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2006 FEB 28
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February 28, 2006

VIA HAND DELIVERYThe Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
Dockets Room, Room 1a
888 First Street, N.E.
Washington, D.C. 20426ER04-375-000
EL 02-65-000

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WESTCHESTER**Re: Midwest Independent Transmission System Operator, Inc. and
PJM Interconnection, L.L.C., Docket Nos. ER04-375-017, -018**

Dear Secretary Salas:

Please find enclosed for filing an original and 5 copies of a combined report of the Midwest Independent Transmission System Operator, Inc. and PJM Interconnection, L.L.C. on the progress towards a joint and common market and implementation of the Joint Operating Agreement.

Also enclosed are an additional two copies of the document that I would appreciate being time-stamped and returned with my messenger.

Any questions regarding this filing should be directed to the undersigned. Thank you for your attention to this matter.

Very truly yours,



Stephen L. Teichler

Enclosures
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ER04-375-000
EL02-65-000

Honorable Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E. Room 1A
Washington, D.C. 20426

Re: Midwest Independent Transmission System Operator, Inc. and PJM
Interconnection, L.L.C., Dockets No. ER04-375-017, ER04-375-018

Dear Ms. Salas:

The Midwest Independent Transmission System Operator, Inc. ("Midwest ISO") and PJM Interconnection, L.L.C. ("PJM") hereby file, for informational purposes, a combined report on progress towards a joint and common market, and implementation of the Joint Operating Agreement ("JOA") executed by the Midwest ISO and PJM, in accordance with the Federal Energy Regulatory Commission's ("Commission") March 18, 2004, August 5, 2004, and March 3, 2005 orders in Docket No. ER04-375¹ and July 31, 2002 order in Docket Nos. EL02-65, *et al.*² On December 30, 2005, the RTOs filed the first informational report (December 30 Report) on the progress of the joint and common market.³ This is the second such report.

¹ See 106 FERC ¶ 61,251 (2004) ("March 18 Order"), 108 FERC ¶ 61,143 at PP 58, 59 (2004) ("August 5 Order"), and 110 FERC ¶ 61,226 at PP 75 (2005) ("March 3 Order").

² See 100 FERC ¶ 61,137 (2002) ("July 31 Order").

³ WPS Companies filed a February 3, 2006 complaint in response to the December 30 Report, which the RTOs answered with a motion to strike and an answer on February 17, 2006 in Docket No. EL06-49-000.

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I. Modifications to the JOA or Congestion Management Process

The Midwest ISO and PJM continually are reviewing the JOA and its detailed schedules for possible improvements. Since the start of the Midwest ISO energy markets, the RTOs have continued their regular meetings to discuss various aspects of the JOA and, particularly, Phase II implementation. The RTOs have not identified any necessary changes to the JOA at this stage, other than those that were the subject of previous Commission orders.⁴

II. Joint and Common Market Elements Achieved

In their December 30, 2004 filing in Docket Nos. ER04-375-000, *et al.* (the "Phase 2 Filing"), the Midwest ISO and PJM included an extensive discussion of the process and timeline to move beyond market-to-market coordination, towards the development of a joint and common market.

As discussed in the October 31 Filing, the Midwest ISO market was formed from 27 separate control areas with a total peak load of 112,000 MWs, using a security-constrained economic dispatch system and coordinated market settlements. Concurrently, PJM integrated six large companies into its energy market that now encompasses a 135,000 MW peak load region. Quantification studies in each RTO to measure the substantial benefits

⁴ For example, the RTOs are developing JOA amendments related to joint planning and transmission expansion pursuant to Commission orders. *Midwest Independent Transmission System Operator, Inc.*, 113 FERC ¶ 61,194 (2005). *Midwest Independent Transmission System Operator, Inc.*, 114 FERC ¶ 61,106 (2006).

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resulting from the larger coordinated operations under each of the single markets have been completed and published.⁵

Importantly, price convergence at the borders between the two regions demonstrates that the markets work effectively together and that the coordinated operations largely achieve the objectives and benefits of a single market.

With regard to operating reliability across the border, during Phase 1 of the JOA, the Midwest ISO and PJM developed the Congestion Management Process ("CMP") that required market-based operating entities to report their market flows to the IDC⁶ so that when TLRs were issued, both market entities and non-market entities would assist in reducing the congestion. It also initiated a method to manage loops flows by allocating capacity on critical flowgates to each RTO based on historic flows. This was the first time that any RTO had successfully managed parallel path flows through regional coordination as required by Order No. 2000.

