part of the analysis.

10 Similarly, on the consumer side -- and this is,
11 at the end of the day, all about the consumer -- consumers
12 will see less expensive wind resources, because the
13 integration services will be less, because the transmission
14 will be less, because you will get more investment in these
15 higher grade, higher capacity factor resources, if you're
16 able to integrate into MISO.

17 Is this the best solution? No. Of course, we
18 would much prefer that MidAmerican join MISO. That's
19 clearly, in our view, a better outcome, but it is a step in
20 the right direction, and it's an important component.

21 I think it's important to stay out of the weeds
22 on this issue. You have to put it in the context of
23 national energy policy, and say, are we going to do things
24 like this around the edges of ISOs in order to facilitate
25 renewable development?

1 I'm almost out of time, so I'm going to close
2 with that and just simply urge that you will approve this
3 proposal as quickly as possible, and thank you very much for
4 the opportunity to make these remarks.

5 CHAIRMAN KELLIHER: Thank you very much, Don.
6 This panel is supposed to end at 11:30, 75 minutes from now,
7 and we have scheduled a break, but we thought we could
8 forego the break and just use that time, and unless my
9 colleagues overrule me, I thought we'd just continue through
10 11:30.

11 That's not that far off. If anyone needs to step
12 out of the room, they can certainly do that.

13 If we have 75 minutes, I want Staff to be kind of
14 the sixth man or the sixth Commissioner and make sure we get
15 a fair allocation of time. The five of us, if we have 12
16 minutes each, that's 60, and then Staff can have 15 minutes.

17 So think of really excellent 15-minute questions.
18 Why don't I start.

19 COMMISSIONER MOELLER: Mr. Chairman, are you
20 going to let Mr. Moeller speak?

21 MR. EDWARDS: He will be here to answer
22 questions.

23 COMMISSIONER MOELLER: I just had to stick up for
24 him.

25 (Laughter.)

1 CHAIRMAN KELLIHER: To be sure Moellers get
2 treated with respect. So we have 12 minutes each for us, 15
3 for the Staff, showing our great respect for our Staff.

4 I'll start with just some comments. I have a
5 couple of questions, too.

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1 CHAIRMAN KELLIHER: (tape picks up) First of all,
2 I want to commend this proposal. It's a very creative
3 proposal. The question is whether it's too creative.

4 But it's a very creative and interesting
5 proposal. It shows a desire to offer services to new
6 members, and also look outside your borders, to see if there
7 are services you can offer to non-members that are also
8 valued members.

9 The difficulty in looking at this is trying to
10 look at how do the benefits flow; how does it affect MISO,
11 and we really look at how does it affect existing MISO
12 members. That really is arguably more important, that the
13 benefits that non-members might achieve through this
14 service.

15 That's hard to handicap. You end up guessing
16 well, how does it affect MISO membership? If you assume
17 membership is constant, you might be able to handicap who
18 benefits and how the benefits flow. But if you assume some
19 number of withdrawals, everything changes entirely.

20 That is part of the difficulty. I agree with
21 you, that this filing doesn't make withdrawal from MISO any
22 easier or harder. That's a constant. But it might change
23 the incentive to withdraw. It doesn't change the mechanism.

24 But it can change the incentive to withdraw, and
25 it can create some interesting, I won't say gaming but

1 timing issues, where people seek to avoid regional cost
2 allocation.

3 I am curious. ITC offered some specific
4 conditions, and if I'm understanding your comments, you're
5 saying if we were to approve it, these are conditions that
6 you think are necessary for approval of the market service.
7 Is that it?

8 MR. COLLINS: What I was trying to say is we
9 believe that those conditions, if you approve this proposal
10 implementing those conditions, would put the market
11 coordination service customers on a level playing field with
12 the MISO transmission owners and the other market
13 participants.

14 CHAIRMAN KELLIHER: I'm curious of what the
15 reactions are of some of the panelists out of those
16 conditions. Are those conditions reasonable, or do those
17 conditions constitute de facto membership of MISO? I'm
18 curious what the reaction is to the conditions ITC has laid
19 out.

20 MR. EDWARDS: Could I asked Mr. Collins to
21 briefly repeat those three conditions please, not having his
22 statement in front of me?

23 CHAIRMAN KELLIHER: You have the clock running on
24 me, right? You should.

25 MR. COLLINS: I'd be glad to repeat them. The

1 first one is market coordination customers should be subject
2 to the same tariff requirements as Midwest ISO transmission
3 customers, to pay for regional expansion facilities.

4 Second, market coordination customers should have
5 to integrate their planning process within the Midwest ISO
6 Order 890 compliance planning process.

7 The third was transmission service over zonal
8 facilities for market coordination service customers, should
9 be provided through a coordination agreement similar to the
10 one between Midwest ISO and Manitoba Hydro, rather than the
11 MITS proposal.

12 Each party would waive its transmission charges
13 for use of its system by the other party, in order to have
14 the same impact as the operation of license plate grids
15 among current transmission owner systems.

16 MR. EDWARDS: If I may respond briefly, I'd ask
17 the other Mr. Moeller in the room to supplement my
18 responses, based on I did not have time to appropriately
19 describe the cost-sharing allocation, which seems to be at
20 the root of a lot of the concerns that we've been discussing
21 here today.

22 RECB is the most contentious issue we have within
23 the Midwest ISO today. That's not going to change until
24 that issue is solved, and I don't think Module F should be
25 held hostage because of the RECB issue.

1 Currently, there is a process that is going on,
2 being led by the OMS, to try to review the RECB process, the
3 cost allocation process, and to try to get a better, if you
4 will, if there is such a thing, for the cost-sharing issues.

5 Chairman Norris mentioned that there are five
6 states that are working collectively with their governors,
7 to try to determine what a better cost-sharing mechanism
8 would be for a backbone system, in order to better integrate
9 wind.

10 I don't know what the answer is to that, but that
11 issue exists with us today, and I don't think that would
12 cause a company to withdraw, if we adopt Module F or not.
13 RECB is the issue itself. Let's don't confuse the issues.
14 To me, if we have RECB solved, that solves a lot of the
15 other issues as well.

16 As far as the planning process, we think that
17 what has been submitted as part of Module F enhances Order
18 890. It is not equal to, but it enhances it. Assuming
19 you're our market coordination service customer, we will be
20 requiring them to jointly plan with us, and they will have a
21 good faith obligation to construct facilities, based on the
22 simultaneous visibility.

23 That is the same obligation our current
24 transmission owners have, as a good faith effort to
25 construct. We think that it really does enhance Order 890,

1 and I assure you that with what we've got today, it enhances
2 that.

3 I will ask Mr. Moeller, if he will, to address
4 the third issue as far as the coordination agreement at
5 sector.

6 MR. MOELLER: Thank you, sir. In terms of the
7 costs, the way this particular proposal went together is
8 since the market coordination customers would not be
9 signatories of the transmission owners agreement, it seemed
10 appropriate that the existing transmission owners' revenue
11 should be protected, for the construct of MITS is an effort
12 to protect the existing transmission owners revenues as a
13 result of these market participations.

14 In the case of Manitoba Hydro's coordinating
15 agreement, it's a quite different agreement in terms of how
16 integrated with the transmission owners Manitoba Hydro
17 participants. They're simply different deals.

18 The important thing about the market integration
19 transmission service was if the MCCs, market coordination
20 customers would not sign the transmission owners agreement,
21 it seemed appropriate to protect the existing transmission
22 owners' transmission revenue as a quid pro quo.

23 CHAIRMAN KELLIHER: Thanks. Mr. Fehrman, can you
24 react to the ITC commissioners?

25 MR. FEHRMAN: On the surface, the requirements

1 that appear to be imposed would essentially bring us to full
2 membership in essence in our filing. Particularly in our
3 August 15th filing, we made specific mention of the MITS
4 proposals. We believe in essence MITS customers would be
5 better off than they are today.

6 In our case, we actually capped the ROE rate for
7 the MITS charges. We also capped the total revenue to the
8 amount that MISO would be imposing on us, and then the
9 conditions under which MITS could be implemented.

10 As we look through the opportunities for
11 implementing Module F, we took both the planning piece and
12 we fully agree with the joint planning with MISO, and in
13 fact we fully agree with the construct of having to build
14 transmission if that transmission is required upon us as a
15 result of that planning, for the benefit of our customers
16 and the benefit of the region.

17 In fact, we're very aggressive in building
18 transmission. As far as RECB charges, that's clearly a
19 significant issue for us. But that issue exists today, but
20 in R plus, we were very engaged in the transmit process. We
21 felt the proposal brought forward during that period of time
22 was a very fair process, and one that we fully supported.

23 So our purpose in this is not to avoid the cost
24 of transmission. Our purpose is to ensure that the costs we
25 do pay have the direct benefit to our customers, such that

1 when we go to our regulators, we can show the benefit to our
2 customer.

3 So I don't think that the imposition of those
4 three conditions would be something that we would support
5 and drive us to move forward with those we implemented.

6 MR. NAUMANN: Just very quickly, Mr. Chairman, I
7 heard what Mr. Edwards and Mr. Moeller said. The words
8 still seem to be soft to me. At some point I'd like a
9 direct answer, and I'll use MidAmerican, because they're the
10 only example. Do you require to plan for market flows just
11 like any other member of the MISO?

12 If not, I think there's a serious problem with
13 the proposal. If they are, I think it's fine. As far as
14 RECB being the sword overlooking all of this, I have to
15 agree with you, Mr. Chairman. It changes the incentive for
16 existing members.

17 It may not change the incentive for MidAmerican
18 to join now or later, but we have a serious concern about
19 the breaking up of MISO due to that, and I don't know if
20 that has been addressed by saying "believe us, oh we don't
21 think it's going to happen."

22 There need to be conditions to prevent it that
23 are outside of the TO-MISO agreement, if you believe that's
24 good policy as we do. Thank you.

25 MR. MOELLER: To respond directly, under the

1 long-term auction revenue rights protocol, MidAmerican
2 Energy would be required to both plan for and construct to
3 maintain the long-term feasibility.

4 In terms of inter- and intra-regional projects,
5 that seeks to raise the playing field for all the current
6 890 and other seams (ph) agreement protocols insist that we
7 all have the same planning criteria going in. So yes would
8 be my answer directly to Steve.

9 CHAIRMAN KELLIHER: Can I ask one question? I
10 realize I'm asking for the indulgence of my colleagues, but
11 just a question of Mr. Jett, about what Mr. Naumann said
12 about a five year stay.

13 MR. JETT: That's putting an obligation on the
14 customers that does not exist today. I'd be willing to
15 entertain any kind of discussion about making changes to the
16 owners' agreement in this proceeding. It seems to me it
17 should be handled outside of this proceeding.

18 MR. NAUMANN: I just want to make sure everyone
19 understood. I'm not suggesting there be a stay on
20 withdrawal from MISO owners. What I was suggesting is that
21 if the existing MISO TO withdraw, it may not join as a
22 coordination customer for five years. I'm not trying to
23 interfere with the existing agreement. That's your
24 agreement. It's desisting that I'm trying to avoid
25 expressly.

1 CHAIRMAN KELLIHER: Thank you. I misunderstood,
2 and I was perpetuating confusion.

3 MR. EDWARDS: Mr. Chairman, one last comment. I
4 apologize to you. I appreciate your indulgence with me. I
5 think so much emphasis is being placed on RECB. Let's don't
6 forget the other contingent benefits that markets often are
7 members currently, firmly, I don't think from an economic
8 standpoint.

9 From a business perspective, I have a hard time
10 coming to the conclusion that people will be withdrawing
11 because of one factor, out of the benefits they're currently
12 receiving. The benefits certainly outweigh the RECB cost,
13 in our opinion moving forward, and that really mitigates the
14 potential of what's being discussed, the withdrawal and
15 reentering.

16 CHAIRMAN KELLIHER: Thank you. Let me just turn
17 to my colleagues. Just one comment, though. More than one
18 panelist has urged the Commission to make a decision and
19 make a decision in the near future, and I hope we can do
20 that. Colleagues? Commissioner Moeller.

21 COMMISSIONER MOELLER: Thank you, Mr. Chairman.
22 In addition to the discussion we had about the future of
23 MISO, from my perspective in terms of my priority of getting
24 more transmission built, it comes down to what Chairman
25 Moeller said. Will this allow more transmission to be built

1 or not?

2 You've all kind of touched on that to some extent
3 at least. It was the complete focus of some of your
4 remarks, but I want to keep that discussion going. I guess
5 Don, we go back a long ways. I'd like you to kind of expand
6 on that question about additional transmission construction,
7 and the incentives for or disincentives against this
8 proposal.

9 MR. FURMAN: There are others in the room who are
10 better qualified as to the details, particularly my
11 colleague to my left here, who can probably explain how that
12 works in more detail. I would say, from a developers'
13 standpoint though, any increment that we can move towards
14 regionalized planning, and I heard the right answer here
15 about how that was going to work, it sounds like that
16 MidAmerican does undertake an obligation, as part of its
17 proposal.

18 So anything that moves us towards a broader
19 footprint for planning I think is a good thing, in terms of
20 allowing more transmission to get built. But I would also
21 add, and I mentioned this before, I don't want this to get
22 away.

23 Equally important to us in terms of new
24 transmission is a greater ability to integrated intermittent
25 resources and a wider footprint, greater logistical

1 capability and more resources that can be moved around and
2 used to accommodate resources. It's very, very important.
3 I hope that answers your question.

4 COMMISSIONER MOELLER: Next, Mr. Moeller. I'm
5 looking forward to hearing that.

6 MR. MOELLER: Thank you, Mr. Moeller.

7 (Laughter.)

8 MR. MOELLER: In terms of the transmission
9 planning, and how to move forward, particularly as we think
10 about a backbone kind of structure, it's an order of
11 magnitude more transmission than we've historically
12 attempted to construct.

13 There are several conditions precedent that have
14 to be there in order to accommodate any of that surface
15 construction. Primary among them is cost recovery on behalf
16 of the investors. So the notion that the cost recovery can
17 be pinched inside a stated rate and cause earnings pressure
18 for traditionally regulated utilities is not a trivial
19 problem, in terms of attempting to achieve a cost-sharing
20 mechanism that is perceived as fair.

21 That has to do with assuring that the state
22 regulators that it's an appropriate cost mechanism, and that
23 they can then be assured that it's in the public interest
24 and pass it through.

25 In terms of those multi-state projects, the

1 political will to actually construct them is also not
2 trivial. The five state group that Commissioner Norris
3 mentioned, around attempting to reach a regional consensus
4 on what the best philosophy is to integrate transmission,
5 what an appropriate business case would be, so that those
6 commissions could rightly judge whether they're in the
7 public interest is far more important than specific planning
8 criteria around how you might judge any individual criteria.

9 So those other efforts that are going on should
10 bear fruit, and outside of this specific instance, be the
11 operative place to work on expanding the transmission
12 system.

13 It's important to note that particularly in the
14 studies that Commissioner Norris mentioned, MidAmerican
15 Energy is already an active participant, as is Western Area
16 Power Administration and Basin, in terms of seeking that
17 regional consensus along what the appropriate strategy and
18 philosophy is to build up that transmission system.

19 COMMISSIONER MOELLER: I guess cost allocation
20 battles aren't going away.

21 MR. MOELLER: They're not going away sir, and
22 among one of the things that are important is if a
23 transmission investor gets a cost, traditionally their
24 shareholders have received a return. One of the
25 complications of cost-sharing is you can get the cost and

1 not necessarily achieve the return.

2 That was one of the distinct differences in the
3 TransLink proposal. It sought to mesh a return as well so
4 you didn't have those anomalies skewing investment
5 decisions.

6 COMMISSIONER MOELLER: The rest of my time, I'm
7 going to respond, to the extent we have it. Mr. Wahle.

8 MR. WAHLE: Yes. I'd like to respond to that.
9 What we see is that we think there's maybe a limitation on
10 transmission development if Module F is developed. We see
11 that because first of all, the planning would now be up to
12 the market coordination customer, not the overall MISO
13 transmission expansion planning process.

14 We think the focus then is a little bit
15 different, and I think it's going to skew how things
16 eventually are looked at, planned and may or may not be
17 constructed. It also continues the pancake transmission
18 rates that are in place today, and has the potential.

19 Again, if you have an existing MISO TO exit MISO
20 and come back as a coordination customer, it creates a
21 pancake transmission tariff. That pancake transmission
22 tariff has a huge limitation on the development of renewal
23 resources, particularly when you talk about the Western side
24 of MAPP.

25 That is why you haven't seen a lot of

1 transmission development. You've seen a lot of wind
2 development in the Dakotas. It's because of the
3 transmission development pancake tariff. Clearly, I don't
4 see how F gets the right transmission built. One of the
5 things that was mentioned here today was the transmission
6 overlay. Very high voltage transmission systems that move
7 large amounts of wind from the west to east.

8 I don't see how that's going to get built. I
9 think the real problem is really cost allocation. So if you
10 limit or if you keep kind of these silos of transmission
11 cost areas, I can't see, for example, the Dakotas, the WAPA
12 load zone if you will, step over and be willing to construct
13 765 KV transmission to move all that energy to the east.

14 I don't see that. So the real issue to me is
15 cost allocation problems, and how do you see the right
16 tariff to actually get that accomplished. That's, I think,
17 where the issue needs to be addressed, is in really the
18 tariff itself, not necessarily the Module F.

19 That's why we think the focus should be trying to
20 address how do we get this transmission built and paid for.
21 That is a very tough nut to crack. It's a difficult issue.
22 Again, the governors of the five states, North-South Dakota,
23 Minnesota, Iowa, Wisconsin, have developed that initiative
24 and they're working on that.

25 I don't know if they're going to be successful or

1 not. I hope they are. I hope we actually come up with a
2 solution that we all can live with, and I think that's what
3 it will be, is something we can all live with. I think that
4 really needs to be our focus, cost allocation.

5 COMMISSIONER MOELLER: Mr. Edwards.

6 MR. EDWARDS: Commissioner, just a very quick
7 response to Mr. Wahle. I understand what he's saying.
8 However, major transmission is not being constructed today.
9 So I don't see where Module F is going to hurt. It can only
10 enhance because of better coordination and better commitment
11 to construct.

12 I think it does enhance where we are. Again, I
13 don't want to see Module F be held hostage by RECB. We're
14 currently working on RECB. If we had a great solution, if
15 it was easy, we wouldn't have been at the Commission to
16 change it. It is not an easy process. It's going to be
17 long time to fix that process.

18 I think in the interim, I think Module F allows
19 us to enhance the planning process which we're currently
20 doing today. It provides a good faith basis to construct,
21 that takes us part of the way to where we need to get it.
22 It does not take us all the way admittedly. But absent
23 Module F, I think we're in a stalemate, not going any
24 further than we are today.

25 COMMISSIONER MOELLER: Mr. Collins.

1 MR. COLLINS: Thank you first. I guess we can
2 separate RECB and cost allocation from Module F. I guess I
3 can't see that that's possible to do. I think the two are
4 integrated. If we're truly going to develop a regional
5 system, we do have to get the cost allocation taken care of.

6 But I think all parties need to be part of that
7 discussion. If people are allowed to sit outside of the
8 SEAMS discussion, it probably will not occur as effectively.

9 My second comment would have to deal with
10 planning and integrated planning. This industry has become
11 kind of an industry of interpretation of words. So when I
12 hear "coordinated planning," is that the same as being truly
13 integrated into the planning process at MISO?

14 It really depends on how it's implemented. I
15 hear the Midwest ISO talking about how this is an
16 improvement. I'm not going to disagree with that. The
17 question is, is it an improvement which ends at that point,
18 or does it continue to improve? We have concerns that it
19 would continue. I also think there's a little bit of a
20 disconnect between what I hear Midwest ISO saying and what I
21 heard from Mr. Furman.

22 I heard from Mr. Furman, representing a regional
23 approach, was we want to make sure that the facilities and
24 what we do has a direct benefit to customers, to our
25 customers.

1 When we do it in the regional transmission
2 system, we may need to do some things that may not
3 necessarily, particularly if you're in MidAmerican's region,
4 just like ITC Midwest, where a lot of the development is
5 driven by cost, and developing the system may not have a
6 direct impact and benefit to your own customers. Thank you.

7 COMMISSIONER MOELLER: I guess the remainder of
8 my time, I have a couple of minutes. Chairman Norris?

9 MR. NORRIS: I want to support what Mr. Edwards
10 said. The hard issue is RECB and the hard issue of cost
11 allocation. I've got to credit Mr. Wahle's Upper Midwest
12 Transmission Initiative, which the five Midwestern states
13 have launched to try and tackle this cost allocation issue,
14 and probably give it some force to move this issue forward,
15 because if we don't crack that nut, we're not going to get
16 all this stuff going.

17 Module F, I said before, is an end run. I would
18 also describe it as, and indirectly related to this, I don't
19 think we need to be here talking about Module F if there
20 wasn't, something wasn't working. Okay, it's fixed. Then
21 change the rules and with every change of the rules, there's
22 going to be risk involved.

