
FEDERAL ENERGY REGULATORY COMMISSION



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NEWS RELEASE

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COMMISSION PAVES WAY FOR OPTIMALLY SIZED MIDWEST RTO

The Federal Energy Regulatory Commission today approved the proposal of the Midwest Independent System Operator (MISO) for a regional transmission organization (RTO) and told the Alliance Companies, which had submitted a separate RTO proposal, to explore joining the MISO organization.

Chairman Pat Wood, III said, "A seamless Midwestern power market that allows for diverse transmission business plans is our goal. A positive trend in our recent RTO work has been the engagement of the state commissions, who are critical partners in making power markets work well."

The Commission said that MISO's proposal generally complies with the vision and requirements of Order No. 2000, in particular the requirement that an RTO be of sufficient scope. The Commission expressed confidence that the Alliance Companies' desire to be a viable, for-profit transmission business can be accommodated under the MISO RTO umbrella.

The Commission acted on five related orders aimed at paving the way for an optimally sized RTO in the Midwest. It stressed that its orders do not preclude different types of RTOs, including for-profit transcos, in other parts of the country.

In granting RTO status to MISO, the Commission cites its announced merger with the Southwest Power Pool (SPP). The Commission also directed MISO to explore ways to address the less than ideal situation on its eastern border before the integration of the

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Alliance Companies into MISO and to present recommendations to the Commission within 60 days.

MISO's RTO, a nonprofit based in central Indiana, will operate in some 20 states and the Canadian province of Manitoba. When merged with the SPP, MISO will stretch from Manitoba to New Mexico. The Alliance companies cover parts of 11 states from Missouri to North Carolina.

In denying the request from the Alliance Companies to form a for-profit transco RTO, the Commission, in a separate order, said the proposed RTO lacked sufficient scope and that the public interest would be best served if Alliance joined MISO. The Commission emphasized the importance of fostering RTO development designed to provide a seamless and robust market for millions of customers. Allowing two RTOs in the Midwest would be a second-best solution that would compromise customers' interests, the Commission said.

Although the Commission did not approve the Alliance proposal as a stand-alone RTO, the order expressed confidence that the companies could form a successful transco under the MISO's Appendix I. Appendix I creates a framework for membership and operation of independent transmission companies within the Midwest ISO. The Commission ordered the Alliance Companies to file a status report on their efforts to join MISO within 60 days.

In a third order, the Commission granted in part and deferred in part a National Grid proposal to manage the Alliance transmission system. The Commission directed the Alliance Companies to explore how their business plan, including National Grid's proposal, could be accommodated within the MISO RTO. The Commission expressed its intent to provide more guidance on this matter in future proceedings.

In other orders, the Commission said that International Transmission Company (ITC), a subsidiary of DTE Energy, could join the new RTO as an independent transmission company that will be able to pursue innovative business strategies. ITC proposes to maintain and develop transmission while turning over to the RTO such functions as congestion management and curtailments, tariff administration, and security coordination. DTE Energy has indicated its intention to sell ITC to a third party, and the Commission preliminarily approved the divestiture of the transmission facilities.

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The Commission made it clear that it was particularly encouraged by MISO's planned accommodation of flexible business plans and innovation as well as its considerable geographic span.

While the MISO and the Alliance Companies had put money and resources into seeking to reconcile their competing proposals, the time had come, the Commission said, for it to make the necessary difficult decisions.

For the most part, the Commission found that MISO satisfied the four characteristics for an RTO—*independence, scope and configuration, operational authority, and short-term reliability*, as well as key functions. In approving MISO's RTO plan, the Commission did, however, direct MISO to submit a number of revisions to its compliance filing. They included:

- **Independence characteristic:** The Commission found MISO's independence satisfactory in most respects, but said that transmission owners cannot be permitted to have veto privileges on filings that affect pricing. The Commission conditioned MISO's RTO status on modification of the MISO Agreement to give it the authority to propose rates, terms and conditions of transmission service under the MISO tariff.
- **Scope and regional configuration characteristic:** As indicated, the Commission told MISO to present recommendations within 60 days addressing the question of its eastern seam prior to the integration of the Alliance Companies into MISO.
- **Congestion management function:** The Commission said MISO should participate in its recently announced rulemaking proceeding to standardize market design rules. However, pending the issuance of a final rule, MISO should develop certain congestion management solutions to deal with a superseding congestion management methodology.
- **Market monitoring function:** The Commission ordered MISO to make additional filings to satisfy the criteria for this function to ensure that the independent market monitor (IMM) is truly independent of the RTO, re-file its market monitoring plan as an attachment to its tariff, and meet a 45-day deadline to implement market reform recommendations of the IMM.
- **Planning and expansion function:** The Commission directs MISO to modify its

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planning framework to reflect that it will give full consideration to all market perspectives and identify expansions that are critically needed to support competition and reliability. In addition, MISO must revise its planning framework to make it possible for third parties to participate in constructing and owning new transmission facilities identified by the plan.

