



STEPHEN G. KOZEY
Vice President
General Counsel
Direct Dial: 317-295-5431
E-mail: skozey@midwestiso.org

Midwest Independent Transmission System Operator | 5517 West 74th Street | Indianapolis, IN 46268
317-295-5400 | 317-347-9685 FAX

VIA HAND DELIVERY

January 16, 2001

David P. Boergers
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: The Midwest ISO Order No. 2000 Compliance Filing
Docket No. RT01-____-000

Dear Mr. Boergers:

Pursuant to Section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, and Section 35.34 of the Federal Energy Regulatory Commission's ("Commission") regulations, 18 CFR § 35.34 (2000), the Midwest Independent Transmission System Operator, Inc. ("Midwest ISO") hereby submits an original and fourteen (14) copies of this transmittal letter and its filing with attachments in compliance with Commission's December 20, 1999 Order on Regional Transmission Organizations ("Order No. 2000"), the subsequent February 25, 2000 Order ("Order No. 2000-A") and the July 20, 2000 Notice of Guidance Order ("Guidance Order"). The Midwest ISO requests that the Commission find that the Midwest ISO satisfies the Commission's requirements for RTOs as set forth in Order Nos. 2000 and 2000-A.

I. EXECUTIVE SUMMARY

The Midwest ISO, as it is currently configured, readily satisfies all four of the minimum characteristics and eight functions of Order No. 2000. This remains true only if the Midwest ISO retains its present scope and configuration. If the Midwest ISO's scope and configuration is permitted to erode, it's ability to maintain conformance with the other characteristics deteriorates in parallel with the diminished scope and configuration. The Midwest ISO meets the requirements of Order Nos. 2000 and 2000-A as follows:

A. *Characteristics of Order No. 2000*

1. **Independence** – The Midwest ISO currently complies with the independence standard because it meets each of the four elements of independence: (a) the Board of Directors, the Midwest ISO management, and employees have no financial interests in the Midwest ISO; (b) the Midwest ISO has independent decision-making responsibilities; (c) the Midwest ISO has independent capitalization capabilities (although this capability is currently in jeopardy); and (d) the Midwest ISO has the ability to file tariff changes over a broad scope of issues.

2. **Appropriate Scope and Configuration** – The current scope and configuration of the Midwest ISO is adequate to comply with this characteristic. However, if the Commission approves the impending departures of Ameren, Commonwealth Edison and/or Illinois Power, this would greatly diminish the adequacy of the Midwest ISO's scope and configuration. This action by the Commission would eventually lead to the departure of all other existing Midwest ISO Members to the point where the Midwest ISO would no longer be an operationally viable RTO under Order No. 2000. This point has been further amplified by the conditional withdrawals of the remaining members, steadfastly committed to the Midwest ISO, yet forced to leave if the impending departures of ComEd, Illinois Power, and/or Ameren are permitted.

3. **Operational Authority** – The Midwest ISO is in conformance with all aspects pertaining to the operational authority provisions of Order No. 2000. The Midwest ISO will have functional control of all networked transmission facilities owned and operated at 100 kV or above. The Midwest ISO will serve as the security coordinator for the transmission systems subject to its functional control and will also have emergency plans and procedures in place in the event of a system emergency.

4. **Authority to Maintain Short-Term Reliability** – The Midwest ISO has the exclusive authority to receive, confirm, and implement all interchange schedules and the Midwest ISO has the authority to order redispatch of any generator connected to transmission facilities it operates if necessary for the reliable operation of these facilities. Obviously, this authority would be greatly compromised if Members were allowed to withdraw at this time. The Midwest ISO will have authority to approve and disapprove all requests for scheduled outages of transmission facilities to ensure that the outages can be accommodated within established reliability standards. The Midwest ISO also will honor and monitor compliance with reliability standards established by ECAR, MAIN and MAPP regional reliability councils.