23 CHAIRMAN KELLIHER: It's quite often asked
24 whether we're going to leave or not leave in the leverage of
25 power and sort of that dance. In my mind, how do you remove

1 that dance from the equation?

2 As I said earlier, I think there has to be a high
3 degree of certainty that there's not going to be negative
4 financial implications from the adoption of Module F, and
5 that there will also be some ability to measure this going
6 forward, so that if there is, you know it and you can change
7 the rules and fix it.

8 The OMS position is in some respect, OMS, making
9 a decision on whether you can measure that or not, and
10 whether you can have a high degree of certainty. There's
11 not going to be negative repercussions that will give people
12 an incentive to leave MISO, to get away from the dance. But
13 even though it's indirect, it adds to the value of MISO.

14 Still hopefully through that process, we've got
15 other players at the table with more transparent planning
16 processes, and then we can get further down the road on the
17 side of planning and cost allocation.

18 COMMISSIONER MOELLER: Thank you. I'll try this
19 discussion. I want to commend the five governors and the
20 five commissions who are working at the Upper Midwest area,
21 in terms of getting this done. We certainly hope they're
22 successful. Thank you for the entire discussion.

23 CHAIRMAN KELLIHER: Commissioner Wellinghoff.

24 COMMISSIONER WELLINGHOFF: Thank you, Mr.
25 Chairman. I'll see if I'm confused, or it's just everybody

1 else. Probably me. But I'm trying to understand this
2 process. If I understand it correctly, if current MISO
3 members opt out of MISO and go under Schedule F, market
4 service, there's no more RECB anyway to worry about.

5 No one's sharing costs anyway. Certainly they
6 won't share the existing costs. They'll get that from the
7 exit fees. But going forward, you know, there's no more
8 RECB. I think I'd like to explore this issue.

9 On the issue that Commissioner Moeller talked
10 about a little bit, would you, Mr. Edwards, explain to me
11 what benefits existing MISO members have over and above the
12 benefits that entities would have if they joined under
13 Schedule 813?

14 MR. EDWARDS: Commissioner, I believe the market
15 coordination services customers would be under all the
16 modules of the tariff, other than the transmission service,
17 and basically the cost-sharing, the planning as it's been
18 described.

19 So one of the benefits, the benefits are better
20 reliability, because you're scheduling day ahead. You've
21 included their generation and their generation redispatch.

22 COMMISSIONER WELLINGHOFF: Excuse me for
23 interrupting. Those were benefits that would also be shared
24 by the other entities. What benefits would the existing
25 members have that the Schedule F members do not have? Any?

1

2 I don't think so. That's my issue. If they
3 don't have any benefits, why wouldn't it be to their benefit
4 to opt out to Schedule F, where they don't have all the
5 costs, but have all the benefits. That's the way I see this
6 proposal right now.

7

8 MR. EDWARDS: I would disagree, from the
9 standpoint if they're there, then they get the benefits of
10 the current market.

11

12 COMMISSIONER WELLINGHOFF: Schedule F people,
13 they retain those benefits; correct?

14

15 MR. EDWARDS: Correct.

16

17 COMMISSIONER WELLINGHOFF: Again, I don't see
18 where we're going with this.

19

20 MR. EDWARDS: If we get new members and you're
21 reducing congestion costs, therefore we exist on the seams,
22 this is a benefit to the current members.

23

24 COMMISSIONER WELLINGHOFF: And it would be the
25 same thing if those who were in the upper entities all went
to Schedule F.

26

27 MR. EDWARDS: Yes. But absent Schedule F, are we
28 going to get new members in or not? If not, then it's a
29 savings opportunity.

30

31 COMMISSIONER WELLINGHOFF: But under Schedule F,
32 you may get everybody under Schedule F. I don't see

33

1 anything that's going to stop that. We're talking around
2 the edges of things the Commission might be able to do to
3 stop everybody from going to Schedule F. But I haven't
4 heard anything definitively that tells me I can discriminate
5 against the current MISO members in some way, to tell them
6 they can't go to Schedule F.

7 MR. EDWARDS: I think a lot of it is also on
8 solving the RECB issue and the cost allocation issue. That
9 is a contentious issue.

10 MR. MOELLER: In terms of services that the full
11 MISO members have, that the personal requirements where
12 customers would not have, would it include economies of
13 scale on tariff administration and the management of the
14 generation interconnection queue and those processes?

15 At least in terms of many of our RTOs, they find
16 those services quite valuable. So it's those traditional
17 tariff administration processes, economies of scale and
18 planning the economies of scale on generation,
19 interconnection and economies of scale on traditional tariff
20 administration.

21 COMMISSIONER WELLINGHOFF: Do you think those
22 benefits are sufficient to outweigh the benefits of
23 transferring to Schedule F?

24 MR. MOELLER: We have a transitory benefit in
25 terms of mitigating transitions, that mostly have to do with

1 the barriers to exit, around the economics of exit not
2 services in and of themselves. Our real problem, as Mr.
3 Edwards spoke earlier, has to do with the cost-sharing issue
4 around RECB. We have that issue in all of our futures.

5 COMMISSIONER WELLINGHOFF: Don Furman, if you
6 could tell me from the standpoint of big picture, of the
7 benefit to renewables, in your opinion would it be positive
8 to renewables if all the members of MISO went to Schedule F?

9 MR. FURMAN: I guess I would quote Voltaire and
10 say "This is a situation where we ought not to let the
11 perfect be the enemy of the good." This is a better
12 situation. First of all, to answer your question directly,
13 our view is the cost of leading, plus the fact that we're
14 not going to see people abandoning membership and going to
15 Module F.

16 I believe that MISO study demonstrates that. We
17 don't think that's going to happen. What this does for us
18 is it creates a better situation, clearly a better situation
19 in terms of the cost of getting to market. It also provides
20 a better situation in terms of being able to integrate and
21 take advantage of a much more preferable market.

22 When you're outside of an organized market, it's
23 purely bilateral. You're really tied to, you know, the
24 local utility and maybe one wheel over. What this does is
25 give us access to the entire Midwest. It's an important

1 incremental benefit that will result in more investment in
2 these regions that are not formal members of MISO today.

3 COMMISSIONER WELLINGHOFF: I understand what you
4 said Don, but again my question is would you be better off
5 if current MISO members went to Schedule F?

6 MR. FURMAN: Well, I don't believe that's a
7 realistic possibility. If it happened, I guess I hadn't
8 thought about that. I don't know what would happen
9 necessarily. I think probably Mr. Moeller is in a better
10 position to opine on that fact situation.

11 COMMISSIONER WELLINGHOFF: I think there was a
12 comment from one of our panelists, I can't remember which,
13 that the RECB process is not very helpful to building out,
14 to developing wind in the Midwest.

15 MR. FURMAN: I would agree with that.

16 COMMISSIONER WELLINGHOFF: What would your
17 recommendation be as to how to improve that?

18 MR. FURMAN: The problem with RECB is it has put
19 an undue burden on the developer. It means we have to incur
20 a substantial part of the cost. This goes back to the whole
21 participant funding debate, which was before this Commission
22 a number of years ago.

23 If we want to encourage a certain kind of
24 resource, if we want to encourage new generation and we want
25 to do that as a matter of public policy, then putting the

1 burden of even half of the interconnection cost on the
2 interconnecting generator simply acts as a deterrent.

3 Whether it's pristine economic theory or not, it
4 does act as a deterrent to those new interconnections.

5 CHAIRMAN KELLIHER: We approved the order a
6 number of years ago, looking at allocation for this very
7 same reason. In California at the time, we thought it
8 actually might be a model for other regions of the country.
9 No one has tried to rebuild the model anywhere else, and I'm
10 curious why. Steve?

11 MR. NAUMANN: I think it's an excellent model for
12 a single state ISO. In fact, I was at a Harvard Electricity
13 Policy Group meeting when the California people rolled out
14 that model, and I asked them the question as to how would
15 that work in a multi-state RTO. They said the state
16 regulators would agree on a cost allocation.

17 (Laughter.)

18 MR. NAUMANN: I don't know what the only hope is.
19 It works in Texas, and it works in California. Presumably
20 it works in New York. But when you've got multiple states
21 and multiple customers and no uniformity, they're willing to
22 be perceived winners and perceived losers. That's my view.

23 CHAIRMAN KELLIHER: I'm sorry to cut into your
24 time.

25 COMMISSIONER WELLINGHOFF: That's okay. I'm not

1 going to use all my time anyway. But John Norris, could you
2 comment on the issue of whether or not you believe that
3 there's the possibility of people in MISO going out to
4 Schedule F?

5 MR. NORRIS: I don't see what the incentive is,
6 as long as there's not a negative impact from bringing
7 people in Module F. I don't think the benefits are great.
8 I think there's not that great a difference. Mr. Moeller
9 gave you a few of them.

10 But at the same token, I think there's value in
11 remaining in this cost correction. So as long as you are
12 not negatively impacted by the additional of Module F
13 members, there's no great incentive for this thing to
14 unravel.

15 COMMISSIONER WELLINGHOFF: Let me follow up with
16 a last question to Mr. Fehrman of MidAmerica. Why aren't
17 the benefits large enough for you to join MISO?

18 MR. FEHRMAN: If you go back to our fundamental
19 issue, which is fitting it into our business plan, being
20 able to assess the costs going forward and being able to
21 bring those costs back with a reasonable explanation to our
22 customers, Mr. Collins made a comment earlier that he was
23 surprised that we were worried about our customers.

24 That is my job, to worry about my customers. I
25 would be a little bit stunned that there would be someone

1 around there who was not worried about their customers.
2 When we look at the issue around cost allocation, we
3 actually agree with Mr. Wahle that the transmission cost
4 allocation should be dealt with in the MISO tariff and not
5 in Module F.

6 That's precisely our point, which is RECB needs
7 to be resolved in a different forum. Module F should be
8 allowed to proceed in the current time frame, and cost
9 allocation and transmission development should be considered
10 in a different manner.

11 I think the work the governors are doing and the
12 work that Mr. Norris is doing, we're heavily engaged in that
13 work. Like all good things, we're very interested in
14 building transmission. In fact, our company, number one,
15 we're the largest builder of renewables in the country, from
16 investor-owned utilities.

17 We have 1,300 megawatts in Iowa right now. Our
18 company is also building 765 KV transmission in other states
19 in joint ventures with AEP. We're not afraid of doing that.
20 We're not afraid of going after those kinds of projects, to
21 enhance the infrastructure of the United States, and we're
22 not afraid to do it here.

23 But fundamentally, for MidAmerican Energy Company
24 I do have a responsibility to protect my customers. That's
25 the whole purpose of trying to arrive at a less than

1 perfect, I'll admit, approach, but one that moves us forward
2 in the world. I'm getting ahead of myself.

3 COMMISSIONER WELLINGHOFF: How can Mr. Edwards
4 and the stakeholders enhance the benefits of all MISO
5 members, in a way that you would want to join MISO?

6 MR. FEHRMAN: There's currently issues That need
7 to be fixed. I think Mr. Edwards touched on RECB and cost
8 allocation as clearly one of them. We're certainly very
9 interested in the overarching issues around planning and how
10 planning is done with those entities, who are again on the
11 seams, and how those are addressed with regard to going
12 forward.

13 On our abilities to take the queue that we have
14 and integrate that queue into MISO's queue, we have a very
15 significant development interest in our state with regard to
16 wind. MISO has made great strides in the management and
17 administration of the queue.

18 But if we are to integrate, then again that's
19 another issue that we have to look at with regard to whether
20 or not we're interested in moving in as a full TO.

21 COMMISSIONER WELLINGHOFF: It sounds to me that
22 what you're saying is that there are accommodations that
23 could be made, that would encourage you and incentivize you
24 to be a full TO in MISO.

25 MR. FEHRMAN: There very well may be, but they're

1 very long term out. As Mr. Edwards has said, the most
2 important thing to us is RECB. That could be years away.
3 We think this is a much better solution right now today, to
4 continue to enhance the region and open up those markets.

5 COMMISSIONER WELLINGHOFF: Thank you, Mr.
6 Chairman. That's all I have.

7 CHAIRMAN KELLIHER: Commissioner Kelly.

8 COMMISSIONER KELLY: The discussion has been very
9 helpful, because there are a number of different
10 perspectives that we can take on this proposal. Here's one
11 of the perspectives that I'd like your comments on. It's
12 more of a public policy approach.

13 The Commission, through its public policy
14 development since the last half of the 90's, has looked at
15 regions and the creation of markets and the building of
16 transmission pretty holistically.

17 We've developed a couple of principles. One is
18 the widest market possible. I think that's only going to
19 become more important as we move to integrate. That's a
20 good thing. That I think still remains a goal and should
21 remain a goal.

22 The second is elimination of pancake rates. That
23 eliminates the market efficiencies and doing business within
24 that market. The third, these are more recent developments,
25 is regional planning, as big a region as makes sense.

1 Usually it's the size of the market and regional planning
2 within the market.

3 That, I think, has only gotten to become more
4 important with the development of renewables, not only
5 because we have to reach longer and build longer
6 transmission, reach areas where the renewables are across
7 the region, but also because it's become a significant issue
8 with states, state utility commissions, because they have
9 jurisdiction over siting and they want to be involved in
10 that planning.

11 We see more and more governors, because this
12 development of renewables, it's not only an electricity
13 issue, it's also an economic development issue for a lot of
14 states. As we've seen, particularly in the last now in New
15 England and parts of the Midwest, the governors getting
16 involved to ensure that things are planned regionally.

17 In other words, that all the states get a piece
18 of the pie, and it plays out well for electricity policy
19 too. Because if the states are happy about their renewables
20 being developed, then there's less of a barrier to getting
21 transmission funded.

22 Finally, the regionalization of costs of long
23 transmission lines. That seems to be getting more and more
24 important. I would add that New England seems to do a
25 pretty good job of getting together and coming up with

1 regionalization of costs of transmission.

2 What this proposal provides us with is the first
3 thing, a wider market, but not any of the others. We still
4 have pancake rates. We do not have full regional planning
5 and not have regional cost allocation or the MAPP members
6 would not be part of that.

7 Is it appropriate for us to say Issue No. 1 is
8 good enough for us to give up on Issues 2, 3 and 4? Is that
9 good public policy? If we do that, if we say yes it is, and
10 I understand why MidAmerican wants to optimize their
11 customers, but don't all the members want to optimize for
12 their customers?

13 If we effectively say yes, you can all optimize
14 for your customers, aren't we putting in place precedent
15 that says we're willing to give up on these other goals, in
16 order to get wider markets? I know, Graham, that you'd like
17 us to look at these separately, but I wonder if we really
18 can. When someone comes to us and says "We have long been
19 unhappy with cost allocations in New England RTO. We want a
20 wide area market services situation," how can we say no to
21 them?

22 Aren't you opening the door for everyone to
23 optimize, when really we should be looking more at regional
24 policy?

25 MR. EDWARDS: Commissioner Kelly, I do not

1 disagree with you. I think the four rules are accurately
2 stated. I do think that the improvement of the market
3 operation and the economics around it, potential members
4 coming in as far as market coordination services, has a
5 significant policy and financial impact on the current
6 membership and the value of RTOs in general.

7 As far as regional planning, it's not the whole
8 loaf, but it does improve on the Order 890 we have now.
9 It's not optimal. No, it's not. Now isn't it frustrating
10 that we'll make exceptions, that if somebody wants to opt
11 out of RTO planning because MidAmerican did, then we have to
12 let them do that?

13 MR. EDWARDS: I think they would have the
14 opportunity to exit under appropriate terms and conditions
15 that they're under now, and re-enter under Module F. They'd
16 have to take every appropriate RECB cost already assigned to
17 them with them, and this Commission has demonstrated with
18 LG&E Order, that they would not allow those rates.

19 So I think there are some mitigating factors that
20 the Commission can implement, in order to mitigate negative
21 impacts if people do that.

22 COMMISSIONER KELLY: Ray?

23 MR. WAHLE: Thank you, Commissioner Kelly. I
24 think you're right on with your questions. We are taking
25 only one of the items that I think we really need from the

1 long term perspective. I really think that this issue is a
2 policy issue on a long term.

3 What are we going to do with the transmission
4 system, as a regional and maybe even as a nationwide basis.
5 Our concern is that we are going to go down a path we can't
6 reverse ourselves on. Really, are we accepting there are
7 some benefits to Module F, but we think those are short-term
8 benefits that raise a huge risk?

9 The huge risk is that eventually we create a
10 structure where we can no longer get rid of the pancake
11 rates, and we cannot get the regional planning that's needed
12 to get the wind and the renewable energy developed across
13 the nation.

14 So I think that's the risk we're facing. If we
15 start down this path, the risk-reward tradeoff to us is
16 really too one-sided an equation. We need to think about
17 that going forward. The other thing I've heard, and I
18 understand, you know, for MidAmerican, is that he has
19 commented that we have to protect our customers.

20 We understand that, but that concern then results
21 in where I don't see the planning and the construction to
22 take care of market loads. That really is, and I think Mr.
23 Collins referred to that earlier. We have not heard that
24 today.

25 So how do we get there? How do we actually get

1 to this regional transmission plan and actually have a
2 regional transmission in which we can put on a lot of
3 renewable resources in a renewable rich area? I think it
4 starts us down a path we may not be able to reverse. That's
5 a big concern.

6 MR. NAUMANN: With your policy perspective, I
7 guess I have to look at the last eight years since the
8 Commission issued Order No. 2000. RTO participation was
9 voluntary. Since, I guess, the integration of 2000, there
10 has been no expansion of the market. There have only been
11 people leaving markets.

12 This proposal, yes, it's 80 percent of the loaf
13 or 75 percent of the loaf. But it's really the first step
14 to expansion of the markets, to getting better
15 controllability, to getting better congestion management. I
16 think those are things that are very important.

17 I've heard that what people are saying is good is
18 the ability to sell intermittent resources into the market.
19 I still think there are two issues. I don't know why they
20 can't be divided up. Is Schedule F good for bringing in new
21 participants into the MISO market?

22 I believe the answer is yes, it will bring in at
23 least MidAmerican, new participants that were not in the
24 MISO market, and apparently have no intention of joining the
25 MISO market under present conditions, where it would create

1 an incentive for existing owners to leave.

2 I believe the answer is absolutely positively
3 yes. I think Commissioner Wellinghoff hit the nail on the
4 head. I believe that can be done, but through conditions in
5 Schedule F. If that's what you wanted, I think you can get
6 the good and eliminate the bad by modifying Schedule F to
7 take care of the problem we're concerned about.

8 Because I absolutely agree with Mr. Wahle and
9 others. If you lose a couple of key members of MISO into
10 Schedule F, you are taking a step backwards. I don't
11 believe that's what MISO wants. I know it's not what
12 Exelon wants. I know it's not what any other RTO wants as
13 precedent.

14 I think you can shape this anyway you want, to
15 get as much of the good and try to eliminate the concerns
16 that you have.

17 COMMISSIONER KELLY: Can we go through your
18 conditions, Doug?

19 MR. COLLINS: I've got a very similar viewpoint.
20 First of all, I appreciate your interpretation of my direct
21 customer comment. I certainly did not mean we should not be
22 looking out for our customers. We all do that. That's the
23 only reason why we're in business.

24 But there's a difference between looking solely
25 at your customers versus the wider regional view. I think

1 what you've done very succinctly put before all of us what I
2 view as a very simple question. Unfortunately for most of
3 you on that end, that side of the table, it's a very
4 difficult answer.

5 The question is this. If it's efficient to
6 expand the energy markets without expanding the transmission
7 grid and the membership and the reliability needed to make
8 that market efficient?

9 COMMISSIONER KELLY: Any answers?

10 (Laughter.)

11 MR. FEHRMAN: Again, I want to go back to this
12 issue among customers. Clearly, I don't believe that I've
13 ever said we aren't interested in the regional aspects of
14 this. That is in fact the whole reason we're here, for the
15 benefit of our customers, to get broader access to markets
16 and bring those benefits back.

17 If you look at our history, we have made
18 significant investment in flow gates and constraint
19 reduction and into transmission. We're actively involved in
20 all of the committees, MAPP and otherwise. Our customer
21 base is really interested in having access to the markets.

22 We haven't had a rate increase in many years, and
23 we're not going to have another one until 2013 or 2014. The
24 reason for that is because we need to engage in these
25 markets. So I find it a little bit interesting that, as a

1 result of an argument around Module F, that there is trying
2 to build a reasonable argument that we would not make
3 investment within the construct of MISO to eliminate
4 constraints.

5 In fact, Mr. Edwards said just the opposite and I
6 agree with him. The planning is there. The requirement
7 would be placed on us to build, and we would have to build
8 or we'd suffer other consequences.

9 So I believe that the issues that my colleagues
10 are continuing to raise have been very succinctly and
11 directly identified and resolved within the filing.

12 COMMISSIONER KELLY: Could I ask you about the
13 costs, directed costs? If you're going to participate in
14 the market, the primary reason for the proposal, why would
15 those costs show in native load? Shouldn't you be able to
16 recover them through the market?