The congestion management obligations of the CMP were incorporated into the JOA, which also obligates the RTOs to exchange critical operating and planning data, to coordinate outages and voltage problems, improve communications, perform market-to-market redispatch and establish emergency procedures. The JOA between the Midwest ISO and PJM implemented many initiatives that are essential elements of the joint and common market.

⁵ The studies were discussed at length in the December 30 Report at pages 3 and 4, and links were provided to access the studies.

⁶ The IDC is the NERC Interchange Distribution Calculator used to determine the reduction in transmission transactions necessary to relieve transmission congestion.

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Phase 2 Market-to-Market

Phase 2 of the JOA continued the reliability aspects of Phase 1, but added a new facet to regional coordination by introducing the opportunity for one market-based RTO to request redispatch from the other market-based RTO when that option proved more economic than redispatching internally to solve a transmission constraint. Since the beginning of the Midwest ISO market in April 2005, this market-to-market coordination has satisfied many of the objectives which, in 2002, were identified as elements of a joint and common market.

Under the market-to-market rules, the RTOs coordinate pricing at their borders. Each RTO's market software calculates LMPs for its interface with the other RTO, in the form of a "proxy bus" that serves as a composite of its neighbor's physical load and generation buses near the border. Under the RTOs' market-to-market coordination, average PJM and Midwest ISO interface prices converged and are tracking very closely to each other. The convergence of prices at the border demonstrates that the PJM and Midwest ISO market rules are sufficiently compatible (*i.e.*, common) and that trading across the border between the two markets can be accomplished efficiently. It therefore reasonably can be concluded that the two markets are operating in such close coordination that the vast majority of the benefits of implementing a joint and common market already have been achieved.

Under Phase 2 of the JOA, the allocation and auction of Financial Transmission Rights ("FTRs") in both the Midwest ISO and PJM have been enhanced to respect transmission limitations on each other's systems. In addition, PJM modified its annual FTR auction process in 2005 such that Firm Point-to-Point Transmission Service customers may have access to an allocation of stage 1 Auction Revenue Rights ("AAR") in a parallel fashion

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to the access that Network customers have from the resources that historically served load in their transmission zone. The RTOs also have developed procedures by which unused flowgate capability may be transferred between the RTOs in the operation of their day-ahead markets such that the combined system is more effectively utilized, and they have extended these agreements to the other members of the Congestion Management Council (Tennessee Valley Authority, Southwest Power Pool, and Mid-Continent Area Power Pool).

Through implementation of the JOA, the associated procedures were included in the reliability coordination plans for both PJM and the Midwest ISO. These plans were approved by NERC.

While the benefits of Phase 1 were primarily reliability-related, Phase 2 has yielded considerable benefits from the standpoint of increasing the efficiency with which the combined market region operates. PJM and the Midwest ISO have estimated the total, annualized benefits of the enhanced coordination made possible by Phase 2 to be \$50.5 million dollars. These benefits have accrued due to the following impacts resulting from coordinated market operations over the combined area:

- Increased market efficiency as evidenced by reduced price separation between the PJM and Midwest ISO market areas;
- Avoided redispatch cost to PJM as a result of Midwest ISO redispatching for PJM constraints under market-to-market coordination; and
- Avoided redispatch cost to the Midwest ISO as a result of PJM redispatching for the Midwest ISO constraints under market-to-market coordination.

In summary, the PJM-Midwest ISO JOA established the framework for managing congestion seamlessly between the two markets (and with neighboring non-market systems), exchanging critical operating data, coordinating outages and reactive power requirements, performing market-to-market redispatch, and responding to emergency conditions in a

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coordinated manner. Moreover, significant benefits have been realized through the coordinated market operations of the Midwest ISO and PJM.

The next stage of the joint and common market, identified through the recent stakeholder process, consists of the various joint and common market elements discussed in the October 31 Filing and the December 30 Report. When implemented, these changes will build upon the JOA accomplishments to meet the objectives, goals and characteristics of a joint and common market.

III. Status Report on Additional Joint and Common Market Elements

In the October 31 Filing, the RTOs committed to initiate the processes and to take the steps necessary to implement the additional elements of a joint and common market identified in the October 31 Filing as "Committed Initiatives," and to provide a timeline for each Committed Initiative.