B *Functions of Order No. 2000* – The Midwest ISO is in conformance with the eight RTO minimum functions of Order No. 2000 as set out below:

1. **Tariff Administration** - The Midwest ISO will be the sole administrator of its own FERC-approved tariff, and it will be the entity with the sole authority to receive, evaluate, and approve or deny all requests for transmission service.
2. **Congestion Management** - The Midwest ISO believes that its existing congestion management provisions, particularly as they relate to facilitating new service, are in technical compliance with the requirements of Order No. 2000 for Day 1 operations and has begun work on a hybrid approach to address long-term congestion management, building on the strengths of locational marginal pricing and physical flowgates.
3. **Parallel Path Flow** - The Midwest ISO's size allows it to internalize most, if not all, of the effects of parallel path flow in its scheduling and pricing process. As presently structured, and given the pending addition of many of the transmission-owning entities within MAPP, the Midwest ISO will internalize significant flow issues within its region and many of the loop flows that exist in the Eastern Interconnection.
4. **Ancillary Services** - The Midwest ISO will offer to provide all ancillary services as defined and required under the Midwest ISO Tariff and will serve as the provider of last resort for all ancillary services required by Order No. 888. Because the Midwest ISO will not be a control area, its role as provider rather than seller will be to secure ancillary services on behalf of customers and pass payment for such services directly to the supplying entity.
5. **OASIS Operation** - The Midwest ISO will be the single OASIS administrator for all transmission facilities under its control and will independently calculate Total Transfer Capability ("TTC").
6. **Market Monitoring** - The Midwest ISO plans to implement an Independent Market Monitoring ("IMM") function in compliance with the sixth minimum function and remains hopeful that several regional RTOs will use the same entity to provide these services on a larger scale.
7. **Planning and Expansion** - The Midwest ISO will play a key role with overall responsibility for coordinating regional transmission system planning and expansion once it becomes operational.

8. Interregional Coordination - The Midwest ISO has been instrumental in inter-regional coordination. The Midwest ISO has expended substantial time and energy discussing the seams issues with adjacent transmission owners and has authored and/or coordinated many strawmen proposals on technical topics such as One-Stop Shopping and Long-Term Planning Coordination, which eventually led to agreement among the participating RTO representatives.

C. *Other Requirements*

1. Open Architecture - The Midwest ISO has already demonstrated architectural flexibility through the accommodation of properly structured Independent Transmission Companies (“ITCs”) via Appendix I to the Midwest ISO Agreement, by supporting changes to accommodate the formation of Wisconsin’s American Transmission Company LLC (“ATC LLC”). The Midwest ISO believes that an umbrella organization (details contained in the compliance filing at page 82) responsible for reliability, system security and the coordination of numerous seams issues, coupled with business functions performed by the Transcos, ITCs, ISOs and participating public power entities in the region, can accomplish the goals envisioned by FERC under Order No. 2000 under a multi-layered approach. Each of the transmission-related entities alone, whether it be the MTCA presented here, an ITC developed pursuant to Appendix I or the American Transmission Company, standing individually on their own merits, would not fully satisfy the Order No. 2000 standards which would make them a compliant RTO unto themselves. Collectively, with a proper segregation of functional responsibilities and resolution of several technical issues, each entity, including the Alliance and transmission systems operated by large public power agencies, cooperatives, federal power marketing authorities can contribute to solving the RTO puzzle for the region. In addition, the Midwest ISO is actively considering options to alter its current non-stock, not-for-profit organizational structure if circumstances warrant movement in a different direction from the current structure and implement innovative ratemaking and performance-based rate approval.

2. Transmission Ratemaking Policy - The Midwest ISO was approved with a rate structure that eliminates “pancaked” rates consistent with the requirements of FERC Order No. 888. Nevertheless, the Midwest ISO intends to collaborate with its transmission owners with the intent of filing an innovative ratemaking approach to address revenue neutrality upon receiving FERC approval that the Midwest ISO is a compliant RTO pursuant to Order No. 2000.

II. HISTORY OF THE MIDWEST ISO

On January 15, 1998, nine public utilities¹ filed an application under Section 203 of the Federal Power Act for Commission approval of the transfer of the operational control over their jurisdictional facilities to the Midwest ISO. Concurrently, those same utilities filed under Section 205 of the FPA for approval of the Midwest ISO Open Access Transmission Tariff and the Midwest ISO Agreement.

The January filing was the product of a long and sometimes painful gestation period. As set forth in their Section 205 Application, for almost two years prior to January of 1998, approximately 25 Midwestern utilities representing most of the MAIN and ECAR reliability regions met at least bi-weekly to discuss formation of the Midwest ISO. All parties had seemingly come to agreement in late 1997, with a joint signing ceremony taking place on December 11th. However, on December 9th, some of the utilities started balking. Notwithstanding, the remaining Midwest ISO Participants soldiered on, not willing to drop their desire for a MAIN/ECAR ISO and the benefits that such an ISO would bring. Subsequently, other transmission-owning utilities joined the ranks of the Midwest ISO.²

On September 16, 1998, the Commission issued an “Order Conditionally Authorizing Establishment of the Midwest Independent Transmission System Operator and Establishing Hearing Procedures” (“Midwest ISO Order”). The Commission found that the Midwest ISO’s size and configuration were adequate and that such a filing was overall consistent with the eleven principles of ISO formation under Order No. 888.