17 MR. FEHRMAN: The issue really for us isn't so
18 much could we or couldn't we recover them. The biggest
19 concern that we have in the entire cost-sharing equation is
20 we can't have really any certainty as to what those costs
21 are.

22 COMMISSIONER KELLY: Going forward, because you
23 don't know what MISO's going to build?

24 MR. FEHRMAN: Correct. When we have to come back
25 and go to our regulator and present them our rate case,

1 there has to be some direct interest for us to say why
2 something was built on the far eastern edge of the
3 footprint, for instance, which really adds perhaps little to
4 no benefit for our Iowa customers.

5 COMMISSIONER KELLY: But that's an issue that
6 every other utility in MISO has.

7 MR. FEHRMAN: That's correct. That's why I think
8 RECB is such a volatile issue for every member.

9 COMMISSIONER KELLY: Right. I understand that
10 RECB is an issue. But whatever gets resolved the OMS or
11 through the RTO will apply to everyone. But under your
12 proposal, it wouldn't apply to you.

13 MR. FEHRMAN: Correct, at this time. I think
14 again it goes back to the discussion around to solve that.
15 First of all, it may never happen. It may take many, many
16 years, and do we want to hold Module F hostage at this time,
17 while that process plays out.

18 Again, we firmly believe in engaging in those
19 discussions. In fact, we're actively involved with our
20 government group. But I don't think that at this point in
21 time it's in such a position that we can enter into the
22 arrangement with that present policy at MISO, as opposed to
23 going through this step and allowing that process to work
24 itself out.

25 COMMISSIONER KELLY: Would you agree to be bound

1 by it when it is decided?

2 MR. FEHRMAN: I really can't answer that.

3 (Laughter.)

4 COMMISSIONER KELLY: That was an unfair question.

5 MR. FEHRMAN: If I knew exactly what it was, I
6 could probably answer that question.

7 CHAIRMAN KELLIHER: Commissioner Spitzer.

8 COMMISSIONER SPITZER: Thank you, Mr. Chairman.
9 I apologize for my brief absences. It was a noble cause.

10 CHAIRMAN KELLIHER: Charities.

11 (Laughter.)

12 COMMISSIONER SPITZER: You know, the argument for
13 the proposal is, which Don asserted, don't let the perfect
14 be the enemy of the good. I thought that was a Morris Udall
15 line. A different poet. But Mr. Edwards, in his testimony,
16 "Intractable Obstacles" on page four, to further expansion,
17 which I took it as being the recognition that it's a zero
18 sum game, which is arguing who and across the country, not
19 just in MISO.

20 You've got upward pressure on retail rates due to
21 commodity costs and other issues that cause the state
22 commissions to quite properly and understandably be more
23 attentive to cost, and take a shorter term view than they
24 might otherwise give on the urgency of these cost increases.

25 That rationale arguably can be extended across

1 the country. There is a logical extension to the conclusion
2 that these are intractable obstacles. Does that mean that
3 we have to -- you also used the word "sacrifice" the
4 attainable on the altar of philosophical purity?

5 Do we sacrifice the other criteria, in terms of
6 markets? Is that therefore a natural consequence of what's
7 being proposed logically?

8 MR. EDWARDS: Commissioner Spitzer, I think there
9 are some ramifications there. I believe that this
10 Commission will make a ruling in the course of setting
11 precedents, and will be looking at these precedents. How
12 can I migrate towards those that are beneficial for my RTO
13 and my company, and encourage those differences?

14 I guess the question is do we maintain the status
15 quo and don't have market participation? That is the
16 ultimate market participation that could be achieved by some
17 creativity and some flexibility, and the risk that we just
18 need to manage it to move forward. I think the Commission
19 can do that.

20 Commissioner Kelly, about your question
21 specifically, would you have to do the same thing? I think
22 if you set a precedent here, yes, I think you'd have to be
23 looking at that. Also I think there are things that can be
24 done to manage that process and mitigate the potential
25 downside that you mentioned.

1 I think, you know, 75 percent of the loaf is
2 better than nothing. I really believe that in the public
3 interest, that's where we need to be headed.

4 COMMISSIONER SPITZER: Aren't we giving up the
5 other loafs 70 percent, 75 percent of the market loaf? Are
6 there other principles that are being sacrificed upon the
7 altar of expanding markets?

8 MR. EDWARDS: I think they're being mitigated.
9 Are they being improved? In the current situation, some are
10 not being improved. They're not being negatively impacted.
11 I guess maintaining the status quo that would advance the
12 other net-net sum game, I think, is good public policy.

13 COMMISSIONER SPITZER: We've already heard some
14 discussion about the potential conditions that would resolve
15 some transmission issues. If we accept this proposal from
16 an equity idea for your entities, are there any conditions
17 that could be imposed that would make this tolerable?

18 MR. WAHLE: Yes, there are, and I think Mr.
19 Collins did a good job of summarizing. We would agree with
20 some of the same conditions he listed. We would agree with
21 those.

22 The one thing Mr. Naumann had suggested was, I
23 think, a five-year stay out provision. We actually
24 suggested a ten-year stay out provision. So we basically
25 are saying the same thing that Mr. Collins did in our

1 pleadings in the pancake rates for existing contracts, as
2 well as any new deals that might be entered into, that they
3 be limited going forward, not only in the past but also
4 going forward.

5 Then a stay-out provision, so that if the MISO TO
6 exits, they have to stay out for a lengthy period of time
7 before they can come back in, and take more for coordination
8 service. That's providing a disincentive so we don't lose,
9 I think, the very valuable gains that we have in the overall
10 marketplace.

11 COMMISSIONER SPITZER: Those conditions deal with
12 sort of the temporal game-playing issue, where you're
13 putting yourself. I'm sure I'm not going to speak for the
14 entities you speak for, but generally across the country,
15 how do you deal with what I've asked about, the logical
16 argument that we preferred certain beneficial aspects of
17 policy that's derived over a long period of time, to achieve
18 a short term benefit to market expansion.

19 MR. WAHLE: Overall going back, we do not. We
20 think there is some short-term gains in the Module F
21 proposal. I think the problem with that is we're
22 sacrificing the long term for the short term. Our
23 preference would be not to have the Module F in place. Our
24 preference would be to address what I think the real issue
25 is.

1 It's really the RECB of the cost allocation.
2 It's really the real issue. That's where I think we should
3 focus our attention. If we can get that problem solved, I
4 think that enhances. You could do all kinds of good things
5 in terms of developing additional wind to the Dakotas, and
6 really those renewable resources to the east.

7 We really think that the implementation of Module
8 F with certain conditions on it really is a second best
9 alternative, maybe even a third best alternative. That's
10 not our overall preference.

11 COMMISSIONER SPITZER: Okay. Moving back to the
12 more general, you've got this "Intractable Obstacles," which
13 suggest throw up our hands. That's the suggestion, I think,
14 and we've had some discussion of RECB. It seems to me RECB
15 isn't the problem. It's a symptom of, again, these
16 intractable obstacles of cost allocation that are universal
17 across the country.

18 There are many RECB disputes that arise in our TO
19 markets, and in a lot of markets in the west, for example.
20 So I guess this is a temporal issue right now. These
21 obstacles would cause MidAmerican not to join MISO.

22 This calls for some speculation. Can these
23 hurdles be dealt with? You've got an initiative among
24 governors in the Midwest that was discussed by Mr. Norris.
25 It seems to me this proposal, the perfect is the enemy of

1 the good, and the assumption that these problems are
2 intractable, presupposes the failure of whatever initiatives
3 to resolve cost allocation, which frankly requires a long-
4 term as opposed to short-term view.

5 So I guess it's a matter of how pessimistic or
6 optimistic we want to be. If we're optimistic, that there
7 could be some global solution to cost allocation, you'd go
8 down a different path. I guess I'd like to hear from folks
9 as to their view of whether one ought to be optimistic or
10 pessimistic, and again based upon the stakes being so high.

11 Commissioner Wellinghoff talked about renewables
12 and transmission grids. Those are forces in favor of
13 optimism.

14 MR. NAUMANN: I'd like to be optimistic, but
15 absent some new authority from the Commission, I do agree
16 that we're running into a brick wall. There apparently are
17 good reasons why other companies have not joined the
18 markets. They may each have their own reasons, and yes,
19 transmission cost allocation is a big issue.

20 I won't go into our own existing situation. I'm
21 sure you all are familiar with it. But when you have, at
22 least in the short term, building in one area of a large RTO
23 and not in another, and the costs spread out, people start
24 asking well, what are the costs going to be? Will we ever
25 catch up? Is it going to be fair?

1 As I said earlier, you should take the RTO. I
2 agree. The best solution is you take the RTO as a package.
3 You get some good, you get some not so good. But overall it
4 should be good. But that hasn't happened.

5 You've run into a brick wall, and I think at this
6 point, absent new authority, which Congress would give you
7 or that you would develop through some rule, I don't think
8 you're going to get the expansion that you want, including
9 the expansion in integrated planning that you want post-
10 Order No. 890.

11 Therefore, the 75 percent of the load, while it
12 surely isn't there, I think at this point, with the
13 protections to keep it going the other way, at least it
14 should start it moving in a better direction.

15 MR. SMITH: I just wanted to say I don't know
16 that in looking at the cost allocation thing, you can see
17 some golden field of resolution ahead that's going to change
18 things. There may be a change that people agree to in the
19 RECB formula. But it seems likely that that would be by
20 some other formula, and that would have the same effect that
21 some people will find it advantageous to their situation and
22 other people will find it disadvantageous to the situation
23 they're in at that time.

24 COMMISSIONER SPITZER: From a temporal point of
25 view, I understand what a static analysis you've got, your

1 zero sum game. But if you believe that expansion of the
2 grid will increase the size of the pot and therefore
3 mitigate the zero sum analysis, we'd be interested in
4 hearing it, depending upon the time frame of the analysis.

5 MR. SMITH: It might still depend on where you
6 are, in terms of being an importer and exporter. Are you in
7 the build area or in the market area? In other words, the
8 situation allows us to go to that particular decision-maker.
9 Here, we're looking at a decision-maker who is in the
10 investment area, an exporter, and who has a consensual
11 retail rate limit.

12 In other states, it may be a market-based or
13 regulatory rate limit. Other states may have more latitude
14 for the pass-through on those transmission investment costs.
15 Again, we are at a place where each participant is making an
16 individual analysis. The voluntary nature of membership
17 results in that. On the other hand, there's been a lot of
18 talk about the extension of the grid and change of
19 conditions for this Module F.

20 If the conditions Mr. Collins offered were
21 accepted by the Commission, that basically locks in license
22 plate pricing, and that basically is a non-starter for us.
23 I think that's almost an absolute certainty, at least from a
24 transmission perspective. The IS will be precluded from
25 participating.

1 With respect to eliminating pancake rates,
2 there's more than one way to do that. Another way to do it
3 is system-wide average pricing for the high voltage
4 transmission grid, where everybody that participates in the
5 RTO would pay the average cost of a high voltage system only
6 to participate in the market.

7 I think that can address some of the temporal
8 issues we've talked about, where we take into consideration
9 those that have already invested in the system, and roll in
10 the costs of facilities that have been planned on a regional
11 basis for the benefit of entire region, not to be rolled in
12 and covered by all the entities that participate and benefit
13 from RTO participation.

14 I think you might have a chance of resolving some
15 of the issues here. I just thought I might offer that as an
16 alternative.

17 MR. FURMAN: I guess I would say a couple of
18 things. To me, the question is do you have in your bag of
19 tricks the carrots and the sticks to cause MidAmerican to
20 join as a full member? If you don't, this is probably the
21 best you can do. I think maybe there is a way to make Bill
22 and his company comfortable and get them to join.

23 But short of that, this isn't that benefit, and I
24 think it's also clear to me you have the ability to limit
25 the sort of Armageddon outcome where everybody leaves or

1 everybody goes to Schedule F, by either limiting the use of
2 a Schedule F for anybody leaving five years, permanently,
3 whatever, and also taking into account the overall cost and
4 benefits that have been talked about today.

5 So to me, it comes back to where it's hard to
6 criticize this if you're not in a position to accomplish
7 full membership.

8 MR. LINKE: I have a couple of comments I'd like
9 to add in there. Going back to the four principles that
10 Commissioner Kelly had talked about, expanding the market,
11 this clearly does. And the comment from Don Furman about
12 the wind being able, whether that would enhance wind or not.

13 In our region, as was pointed out by Mr. Wahle,
14 there's a lot of wind in our queue. We've got a terrific
15 amount of wind in the Dakotas. So far it really hasn't been
16 the transmission that has been the stopping point. It's
17 been more having the market for that wind.

18 Without having a lot of firm transmission
19 capacity to get them to the MISO market, they have to look
20 at local entities. This midspot will provide another firm
21 transmission product, and an additional flexibility that
22 this wind would be able to get into the market. So it is
23 going to help enhance wind.

24 It does enhance a little bit on regional
25 planning. It's probably not the total package. Like Mr.

1 Risan mentioned, pancaking can be dealt with in more than
2 just one manner. To me, it goes back more into the cost
3 allocations.

4 The Dakotas have been a very resource-rich energy
5 area. We've had excess hydro generation, excess coal-fire
6 generation. Now we have excess wind generation. You can
7 already see by the comments from Mr. Risan earlier that
8 we've developed a transmission system to provide energy off
9 our system.

10 Fifty percent of the energy that's generated, or
11 not 50 but about 33 percent of the energy delivered on our
12 system is used, to deliver to other folks. That cost
13 allocation is coming back to haunt us. We've been able to
14 retain a recovery from those folks that receive that energy
15 from us.

16 The current pricing models would have us have to
17 give up that. RECB, since we are so intertwined in the
18 Dakotas with other MISO members, the RECB process for us
19 means that any additional development in the Dakotas, we'd
20 get a majority share of those costs, which just exacerbates
21 our cost shift issues.

22 So moving forward with solutions to the cost
23 allocations, moving to posted stamp pricing, those sorts of
24 things that make it a lot more attractive for exporting
25 ideas, especially in exporting entities like the IS is

1 within the Dakotas. Thank you.

2 MR. NORRIS: Thanks. One quick comment.
3 Commissioner Kelly, you were right. This is probably 25
4 percent of the load, not 57. Commissioner Spitzer, I'm
5 going to follow up on your comment.

6 I think Mr. Furman made a comment about they
7 can't speculate how every state commission is going to treat
8 the transmission expansion and regional cost allocation. I
9 don't think there's any signals, from at least my
10 perspective in Iowa, which we've sent any signal negatively.

11 Our state has got these laws that make us
12 consider the benefits to regional transmission. But more
13 importantly, the queues here, the speculation should be
14 going down. State treatment of regional costs will be
15 treated negatively.

16 That's one of the reasons I think I'm encouraged
17 by the fact that five not just governors, but five state
18 commissions joined in this effort on the Midwest
19 transmission development, because we recognize the advent of
20 wind and RPSs are all driving us to the realization that
21 we're going to have to get more aggressive on regional
22 planning. There's going to have to be some acceptance of
23 costs. We're going to have to try and reach as equitable a
24 program as we can. If we work at it, I think we can.

25 COMMISSIONER SPITZER: As somebody who may be on

1 the negative side of the cost allocation benefit from an
2 RBS, on the other side.

3 MR. NORRIS: Yes. So I'm optimistic, not
4 unmindful of the challenge.

5 MR. WAHLE: Commissioner Spitzer, yes. You asked
6 the question am I optimistic that the cost allocation will
7 get resolved? If you asked me that question a year ago or
8 even maybe six months ago, I think I might have been fairly
9 pessimistic on that.

10 But I think there have been some things that have
11 changed, that I'm much more optimistic today. One that
12 Chairman Norris has already indicated is the five state
13 initiative on cost allocation. That's a huge thing.

14 I also, in terms of our lobbyists here in town,
15 they indicate that we're likely to see at least some
16 national legislation on transmission. Whether it gets any
17 legs or not, I don't know, but I think that piece and that
18 cost allocation is going to focus industry on trying to
19 wrestle with and hopefully resolve this issue.

20 I've seen a couple of weeks ago that President-
21 Elect Obama made the comment that he thinks it's necessary
22 to get transmission built from the Dakotas to Chicago. So
23 there are other activities taking place that I think they're
24 going to focus industry on trying to solve this difficult
25 problem.

1 If you're going to get something forced on you,
2 you're going to try to work to resolve it the best you can.
3 So I think we're going to see some stuff, and I think it's
4 going to happen in a relatively short period of time.

5 CHAIRMAN KELLIHER: Thank you. I promised the
6 staff they could go ask questions. I want to honor my
7 promises to staff, but I'm not sure I can honor for 15
8 minutes.

9 (Laughter.)

10 CHAIRMAN KELLIHER: Do you have ten minutes of
11 questions now?

12 MR. MAGOS: Can I ask one question for Mr. Jett,
13 because you didn't talk at all.

14 (Laughter.)

15 MR. MAGOS: Two quick things. I'm assuming that
16 you oppose these conditions these people are talking about,
17 and second, the question, you were kind of vague about
18 whether you supported it or not, because you said as long as
19 there's equitable treatment, that we don't give preferential
20 treatment to market services. Does that mean you do not
21 support it without market service customers getting their
22 share of RECB costs? Is that what you meant?

23 MR. JETT: That is exactly the whole discussion
24 we've been having. We as transmission owners are going to
25 evaluate different options. This is another option.

1 Whether it makes sense what the current option is in MISO,
2 with a multitude of other options.

3 So certainly, if they paid for something here, we
4 don't have to pay for one of the other options. It makes it
5 more equitable, and that's regardless of whether RECB is as
6 it is today or the new and improved RECB of the future, cost
7 allocation.

8 If I'm paying for it here today, and there's an
9 option where I don't have to pay for it, well I'll consider
10 that. It won't be the sole thing that I look at, but I'll
11 put it on the scale. If it tips, you know, and it's better
12 to leave, then a transmission owner would do that. But what
13 I have concern with is okay, just by saying well, we think
14 all the owners are going to leave, because it looks like
15 there's advantages to this Module F, now we're going to put
16 anywhere from three to five to ten years kind of stay-outs.

17 If you leave the MISO, you can do that, but you'd
18 better take this Module F option off the table, for whatever
19 period of time. That suggests to me that many of the other
20 speakers in here think there could be some inequity in the
21 current proposal.

22 CHAIRMAN KELLIHER: Any other questions from
23 staff? Yes.

24 MR. O'NEILL: After listening to everybody
25 talking, it certainly sounds, at least it sounded to me,

1 like you're moving toward an SPP-type model, where they
2 essentially negotiate the costs until all the states agree,
3 then present a fait d'accompli.

4 Am I off base? I mean that's something that
5 you're trying to move towards with the governors being
6 involved.

7 MR. NORRIS: I don't think we're making an issue
8 of moving towards an SPP type of model. But the concept we
9 all recognize. If we don't get this question resolved,
10 we're not going to get the transmission built that we need
11 for the RPS, and any opportunity that exists in some or all
12 of our states.

13 So we're at the table to try and figure out how
14 we can do it. That's right.

15 MR. O'NEILL: Would your state agreeing to a cost
16 allocation bring some comfort to you Mr. Fehrman?

17 MR. FEHRMAN: Well again, it kind of goes back to
18 Commissioner Kelly's question to me. Without knowing what
19 is the allocation, how does it work, how does it impact
20 customers.

21 MR. O'NEILL: I thought that your problem was was
22 that you had to explain the cost allocation to your state
23 regulator or your state commission, that if you've already
24 signed off on that allocation, that would appear to be
25 easier?

1 MR. FEHRMAN: It would be easier in that aspect,
2 yes. The question on that would be has MISO accepted that
3 cost allocation within MISO, such that it allows us market
4 entry? I think there's a lot of questions around any single
5 specific question. There's a multitude of other questions
6 that have to be asked, in order for us to make a good
7 business decision on which way we should go in direct
8 answer.

9 If there's an agreed upon allocation, that
10 certainly takes one very large unknown off the table, and
11 then we can evaluate it from there.

12 MR. O'NEILL: Mr. Edwards, would you see MISO
13 having a problem with accepting an agreement of states on
14 cost allocation?

15 MR. EDWARDS: I hope the states can come together
16 with an agreement on cost allocation across all 15 states.
17 Our dilemma in our state is the best thing about the Midwest
18 ISO is the stakeholder process, and the worse thing about
19 the Midwest ISO is the stakeholder process.

20 It is a process you have to go through, and at
21 the end of the day, you end up with a consensus. I think
22 that's what OMS and the 15 states will be going through. At
23 the end of the day, if the 15 states say this is the cost
24 allocation we would like to see, then I think absolutely.

25 CHAIRMAN KELLIHER: Any other questions?

1 Commissioner Kelly?

2 COMMISSIONER KELLY: Is MISO too big?

3 CHAIRMAN KELLIHER: Is that directed to Graham?

4 (Laughter.)