Questions and Answers

Q. What action is the Commission taking today with regard to regional transmission organization (RTO) development in the Midwest?

A. Today the Commission is acting on five interrelated orders intended to facilitate the establishment of an optimally sized RTO in the Midwest and to support the establishment of viable, for-profit transmission companies that operate under an RTO umbrella. Generally, in the orders the Commission does the following: (1) approves the Midwest ISO as an RTO; (2) approves International Transmission Company's (International Transmission) request to transfer operational control of its transmission facilities to Midwest ISO and accepts an agreement between International Transmission and Midwest ISO which would allow International Transmission to be an independent transmission company which performs certain RTO functions; (3) preliminarily approves the divestiture of International Transmission's facilities making it a stand-alone transmission company under the Midwest RTO umbrella; (4) concludes that Alliance Companies' proposed RTO lacks sufficient scope to exist as a stand-alone RTO and thus directs Alliance Companies to explore how their business plan (including National Grid's proposal which seeks to be the managing member of the Alliance Companies) can be accommodated within the Midwest RTO; and, (5) grants in part, and dismisses in part, National Grid's proposal and Alliance Companies' business plan.

Q. What is the general rationale behind the Commission's actions in these five dockets?

A. Our decisions in these five orders consider the record before us as well as the realities and needs of the Midwestern wholesale electricity market and take into account the views of the Midwestern State commissions.

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Q. What action has the Commission taken today regarding Midwest ISO's application for RTO status?

A. The Commission issued an order granting Midwest ISO RTO status.

Q. Will the Midwest ISO need to make additional filings before its newly approved RTO status becomes effective?

A. No. While the Commission has directed Midwest ISO to make certain additional filings, Midwest ISO may begin operating as an RTO as soon as possible.

Q. Can the Midwest ISO accommodate the Alliance Companies within its umbrella?

A. Yes. Those Alliance Companies who divest their transmission facilities to an independent entity can join Midwest ISO as non-transmission owning members while the independent entity can join under the terms of Appendix I which we discuss further in the International Transmission Company orders. Other Alliance Companies who retain ownership of their transmission facilities may join Midwest ISO as regular transmission owners either singly or as part of a group such as the group which formed American Transmission Company.

Q. What are some of the benefits that the Commission expects Midwest ISO to bring to customers and the electric industry in the Midwest?

A. By assuming functional control over the transmission facilities of so many entities, Midwest ISO should bring a degree of standardization not seen before in the Midwest. For instance, the immediate standardization of generator interconnection procedures over such a vast region should be extremely helpful to the various load serving entities and state commissions as they work to ensure an adequate supply of electricity. Additionally, through its independent operation of the transmission grid, Midwest ISO should help ensure that healthy competition flourishes in the Midwest with all of the attendant customer benefits that such competition tends to bring.

Q. Is this the end of the story for RTO development in the Midwest?

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A. No. While this order is meant to get the ball rolling in the Midwest, the Commission and industry participants are currently engaged in ongoing efforts, on a variety of fronts, to further refine the restructuring of the electric industry. RTO developments in the Midwest may be affected by this process as well.

Q. What action does International Transmission seek in its filings?

A. International Transmission seeks approval of agreements governing the relationship of (1) International Transmission and Midwest ISO (i.e., the ITC-MISO Agreement) and (2) itself, Midwest ISO, and transmission-owning members of Midwest ISO (i.e., the Supplemental Agreement). International Transmission also seeks approval to transfer control of its transmission facilities to the Midwest ISO to allow an RTO to operate International Transmission's facilities in conjunction with the facilities of other transmission owners in the

Midwest ISO. The ITC-MISO Agreement contemplates sharing or assuming responsibilities related to RTO functions once International Transmission is acquired, through divestiture, by an independent entity. The Supplemental Agreement clarifies the operating relationship between Midwest ISO and International Transmission prior to the time International Transmission becomes independent.