In addition, the RTOs discussed certain initiatives in the October 31 Filing that require further cost/benefit studies, investigation, or overcoming of obstacles that prevented the RTOs from committing at that time to a definitive implementation plan and schedule ("Further Action Needed Initiatives").⁷ For these initiatives, the RTOs will present their findings to stakeholders for discussions according to the specified timeline.

The RTOs have started the coordination of activities and have developed project plans for the stakeholder processes and other activities necessary to pursue each of the Committed Initiatives. The timeline for most of the Committed Initiatives calls for such activities to begin in 2006.

⁷ The initiatives may also require RTO board level approval and/or FERC approval.

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During the joint stakeholder meetings, the RTOs committed to pursue a production cost study for certain of the potential joint and common market initiatives, and to work with stakeholders to develop an appropriate methodology. The RTOs posted the proposed methodology for stakeholder comment in mid-January 2006, for discussion at the stakeholder meeting scheduled for March 3, 2006 in Wilmington, Delaware. The methodology can be accessed at the following link:

http://www.midwestmarket.org/publish/Document/2220c2_108155d446d_-72270a48324a?rev=4

The RTOs are proposing a schedule for an end of March deadline to complete the study. PJM and the Midwest ISO are developing the required 2006 models for use in this analysis, and benchmarking was undertaken during February.

A. Status of Committed Initiatives for the Joint and Common Market

The following is a status report on each of the "Committed Initiatives," which the Midwest ISO and PJM described in the October 31 Filing:

1. Alignment of FTR Timelines and Products.

In order to achieve FTR market convergence between PJM and the Midwest ISO, the RTOs propose to align their FTR timelines and products. In order to accomplish this initiative, the Midwest ISO plans to align its FTR products with PJM's FTR products and its FTR allocation and auction timeframes with PJM's FTR allocation and auction timeframes.

The current PJM and Midwest ISO FTR processes are significantly different. In order to implement this initiative, the Midwest ISO must review the proposed changes to the Midwest ISO policies, procedures, applications and systems with its stakeholders and obtain stakeholder agreement on such changes.

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Since the December 30 Report, the Midwest ISO Market Subcommittee voted to approve the general direction of this initiative, including the use of PJM's ARR/FTR process as a starting point to develop a new allocation process for the Midwest ISO. The Midwest ISO Transmission Rights Task Force ("TRTF") has met twice to develop a proposal for the Midwest ISO Market Subcommittee. PJM has participated in the Midwest ISO TRTF activities to ensure close coordination.

Following Midwest ISO stakeholder approval, Commission approval of the Midwest ISO changes to FTR timelines and products will be required.

Pending stakeholder and regulatory approvals, this effort is on schedule.

2. PJM Move to Marginal Losses.

The Midwest ISO presently includes the impact of marginal losses in its dispatch of energy and Locational Marginal Price calculations while PJM does not. This distinction has the potential to increase the level of price separation at the RTOs' borders. PJM's implementation of Marginal Losses has the potential to reduce this component of price divergence.

PJM has been in discussions through its stakeholder process regarding the implementation of Marginal Losses for some time. The PJM Tariff and Operating Agreement currently require PJM to implement Marginal Losses when it is technically feasible to do so. However, the PJM Members' Committee voted to develop language to remove the requirement to implement Marginal Losses from the Tariff and Operating Agreement. This vote was held at its meeting on January 26, 2006. The revised agreement

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language is expected to be presented to the PJM Members' Committee for approval no later than its June 1, 2006 meeting.

3. Alignment of Operating Reserves/Revenue Sufficiency Guarantee ("RSG") Products.

In order to reduce the hurdle rates for through-and-out point-to-point transactions between PJM and the Midwest ISO, this initiative will align PJM's Operating Reserves and the Midwest ISO's RSG products so that charges are allocated similarly. Both the Midwest ISO and PJM provide payments to generators that are committed/scheduled by the RTO in the day-ahead and real-time markets when necessary to cover as-offered costs. There are differences, however, in allocation details between PJM and the Midwest ISO in two major areas. First, PJM allocates Balancing Operating Reserve charges across an entire 24-hour period, while the Midwest ISO allocates its similar charges on an hourly basis. Second, PJM nets deviations from individual transactions to determine deviations from day-ahead schedules while Midwest ISO calculates deviations based on each individual schedule change.

Because hourly allocations increase RSG volatility and lack of netting increases the cost of scheduling transactions in real-time, the Midwest ISO will propose to its stakeholders the changes that better align these allocation rules.