5 COMMISSIONER KELLY: It's actually sort of a
6 serious question. But would the markets be working better
7 if they were smaller?

8 MR. EDWARDS: I don't think so. I think Midwest
9 ISO is clearly not too big. If you were to look at
10 expanding the Midwest ISO and combining it with PJM, New
11 York and those kinds of things, maybe so. But I think where
12 we are, with the geography and the power flows, and the way
13 we manage the system right now, I don't think it's too big.

14 Can we get too big? Maybe you can. But I don't
15 think we're at that point yet, Commissioner.

16 COMMISSIONER KELLY: Is your megawattage bigger
17 than PJM's?

18 MR. EDWARDS: No ma'am. We're close. They're
19 about 160,000; we're about 125, 130 thousand.

20 COMMISSIONER KELLY: What we hear is the
21 difficulty of governance when it gets that big, and I guess
22 that's where my question is coming from, I guess, power
23 flows. That makes a lot of sense, that governance. Is it
24 too big for the governance?

25 MR. EDWARDS: Whenever you get out of a single

1 state RTO, you have governance issues. That's what we're
2 facing. That was discussed previously as you look at a
3 California ISO, a New York ISO. It's different dynamics in
4 trying to get things accomplished and working through the
5 governance process.

6 Having the Midwest ISO and RTOs voluntarily, that
7 just adds to the governance process, because you do have to
8 build that consensus. At the end of the day, you'll
9 probably get a better product if you've gone through that
10 process and built that consensus. It's very challenging,
11 Commissioner.

12 COMMISSIONER KELLY: I can imagine. You have my
13 sympathy.

14 (Laughter.)

15 CHAIRMAN KELLIHER: Shelton?

16 MR. CANNON: Just one quick follow-up on
17 Commissioner Kelly's question. Graham, would your answer be
18 the same with regard to sort of an optimal size for MISO,
19 with regard to the market functions it takes on, as opposed
20 to the difficult issues of RECB and transmission cost
21 allocation, all the hard things that we put on your plate?
22 Is it too big to try to resolve those issues?

23 MR. EDWARDS: I don't think it's too big to
24 resolve any of these. To me, the governance process is
25 getting things accomplished in an expeditious manner. Of

1 all the difficulties that we really encounter, building a
2 consensus is very tough.

3 As far as operating the system, in real time
4 those are the easy issues.

5 (Laughter.)

6 MR. EDWARDS: The hard issues are what we're
7 talking about here. How do you allocate costs? People have
8 got to recover those costs at the end of the day. Those are
9 the issues. How do you go about it? Just an example. When
10 we do transmission planning, many of our members say that we
11 don't do generation planning.

12 But you've got to assume a certain amount of
13 generation in order to do transmission planning, in getting
14 people up to where we need them to be in buying into our
15 processes. How do we do things? It's a very difficult
16 issue, especially since we do not start out as a very tight
17 power pool.

18 We were still gaining the trust of our members,
19 which adds to the complexity and the complications of
20 building that consensus.

21 MR. CANNON: The reason for my follow-up is
22 listening to all the good work that Commissioner Norris and
23 others are doing with the Upper Midwest Transmission
24 Initiative, it strikes me that is there a need for states to
25 do such initiatives, and enough flexibility to have somewhat

1 different results perhaps percolate up from these three
2 different initiatives, such as you're dealing with five
3 states, five states and five states, as opposed to 15 at one
4 time?

5 MR. EDWARDS: I think that is a possible outcome.
6 To be quite honest with you, I think as we take a look at
7 congestion throughout the system, there might be some real
8 easily definable zones within our overall footprint, to say
9 that one model here may be a deviation, and over here.

10 But overall, it's got to be a common thread that
11 runs among them. But I do think there are different
12 requirements in certain parts of the footprint. However, at
13 the end of the day, the ideal situation is that OMS comes
14 back and says our states have bought into this allocation
15 process, and you proceed and try to get the transmission
16 constructed.

17 That will be the ideal solution. I'm sure
18 Chairman Norris and his group can do so.

19 (Laughter.)

20 CHAIRMAN KELLIHER: Any other questions or
21 comments?

22 (No response.)

23 CHAIRMAN KELLIHER: If not, I think all the
24 panelists are helping us today. Thank you so much for your
25 time. A very interesting discussion. The session will

1 resume at one o'clock in this room.

2 (Whereupon, at 11:45 a.m., a luncheon recess was
3 taken.)

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1 I guess we'll start with Mr. Moeller, telling us about MITS
2 service.

3 MR. MOELLER: Thank you. I think the most
4 efficient way would be to take clarifying questions during
5 the presentation, so that at least we understand the guts of
6 the proposal. If we could begin the presentation.

7 (Slide.)

8 MR. MOELLER: There's also handouts, if people
9 would like to follow along. The genesis of the market
10 integration and transmission service product, the need for
11 it is to find a mechanism whereby the Midwest ISO
12 transmission owners, through an out rate, can be adjusted,
13 so that it's not a transactional rate, because the
14 transactional rate was viewed as potentially distorting
15 offer behavior in the market.

16 So the real magic here is to take what had been
17 traditionally a transactional rate and turn it into a
18 demand-based rate on an annual basis, in order to not
19 distort offer behavior. The history with adjacent utilities
20 to the market is typically that's been a scheduled product.

21 The fact that it's scheduled also perturbs the
22 efficiency of a dispatch algorithm. If we attempted to use
23 a standard schedule product, then you'd have an artificial
24 constraint in the dispatch algorithm. So you could have
25 capacity available, but you couldn't use it because of that

1 schedule. That was the second objective of the market
2 integration transmission service.

3 Under our tariff, it's not possible for us to use
4 our traditional network tariffs that market integration
5 transmission service or MITS, to accommodate these loads and
6 generators.

7 (Slide.)

8 MR. MOELLER: Basically, as a mechanism to enable
9 the application of our security-constrained economic
10 dispatch to cover both the Midwest ISO's Module B tariff
11 footprint, and the counterparties, OATTS tariff footprint,
12 the philosophy behind that grew out of the way we have
13 treated grandfathered agreements inside our existing tariff.

14 If you go back to the existing Midwest ISO
15 tariff, there are grandfathered agreements within our
16 footprint. Those grandfathered agreements are within the
17 tariff. So we took that strategy and saw a way to adjust
18 it, so that we could use it to get on top of an OATT rather
19 than a grandfathered agreement.

20 (Slide.)

21 MR. MOELLER: I already said everything on Slide
22 4.

23 (Slide.)

24 MR. MOELLER: It's important to understand that
25 the market integration transmission service product is a

1 real-time product. That is, it takes the effects of the
2 real-time dispatch and captures its demand over time, in
3 order to calculate an average demand on the Midwest ISO
4 network by the neighboring OATT.

5 So it's not a long term product. It captures end
6 use. In terms of its not being a long term product, it
7 doesn't change the way auction revenue rights or FTRs are
8 allocated. It's simply a mechanism to ensure that through
9 and out rate isn't replaced with this new product. It's not
10 a rollover kind of product.

11 If those types of services are still needed, the
12 traditional tariff products all remain in place.

13 (Slide.)

14 MR. MOELLER: So graphically, you get kind of a
15 before and after chart here that tries to explain where we
16 are today, and where we'll be should a MITS product be
17 approved. So today, we've got point to point products that
18 work on the boundary between the Midwest ISO and the
19 neighbors.

20 We've got the through and out rates as a within
21 rate, that virtually no one uses anymore, that technically
22 is still available. It's possible for folks to ask for that
23 within rate, in order to change their FTR nomination. But
24 it's virtually unused.

25 The predominant uses of our tariff today are the

1 drive-in and drive-out rates. The drive-in rate is
2 discounted for zero. There's currently no cost, no
3 additional cost from our tariff for a transaction that
4 originates outside our footprint and terminates inside our
5 footprint.

6 The drive-out tariff, however, is the source of
7 revenue for our transmission owners. That continues to be
8 employed in order to deliver service outside. With the MITS
9 proposal, part of that drive-out service will be replaced
10 with this demand-based annual kind of cost, that looks to
11 enable fluctuations on a five minute basis, rather than the
12 need to preschedule those kinds of contracts.

13 Then, as we talk through, we'll talk about how we
14 would capture and calculate the appropriate elements.

15 (Slide.)

16 MR. MOELLER: Another diagram that tries to
17 explain a little more detail today between the Midwest ISO
18 and the neighboring utilities, the Midwest ISO members are
19 subject to Modules A through E on our Midwest ISO tariff. A
20 is Definitions. B is Traditional Tariff Services. C is the
21 Market Operations. D is the Market Monitor. E is Resource
22 Adequacy. Those are pure energy transactions.

23 Under Module F, Part III, the counterparties,
24 what we're calling market coordination customers, will be
25 customers of the Midwest ISO tariff and governed by Module

1 A, Module C, Module D and Module E, but not Module B.

2 Their OATT will take the place of Module B.

3 Their market integration product is what accounts for the
4 energy flow across the interface in the outbound direction
5 for the Midwest ISO, and the inbound direction for the
6 counterparty.

7 (Slide.)

8 MR. MOELLER: In the proposal, the counterparty
9 needs to offer a MITS-like or MITS-comparable product, the
10 pro forma of which is embedded in the proposal. It's
11 Attachment MM to the proposal, for those of you that speak
12 tariff schedules.

13 The MITS-comparable product. To be very clear
14 about this, the way the structure of the proposal is, the
15 Midwest ISO will bill the receiver of energy out of our
16 market. We will not accept a bill from the counterparty.
17 So the cost for that drive out of the counterparty is to be
18 dealt with by the counterparty.

19 In that way, while the products are somewhat
20 reciprocal, the customers are not.

21 (Slide.)

22 MR. MOELLER: I've said everything on Slide 10.

23 (Slide.)

24 MR. MOELLER: The proposal as it stands is in two
25 parts. The first part would be for a transition period.

1 There would be a stated rate for the MITS product, premised
2 on the revenue of the previous year's actual point to point
3 history between the counterparty and the Midwest ISO.

4 The reason for that three year stated rate is
5 there's also a three-year minimum commitment on the
6 counterparty's part, to stay inside Module F, Part III. So
7 that was the deal. It's a three-year standard rate of
8 return for a three-year minimum stay.

9 Then it's simply billed 1/12th per month. It's a
10 fixed charge, not a transactional charge, and it can be
11 baked into the counterparty's transmission costs on that
12 basis.

13 (Slide.)

14 MR. MOELLER: After the transition period, we'll
15 look at a historical test year, where we will capture the
16 demand on the Midwest ISO network by the counterparty,
17 create an annual average demand based on those quantities,
18 and apply the applicable annual rate schedules.

19 I don't remember what they are, the ancillary
20 services. An important point here, those of you that listen
21 to this morning, we had a lot of conversation on the RECB
22 cost allocations. The annual service charges that will be
23 used and applied to these demands will include all revenue
24 requirements of the Midwest ISO footprint.

25 Those RECB costs will be in that rate. The

1 difference is individual project costs won't be allocated on
2 an individual basis to the counterparties under this
3 proposal. One of the reasons that this is a formula rate
4 then going forward is to ensure we continue to reflect any
5 increased costs we might have in terms of the revenue
6 requirement, and the transmission assets of the footprint.

7 (Slide.)

8 MR. MOELLER: Slide 13 talks about some
9 arithmetic. The bottom line there is we've discovered that
10 the FERC is somewhat uncomfortable if we try to bill for the
11 same service twice. So the MITS service will only apply to
12 demand in excess of any pre-existing point to point
13 reservations. So there's arithmetic involved to ensure that
14 we don't double-collect.

15 (Slide.)

16 MR. MOELLER: In conclusion, we attempted to use
17 standard rate-making principles to construct this
18 transmission service type, to eliminate the transactional
19 nature that exists in the current point to point service.
20 So that the security-constrained dispatch works effectively,
21 both in terms of the quantity of system that's available and
22 not distorting offer behavior because of the transactional
23 nature of the tariff.

24 That precisely is why we tried to invent the
25 market integration transmission service.

1 MS. HYDE: The staff noticed you brought a second
2 presentation that I think you were planning to hold a little
3 bit in reserve. I think we would like to go a little bit
4 through that. Thank you.

5 MR. MOELLER: Thank you. If the guy behind the
6 magic curtain could get me Presentation 2 please?

7 (Slide.)

8 MR. MOELLER: Thank you. There were several
9 questions developed by some of the technical staff to take
10 forward to us. We'll attempt here to answer them. In this
11 specific case, we've used MidAmerican Energy, and to a
12 lesser degree Muscatine Power and Water as examples.

13 One of the things that was talked about in the
14 earlier technical conference this morning was why this isn't
15 just a one-off deal for MidAmerican Energy.

16 One of the reasons is MidAmerican Energy also has
17 customers and neighbors in the Iowa footprint, Muscatine
18 being a neighbor that is also interested in this kind of
19 relationship. So if it's a one-off relationship, it will
20 end up being many one-off relationships. And as you can
21 imagine, that's problematic as we attempt to administer.

22 So we'll use MidAmerican Energy and Muscatine
23 Power and Water as our examples. That's not to preclude
24 other possible counterparties.

25 MR. MALVADKAR: A quick question. During your

1 presentation, during the first presentation, I was basically
2 wondering you described before that the chart is -- will not
3 be transactional and as such distorting the rate incentives
4 in the market during the presentation. If you can sort of
5 elaborate on that.

6 It just seems to me that it sort of depends on
7 how the proposed transition, how the charges are being
8 recovered by the market service customer, and whether or not
9 they're being sort of a transactional nature. If you could
10 sort of elaborate on that, why it wouldn't be transactional,
11 it wouldn't distort the incentives.

12 MR. MOELLER: In terms, if there's a market
13 participant in the existing Midwest ISO footprint prior to
14 this, they have a network integrated transmission service
15 cost, a MITS cost. That is a demand-based cost that they
16 baked into their costs. That's what they use as they
17 contemplate their offer behavior.

18 The notion behind the MITS is to use that same
19 kind of strategy for the counterparty, so that we give them
20 that same sort of predictability in that cost. When I'm
21 finished and Mr. Gunst presents their proposal, they've got
22 customers that would prefer this to be a variable instead of
23 non-transactional.

24 So I believe he'll be able to elaborate more
25 clearly on how they might recover and why in some cases it's

1 appropriate for it to be more transactional, rather than
2 less. Slide 3.

3 (Slide.)

4 MR. MOELLER: We already did Slide 4. Were there
5 other questions there, in terms of which modules would apply
6 to, in this case, MidAmerican Energy as a counterparty?

7 (No response.)

8 MR. MOELLER: This morning then, Mr. Edwards was
9 talking about our belief that this is 75 percent of the way
10 rather than 25 percent of the way into participation. It
11 had to do with the fact that all the market rules would
12 apply exactly as they applied to current market
13 participants.

14 All the market monitoring protocols would apply,
15 just as they applied to current market participants and they
16 would subscribe to all of the obligations and enforcement
17 mechanisms inside Module E, Resource Adequacy. Those things
18 would all apply. It's only the transmission component that
19 does not.

20 (Slide.)

21 MR. MOELLER: This particular slide is somewhat
22 redundant from the earlier presentation. This again is to
23 reinforce the fact that Midwest ISO will not accept a charge
24 from the counterparty for their tariff. We send the bill.
25 We're happy to get the bill. They have a bill they need to

1 send someone. They send it to themselves, and their
2 customers inside their zone.

3 Again, Mr. Gunst will elaborate more completely
4 in terms of the mechanics that they've devised. A good
5 reason to use MidAmerican as the example here is they do
6 have a proposal in front of you. Other proposals are
7 possible.

8 In the case of the integrated system and their
9 public services through the Western Area Power
10 Administration, the DOE's public process, there may be
11 different rules there that address different problems that
12 they have. Part of the reason for this Module F is to
13 ensure sufficient flexibility in the counterparty that they
14 can solve their unique issues, as they try to move forward.

15 (Slide.)

16 MR. MOELLER: Slide 6 is a more detailed
17 explanation of how we would do the arithmetic to ensure we
18 don't double-bill for service. It's fairly straightforward
19 arithmetic. You do have to capture the data in order to
20 achieve this. But we capture that data every hour within
21 the market in any event. So they're not new quantities that
22 we need to achieve.

23 Essentially, the annual averaging consists of
24 essentially smoothing the algorithm, so that those costs are
25 normal and predictable. We also heard this morning about

1 how predictability is important for our customers. That's
2 what that achieves for us in this case. Again, Mr. Gunst
3 will talk about it.

4 They used a similar equation as they construct
5 their billing determinant. He'll be able to go through in
6 more detail of what they'll be able to do. Now then I'm
7 just going to follow up on your formula.

8 Did you have more than one market service
9 customer and you had basically a one market service customer
10 who had a net hour demand? How would you be able to tell
11 whether or not it should be a mixed comparable or a mixed
12 comparable and who should be assessed which charge?

13 If you have a missing multiple market service
14 customer, the market coordination of customers would look
15 like the local balancing authority or agent underneath our
16 tariff. As a result, all of that metering is currently in
17 place. So it's a fairly straightforward matter of capturing
18 those billing determinants.

19 MR. MALVADKAR: Now I understand the fact that
20 you can trace between balancing areas, but we do have two
21 different -- if you had multiple clusters and they're both
22 out, you have three market service customers in the Midwest
23 ISO. Two of them have our demand, according to this
24 formula, how would you determine sort of which were the
25 ones, which were the control areas providing transmission

1 service to sell to them, and which ones were receiving from
2 that specific source?

3 MR. MOELLER: The strategy behind this is each
4 counterparty is dealing with the Midwest ISO, so the demands
5 would be against the Midwest ISO for an out tariff. There
6 would not be between adjacent counterparties. So the
7 relationship is with the Midwest ISO, not with each other.

8 So the metering in terms of the actual mechanics
9 of the metering for the demand, it looks very similar to in
10 the old days what inadvertent energy accounting looked like.
11 It's that same nothing process that gets you to an accurate
12 conclusion.

13 MR. DONMINI: An additional question. Could the
14 market coordination customer choose to charge for the
15 interchange between its area and another market coordination
16 customer?

17 MR. MOELLER: That's not the way we designed it.
18 In order for that to happen, there has to be a service
19 agreement between those two adjacent customers. Our
20 understanding is that most of those relationships were used
21 for additional tariff products.

22 We don't preclude the possibility of those MITS
23 products, but we don't envision them here either.

24 MR. DONMINI: But in performing the dispatch and
25 the market, there will be potential for that interchange

1 resulting from the market dispatch between market
2 coordination customer areas rather than just between Midwest
3 ISO and each market.

4 MR. MOELLER: The strategy we're seeking to
5 employ here would be between the first coordination customer
6 and us, and then between the second coordination customer
7 and us. Any energy that happened to transfer directly would
8 look like inadvertent energy out of market, and we had four
9 or five months of debate about that one.

10 (Slide.)

11 MR. MOELLER: Slide 7 is simply nine hours of
12 what that arithmetic might look like as we're capturing this
13 demand. In this case, we used MidAmerican Energy. So we
14 assumed they had a load of three or four hundred megawatts.
15 They had generation of 2,790. There are no scheduled
16 transactions in or out of MidAmerican Energy. That looked
17 like a demand of 610. We captured that 610 megawatts for
18 inclusion in our calculation of the average demand.

19 Then that proceeds, if you go down to our ending
20 4, you can see in that instance we needed to net a
21 traditional point to point tariff out before we calculated
22 the MITS demand we would capture.

23 This is simply a table that shows the arithmetic
24 from the previous slide. Slide 8.

25 (Slide.)

1 MR. MOELLER: There were some specific questions
2 generated by some of the FERC technical staff. We tried to
3 take those questions and answer them as directly as we
4 could. The first one is what Midwest ISO MITS charges would
5 be assessed.

6 To reiterate, neither of the Midwest ISO MITS
7 charges nor the charges from the coordination customer would
8 be paid by Midwest ISO. So the scenarios, regardless of
9 whether you're long on generation or short on generation,
10 those MITS charges will not apply to anyone inside the
11 module up front.

12 If there's a Midwest ISO drive-out point, the
13 point that has unused capacity, the demand is adjusted. So
14 that we first use up the capacity that's been purchased, and
15 then in any excess the MITS demand charge will be calculated
16 with.

17 If there are customers that are not in an MCC
18 zone, the point to point rules still apply. In theory, they
19 can't take more than what's been scheduled. If they do take
20 more than scheduled, the penalty is structured inside the
21 tariff that is currently in place, that would apply if the
22 point to point customer is inside the MCC zone.

23 Any excess demand above that reservation, we
24 would capture in order to calculate the average demand for
25 the MITS product.

1 (Slide.)

2 MR. MOELLER: Slide 9 is more of the same series
3 of questions. Generators inside the Midwest ISO will not be
4 charged a MITS cost at this time. This MITS charge goes
5 only to the MCC customers, allocated between their loads and
6 generators, in order to find equity there.

7 In case of the Midwest ISO, part of why this is
8 good for the Midwest ISO is that those countercharges will
9 not apply. There's nothing inside market coordination or
10 the MITS product which disallows a customer from serving all
11 its own load with all its own generation.