¹ Cinergy Corp. (on behalf of Cincinnati Gas & Electric Company, PSI Energy, Inc. and Union Light, Heat & Power), ComEd (including Commonwealth Edison Company of Indiana), Wisconsin Electric Power Company, Hoosier Energy Rural Electric Cooperative, Inc., Wabash Valley Power Association, Inc., Ameren (on behalf of Central Illinois Public Service Company and Union Electric Company), Kentucky Utilities Company, Louisville Gas & Electric Company, and Illinois Power Company are hereinafter referred to as the “Midwest ISO Participants.”

² Additional Members include: Alliant Energy, American Transmission Company LLC (including Madison Gas and Electric, Northwestern Wisconsin Electric Company, and WPS Resources Corporation), Southern Illinois Power Cooperative, Southern Indiana Gas and Electric Company, and Xcel Energy (formerly Northern States Power).

In compliance with the Midwest ISO Order, on April 17, 2000, the Midwest ISO filed a Section 204 application to incur debt necessary to acquire the facilities and equipment necessary to assume the functions assigned to it, as well as to pay start-up expenses. On May 4, 2000, the Commission issued an order authorizing the Midwest ISO to incur \$100 million in debt to self-fund its start-up costs. On June 1, 2000, the Midwest ISO issued \$100,000,000 in senior notes bearing interest at 8-3/4 percent with a maturity of 2012. In the intervening months, the Midwest ISO has made great strides in acquiring the staff, the facilities, and the equipment necessary to assume operational control of the transmission facilities in the fourth quarter of 2001. The Midwest ISO Board selected a President and CEO in July of 1999. In March 2000, the Midwest ISO signed an agreement to acquire substantially all of the assets and liabilities of the service entity affiliated with the Mid-Continental Area Power Pool ("MAPP").

On October 13, 2000, Dynegy Inc., Illinois Power's corporate parent, filed a letter with this Commission for authorization to withdraw Illinois Power from the Midwest ISO and subsequently, on December 22, 2000 ComEd followed suit. Ameren provided notice to Midwest ISO of its intent to leave but has not yet filed for approval with the FERC.

December of 2000 brought additional changes to the Midwest ISO. On December 16, 2000, Chief Executive Officer and President, Matthew Cordaro announced his resignation with the Board unanimously electing Chief Financial Officer, James P. Torgerson as the new CEO and President. Then, in response to the notices of withdrawal mentioned above, the remaining transmission-owning Members of the Midwest ISO filed for or noticed their request for conditional withdrawal if Illinois Power, ComEd or Ameren withdrawals are approved.

Recently, two transmission owners and numerous market participants requested that the Commission appoint a settlement judge to oversee uniting the Midwest ISO and the Alliance RTO to form a single, large RTO in the Midwest or in the alternative, to have two RTOs in the Midwest that effectively function as a single RTO from the perspective of all transmission stakeholders.

As to the status of the Midwest ISO infrastructure, the building in Carmel, Indiana is 85% complete with the telecommunication and network systems set for installation in the first quarter of this year in preparation for market trials on June 1st. Because of the uncertainties discussed in the filing, additional staffing hires have been frozen and current staffing remains at approximately 80 employees of a proposed 190.

III. DOCUMENTS SUBMITTED AS PART OF THE FILING

A. Attachments

Pursuant to the Commission's rules and regulations and for ease of reading, the Midwest ISO has attached the following documents to the compliance filing:

- | | |
|---------------|---|
| Attachment A: | A form of Federal Register notice; |
| Attachment B: | The Agreement of Transmission Facilities Owners To Organize the Midwest Independent Transmission System Operator, Inc., A Delaware Non-Stock Corporation; and |
| Attachment C: | A list of parties served. |

B. Diskette

A diskette containing the form of notice in WordPerfect format is enclosed. An electronic copy of the compliance filing is also enclosed on a separate CD Rom. In addition, an electronic copy is also being forwarded by email to rto@ferc.fed.us, as suggested by the Commission in its Guidance Order dated July 20, 2000.