As stated above, in order to implement this initiative, the Midwest ISO must review the proposed changes to the Midwest ISO policies, procedures, applications and systems with its stakeholders and obtain stakeholder agreement on such changes.

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The Midwest ISO RSG Task Force has begun consideration of charge distribution alternatives. PJM Reserve Markets Working Group is also considering Operating Reserves allocation changes that may have beneficial impacts for PJM/Midwest ISO transactions.

Following Midwest ISO stakeholder approval, Commission approval of the Midwest ISO changes will be required. Another obstacle is the difficulty in quantifying the benefits of reduced hurdle rates and the correlation to RTO border prices.

Pending stakeholder and regulatory approvals, this effort is on schedule.

4. Common Search Capabilities.

This initiative will implement one search engine that searches both the PJM and the Midwest ISO's public websites and is accessible from either of their existing websites. This search engine will scan the contents of both existing websites and return results of queries as if only one site was in existence.

The RTOs are exploring the use of the Google search engine for the joint site. PJM has used Google on its web site with positive results. Upcoming activities include performing a Google search engine technical feasibility analysis, and scanning PJM and Midwest ISO document repositories.

This effort is on schedule.

5. Link Existing eData/Price Transparency Portal Sites.

This initiative will link the existing PJM eData and Midwest ISO Price Transparency Portal sites together allowing for the exchange of data between the two sites (e.g., LMP, Instantaneous Load, Tie Flows, etc.) and make it available for display and download. The

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RTOs will need to identify differences in the synchronization of data delivery timeframes and calculations and develop approaches for those differences.

Since the last report, the RTOs have formulated a vision for the data display, and will be moving next to conceptual design development and an evaluation of technical implementation alternatives. Stakeholder approvals will be required to implement this initiative.

This effort is on schedule.

6. Joint Web Site.

Under this initiative, the Midwest ISO and PJM will create one new joint web site that hosts PJM and the Midwest ISO' common information (e.g., joint meetings, event calendars, joint documents and reports, etc.). In order to complete this initiative, PJM and the Midwest ISO must develop a process to maintain the joint website in order to keep it current and determine what information must be included, changed, added or deleted and by whom. Moreover, PJM and the Midwest ISO must modify the existing joint website by implementing: (i) a joint meetings notifications capability; (ii) a joint events calendar capability; (iii) a more robust joint document storage, retrieval, and retention capability; and (iv) a more robust joint reporting capability.

The RTOs are conducting an evaluation of the Events Calendar that PJM is presently utilizing on its site for use on the joint site, and will conduct an evaluation of site hosting alternatives.

This effort is on schedule.

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7. Moving Joint-Owned Units ("JOUs") Between Markets.

The RTOs will develop a joint approach using best practices to provide market participants who own joint-owned units (JOUs are generation assets jointly owned by PJM and Midwest ISO market participants) with the ability to sell their share of generation into the day-ahead and real-time market in either the market where the JOU owner is a market participant or the market where the JOU physically exists. In order to pursue this approach, there may be issues that need to be resolved to provide the ultimate flexibility that this initiative is designed to address and which stakeholders have requested.

Both the Midwest ISO and PJM will need to make other changes based on the analysis of treatment of these units. These include changes to procedures, manuals, and systems to accommodate the modifications found in the analysis and include items such as accommodating treatment of JOUs in the calculation of ramp, reserves, etc.

This initiative was previously introduced by the RTOs' stakeholders because aligning the treatment of JOUs between RTOs makes sense, regardless of the joint and common market stakeholder process, and the costs are not significant. The ability of market participants to choose in which markets the output of their units is sold and take advantage of price differentials that may exist at these units' buses will benefit both the participants and the markets as a whole.⁸

The initial step in this initiative is to allow owners of JOUs, where individual shares of those units are already pseudo-tied into the RTO and the owner of such share is a market participant, to adjust the pseudo-tie value. This would leave that share of the output of the

⁸ As the prices at the RTOs' borders converge, this value to the market participants and the market will decrease.

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unit in the RTO where the unit is physically located. Testing for this initial step is continuing on schedule.

The RTOs have held preliminary discussion of the scope of next steps for this initiative. Further testing on initial steps is scheduled for late February. PJM and Midwest ISO JOU owners will discuss remaining details and changes required to complete this initiative.

This initiative is on schedule.