12 Those structures are exactly identical to the
13 structures inside the Midwest ISO. If they create no
14 demand, they get no bill.

15 (Slide.)

16 MR. MOELLER: In the allocation of auction
17 revenue rights, this has been often a point of some
18 interest. What's important about the way FTRs and auction
19 revenue rights are allocated today is neighboring use of our
20 system, and our use of the neighboring system. All
21 assumptions that are made in the allocation process, but
22 they look like parallel flow rather than market flow.

23 So the actual physical energy had been showing
24 up. We had a different label on it. As they move into the
25 market, instead of it being labeled parallel flow, it's now

1 eligible for FTRs or ARRs. We use that same strategy that
2 we used. All the terms and conditions of Module C apply,
3 all the same rules and elements that we discussed some this
4 morning is important for the counterparty, in this case
5 MidAmerican or MPW.

6 The obligation to maintain the feasibility of the
7 long-term ARRs goes with this service. So while we have
8 that obligation amongst the Midwest ISO TOs by virtue of the
9 transmission owner agreement, we achieve that obligation
10 through Module F.

11 So the long term market loads need to maintain
12 feasibility across the application of those FTRs and ARRs.
13 (Slide.)

14 MR. MOELLER: The same list of requirements that
15 our current market participants have to fulfill in order to
16 participate in the allocation of the ARRs, these new
17 counterparties will have to fulfill. So the registration
18 has to be appropriate. If there's firm point to point
19 service that's a comparable, that can be used as a
20 nomination.

21 There has to be long term agreement. The timing
22 of the information has all the same rules essentially as
23 what's in Module C. So there's no variation from the
24 standard product.

25 (Slide.)

1 MR. MOELLER: Again, a question that arises
2 occasionally is, is it possible for this to diminish the
3 ARRs over time? It's got the same risk that we have inside
4 our marketplace. As load grows and capacity is adjusted or
5 retired, we can get some perturbations in terms of the
6 feasibility.

7 The reciprocal obligation to construct and
8 maintain that feasibility attempts to speak directly to this
9 worry. As you're probably aware, we've had that process
10 ongoing inside Midwest ISO to ensure that our planning
11 criteria also includes the long-term feasibility of ARR, the
12 same identical process.

13 MR. LORD: Mr. Moeller, are you going to talk in
14 your presentation at some point about the difference between
15 a present-day transmission owner and its obligations to
16 build under both the GL agreement and under the transmission
17 expansion protocols? This is a market service customer
18 where what we have, as you say, is Module F. As I
19 understand it, that's what we have for the market service
20 customer.

21 MR. MOELLER: That's correct. What Module F
22 attempts to do, in fact we pulled bullets out of our other
23 tariff schedules and inserted them. The obligation we have
24 inside the Midwest ISO transmission agreement is should
25 facilities be identified, facilities that are required to

1 maintain the feasibility of long term ARRs to serve network
2 load faithfully and reliably, there's a good faith effort to
3 construct.

4 That good faith effort is predicated on
5 regulatory action by the states and other content
6 impediments to construct. But it's got good faith
7 obligation to construct that we visit upon the market
8 coordination customers through Module F, using the same
9 criteria as they evolved, to ensure we have reciprocity
10 between the legacy transmission owners and the new market
11 coordination customers.

12 MR. DONMINI: Module F provides that the market
13 coordination customer doesn't commit and plan for
14 feasibility, and they forego option revenue rights, which
15 the existing TOs don't have that option, to simply not build
16 and forego the option revenue rights.

17 I also wonder what are the implications. It's
18 one thing for a transmission owning customer to make that
19 economic decision. What happens when they're making an
20 economic decision and that affects the feasibility of the
21 long term rights of customers under their OATTs?

22 (Pause.)

23 MR. MOELLER: The Midwest ISO had the opportunity
24 to move projects into what we have defined as Appendix A,
25 with or without the transmission owners' consent. That

1 would have the effect of maintaining the long term
2 feasibility. In the case of these counterparties, because
3 we don't have that opportunity, the sanction then is to lose
4 your hedge.

5 So it is a different deal in that regard.
6 Informally, it's been suggested to us that one of the
7 reasons the counterparty wants to join as coordination is so
8 they could be afforded that long term hedge. So the
9 reciprocal obligation stands.

10 If they fail to execute against their good faith
11 obligation, then they lose the right, or in the transmission
12 owners' case if they fail under the good faith obligation,
13 they don't lose the right. That's part of the advantage of
14 being a transmission owner.

15 MR. DONMINI: The market coordination customer
16 could make the decision on their own. How would that affect
17 the third party customers? If that decision affects third
18 party customers on the system, those customers could lose
19 their ARR's.

20 MR. MOELLER: In the case of a transmission
21 owner, the exact circumstance today is we already rely on
22 these counterparty systems, as we don't get our ARR's. So
23 that circumstance doesn't change. The thing that changes
24 here is first there is a good faith obligation to construct
25 for the MCC, the counterparty to the agreement.

1 So the reason I keep dancing around your question
2 is we believe they have an obligation to attempt to
3 construct. So it's not strictly speaking just a choice.
4 They have an obligation to attempt. You can do a bad job of
5 attempting and lose your ARR as a result.

6 But that's why I'm flexible when I'm trying to
7 answer your question.

8 MR. GUNST: I would concur from MidAmerican.
9 That is our understanding. We're under the obligation in
10 the way that Midwest has stated in its submitted filing, to
11 proceed and make a good faith effort. Barring the ability
12 to get right of way, the traditional regulatory practice
13 attempts to create an ongoing obligation.

14 MR. MOELLER: That's the end of my slides.

15 MR. MALVADKAR: The same sort of question. How
16 would you measure the feasibility of the system? It sounds
17 like this process is not overly controversial. Is there a
18 way in which you can identify which products or projects may
19 be built to support the long term firm rights on the native
20 systems?

21 MR. MOELLER: Sure. One of Midwest ISO's staff,
22 Jeff Wemkin, can take you on a detailed trip on how it
23 works. But there's a task force of Midwest ISO planners who
24 accepted the problem as a result of our working with FERC to
25 develop the protocol, that looks at how in fact we would do

1 the tests, to see whether or not the long term ARR's were
2 feasible, and on what kind of projects.

3 There's a high degree of coincidence between
4 traditional and network planning. In terms of the
5 techniques and the projects that are identified, the
6 techniques are quite similar or virtually identical. The
7 difference could be which generator is being pointed to.

8 But that would have been the exact circumstances
9 historically in a point to point transaction. So it's those
10 same basic techniques, same planning criteria and standards
11 that are applied in that horizon, to ensure feasibility.

12 MS. HYDE: I think we're going to let Mr. Gunst
13 speak. I'm sure this question will continue on, with even
14 more data involved. Thank you.

15 MR. GUNST: Good afternoon. I'm Darrell Gunst,
16 Manager of Transmission Services for MidAmerican Energy.
17 Joining me for the discussions regarding market integration
18 and transmission service is Mark Volpe, who's provided
19 testimony along with MidAmerica's August 15th filing.

20 During the transmission planning session of this
21 conference, I will be joined by Tom Mielnik, Manager of
22 Electric System Planning, who's the second to my left.

23 Thank you for letting my colleagues and me
24 address certain rate and technical issues surrounding
25 MidAmerican's proposed market integration service, which is

1 called MITS-comparable service.

2 MidAmerican presented its MITS-comparable concept
3 in tariff language to MidAmerican's transmission customers
4 at a stakeholder meeting in July. Over 40 representatives
5 attended the stakeholder meeting from 26 separate
6 organizations. MidAmerican incorporated input from that
7 customer meeting into its August 15th filing, in response to
8 the Commission's June 13th order.

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1 The reason I'm confused, is, I'm a little bit
2 confused about the issue of integration of generation
3 located, for example, in the MidAmerican transmission
4 system, into the Midwest ISO market. I'm talking
5 particularly about capacity.

6 I'm confused about the point-to-point
7 transmission reservation, and perhaps Darrel can answer my
8 questions. The utilities in Wisconsin have contracted for
9 and built wind generation facilities in southern Minnesota
10 and northeastern Iowa, that intersect with the Midwest ISO
11 transmission system.

12 They pay a network transmission service charge
13 for the local load zone, the American Transmission Company
14 load zone. There is no pancake transmission charge; there's
15 no MITS service, no payment for energy. There's no seam
16 there.

17 When I was working through the MITS calculations
18 over the past week, I found myself drawing on a blackboard
19 and drawing on a sheet of paper in black lines and red lines
20 and blue lines, the same way I used to do when I would do
21 the contract path, and say, here's where the dollars flow,
22 here's where the megawatt hours actually flow.

23 When I did that with the MITS service, I found
24 myself on the boundary between the Midwest ISO and the
25 market coordination customer, and I finally came to the

1 conclusion that there's still a seam here.

2 I don't know how you cut it any other way.

3 There's still a seam, there's still a market seam there.

4 That's the issue that concerns me, and,
5 particularly because we're trying to develop a competitive
6 capacity market in the Midwest ISO region.

7 I guess what I would like to ask Darrel to answer
8 for me -- I was surprised no one asked the question this
9 morning. We had Ray Wahle say, if FERC approves this, it's
10 going to hinder the development of wind generation in the
11 Midwest ISO region.

12 Then we had the guy from Iberdrola say that this
13 is the greatest thing ever; we want you to approve it.

14 I thought the question would be, could somebody
15 reconcile these? That's the issue I would like to have
16 reconciled, and my question is this one: If Madison Gas and
17 Electric develops and constructs a wind farm that would be
18 interconnected with their system in the Midwest ISO, what
19 would it pay for transmission service?

20 Then if Madison Gas and Electric contracted with
21 Iberdrola for one of these wind farms that it has under
22 development in the MidAmerican region, what would it pay for
23 transmission services?

24 I believe the answer to the first part, is, it
25 pays for network integration transmission service. It

1 designates that wind farm as a designated network resource
2 and it pays the load zone rate in the American Transmission
3 Company transmission system.

4 My question is, is there a rate pancake for
5 point-to-point delivery somewhere along the line in the
6 MidAmerican system? Can an entity like Madison Gas and
7 Electric, designate, if it would want to, an FTR which would
8 go from a source in the MidAmerican zone, to the ATC zone
9 and then vice versa?

10 Those are the fundamental questions I think we
11 have to deal with.

12 MR. MAGOS: These are Staff questions, so, thank
13 you.

14 MR. FEIT: That concludes -- I also have some
15 remarks about transmission planning, and I understand that
16 we're going to visit that later on in the afternoon.

17 MS. HYDE: Yes, we're going to address that
18 later. I notice we're sliding over our time right now, and
19 I think we should continue that slide. I think we have a
20 lot more questions that we need to have answered.

21 MR. GUNST: The answer is definite, Iberdrola, in
22 the case of the wind generator that we're contracting for,
23 will be able to generate for Madison Gas and Electric, using
24 the MITS service. It will be delivering, as it must be
25 delivering, into this ISO market.

1 So the MITS circumstance is forthcoming. We have
2 the good fortune of having the resources of Mark Volpe to
3 modify the MidAmerican tariff, so the proposed tariff is
4 comparable with the Midwest ISO tariff with regard to the
5 market requirements.

6 It required modification to Part III, where we
7 set a pro forma tariff, but what we have before you, is not
8 the standard pro forma tariff. It's superior to the pro
9 forma tariff, in that it has the modifications necessary to
10 be compatible with the Midwest ISO tariff.

11 I'll let Mark address any modifications with
12 regard to Part III.

13 MR. VOLPE: John, let me try to answer your
14 question specifically. You've got a wind generator MEC
15 serving a load in Wisconsin. There would be the MITS-
16 comparable charge on the MEC tariff, which they have
17 proposed as their Schedule 10.

18 That target only applies, though, for that
19 generator in an hour where there was an over-generation of
20 the MISO's economic dispatch of total generation inside the
21 MEC balancing authority to serve load in MISO.

22 If it was zero or negative, in other words, the
23 Midwest ISO's generation under their dispatch, is crossing
24 the interface to serve the load in MidAmerican, even though
25 that generator is producing when conditions are right. It

1 gets no charge for that hour.

2 Yes, there are two charges under certain
3 circumstances, depending on what goes on on a macro level
4 during that hour.

5 This is embodied in those examples.

6 MR. MAGOS: But, see, Madison Gas and Electric is
7 going to want to make sure it has transmission service, so
8 they are going to have to pay the pancake rate.

9 MR. VOLPE: That's a different subject. If you
10 want the ARR, then, yes, the point-to-point service is
11 required.

12 MR. MAGOS: Right, but from the wind farm
13 generator's point of view, this is fine. They're not going
14 to have to reserve any service, but the wind farm is serving
15 Madison Gas, and they are going to want -- they're probably
16 not going to want to ride on LMP. They won't know what it
17 is.

18 They want ARR. They're going to have to take
19 transmission service on MidAmerican's system, plus, they
20 will have to pay the network transmission charge of the
21 Midwest ISO system. How is that different than today?

22 MR. MOELLER: A smaller bill.

23 MR. MAGOS: How is it a smaller bill?

24 MR. MOELLER: The MITS product is a smaller cost,
25 lower rate.

1 MR. MAGOS: The MITS charge will be -- but they
2 will be paying --

3 MR. MOELLER: Let me tease this apart a little
4 bit. The ARR is not transmission service. ARR is a hedge
5 against transmission. Those are available under Module C of
6 the tariff.

7 You try to get them, and they are either feasible
8 or not feasible, so that's distinct from transmission
9 service. In the case of a wind machine, the purchaser or
10 the energy, has two options:

11 One is an energy-only resource, in which case
12 there's no transmission service component with it, so the
13 energy resource, the person with the PPA, buys the energy
14 when it occurs, and they don't try to take credit for it,
15 anyplace in a resource adequacy construct.

16 Now, today, there's a resource adequacy construct
17 that calls for a 20-percent capacity credit. We've also put
18 the entire community on notice that 20 percent is probably
19 significantly higher than an appropriate resource adequacy
20 credit.

21 That's gone out out there in the background where
22 that 20 percent is probably ten or 12 or five, because we've
23 had wind as little as 1.5 percent on peak. That capacity
24 construct is about, do we have capacity on peak?

25 So, you know, it gets pretty complicated, but the

1 bottom line is, if MidAmerican had the wind farm, Madison
2 Gas and Electric was purchasing, the cost would be slightly
3 higher, because of the MITS rate.

4 So, yes, in that regard, it would be more
5 expensive, but when Madison Gas and Electric was deciding to
6 buy from the wind farm in Iowa or the wind farm in
7 Minnesota, they'd know those costs and could make an
8 appropriate economic decision.

9 MR. MAGOS: How is that different from today?

10 MR. GUNST: With regard to the long-term, your
11 observation is correct. It is point-to-point service. If
12 he wants the ARRs and wants the capacity deliveries to
13 Madison Gas and Electric, that part has not changed. There
14 are two tariffs in place.

15 MR. MAGOS: This goes, I think, to Melissa's
16 original question -- I'm sorry, I thought you were done,
17 whatever.

18 MR. GUNST: To the extent they have the
19 reservation in place, the energy, whether it's reserved or
20 up to the reservation, they would not have any MITS charge.

21 MR. MAGOS: But there wouldn't be a reduction in
22 their rate, because they would be paying the current
23 MidAmerican tariff charges for firm, point-to-point service.

24 MR. MOELLER: That's correct. The difference is
25 that tomorrow, the energy resource would be an available

1 option for Madison Gas and Electric to purchase, where,
2 today, it's not.

3 MR. MAGOS: That is, I think, what Melissa was
4 getting to. The benefit to wind as being part of the energy
5 market, there's nothing in the construct -- they don't get a
6 lower transmission rate, they don't get less transmission
7 charges.

8 The load that is served by the wind, doesn't get
9 less, fewer charges.

10 MR. GUNST: For an entity that is seeking ARR,
11 that's correct.

12 MR. MAGOS: I assume, John, you would think they
13 would want the ARR?

14 MR. FEIT: Yes. I think Clair made a good point,
15 which I think is an excellent point, that the ARR is
16 separate. You nominate an ARR for -- you can nominate any
17 ARRs; you don't have to have a resource.

18 You can nominate an ARR between any two points
19 you want. That's a point well taken by Clair.

20 But the issue is, there was no such thing as free
21 transmission, so if you're a wind generator or even a coal
22 generator in MidAmerican, you can't just operate and let it
23 run without paying and out-transmission rate in MidAmerican.
24 That's my belief, because, otherwise, in the diagrams where
25 you're saying we're going to remove the firm point-to-point

1 schedules before we calculate the excess flows, that
2 calculation makes no sense.

3 MR. MOELLER: The question hinges on whether the
4 resource is someone's designated resource under the resource
5 adequacy construct, or whether they're merely buying energy
6 without that designated resource.

7 It's true that if it's just purchasing energy,
8 you don't have that additional charge. If, on the other
9 hand, you want to rely on it for part of your resource
10 adequacy, there is that charge, so the difference is in that
11 ability to just purchase energy.

12 MR. FEIT: In other words, the answer, I believe,
13 the point-to-point charge to get to the border in either
14 direction.

15 MR. MOELLER: We've tried hard to be clear that
16 that's true, but it's not an new pancake.

17 MR. FEIT: But one of the big purposes of the
18 Midwest ISO, was to create not just an energy market, but
19 also the creation of a liquid capacity, so this doesn't
20 allow someone from Iberdrola, to locate the wind farm in
21 MidAmerican.

22 It's the same as if it was in XL. I would say
23 this: If you have wind generation located in the Dakotas, I
24 think that's a public policy issue you need to deal with.

25 Those are big transmission costs. It probably

1 isn't fair to dump those costs on the load customers in the
2 Dakotas. I think we have to come up with some kind of a
3 cost recovery mechanism.

4 My observation -- and it just may be an
5 observation -- is, if MidAmerican is the game in town,
6 everyone else joined the Midwest ISO. Part of the grand
7 bargain, is, give up some revenues here. There's winners
8 and losers, and that's the grand bargain.

9 We went through that grand bargain when American
10 Transmission Company was formed. We moved to a single rate.
11 Some people lost and some people gained.

12 In this case, if the revenues are small, why are
13 we going through all of this? They should just be on a
14 license plate rate and we could be done with it and deal
15 with those other revenue issues further in the West, in some
16 kind of different basis.

17 MR. GUNST: Can I ask you a question? If you had
18 a 180-watt wind generator that has a 30-percent capacity
19 factor, on the XL system, on Madison Gas and Electric, and
20 you're going to qualify that as a resource, would you
21 qualify it at its peak value or would you qualify it at its
22 credited value, and how much point-to-point transmission
23 service would you take? Would you take 30 megawatts? Would
24 you take up your nameplate top rate?

25 MR. FEIT: No, they can designate that the

1 network resource. The 20 percent is how is it accommodated
2 for Module E. That's the issue.

3 MR. GUNST: If you were going to get ARR. I
4 think what you're looking at, is the capacity factor.

5 MR. FEIT: Wind resources are probably not a good
6 thing to look at when you're looking for ARR. The companies
7 don't nominate wind resources as ARRS, because it's too
8 risky.

9 If you looked at some kind of, say, a combined-
10 cycle unit or something along those lines, that's a better
11 example.

12 MR. MOELLER: Let me jump in and try to get us
13 back out of these debates. We've got about six different
14 topics going simultaneously.

15 There's a bunch of important stuff in what John
16 was saying. First of all, this proposal never said it was
17 going to eliminate the rate pancakes that exist -- never
18 tried to say that.

19 If we did, sorry. So, it was never meant to do
20 that; it was meant to facilitate action in the market in
21 spite of those pancakes, okay?

22 That's important. The truth is, this isn't just
23 a MidAmerican enterprise. There are other participants in
24 Iowa, Muscatine's in the room. It's not a trivial thing for
25 the western participants.

1 They continue to be interested. They have their
2 other processes they have to get through, the fact that this
3 relationship will be consistent with all these
4 counterparties and under the jurisdiction of FERC, we think,
5 is an important protection for the rest of our customers.

6 The one off agreements, having done them, they
7 are very difficult to administer. We have seams agreements
8 and the result is, we're always seeing a breach of one of
9 them, simply because of the clumsiness of trying to do
10 multiple things.

11 So I wouldn't discount the fact that we don't
12 have others at the table discussing their alternatives with
13 a lack of interest in the proposal.

14 The fact and circumstance is that MidAmerican
15 Energy is further along in describing how they would react
16 as a jurisdictional utility to the proposal. So let's not
17 discount WAPA and the folks out West.

18 MS. HYDE: That's helpful, thank you.

19 MR. MALVADKAR: Do we have the presentations? Do
20 you want to go through it now?

21 (Pause.)

22 MR. GUNST: Scroll back to the top of that page.
23 We see the beginning of Exhibit A, that shows how the charge
24 is identified from the Midwest ISO.