Q. What responsibilities does International Transmission propose to assume or share once it is independent?

A. International Transmission seeks to offer a transmission service option to customers for service wholly within its transmission system under International Transmission's tariff terms and rates. A customer could also choose to take service under Midwest ISO's tariff terms and rates.

International Transmission also seeks to address and mitigate certain system security issues in coordination with Midwest ISO; establish ratings of and set maintenance schedules for its transmission facilities; and expand its transmission planning responsibilities (in coordination with Midwest ISO).

Q. What are the circumstances regarding the proposed divestiture of International Transmission Company?

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A. DTE Energy and its wholly-owned subsidiary, International Transmission Company (International Transmission), have jointly requested Commission authority to dispose of International Transmission's facilities to an as-yet-undetermined unaffiliated third party through the sale of International Transmission stock. The applicants state that the purchaser will have no affiliation with a market participant, *i.e.*, any entity that either directly or through an affiliate sells or brokers electric energy or provides ancillary services to a Regional Transmission Organization (RTO) or any other entity that the Commission finds has economic or commercial interests that would be significantly affected by the RTO's actions or decisions.

Q. What outcome is achieved by the Commission's order addressing the proposed divestiture?

A. The Commission preliminarily approves the disposition of International Transmission's facilities to an unaffiliated entity with no ownership interest in a market participant, thus facilitating a

stand-alone transmission company under the Midwest ISO umbrella. additional information the Commission. The Commission finds that the proposal is a significant step in the process of forming a for-profit transmission company that may be sufficiently independent to perform certain RTO functions as set forth in the Commission's Order No. 2000. The order also notes that this type of divestiture, the transfer of control over assets to a non-market participant, is one of the most effective means of separating transmission interests from market or generation interests thereby achieving independence for a for-profit transmission company.

Q. Why has the Commission only given preliminary approval to the joint proposal?

A. Before the Commission can determine whether to give final approval, it must have all the relevant facts, including the identity of the purchaser and other information related to the purchaser and the transaction. Consequently, the order requires the applicants amend their application when International Transmission's purchaser is determined.

Q. What action has the Commission taken with respect to the Alliance Companies?

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A. Today's order essentially overturns an earlier decision that the Alliance Companies' proposal had sufficient scope to become a stand-alone RTO.

Q. Why does the Commission now conclude that the Alliance Companies' proposed RTO lacks sufficient scope to exist as a stand-alone RTO?

A. The Commission's earlier finding regarding the adequacy of the scope of the proposed Alliance RTO was based, in part, on implementation of the Inter-RTO Cooperation Agreement (IRCA) with the Midwest ISO, which was intended to provide the basis for a seamless market in the territories served by both the Midwest ISO and the proposed Alliance RTO. Subsequent events, however, have called into question the IRCA's ability to resolve seams between the two organizations as well as the Alliance Companies' scope.

Q. What were the events that lead to this determination?

A. First, the Midwest ISO and Alliance Companies filed status reports regarding progress in implementing the IRCA which indicated that IRCA implementation has not progressed as expected. Second, the Commission concluded that even in regards to those provisions of the

IRCA that have been addressed, significant seams issues still exist in the areas of available transmission capability (ATC) determination, one-stop shopping, imbalance markets and security coordination.

Q. Are there any additional factors which resulted in the proposed Alliance RTO having insufficient scope?

A. Yes. Since the Commission's previous ruling on scope, International Transmission has elected to withdraw from the proposed Alliance RTO, thereby shrinking the scope of the proposed Alliance RTO.

Q. Were there many parties dissatisfied with the Commission's earlier determination regarding Alliance Companies's scope?

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A. Yes. The overwhelming majority of the Midwest state commissions as well as many intervenors prefer a single Midwest RTO with Midwest ISO as the surviving RTO rather than having both entities as RTOs. State Commissions contend that multiple RTOs managed through seams agreements will not work in the Midwest and emphasize that little progress has been made to date on implementing the IRCA agreement between the Midwest ISO and Alliance Companies. Additionally, state commissions argue that only the Midwest ISO has the infrastructure in place necessary to assume control over transmission facilities.

Q. What is the purpose of National Grid USA's (National Grid's) petition in Docket No. EL01-80-001?

A. National Grid seeks a determination that it not be deemed a market participant, as defined under Order No. 2000, and thus that it would be eligible to manage the Alliance RTO. In response to concerns raised by intervenors, the Commission, in an order issued July 26, 2001, requested that National Grid supply additional information regarding its market interests, particularly last resort retail service, in New York and New England.