C. Request for Waiver on Service List

A copy of this filing on compact disk has been served on all Midwest ISO Members, as well as, on all state commissions within the region. The Midwest ISO hereby requests waiver of the requirements set forth in 18 CFR 385.2010 (2000) to allow it to serve compact disks on these parties and make the filing available on the Midwest ISO website at www.midwestiso.org under the heading "FERC Filings" for the other interested parties in this matter. Good cause exists for granting this waiver due to the volume of the filing, the limited resources available to make service, the unavailability of potential transmission customer names and addresses and the financial burden to the Midwest ISO in copying and mailing hard copies of this filing to over 600 entities. Many parties, in fact, prefer receiving their copy of the filing in CD format or by printing it from the website. Any party who wishes to receive a hard copy of this filing may contact counsel of record, Stephen G. Kozey or Lori A. Spence at the Midwest ISO at (317) 295-5400 to obtain a copy.

IV. SATISFACTION OF RTO PRINCIPLES AND EFFECT OF WITHDRAWAL ON THOSE PRINCIPLES

Notwithstanding the potential withdrawal notifications, the Midwest ISO believes that it currently meets the characteristics and functions of a regional transmission organization as set out in Order No. 2000. The compliance filing addresses the Midwest ISO's compliance with each characteristic and function and then addresses the potential effects member withdrawal has on these characteristics and functions. It also addresses the Midwest ISO's active efforts to evolve its organizational structure and develop innovative rate methodologies proposed by other organizations since the formation of the Midwest ISO in 1998.

As the Midwest ISO has discussed in its responses to the various member withdrawals, these potential withdrawals not only affect the Midwest ISO's ability to meet the scope and regional configuration requirements of Order No. 2000, but they have broader ramifications to the financing capabilities of the Midwest ISO, the ability to hire and retain qualified employees to develop and implement the start-up of the organization, the ability to develop and implement congestion management methodologies, to negotiate seams issues, to negotiate transmission planning and expansion needs, etc. The Midwest ISO's compliance filing further details the effect withdrawal has on each characteristic and function.

The effects of withdrawal will reach outside the Midwest ISO. Instability in membership will affect all regional transmission organizations and subject the Commission's RTO policy to a slow and painful death that could have been avoided. Companies that have not yet committed to a regional transmission organization are questioning the functionality of such organizations and whether their customers' transmission needs are best served in this manner.

V. REQUESTED ACTION DATE

The Commission is requested to accept this compliance filing and issue an order that the Midwest ISO is an Order No. 2000 compliant RTO within thirty (30) days of the date of this filing.

VI. ORDER 614 COMPLIANCE

The Midwest ISO formatted the Midwest ISO Agreement and the Midwest ISO Open Access Transmission Tariff in conformance with Order 614³ in a filing dated November 20, 2000 in Docket No. ER01-479-000. For ease of reference, the Midwest ISO has attached the Order No. 614 conformance version of the Midwest ISO Agreement to the compliance filing as Attachment B, although such version has not yet been deemed effective.

VII. ADDITIONAL INFORMATION

Correspondence and communications regarding this filing should be directed to the following individuals:

Stephen G. Kozey
Lori A. Spence
Midwest Independent Transmission
System Operator, Inc.
5517 W. 74th Street
Indianapolis, IN 46268
Telephone: (317) 295-5400

Stephen L. Teichler
Duane, Morris & Heckscher, LLP
1667 K Street, N.W., Suite 700
Washington, D.C. 20006
Telephone: (202) 776-7830

³ *Designation of Electric Rate Schedule Sheets*, Order No. 614, III FERC Stats. & Regs. Regs. Preamble § 31,096 (2000).

VIII. CONCLUSION

For the reasons stated above and in the attached compliance filing, the Midwest ISO requests the Commission to issue, no later than thirty (30) days from the date of this filing, an order recognizing the Midwest ISO as an RTO which satisfies the Commission's RTO characteristics and functions under Order No. 2000 and subsequent Orders.

Respectfully submitted,

**THE MIDWEST INDEPENDENT
TRANSMISSION SYSTEM
OPERATOR, INC.**

Stephen G. Kozey
Lori A. Spence
Midwest Independent Transmission
System Operator, Inc.
5517 W. 74th Street
Indianapolis, IN 46268
Telephone: (317) 295-5400

Stephen L. Teichler
Duane Morris & Heckscher, LLP
1667 K Street, N.W., Suite 700
Washington, D.C. 20006
Telephone: (202) 776-7830

**ATTORNEYS FOR THE
MIDWEST ISO**