25 There's just a calculation page that shows the

1 annual payment or the monthly payment to the Midwest ISO,
2 divided by 12. This is in your packet on page 8, the annual
3 payment, divided by the dollars per megawatt hour.

4 And then we come up with an amount of energy in
5 the middle of that page, just before scrolling down a little
6 bit, and just before Item 4, we identify a break-even point
7 of the rate of 105,000 megawatt hours per month, at which
8 point, if there's more than that amount of energy going into
9 the Midwest ISO, the rate begins to decline.

10 We used a scenario of 200,000 megawatts going
11 into the Midwest ISO in this example, and that's how the
12 calculation that followed that, came up with 82 cents per
13 megawatt hour, if it was 200,000 megawatts going in.

14 If you scroll down to the diagram just below that
15 page, you see the chart that shows the effect of the
16 declining rate, and where the curve breaks, is at the
17 105,000 megawatt hours.

18 In 2007, MidAmerican's control area, balance and
19 control area, pushed 147,000 megawatt hours into the Midwest
20 ISO. If you come down to the curve, you see that would have
21 been \$1.10 per megawatt hour.

22 With wind generation, we think there's good
23 reason that you could easily be exceeding 200,000 and would
24 typically be below the dollar per megawatt hour.

25 This is one of the key concerns raised by

1 parties, the market price impact. We think that this curve
2 is significant.

3 Using the examples then on, if you roll down to
4 Example No. 2, I'm going to let Mark Volpe walk through a
5 couple of key examples of how this works for various
6 customers. He's the primary architect on that, of the
7 tables. Go ahead, Mark.

8 MR. VOLPE: Thank you, Darrell. Under Example 2,
9 we have a typical hour where MidAmerican, as a balancing
10 authority, their generation is in a surplus to its load, to
11 the tune of 790 megawatts.

12 So, for this hour, you have all five of these
13 transmission customers -- I think, actually, there are six --
14 - paying the full \$1.58 times their net demand, which is in
15 Column D for that hour.

16 The one thing I want to illuminate on for this
17 Example 2, is the IPP. In Example 2, that's a wind
18 generator.

19 When you look across, they have a net MITS demand
20 charge of 80 megawatts; they have 100 megawatts of
21 generation, only 20 megawatts of load inside of the MEC
22 balancing authority, yet over in Column G, they have
23 untagged, unused point-to-point transmission service there,
24 to the tune of 50 megawatts, which is a megawatt-for-
25 megawatt credit to their billing.

1 The point here is that no one is billed for
2 transmission twice. You pay for what you use.

3 If this is valuable, I can spin through the other
4 couple of examples we have, or take questions.

5 MR. MALVADKAR: Let's go back to an earlier
6 point. You can, in fact, determine how much MITS charges
7 you take, and it may affect how you bill your generation or
8 affect how much MITS charge a transmission customer will be
9 assessed.

10 MR. VOLPE: Potentially, because, during an hour,
11 you can have an hour, if you go back -- scroll down to
12 Example 4 for us.

13 In this hour, we've got net MITS, if you look at
14 the bottom of Example 4, of 100 megawatts, but Transmission
15 Customer D is really importing from MISO to the tune of 950
16 megawatts, so all these other generators and loads, have
17 more generation than they do load for the hour, and it looks
18 like they're going to get hit with the big MITS charge for
19 that one hour.

20 But, given that there's only 100 megawatts of
21 MITS, not a 1,050, we ratchet down. That's what we try to
22 do on Column F there. They're charged for that hour.

23 What I'm trying to say here, is that it depends.
24 You can't look at a generator all by itself, during any one
25 given hour, and say, I'm going to get hit or I'm not, and

1 the extent of those charges, that's what we see as being
2 sort of advantageous to this overall rate design.

3 You pay for what you use, but there may be some
4 hours where you take the MITS. Serve load in MISO, and
5 there is no transmission service, which, to us, when we talk
6 with transmission customers and transmission customers over
7 in Iowa earlier this summer, they seemed very favorable to
8 this type of rate design.

9 MR. MOELLER: This essentially replaces all the
10 old non-firm point-to-point service. That's the
11 transmission service that won't be used anymore, all the old
12 non-firm service.

13 MR. BENNETT: Who's using that right now?

14 MR. MOELLER: These same people, to make point-
15 to-point transactions across the boundary.

16 MR. BENNETT: The coal plant would be using this?

17 MR. MOELLER: A coal plant, a wind plant, anyone
18 who wants to sell energy in the Midwest ISO market today, is
19 using, typically, non-firm point-to-point tariff products.

20 MR. MAGOS: You're saying that they don't pay for
21 it now?

22 MR. MOELLER: They pay MITS, instead.

23 MR. MAGOS: And, to the extent someone else -- I
24 just happen to be able to use someone else's capacity; I
25 won't pay a charge for that, because it's on a systemwide

1 basis.

2 MR. MOELLER: A systemwide basis, and net use
3 basis.

4 MR. MAGOS: And they won't pay, either, but
5 someone else, I guess, will essentially get the credit for
6 them paying.

7 MR. VOLPE: In Example 4, it's only the IPP that
8 has the unused 50 megawatts of point-to-point transmission
9 service that they're getting credit for. We're not going to
10 try to transfer credits for a reservation. It's paid for in
11 advance.

12 The IPP is paid for as far as the reserve
13 capacity, and we'll try to apply that credit to another
14 transmission customer. So, in this case, IPP is between D
15 and E, so in that case -- actually, I should have been
16 referring to Example 3, not Example 4.

17 It's ratcheted downward, only paying for 30
18 megawatts of MITS, because it has 50 megawatts of unused
19 point-to-point that it has paid for in advance.

20 They have an ongoing reservation for 50 megawatts
21 of point-to-point, but if it's real windy, product 100, only
22 serve 20 megawatts of load, 80 megawatts of MITS, and
23 they're only paying for a net 30 at this point and we'll
24 credit them on an individual transmission customer basis.

25 MR. MAGOS: They use 80, they get charged 30, but

1 on a global basis, if there's a net export, no.

2 MR. VOLPE: There's net exports from MISO into
3 MEC, and that's Example 1. Everybody pays zero.

4 MR. MAGOS: What I'm saying, is, on a systemwide
5 basis, you're not going to charge, if enough reserve
6 capacity, in total, on the whole MidAmerican system, covers
7 all the exports.

8 Essentially, a generator can get credit for
9 reservation.

10 MR. VOLPE: We're not going to rebate any money.
11 They can't have less than zero, but, yes, all transmission
12 customers will be credited for the transmission service that
13 they have not used, that they have already purchased as a
14 net against their unknown MITS demand during that hour, yes.

15 MR. MOELLER: The important point is, no
16 schedule.

17 MR. VOLPE: No scheduling, no tagging, no
18 reservation cost causation.

19 MR. MAGOS: To the extent you don't want ARRs.

20 MR. MOELLER: Even then, the schedule -- in terms
21 of the mechanics of access to the market, we're lowering the
22 burden of accessing the market in this regard. Transaction
23 costs should go down, because you just make your offer.

24 MR. MAGOS: But you have to take into
25 consideration with that offer, the potential MITS charges.

1 MR. MOELLER: We have two different designs in
2 play here, and that's --

3 MR. MAGOS: That's part of the problem. Am I
4 going to get MITS charge, or am I going to get a MITS
5 complement?

6 MR. MOELLER: In the case of the MITS charge, the
7 MEC customer is going to get a bill that's going to be
8 looking at the same amount every month, 1/12th of last
9 year's annual total under the standard rate, 1/12th of a
10 test year, on a forward-going basis. That will be a static
11 amount the can allocate, as appropriate, inside their MITS
12 comparable.

13 They have got the fact circumstance and many of
14 the IPPs are wind machines and the wind machines would
15 prefer the variable cost, because they don't have revenue,
16 if they are not producing.

17 All the things that we worried about in our
18 design, to make sure that a traditional plant didn't distort
19 their offer behavior, is exactly different than what a wind
20 machine wants.

21 MR. MAGOS: I'm just saying that the generators
22 bid -- and you can jump in here -- it doesn't really advance
23 it, because you don't really know if there's going to be net
24 input from the Midwest ISO, so it's going to pay a MITS in
25 that case, in export, so there's going to be some.

1 MR. GUNST: Once the month is closed out, we
2 can't determine what a discounted rate will be, and then
3 whether the net flows are looked at, hour-by-hour, every
4 hour of the month.

5 We would offer and I would be available for any
6 Staff members, if you want to contact us by conference call,
7 to spend more time going through the examples, or any of the
8 participants of the conference here, if they want to contact
9 us to have a better understanding of these billing examples.

10 MR. MAGOS: We probably couldn't do that, because
11 it would be ex parte.

12 (Laughter.)

13 MR. MAGOS: It would be great, if we could. You
14 wouldn't have any free time.

15 MR. MALVADKAR: This might be self-explanatory,
16 but I think the maximum amount will be \$1.58. That would be
17 the maximum rate we'd pay for either --

18 MR. GUNST: Yes. The diagram shows that it
19 plateaus out, and if the net flows into the Midwest ISO are
20 less than 105,000 megawatt hours for a give month, it would
21 hit that cap. We have good reason to believe that the flows
22 would be heavier than that in the Midwest ISO.

23 I also want to point out that whenever revenues
24 are collected from the discharge, they are credited back to
25 all the network customers, so we're not proposing this as a

1 new transmission revenue source.

2 MS. HYDE: I think we're going to skip our break.
3 You all are free to exit as you'd like. I also think, for
4 questions from the audience, we're going to roll the two or
5 all the topic areas together.

6 May I see a show of hands of people who have
7 questions that they wanted to ask today?

8 (Show of hands.)

9 MS. HYDE: Okay, I don't have to save a whole lot
10 of time then. Thank you; that's helpful.

11 MR. MAGOS: Just going back to the \$1.58, how
12 will the \$15.8 be captured in the mix that they might get?

13 MR. GUNST: We use the lowest rate we found when
14 we had the customer meeting. It was in our OATT, and as far
15 as our non-firm rate, we don't have an hourly firm rate.

16 MR. MAGOS: I'm just saying that's the cap, it's
17 comparable. How does that cap and MITS rate that the bidder
18 might get -- you were saying the most you would increase
19 your bid, is \$1.58, because you're capping it.

20 Is the MITS charge that a generator might get,
21 higher? Could it be higher than the \$1.58?

22 MR. GUNST: No. If your question is, what
23 resources would we be bidding, if they were trying to
24 recover in their bid --

25 MR. MAGOS: Which they would do.

1 MR. GUNST: We don't know that, but we did
2 provide an alternative rate design that would be demand-
3 based. The \$1.58 is the maximum that any customer would be
4 exposed to for any hour.

5 MR. MAGOS: Or MITS-comparable.

6 MR. VOLPE: The MITS-comparable on the MEC OATT,
7 is capped at \$1.58. That's the stated rate, the maximum
8 rate that a generator paying the MITS-comparable charge,
9 would include in the offer curve, because I might be charged
10 the MITS-comparable charge.

11 MR. MAGOS: You also might be charged the MITS
12 rate.

13 MR. VOLPE: Oh, I see. No.

14 MR. GUNST: Our MITS-comparable charge, is using
15 MISO's MITS charge as the revenue requirements.

16 MR. VOLPE: Let me step in here. The Schedule 32
17 charge that the MISO Transmission Owners have proposed, is
18 allocated to the MITS load in the MEC system on a load ratio
19 share. That is different than the Schedule 10 charge we're
20 talking about, that's capped at \$1.58, that the generators
21 would pay.

22 I don't want this point to get lost. What
23 Darrell said a couple of minutes ago, is, to the extent that
24 MidAmerican collects \$1.58 from generators, paying the MITS,
25 those dollars are credited back on a load ratio share to the

1 MITS customers paying the Schedule 32.

2 So there's no extra money here.

3 MR. GUNST: That gets to the core issue of cost
4 causation, what the price impact is. That's one aspect, but
5 also the transmission-dependent utilities on our system, and
6 customers who are seeking a cost causation rate mechanism.

7 MR. DONNINI: I'll switch over to the FTR/ARR
8 question. Are there going to be -- how will the ARR FTR
9 allocation and settlement process work and be affected by
10 having these reservations under two separate tariffs that
11 are going to have as a point of termination, an interface
12 between the market coordination customers' footprint and the
13 Midwest ISO's footprint and that coincide with the
14 commercial pricing node, and is this going to create
15 challenges and eventual inefficiencies in getting the
16 settlement right for those financial products?

17 MR. MOELLER: My ARR FTR expert, just took that
18 ad hoc break.

19 (Laughter.)

20 MR. MOELLER: I'm sorry, but it would be best
21 left to wait till Mr. Dunn came back, because, instead of me
22 speculating what he might do, he'll tell you what he would
23 do.

24 MR. AHMAD: I have a question. Mr. Moeller, you
25 mentioned about charges that are going to be included in

1 this. What are those charges?

2 MR. MOELLER: Sure. Let's back up and give a
3 little context around what the regional expansion criteria
4 and tariff mechanisms attempt to do.

5 There are two basic cost allocation protocols.
6 The first one is premised against pure narrow reliability
7 kinds of projects.

8 It uses an added distribution factor calculation
9 to allocate percentages of a project cost to neighboring
10 utilities, so it changes an individual utility's Attachment
11 O to our tariff. That recipe works and you send bills back
12 and forth between the different load zones, so it changes
13 the MITS rate inside the individual load zones.

14 The second protocol is around more recently
15 beneficial projects. So far, we haven't found one that
16 trips the criteria.

17 In that case, there's a postage stamp component
18 and a regional component that would take 80 percent of the
19 cost and allocate it to one or more of three regions, each
20 about a third of the footprint.

21 The through-and-out rate, takes all costs. It's
22 essentially the average of all of those load zone costs, so
23 while RECB changes and individual license plate rates, the
24 MITS product would take the average of all those rates to
25 construct its through-and-out rate.

1 So the revenue requirement for those new
2 facilities, is included in that MITS product, but doesn't
3 change the cost granularly, between load zone and another.
4 It's an average rate that gets charged inside MITS. It's
5 changing the individual load zone on MITS rates, is what
6 happens inside the RECB protocol.

7 MR. DONNINI: I have a point you could address.
8 Having the through-and-out reservations between the market
9 service customer footprint and the Midwest ISO footprint
10 between market service customers' footprints, having those
11 reservations, you know, it has at one point, a beginning and
12 end and interface within the market that's not commercial
13 pricing on generation of load.

14 How is it going to affect the allocation of ARRs
15 and FTRs and the settlement of those products under Module
16 F?

17 MR. DUNN: Richard Dunn, Midwest ISO, for the
18 record. First, let me step back. I'm not sure I agree with
19 the premise. Let me ask you to re-ask the question and
20 maybe I'll try and answer the question.

21 You stated the question, if we had a set of
22 reservations that did not have a CP note that was in the
23 market for reservations that were a source or sink within
24 the Module F zone and another source or sink, either at an
25 interface or within the Midwest ISO. Did I mishear the

1 question?

2 MR. DONNINI: More the reservations, that source
3 or sink within one -- within the area, kind of limited by
4 the tariffs, and then at the other source or sink, the other
5 source or the termination, is going to be the interface.

6 Would it matter then on generation or load?

7 MR. DUNN: If it was for long-term point-to-point
8 service, and the old network reservation chose to take
9 advantage of the entitlement that they had resulting from
10 that reservation, to nominate an ARR, what we would need to
11 do, would be to create a valid pricing node for the purpose
12 of that nomination. We would do that in the market, we
13 would tie that reservation to a valid CP node in the market,
14 so we would take an existing CP node or a load zone CP node,
15 and we would create one and that would be used for the
16 purpose of nominating that ARR in the marketplace.

17 MR. DONNINI: Which would be like creating --
18 you'd be using a proxy.

19 MR. DUNN: Correct. I doubt it would be
20 necessary to create a proxy. Probably most existing
21 reservations use a source or a sink, but a balancing
22 authority, those generally correspond well to an existing
23 load zone, which are aggregations of nodes which correspond,
24 in most cases, to a historic balancing authority area.

25 That generally would be what I would imagine we

1 would use. We have to examine each of those on a case-by-
2 case basis, to make sure it was appropriate, based on the
3 original reservation definition.

4 MR. VOLPE: There was a question that John Feit
5 asked earlier. In doing my homework last night, the answer
6 did not come right to the surface, but I wanted to backtrack
7 on that.

8 Remember the hypothetical example where they said
9 you've got a wind generator in MEC that wants to be a
10 designated network resource to serve load and a capacity
11 resource for load.

12 And I think he used the Madison Gas and Electric
13 balancing area or anywhere in Wisconsin. One of the things
14 we proposed on Section 30.5 of the pro forma revisions to
15 the MEC OATT -- and I illuminate this on page 44 of the
16 testimony provided along with that filing -- let me just
17 read to you, quickly, what the words were and why we put
18 those words in in Section 30.5 of the pro forma:

19 Those network resources that have complied with
20 Section 69 of the Midwest ISO tariff, will not be required
21 to obtain firm transmission service under this tariff, the
22 MEC OATT, in order to be deliverable to such network
23 resources. In order to deliver such network resources to
24 network load within the combined system, meaning both MEC
25 and MISO.

1 The purpose of that provision is to make it clear
2 that once a network resource under the MEC OATT has been
3 deemed to be universally deliverable, there is no further
4 requirement that the network customer make any further
5 arrangements for firm transmission service in order to
6 deliver the capacity from that network resource to network
7 load within both the Midwest ISO footprint and the
8 MidAmerican system.

9 I think Zeny was on to it earlier. I know it's
10 different for ARRs. Richard just spoke to that.

11 But for the purposes of that capacity construct,
12 once deemed universally deliverable to network load
13 throughout the footprint, there's no need to get any
14 further.

15 MR. MOELLER: The reciprocal event relationship
16 is found in 93.3.2 of our proposal. Hopefully that makes it
17 clear.

18 MS. LORD: I just wanted to ask a quick question
19 about coordination versus independent planning, then my
20 understanding is, after that, we would perhaps allow members
21 of the audience to ask questions.

22 Could you just summarize the difference, not so
23 much between what's happening today and what market service
24 provides for in the way of coordination. We understand that
25 would probably be 80 or 90-plus. That's what we're talking

1 about.

2 Can you talk about the difference between what's
3 not going to happen in the independent transmission planning
4 in the Midwest ISO, versus what this market proposal is, in
5 concrete terms?

6 MR. MOELLER: I am a planner, usually. The next
7 study will make everything clear. First, I think I'd like
8 to characterize the planning process that we use at the
9 Midwest ISO.

10 We, I believe, have been successful at being
11 extraordinarily collaborative with our transmission owners,
12 so it's virtually unheard of for Midwest ISO to disappear
13 into a room, make up a plan, and surprise them with it.

14 Our experience has been that that goes over
15 poorly. So what we have done, instead, is try to invite all
16 transmission owners to the sessions and jointly develop the
17 plan.

18 Our history, particularly around tariff
19 administration kinds of planning, has been to always take
20 that planning process and always have it peer-reviewed by
21 the neighboring transmission owners that might be affected.
22 That's always included Midwest ISO members and neighbors.

23 So the collaboration around that kind of granular
24 planning, would not see a change. We're already quite
25 effective at assuring that transmission service and

1 interconnection service is coordinated amongst people who
2 happen to share wires, okay?

3 So that's going along quite well. The fact of
4 890, did two things that will drive all this closer together
5 and make the distinction, not so meaningful: Order 890
6 first insists that there are strong collaborative plans
7 across those boundaries, so it amplifies what we thought was
8 a practical need to coordinate across those boundaries.

9 The second thing that it did, was insist that all
10 transmission owners engage in an economic type of evaluation
11 of what is in the best interest of consumers around the
12 economic value of transmission.

13 Prior to 890, the Midwest ISO was engaging in
14 resourcing plans and our neighbors were less aggressive in
15 doing those sorts of plans. Post 890, those protocols were
16 being driven more closely together.

17 So the distinction between the counterparty to an
18 MCC, and a Midwest ISO transmission owner, really has to do
19 with the allocation of costs and the appetite for investment
20 in those kinds of projects that have a positive business
21 case, that aren't driven strictly by a standard.

22 So, we have the standards that drive us around
23 the ARR feasibility and those sorts of things, but a project
24 that is bigger than that and not required for that, will
25 have to be a negotiated investment kind, more like old

1 school, like most of the transmission we currently have in
2 the country, which is that negotiated investment kind of
3 protocol, rather than using an RECB kind of approach that
4 allocates cost.

5 It's important to note that at least one company
6 inside the Midwest ISO, suggests that that protocol should
7 be the one we adopt, instead of RECB, on a going forward
8 basis.

9 Those are really the things that are at play
10 there, that more economic kind of project. It is
11 theoretically possible for the Midwest ISO to take that
12 economic project, to place it in Appendix A, and visit upon
13 the transmission owner, a good-faith obligation to proceed.

14 The reality is, with the voluntary nature of
15 RTOs, that would be a good way to get someone to volunteer
16 to lead, so, while it's theoretically possible, it's not
17 practical to expect the Midwest ISO to be that heavy-handed
18 in its planning.