Q. What is the purpose of the Alliance Companies' filing in Docket Nos. RT01-101-005, ER99-3144-013 and EC99-80-013?

A. The Alliance Companies seek approval of a business plan in which National Grid would: (1) serve as a strategic investor in the Alliance transco; (2) own transmission facilities within Alliance; and, (3) manage all transmission facilities controlled by Alliance, including those facilities whose functional control, but not ownership, has been transferred to Alliance. The Alliance Companies contend that the business plan will satisfy the Commission's requirement for independence in decision-making by RTOs.

Q. What has been National Grid's response to the Commission's request for more information in the July 26 order in Docket No. EL01-80-001?

A. National Grid commits to implement mechanisms to ensure that until such time as National Grid has permanently disposed of all of its remaining interests in

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generation and sales obligations, it will transfer to non-affiliated entities both the marketing rights and the profits from the sale of energy associated with its remaining interests. National Grid asserts that with respect to its retail market interests in both New England and New York, state restructuring policies and restructuring settlements have required or resulted in the full reconciliation of costs and revenues associated with the service provided by its distribution subsidiaries to retail customers. As a consequence, National Grid claims that it and its affiliates have no economic interest in the provision of retail service. In New York, National Grid stated that Niagara Mohawk (to become a National Grid subsidiary) had entered into arrangements with an affiliate of the Tractebel Corporation which transfer the marketing rights and profits of Niagara Mohawk's power purchase contracts and the risks and responsibilities associated with its last resort service to Tractebel. Those arrangements have now been terminated due to failure to obtain the New York Public Service Commission approval and National Grid states that it is currently analyzing similar options to accomplish the same end once it has acquired Niagara Mohawk. National Grid states further that Niagara Mohawk has sold its last remaining generating interests in New York and has entered into an agreement to sell its wholly-owned power marketer. National Grid states that it intends to sell Niagara Mohawk's 50 percent interest in a Canadian power marketer after it acquires Niagara Mohawk and commits to implement mechanisms to ensure that National Grid will have no economic or commercial interests in the marketer that may be affected by the market in the interim period prior to divestiture.

Q. What concerns and issues have been raised by intervenors regarding the related National Grid petition and the Alliance Companies' business plan filing?

- A. Intervenors raise four principal concerns. First, they assert that conflicts of interest arise because National Grid will have an ability and an incentive to manage the Alliance RTO to benefit its New York market interests to the detriment of other power suppliers in New York. They contend that arrangements of the type entered into with Tractebel, even if they eliminate National Grid's direct economic or commercial interest, will provide National Grid with an incentive to manage Alliance to ensure the success of any third party suppliers to whom it has transferred its interests so as to avoid hearings on the prudence of the power supply arrangements. Second, intervenors note that, in some instances, mechanisms have not yet been filed which propose to transfer National Grid's economic or commercial interests to third parties and argue that granting National

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Grid non-market participant status would be premature before such mechanisms have been reviewed by the Commission. Third, intervenors assert that resolution of interregional coordination issues between the New England-New York-PJM regions and the Alliance region will be impaired and conflicts of interest will arise if National Grid is permitted to manage Alliance while it still owns substantial transmission assets in New England and New York. Fourth, intervenors claim that within Alliance, National Grid will have an incentive and an ability to manage Alliance to benefit the assets it owns within Alliance.

- Q. How does the Commission's order today resolve these issues and concerns?

- A. The Commission concludes that National Grid can satisfy criteria which permit it to not be deemed a market participant by virtue of its market interests in New England and New York if it implements the commitments stated in its response to the July 26 order. The Commission also concludes that ruling on concerns related to National Grid's position as manager of Alliance as it may affect the resolution of inter-regional coordination issues and potential discriminatory behavior favorable toward National Grid's transmission assets within Alliance will be premature at this time. In this regard, the Commission dismisses without prejudice the business filing of the Alliance Companies for a stand-alone Alliance RTO in which National Grid would be the managing member as well as a strategic investor. However, the Alliance Companies are encouraged to file a revised business plan for Alliance with National Grid as the managing member of an independent transmission company to operate within the Midwest ISO. The Commission will make a determination of whether such an arrangement satisfies the independence requirement for participation in RTOs based in part on the nature of the transmission functions to be preserved for National Grid's or another managing member's

control.

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