19 So I think that the basic fundamental difference
20 between a transmission owner under the agreement and a
21 counterparty to an MCC, has to be how you allocate the cost
22 and where you allocate the investment that goes with those
23 costs.

24 MR. MAGOS: Now, for the obligation you talked
25 about this morning, it was enhanced -- something was

1 enhanced. There's more and better coordination between the
2 market coordination customer and Midwest ISO, over and above
3 what will be required anyway.

4 What is that?

5 MR. MOELLER: The additional element that this
6 brings forward, is the requirement, the reciprocal
7 requirement to ensure that the auction revenue rights, which
8 are the long-term auction revenue rights, maintain their
9 feasibility over time.

10 While there is high coincidence of that analysis
11 and traditional reliability criteria, it's not exact
12 coincidence, so the difference is that narrow set of
13 projects the Midwest ISO is obligated to do to its members.

14 In the Module F, Part III, that obligation will
15 be visited upon the counterparty, so that they need to
16 construct to ensure long-term feasibility of the Midwest ISO
17 ARRs, long-term feasibility of their own ARRs.

18 Then, conversely, the Midwest ISO will construct
19 and maintain both our own and new long-term ARRs that might
20 be allocated to the counterparty.

21 MR. MAGOS: We just don't remember everything so
22 specific. There's an obligation. In this case, MidAmerican
23 commits to build this.

24 MR. MOELLER: We attempted to clarify that in our
25 August supplemental filing. Jeff, do you recall precisely

1 where that language is?

2 MR. WEBB: The language is in our Attachment K,
3 which is actually Attachment F to our tariff.

4 MR. DONNINI: We're all looking at 90.3.2.

5 MR. MOELLER: This is the norm.

6 MR. DONNINI: Our customers are eligible to
7 participate in Stage I, if the market prohibition customer
8 plans -- it didn't seem like an absolute obligation.

9 MR. MOELLER: If you put it over there, see if
10 you're reading them all.

11 MS. HYDE: So we don't end up missing him, we did
12 have one party who wants to ask a question. We have a mike
13 over here. Don't get too excited. We do have other
14 questions after that.

15 MR. POMPER: David Pomper from Midwest TDUs.

16 First of all, I was glad, if I heard correctly
17 that Midwest ISO said that their proposal was full of
18 crepes. I tend to agree.

19 One of the Midwest TDUs, is MGE, so I'll follow
20 up on the example cited by name. I think it's a good
21 example.

22 It focuses on a future resource, which is
23 different from the Iberdrola situation of an existing wind
24 resource where they're trying to maximize how much of it
25 they can sell.

1 Let's assume that they need auction revenue
2 rights. I'll circle back in a little bit to why I think
3 they would.

4 I just wanted to nail down that in that
5 situation, the only way they're going to get auction revenue
6 rights, in other words, congestion revenue rights, is for
7 them to have out of MidAmerican into the MISO transmission
8 system, is if they take point-to-point service, firm point-
9 to-point service; is that right?

10 MR. DUNN: That's correct, for the path out of
11 the MidAmerican MCC customer system.

12 MR. POMPER: Wouldn't it also be true, if they're
13 thinking about investing in Excel instead, but Excel is
14 eligible to become a market coordination TO, they would also
15 have to factor into their thinking, well, maybe we had
16 better not build in Excel. Some day we may need to pay a
17 pancake charge to get that resource out of Excel into the
18 American Transmission zone, right?

19 MR. MOELLER: Excel currently is investing in a
20 resource that's going to be around for 20 years, and they
21 want to be sure of that whole period. Excel Energy could
22 exit the Midwest ISO with or without that module, and that
23 risk would be then present, regardless of Module F.

24 MR. POMPER: We got into the incentives on that
25 this morning. I don't want to rehash that.

1 I'm glad we combined the sessions, because this
2 kind of ties together, both the planning and the pancake
3 issues, to get into why they might need ARRs.

4 I'm a little confused. The August 15th
5 transmittal letter of MidAmerican, at page 15, says,
6 "Because MidAmerican's planning criteria did not obligate
7 MidAmerican Energy to build projects for economic reasons,
8 if MidAmerican Energy becomes a market coordination
9 customer, MidAmerican Energy's obligation under Part III of
10 Module F, would consist of the obligation to build projects
11 on the MidAmerican Energy transmission system, which meet
12 MidAmerican Energy reliability criteria, which are
13 identified through the interregional coordination process."

14 Is that still a valid statement or is that
15 something that's been changed through subsequent filings, or
16 is MidAmerican and Midwest ISO not in agreement on that? In
17 other words, would MidAmerican be obliged to build or make
18 good-faith efforts to build to relieve uneconomic congestion
19 resulting from market flows?

20 MR. MIELNIK: This is Tom Mielnik, MidAmerican
21 Energy Manager of Electric System Planning.

22 It is our understanding that as a market
23 coordination customer, we would be responsible for
24 participating in the Joint Coordination Planning Committee.
25 That Committee would conduct a coordinated study, and, as a

1 result of that study, the improvements that would be
2 required or the obligation to build the upgrades that were
3 shown in that plan, would be a responsibility of
4 MidAmerican.

5 MR. MOELLER: I'd also like to respond that it is
6 not necessarily true that a Midwest ISO transmission owner
7 would be required to construct in that similar fact
8 circumstance, if the triggers inside the RECB 2, weren't
9 tripped in terms of its benefit-to-cost ratio.

10 As a result, it is not a requirement of the
11 Midwest ISO transmission owner, to similarly construct for
12 something that is deemed uneconomic congestion. While it is
13 perhaps very valuable to do that, there is not an
14 affirmative obligation to do that.

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1 MR. MIELNIK: I'd like to also point out that
2 it's our understanding that MISO intends on tracking that
3 obligation to build with regard to our upgrades. If we fail
4 to build the upgrades in a timely fashion, this would then
5 lead to that denied allocation of inflexible ARR. That's
6 the same sort of tracking that MISO does for transmission
7 owners.

8 That is an additional obligation a market
9 coordination customer has that MISO's other neighbors don't
10 have, besides the fact that we would be required to conduct
11 or participate in this joint planning.

12 MR. POMPER: That's an obligation to build things
13 that get into the plan. I'm talking about what are the
14 criteria that govern whether something gets into the plan.
15 As I read your transmittal letter, unless this is preceded
16 by something -- or if I'm reading it wrong, please tell me
17 if I am -- it doesn't violate your reliability criteria. It
18 just shows up as uneconomic congestion. You don't have an
19 obligation to put it into the plan.

20 MR. MIELNIK: However, the analysis that's done
21 by the coordinated plan would be an analysis of the
22 operator's own marketing area, and so to the extent that we
23 run, you know -- in other words, we'll do contingencies and
24 we'll combine them and, you know, conduct the plan of the
25 combined areas and do analysis of the combined areas. And

1 as a result, it's possible there will be additional
2 improvements we wouldn't have determined from purely looking
3 at our own system and not considering the requirements of
4 the market area.

5 Also, in our FERC order 890 attachment M, we are
6 responsible for participating in an economic plan, or
7 developing economic plans. We do do this. We do offer
8 subscription rates and projects to encourage jointly-owned
9 upgrades with regard to those.

10 Historically, MidAmerican has had success in
11 building these projects. Also, MidAmerican has built
12 projects over and above reliability projects, such as nodes
13 for resolving constraints. So historically, we have a good
14 record with regard to building both reliability and economic
15 projects.

16 MR. MOELLER: I'd like to reiterate: there is not
17 a planning criterion that defines uneconomic congestion in
18 the Midwest ISO.

19 MR. WEBB: Perhaps I could add to that answer a
20 little bit. Jeff Webb.

21 It's probably important for the staff to
22 understand that currently in the Midwest ISO, the planning
23 for long-term transmission rights involves making sure that
24 we incorporate dispatch that is reflective of those long-
25 term rates, but importantly in the planning for what we call

1 baseline reliability projects under the tariff. That's
2 mainly because the long-term rights are essentially the
3 ability to deliver baseload resources to load.

4 Since every planning model I've ever run includes
5 in its reliability analysis the full dispatch of all
6 baseload generation except where exception studies, we
7 therefore have incorporated the planning for long-term rates
8 as an integral part of our planning for reliability
9 upgrades. The Midwest ISO and every other potential market
10 coordination customer I know has the same exact criteria, at
11 least the minimum NERC criteria for planning for those types
12 of upgrades.

13 We may have somewhat different criteria for
14 planning for economic upgrades as has been discussed here.
15 But I do believe that all transmission providers' economic
16 planning protocols have been required under Order 890 and
17 accepted by the Commission as appropriate.

18 We shouldn't confuse the issue that there may be
19 some differences in how, as Clair pointed out, some ISO TOs
20 may be required to plan for economic upgrades that meet some
21 particular set of criteria. Others may not. But they're
22 unrelated to the ability to have feasible long-term
23 transmission rights, because those are established under the
24 reliability planning protocol which is identical.

25 And, as Tom pointed out, we will be doing that

1 planning together in a coordinated way, using common models,
2 common contingency evaluation techniques, and using the open
3 planning protocols and the sub-regional planning meetings
4 linked up with the sub-regional planning group studies, so
5 that all that analysis is done in an open, transparent way.

6 MR. MAGOS: Wouldn't you have to do all that
7 anyway? Not have to -- isn't it your intention to do that?

8 MR. WEBB: Under the regional coordination, the
9 difference is that when those upgrades to that process on
10 the baseline reliability projects are identified, they will
11 be included and specifically listed as a part of the MTEP
12 expansion plan process in the Midwest ISO. They will be
13 tracked just like every other transmission.

14 MR. MAGOS: I assume MidAmerican projects will
15 come into MTEP?

16 MR. WEBB: They will be part of MTEP. If you
17 look at the protocol section -- which, by the way, my lawyer
18 corrected me; it wasn't in the filing per se, but it was the
19 illustrative tariff sheets that were filed in our August
20 filing that showed what the regional planning coordination
21 protocol will be.

22 MR. MAGOS: Again, that would apply to anybody?
23 That would apply to MidAmerican regardless --

24 MR. WEBB: Except for the obligation that goes
25 with, if you don't do those upgrades.

1 MR. MIELNIK: MidAmerican will be different.

2 MR. MAGOS: Don't worry about ARRs. That's
3 different. Except for ARRs, you don't have any additional
4 obligation to build under this market service.

5 MR. MIELNIK: What is different here is that we
6 developed a plan. When we coordinate the four under Order
7 890, without being a market coordination customer, first of
8 all, we're not. MAPP does the interregional coordination
9 with MISO. So first of all, we're not doing that there.

10 Also, there would be no tracking of our
11 implementation of the plan under this market coordination
12 service. First of all, we have to be there. We have to
13 participate in the coordinated plan to insure that our
14 system is properly represented and all the details are
15 covered, and that our transmission plan is a part of that
16 coordinated plan.

17 But then, the improvements that are there, that
18 are in the plan, MISO's going to track. And unless we make
19 a good-faith effort to do that, then you know, we're going
20 to have problems with being denied allocation. And that
21 wouldn't be there under Order 890.

22 MR. MAGOS: Going to his point, you will decide
23 what gets into the plan.

24 MR. MIELNIK: It's our intention to build these
25 projects. We're talking about projects that are required.

1 These are joint issues, contingencies.

2 MR. MOELLER: There's another layer that's
3 outside of this that is in line with what you're saying
4 after you do a bunch of these things anyway. But the NERC
5 requirements have grown teeth as well.

6 MR. GUNST: Could I take the whole paragraph or
7 the whole sentence in its whole context, rather than just
8 the first phrase? Because the first phrase does get to
9 MidAmerican's current obligation under Order 890 planning,
10 and it's a true statement.

11 That phrase under 890, we do not have the
12 obligation to build for economic reasons. We go to the
13 market and do the interregional coordination, which is
14 addressed in the rest of the sentence. There is a new level
15 of coordination.

16 If you take that whole sentence in its full
17 context, you see MidAmerican is exposed to a higher level of
18 coordination obligations than strictly in Order 890. So
19 we're starting in that sentence from our present state,
20 which is Order 890. The sentence goes on and describes that
21 under Module 3, we will participate in those obligations as
22 identified through the interregional coordination process.

23 We recognize that that will entail -- we don't
24 know what those plans are going to be. But we know that in
25 order to participate in those, it moves us from a straight

1 890 planning process into the Midwest ISO in coordination
2 with the Midwest ISO.

3 So I say that sentence is still accurate. You
4 can't take the first phrase and stop there. There's no
5 period after. It's a comma after the first phrase.

6 MR. POMPER: The last question. To go back to
7 the hypothetical, let's say you want to contract with a new
8 wind resource, and it's going to be new-fangled wind with a
9 compressed-air storage facility. So it has capacity value,
10 and it's part of the economics of the project.

11 Again, the only way that they can count on that
12 delivery being maintained, planned for and kept
13 simultaneously feasible is if they go ahead and get a point-
14 to-point reservation for it, right? They can't count on
15 MITS to provide that value, can they? Or is there some way
16 you would see that as being workable?

17 MR. MOELLER: MITS was not designed for that
18 purpose. However, if that same resource were designated
19 network resource for its host transmission provider, that
20 would have feasibility without requiring point-to-point.
21 MITS would cover it as well, MITS or point-to-point.

22 You have to build to maintain your network and
23 your transmission service.

24 MR. POMPER: What's the fee designation, if I can
25 ask?

1 MR. MOELLER: Someone within the OATT network,
2 the MCC, designated that new hypothetical as its designated
3 network resource under Module E, that point-to-point
4 reservation would not be required because there's no place
5 for it to go to. It met the deliverability test. If it
6 meets the deliverability test and it's nominated by someone
7 in that MCC zone, it counts. It's not an additional thing
8 you need.

9 If you move across to MISO, it's a long-term
10 firm, and then you have the point-to-point. And that's the
11 distinction. It doesn't change the fact circumstance.

12 MR. DONNINI: It can be studied for
13 deliverability separate and apart from point-to-point
14 reservations, to have that deliverability. And it could be
15 designated as a resource within MISO without a point-to-
16 point.

17 MR. MOELLER: That's correct. That's consistent
18 with 93.3.2. You can designate it. It's the ARR that you
19 don't necessarily get as a result of that designation.

20 MR. MAGOS: But MidAmerican would have to build.

21 MR. MOELLER: In order to maintain its
22 deliverability, not to maintain its feasibility.

23 MR. MAGOS: Okay.

24 MR. POMPER: I think I've asked enough questions
25 in this forum. Thanks.

1 MS. HYDE: I was just about to cue somebody else
2 in. We're going to move to some questions on a variety of
3 other topics; first off, monitoring and mitigation
4 questions.

5 MR. MALVADKAR: Some of these questions are
6 directed toward the market monitor. Some of them are more
7 towards MidAmerican.

8 Sort of starting with MidAmerican, I think it's
9 sort of implicit in this proposal, the need to obtain
10 market-based rates. There's just nothing to fill into the
11 energy imbalance market, where we paid to put energy
12 services that are being sold in the Midwest ISO's market.

13 Following up on that, I take it you do intend to
14 apply for market-based rates for these products, and you'd
15 be intending market-based rates for all long-term and short-
16 term energy capacity as part of that?

17 MR. PARKER: I'm Jim Parker, vice president of
18 electric trading with MidAmerican Energy Company.

19 If I understand your question, you're asking me
20 if we would apply for market-based rate treatment for sales
21 into the MISO markets?

22 MR. MALVADKAR: Right. I'm assuming -- or if you
23 are not, how would that work?

24 MR. PARKER: We're currently under cost-based
25 restrictions for sales in our balancing authority area. My

1 understanding is that when entering the MISO market, under
2 the MISO balancing authority area, we wouldn't seek to have
3 cost-based restrictions lifted for transactions out of
4 market.

5 MR. MALVADKAR: I take it long-term contract
6 services to sell capacity under the Midwest ISO, you
7 wouldn't necessarily be asking for market-based rates
8 associated with those products?

9 MR. PARKER: I guess I was phrasing my response
10 in the context of the day-ahead, real-time energy markets.

11 MR. MALVADKAR: The second question applies to
12 both. The IMM function -- do you intend to perform
13 monitoring functions associated with the transmission
14 functions of other market service customer systems? As a
15 follow-up, is there any sort of adjustment you see that
16 might be necessary to adjust to accommodate possible
17 different bidding strategies that might take place with
18 respect to voting pancake-rate charges?

19 MR. WANDRUM: Mike Wandrum with Potomac
20 Economics, an independent market monitor for Midwest ISO.

21 If I understand your question, under Module D,
22 would MidAmerican Resources be treated the same, or I think
23 there's two proposals being made, but under the MISO's
24 proposal, I think there would be no difference if there were
25 a transactional rate that did result in a pancake or a crepe

1 rate. I think that would be incorporated into references
2 under Module D.

3 That's the only difference I can think of at the
4 moment.

5 MS. HYDE: I guess this question is for MISO.

6 In your testimony, there are lots of statements
7 on how things are going to be better with more generation
8 coming into the market, more wind generation coming in. The
9 LMPs may improve, uplift costs may fall, the costs of
10 resolving congestion may drop.

11 Have you done any simulations to measure any of
12 these, so we can know what kind of level of benefits we're
13 likely to get?

14 MR. MOELLER: Mr. Dunn has left the room at this
15 time and missed the question.

16 The difficulty that we have in trying to quantify
17 them with any specificity is the fact that all of those
18 parts move simultaneously. So while we're quite confident
19 on some of the numbers -- for example, if the revenue
20 sufficiency guarantee numbers stay exactly the same, we
21 would have a bigger denominator in the arithmetic, so
22 everyone's costs would go down. Those are fairly
23 straightforward.

24 The problem is, during this same time frame,
25 we'll be incorporating another 1500 megawatts of wind, so

1 we'll be at 4500 megawatts of wind by the end of the year.
2 That's going to have a significant effect on LMPs also, and
3 it's coincident geographically with the counterparties, the
4 potential MCCs.

5 So the ability to tease apart what all of those
6 effects are has frankly eluded us. We're quite confident,
7 based on our reduction in transmission loading relief and
8 those sorts of things, that it will be a positive effect.
9 We're quite confident that the ability to commit a generator
10 that is just downstream from some significant congestion
11 will both lower how much generation we need to manage that
12 congestion and make it a more efficient generator to manage
13 that congestion.

14 We do not have an exhaustive economic study that
15 we're prepared to stand by.

16 MS. HYDE: Thank you.

17 MR. GUNST: I'd like to add, though, that the
18 Midwest ISO does provide participants with a monthly report
19 of the TLRs that do occur. At times they're rather heavy.
20 The internal ones would go away.

21 We do understand the amount of congestion that
22 would have a high probability of disappearing between SPP
23 and Midwest ISO. That report shows some of those. But the
24 region does have a quantification of what the ongoing
25 congestion is.

1 MR. MALVADKAR: I had a question for either
2 Midwest ISO or for MidAmerican, having to do with the
3 obligation to purchase from QFs.

4 As a part of this proposal, do you see more
5 customers would be released from the obligations under
6 PURPA, and would attempt to file to be exempt from
7 purchasing from QFs? Is any such thing contemplated in the
8 next month or two?

9 MR. GUNST: We haven't reviewed that in the
10 context of Module F. We don't have an answer for you. The
11 main proposal will be going forward. It has not had an
12 internal review.

13 MR. MOELLER: The Midwest ISO doesn't purchase
14 any energy.

15 MR. MALVADKAR: My understanding is that the
16 utilities participating in the market that had the day-ahead
17 real-time markets, if it's a member of such a market, then
18 it could be exempt from purchasing power from qualified
19 facilities that meet certain criteria. This seems like an
20 example of who would qualify in the market and taking
21 service. Would such a utility be exempt from rate
22 purchases.

23 MS. HYDE: On another front, we heard this
24 morning about stay-out periods for those exiting as market
25 service customers. But something we didn't really hear much

1 discussion of was what if market service were adopted as an
2 experiment or as a transition to full membership, and how
3 long might that transition need to be?

4 MR. FEIT: This is an issue we discussed. John
5 Norris made a brief remark on it. When we talked last week,
6 we joked, it's like having someone come home from college to
7 live in the basement bedroom, and they're still there when
8 they're 40 years old.

9 So the concern is that this transition period,
10 even if you say it's going to be a five-year period, in
11 another five years we're going to revisit it. Then what
12 kind of teeth does the Commission have to say, absolutely,
13 at the end of five years, you're either in the fold or
14 you're out?

15 I think, as a regulator, I'm always very careful
16 about recommending ultimatums at the end of a time period.
17 You don't know what's going to be happening at the end of
18 five years. But it would seem to me that you have to impose
19 a regulatory ultimatum. But in the meanwhile, others relied
20 upon that membership. You might create more dislocation by
21 ending the partial membership.

22 I'd be very careful. That's why I think we're
23 concerned about this characterization of it as a
24 transitional mechanism. There's no way to guarantee that
25 there is going to be a transition.

1 MR. MOELLER: We're thinking more like a gate
2 rate. I'd like to go out on a limb and speak for some of
3 the potential customers that aren't on the panel in the
4 back of the room. So if I misspeak, I'm sure Lloyd will
5 come down and straighten me out.

6 But the fact circumstance on our western north
7 border, with the potential for significant cost shifts,
8 makes it very improbable that a transition to full
9 membership could be accommodated unless and until that cost
10 shift is mitigated in some other fashion. The cost shift
11 for those potential customers is quite dramatic.

12 The cost structure of those utilities is quite
13 different than the normal cost structure of a typical
14 utility. In their case, their transmission revenue
15 requirement is greater than their generation revenue
16 requirements. Typically, transmission revenue requirements
17 are no more than 10 percent of their total revenue
18 requirements.

19 A significant cost shift in where the revenue
20 comes from to pay those revenue requirements has a dramatic
21 effect on the customers inside that zone. I'd hazard to
22 predict that the transition to full membership would simply
23 not be palatable unless there were some affirmative way to
24 deal with that cost shift at the end of the transition
25 period.

1 MR. GUNST: I think Mr. Fehrman's remarks this
2 morning were geared toward the criteria, and he was very
3 specific that we are not averse at MidAmerican to put this
4 in the Midwest ISO as a transmission owner if we understand
5 what it is we're getting into here. The lack of that
6 quantification is very troubling.

7 It troubles parties who went in with the original
8 membership agreement not knowing that RECB was in the
9 future. And now all of a sudden they see they have it.
10 They're very troubled, too.

11 So the key here that it's an issue, I think, that
12 needs to be separated from Module F, in that the Midwest ISO
13 is a very dynamic and moving institution, and has a lot of
14 issues to deal with. To lump issues together is not the
15 normal characteristic of solving the problems in the market,
16 whether it's SPP or Midwest ISO. The nature has been that
17 these major issues have been taken on one at a time, or in
18 separate forums.

19 I was very troubled by the dialogue this morning,
20 that for some reason Module F and the market expansion had
21 to be bundled with this and that and that. That is not
22 necessarily the case.

23 I think when you look at the ancillary services
24 market, we didn't say, well, you need a complete market
25 before you can start up the Midwest ISO real-time and day-

1 ahead market. You also need the ancillary services market.

2 The industry didn't go there. The industry
3 didn't put that kind of criteria on the Southwest Power Pool
4 when they wanted to start up their market, and they didn't
5 have the day-ahead market. It's the norm in the RTO process
6 to address these particular major issues in their
7 appropriate forum.

8 We submit that the RECB issue has a lot of
9 interest to a lot of people to get resolved. We have heard
10 a lot of dialogue this morning about what's going on to
11 address those issues. Certainly we believe that requires a
12 separate forum, maybe its own separate technical conference.
13 But it should be set apart from the market expansion.

14 Certainly the Commission has all kinds of
15 authority down the road when those criteria fall into place
16 to come back and look at the membership in the market, and
17 say okay, for continuation you may need to come in at this
18 time. But I would really plead with you not to set an
19 artificial timeline. That's our response.

20 MR. MOELLER: I'd like to go back and amplify the
21 uncertainty around RECB to indicate why that's such a
22 difficult thing to solve.

23 Up until this point, the large transmission
24 basically was done being constructed in the early '70s. The
25 objective since the early '70s has been driven by an

1 assumption that the maximum value for consumers was arrived
2 at by minimizing their investment in utility plant.
3 Minimizing the investment in transmission became the
4 objective of every transmission planner, because that's what
5 was deemed in the public interest.

6 We're now on the cusp of a great debate
7 nationally around what our energy policy should
8 appropriately be. The various 15 states within the Midwest
9 ISO do not have a consistent view of what the appropriate
10 response to the energy policy questions are. The result of
11 that is a series of potential investments.

12 Let me give you one more fact. We've got just
13 short of 100,000 miles of transmission in the Midwest ISO at
14 a book value of about \$13 billion. The estimates for what
15 future investments might be on a net present value basis
16 vary between \$20 billion and \$80 billion. That's a lot of
17 money, particularly when the objective function of most
18 planners across the 40 years is to minimize the investment.

19 Because the potential investments will more than
20 double our rate base, who gets what share of that cost is a
21 pretty important question. That's why the RECB issue is so
22 difficult to solve.

23 As we look at the five states in our western
24 third, their energy policies are somewhat consistent state
25 to state -- their objectives around renewables, those sorts

1 of things, are very consistent. The prospect of them
2 reaching a consensus within that state is higher. They have
3 those coincident views on what the energy policy is.

4 But until the policy starts to rationalize, and
5 people have a view of what the long term will be around
6 transmission investments, that uncertainty is going to stay
7 with us in terms of a lot of dollars around RECB, regardless
8 of what the recipe is.

9 MS. LORD: This is a question for either Mr. Feit
10 or Mr. Moeller.

11 If the market service proposal were to be
12 accepted by the Commission, what in your view would change
13 as far as the influence of transmission owners within the
14 RTO, if they're able to exit the RTO -- obviously pursuant
15 to the TO agreement and pursuant to being approved by the
16 Commission -- and reenter as market service customers?

17 With that as a background, does that change the
18 influence of transmission owners within the regional
19 transmission organization?

20 (Pause.)

21 MR. FEIT: I think it changes the whole calculus
22 moving forward on cost allocation, because one of our
23 commissioners is going to be meeting on this RECB effort,
24 and one of the issues is, how do you get people to negotiate
25 in good faith moving forward. But one of the options they

1 have on moving forward is just leaving, and I can leave and
2 still get the benefits of the market. I think that changes
3 the calculation of the negotiations as you go forward in
4 trying to come up with any kind of changes or new
5 agreements.

6 So I don't consider myself an expert in
7 negotiating. But obviously, what is somebody going to do if
8 they don't get their own way? One of them has always been,
9 I'll just leave. But being in the market has other
10 benefits, which have been described by the Midwest ISO.

11 It's a big, significant issue, and cost
12 reduction, economies of scale, tariff administration,
13 planning -- those are huge benefits. If you can get those
14 and still leave, I think that would be an outcome.

15 MS. LORD: Is your thought limited to the RECB
16 world, or would this concern be alive in, say, negotiations
17 about something other than cost sharing?

18 MR. FEIT: The stakeholder process has been
19 described this morning. It's a thorny process, it's a
20 political process. I don't know if it would have an effect
21 on that process as much as would be on the RECB process
22 going forward. Clair might have a different view.

23 MR. MOELLER: You pose a good question. I'm not
24 sure I have a clear answer.

25 The Midwest ISO is independent, by charter and by

1 regulation. The worry that our members have is, if you're
2 independent, are you in fact accountable? The voluntary
3 nature of the organization, and the ability for folks to
4 leave, is the tool that they have to hold us accountable.
5 So that if we are not careful to represent their interests
6 in aggregate, that's the only tool we've really given them
7 in terms of that accountability.

8 If FERC complained, there would be an
9 intermediate step. But in general, it's that voluntary
10 nature that holds us accountable.

11 The fact that folks might opt out of a component
12 of this and then come back in, we discussed this morning
13 that there's some fairly substantial economic hurdles to
14 that. The belief we have is that, while we are not in
15 necessarily a stable position, the fact that RECB, fears of
16 how big RECB might be haven't yet come to fruition doesn't
17 give our transmission owners reason to leave early.

18 We do have notification from several transmission
19 owners that they'd like to hold their opportunity to leave
20 open, within the terms and conditions of the transmission
21 owners' agreement. Those notices have all included
22 discomfort with the uncertainty around RECB as a potential
23 reason for them to exit.

24 In one way it might be said that it could erode
25 the transmission owners' influence if they could exit and

1 then come back, because in large part they'd still be doing
2 75 percent of what we do at the Midwest ISO. So in terms of
3 the downside for their consumers, there's less of a
4 downside, because they're opting out of less pieces.

5 It's a very difficult question. I'm not sure I
6 can answer it clearly.

7 MS. HYDE: We're going to move to some questions
8 on governance issues now.

9 MS. URQUHART: I have a question for MidAmerican.
10 I was just curious.

11 How do you plan to support your request for
12 market-based rates? Is it correct it's only for the day-
13 ahead and real-time, based on the recent past Commission
14 orders restricting your market-based rate authority?

15 MR. PARKER: My prior answer was predicated on
16 the belief that the cost-based restrictions can't work
17 within the market framework. In order to participate in the
18 day-ahead and real-time energy markets, the cost-based
19 restrictions would have to be relaxed for those types of
20 transactions.

21 So I don't know if there's other specific types
22 of transactions.

23 MS. URQUHART: You would be basically saying
24 that, in order for us to do this, regardless of what you
25 said before, we have to have market-based rates?

1 MR. PARKER: I think, to participate inside the
2 market, yes. I think that's what I meant to say before. I
3 might have misspoke.

4 MS. URQUHART: So there's nothing that would have
5 changed the basis on which we made our prior determination
6 of market-based rate authority? We're not going to address
7 those issues as to what might have changed as to why we
8 would consider giving you market-based rates?

9 Your only basis would be the fact that you have
10 to have them now in order to do this, in order to
11 participate as a market coordination customer?

12 MR. PARKER: MidAmerican has market-based rate
13 authority now. And the belief is that, by participating in
14 the market, it would alleviate any concern of market power
15 within the MISO balancing area.

16 MS. URQUHART: Okay, thanks.

17 MR. PARKER: By the time we enter the market, the
18 Day 3 market will be active. Midwest ISO will be the
19 balancing authority for the MidAmerican region.

20 MS. URQUHART: That's all. Thanks.

21 MR. MAGOS: Were you intending to address that as
22 part of your proposal? Were you going to mention that?

23 MR. PARKER: I'm sorry?

24 MR. MAGOS: In your application to get market
25 service, were you going to explain all this?

1 MR. PARKER: That was our plan.

2 MR. MASSEY: Could I ask one question before we
3 move on?

4 I'd really be interested if Mr. Kramer might
5 venture an opinion. If the transmission owners did exercise
6 their right to leave Midwest ISO under the intent of coming
7 back to seek service under Module F, what would be the
8 reaction of the transmission owners, as discussed this
9 morning, if somebody were to introduce sort of a time
10 restriction to prevent somebody, a utility, from exercising
11 that option?

12 Would they view it as being discriminatory at
13 that point, where they exited from Midwest ISO just like any
14 non-Midwest ISO member? Or should there be some sort of
15 restriction on that?

16 MR. KRAMER: The Midwest ISO transmission owners,
17 we haven't discussed that, because these are issues that
18 were just brought up. It was discussed, I know, during
19 development of the Midwest ISO on the language.

20 I believe at one time this was discussed and was
21 discarded as an option.

22 MR. MOELLER: We struck it out at the Midwest ISO
23 transmission owners' request.

24 MR. KRAMER: But at this time, we haven't
25 discussed any option: one year, three year, whatever. That

1 hasn't been discussed. It hasn't been something we've
2 discussed internally.

3 MS. DE VOSS: On to governance.

4 They proposed that market service customers would
5 be entitled to be a member of the advisory committee on the
6 coordinating member segment. We're trying to understand why
7 that change was necessary.

8 So my question is: what is the difference, in
9 terms of your right to participate on the advisory
10 committee, for being a non-transmission-owning member as
11 opposed to a coordinating member? For example, if
12 MidAmerican is currently a non-transmission-owning member
13 and they take service and become a coordinating member, how
14 would their advisory committee participation change?

15 MR. MOELLER: The biggest difference between
16 members of the advisory committee, transmission owners and
17 all other members -- the difference is, the transmission
18 owners retain a handful of exclusive rights to change the
19 transmission owners' agreements around certain tariff
20 provisions, most notably revenue distribution. So the
21 prospect was that it would be inappropriate for someone that
22 did not sign the transmission owners' agreement to be in the
23 transmission owners' sector, where they discussed and
24 addressed the rights of termination and revenue allocation
25 within the transmission owners' pool. That's why we needed

1 to find a different place for them to be appropriately and
2 informally represented on the advisory committee.

3 In discussions with the other single member who
4 is a coordinating member, Manitoba Hydro, while they weren't
5 wild about the notion of having more votes in their sector,
6 they did conclude it would be an appropriate place for this
7 group of customers to have their formal voice available for
8 the advisory committee. An alternative might have been to
9 adjust the advisory committee to add a seat for this new
10 sector. In the interest of economy, we chose to make this
11 proposal.

12 MS. DE VOSS: I'm curious, and I don't know
13 whether you're prepared to answer. But are the transmission
14 owners supportive of that proposal? In other words, would
15 you be amenable to perhaps amending the transmission owners'
16 agreement to effect that arrangement?

17 MR. KRAMER: I believe in our filings, we had
18 stated that we had concerns with adding to that sector,
19 because it would require a transmission owner change to the
20 language. We do have some concerns with it also, because
21 the situation between us and Manitoba Hydro would be very
22 different from the situation between us and the coordinating
23 service customer.

24 We would have to look into the details of exactly
25 how we would want to handle that. That's where we were told

1 to go.

2 MR. MOELLER: It's also possible for these market
3 coordinators to opt for a different sector if they feel it
4 aligns better with their interests. It would be part of the
5 marketers sector. It could be perhaps part of the TDU
6 sector. But they can't be in more than one sector at a
7 time.

8 An example would be, Detroit Edison participates
9 as an energy marketer. They could have chosen instead to be
10 a load-serving entity. So those options are also available
11 for these two customers.

12 MS. DE VOSS: Absent a proposal, if we were just
13 looking at the existing membership provisions of the tariff,
14 would there be any prospective market service customer that
15 wouldn't be entitled to some form of advisory committee
16 membership under the existing provision?

17 MR. MOELLER: At this point in time, I believe
18 they could all participate under the energy marketers'
19 sector.

20 MS. DE VOSS: Next, kind of switching gears a bit
21 to the joint coordinating committee, which is a committee
22 that was proposed just to deal with market service issues.

23 As I understand it, while provisions that are
24 created through that committee would be subject to the
25 review of the advisory committee, that committee was not

1 created and is not subject to the review of the advisory
2 committee. My question is whether there are any other
3 committees, except for the reliability coordination
4 committee, that are similarly constructed outside of the
5 advisory committees and are not subject to the provisions of
6 the governance guide.

7 MR. MOELLER: The transmission owners' committee
8 is not, strictly speaking, a child of the advisory
9 committee. They're a sector in their own right and have
10 access to staff and the board of directors with or without
11 the action of the advisory committee. And the planning
12 advisory committee -- there is a debate as to whether they
13 are filed with the advisory committee or not. Midwest ISO's
14 staff view is that they are also a stakeholder forum that is
15 not subject to the advisory committee, but instead could
16 address our board of directors directly.

17 So we have those two other committees that have a
18 slightly different governance than the strict hierarchy
19 between the advisory committee and the subcommittees.

20 MS. DE VOSS: If the owners' committee -- it's my
21 understanding that that committee was created in a
22 transmission owners' agreement that also created the
23 advisory committee. I understand they're parallel
24 committees.

25 I guess my question is, if market service

1 customers are entitled to membership in the advisory
2 committee because they take market service, I'm just
3 wondering why was that committee designed in that manner?
4 Why would they reciprocally choose to participate in the
5 advisory committee sector and be subject to those procedures
6 like most other advisory committees?

7 MR. MOELLER: First of all, those committees are
8 open, and they can participate in those committees. This
9 particular committees was formed consistent with other kinds
10 of tariff operating committees, with the goal of looking at
11 uniquely the relationship between the Midwest ISO and this
12 MCC customer. It was pulled out of a standard kind of
13 tariff language for an operating committee. It's designed
14 only to look at the unique aspects of that relationship.

15 If there is a reliability issue, we would expect
16 the reliability issue to show up through the reliability
17 subcommittee.

18 MS. DE VOSS: Thank you.

19 MS. HYDE: Does anyone else on the staff at the
20 table have more questions?

21 MR. MAGOS: One quick question for Mr. Kramer.
22 This just goes to what was actually asked for in your
23 comments. I just wanted to be clear. I tried to get into
24 it this morning, but I'm still a little confused about what
25 you're asking for.

1 Just looking at your comments, you say the
2 Commission should require Midwest ISO to take measures to
3 insure its proposed mix does not provide preferential
4 treatment for market service customers. It goes on further:
5 the existing transmission owners should not be allocated a
6 disproportionate share of costs associated with the
7 facilities under RECB.

8 Those two things -- what are you saying? What do
9 you want the Commission to do?

10 MR. KRAMER: You're referring to the comments
11 from this morning?

12 MR. MAGOS: The comments the Midwest ISO
13 transmission owners filed.

14 MR. KRAMER: I just was trying to verify what you
15 were referring to.

16 Those particular comments were trying to strike a
17 balance between being fair to the new entities that may be
18 coming in the market coordination service, but also to make
19 sure that there was no cost shifting or inappropriate
20 subsidies across that border. In other words, if there was
21 a project that the market service customers did not produce
22 or did not choose to pursue, that we would then pursue,
23 would there be a problem with how would we handle that?

24 There's some reliability issues that are quite
25 clear. That may not be the same for our planning between

1 the two entities. Their planning criteria may be somewhat
2 different than the Midwest ISO's, and we were referring if
3 there was a problem with them not producing the project,
4 would there be a problem with the Midwest ISO, with us
5 pursuing it and how we handle those situations?

6 MR. MAGOS: So you're not asking for anything
7 specific? Transmission owners should not be allocated a
8 disproportionate share of RECB costs is not you saying that
9 the market service customers should be allocated a portion
10 of RECB costs?

11 MR. KRAMER: That is correct.

12 MR. MAGOS: You're okay with the proposal as it
13 is? This is just sort of a general make sure?

14 MR. KRAMER: It's a more generic statement. The
15 TOs are not in unanimity about how we would handle RECB, how
16 that should be allocated. Market service customers
17 shouldn't be included. That was more of a general fairness
18 statement.

19 MR. MAGOS: So there are some transmission
20 members that obviously think -- you're saying you're not in
21 unanimity about that?

22 MR. KRAMER: That's correct. If you review the
23 different TOs' comments, you'll see that.

24 MR. MOELLER: The Midwest ISO has obviously
25 attempted to craft a proposal that is fair for everyone.

1 And in fact, that is one of the reasons we believe in the
2 tariff filing, where the Commission has the opportunity to
3 judge whether or not it's just and reasonable, is superior
4 to a one-off agreement where the actual parameters can be
5 debated in an open forum like this.

6 MR. MONICK: Just following up, we already asked
7 about this.

8 But if the Commission were to tack on this
9 requirement, that if you leave the Midwest ISO you can't
10 come back for five years or ten years, would that disrupt
11 this compromise? Would that be something that wouldn't work
12 for the Midwest ISO?

13 MR. MOELLER: From the Midwest ISO's perspective,
14 we're probably indifferent. You would probably find a whole
15 bunch of protests from the existing transmission owners,
16 because that would be their interests that would be
17 potentially injured by that sort of add-on.

18 That hasn't been part of the proposal, so I would
19 expect the transmission owners would contest that piece of
20 the order, should it occur.

21 MR. AHMAD: One quick question.

22 At present, if you realize a condition in Iowa
23 and you move from Manitoba some power coming in to go from
24 south to Minnesota, are you planning to relieve those
25 conditions once you have joined the MCC?

1 MR. GUNST: If your question is on the
2 contingency reserve sharing, as to how we would support the
3 SPP and Manitoba Hydro in their contingencies, we have not
4 evaluated that. I don't think we have an obligation to
5 build for that. We hold the necessary TRN that is required
6 by the Midwest ISO.

7 I think the same question could be posed to Excel
8 Energy, who's in that path, or Otter Tail Power, or anybody
9 in the Midwest ISO.

10 MR. MOELLER: Maybe I can take a run at it.

11 The current studies indicate that there is
12 sufficient investment going on in Iowa and Minnesota. By
13 the end of the implementation of those investments, the
14 currently-defined narrowly-constrained area would be
15 eliminated.

16 So in that regard, those were projects primarily
17 premised on the reliability sorts of attributes. They will
18 be sufficient to clear at least that narrowly-constrained
19 area. Part of what the Midwest ISO does routinely as part
20 of its transmission expansion plan is look at the congestion
21 points and see which of those congestion points perhaps have
22 a positive business case to relieve that congestion.

23 In this specific case, the facilities of
24 MidAmerican would be included in that sort of investigation,
25 which is an ongoing process.

1 MS. HYDE: I think we're running out of time.

2 I want to thank everyone for coming. It's been
3 very beneficial for the Commissioners and for staff. You've
4 given us a whole lot to think about. I appreciate that very
5 much.

6 There will be transcripts available for a fee
7 immediately from the Ace reporting company, as stated in the
8 notice of the conference. But after ten days they will be
9 available on the Internet for free.

10 Thanks for attending, especially to the
11 participants and the panelists. It was a long, hard day.
12 Thank you very much.

13 (Whereupon, at 4:00 p.m., the technical
14 conference was concluded.)

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