8. Common Long-Term Transmission Queue.

Under this initiative, the Midwest ISO and PJM will create a common long-term transmission service queue. This initiative will impact only annual cross-border Firm Transmission Service requests. Through this initiative, the Midwest ISO and PJM will eliminate the potential for customers obtaining long-term "useless" partial path service reservations through a joint study of matched partial paths and will provide a single response to cross-border Long-Term Transmission Service requests. These studies will be performed either by the Midwest ISO or PJM and will evaluate the request on behalf of both Transmission Providers. The customer will be given the flexibility of selecting a joint study for a cross-border request or have two separate studies, as is done today.

In order to complete this initiative, it will be necessary to determine differences in existing PJM and the Midwest ISO processes and define a common long-term transmission queue process. Moreover, PJM and the Midwest ISO will need to obtain agreement among their respective stakeholders if there are changes to the long-term transmission queue process. Regulatory approvals may also be required to implement this initiative.

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The PJM Tariff and the Midwest ISO Tariff may need modifications to allow either RTO to take action on a request for service based on evaluation made by the other RTO. Business practice documentation, including the PJM Manual for Transmission Service (M-2), the PJM Regional practices, and Midwest ISO Tariff Business Practices, Module B, would be updated to describe (a) the process by which transmission customers could elect a joint study and (b) the revised process for the study of long-term service.

Since the December 30 Report, the RTOs have identified business rule differences that affect long-term reservations. The RTOs have developed a first draft of a business process, and are working on a second draft of business processes. A staff meeting was held February 14, 2006 to map out future activities, which includes the continued development of a joint process and stakeholder review opportunities.

Pending stakeholder and regulatory approvals, this effort is on schedule.

9. Midwest ISO Ramp Viewer.

The Midwest ISO has already initiated a project to give its market participants the ability to reserve ramp and view available ramp in the Midwest ISO region. This will give participants the ability to reserve ramp prior to purchasing transmission and arranging energy deals, and allow them to view information on changes in net interchange needed to make economic decisions. Since the December 30 Report, a scheduled implementation date of May 1 has been set, infrastructure hardware has been ordered, and additional resources have been dedicated to the project.

This is an ongoing Midwest ISO project which is on schedule.

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10. Central Location to View Both Ramp Viewers.

For this initiative, the Midwest ISO and PJM will develop a central location where both the Midwest ISO and PJM ramp reservations can be viewed and accessed. The Midwest ISO and PJM will need to make system changes to display both RTOs' ramp data in a common area. The system changes will create a common data area and establish data interfaces to keep the ramp data current. The Midwest ISO and PJM will also coordinate to bring the RTOs' business rules in alignment and make the appropriate manual changes.

There may be security issues associated with posting dynamic information to a common website. PJM and the Midwest ISO's security teams will need to develop a strategy to address this concern.

This initiative is on schedule.

11. Common Ramp Portal.

This initiative builds upon the previous initiative. The Midwest ISO and PJM will develop a common portal to allow market participants to view and reserve ramp in both RTOs simultaneously. In order to pursue this project, additional security concerns with transferring information from a central location must be addressed. PJM and the Midwest ISO's security teams will need to develop a strategy to address this concern. Also, the RTOs' stakeholders will need to approve the development of this moderately expensive tool.

The Midwest ISO and PJM also will need to make significant system changes to allow for the reserving of ramp in both RTOs from the same interface. The system changes will enhance the common ramp viewer and establish data interfaces to keep the ramp data current.

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This initiative is on schedule.

12. Alignment of OASIS Business Practices.

This project aligns the timing requirements associated with transmission service requests on each node. By aligning the timing requirements associated with submitting transmission service requests, this will accommodate the near simultaneous submission of cross-border transmission requests on both the Midwest ISO and PJM OASIS. The common long-term transmission service queue initiative aligns the timing requirements for long-term firm requests. This initiative aligns the timing requirements for other transmission service requests. This project will require identification of the policies, procedures and terminology which comprise the Midwest ISO's and PJM's OASIS Business Practices and, to the extent possible, aligns such policies, procedures and business practices.

It will be necessary to obtain the RTOs' stakeholders' approvals and file for Commission approval of necessary PJM and Midwest ISO Tariff revisions. Moreover, it will be necessary to modify applications and systems to implement this initiative.

PJM and the Midwest ISO will seek stakeholder consensus on best practices. Section 1.6, "Table Summary: Transmission Service Submittals," of the PJM Regional Practices (posted at <http://oasis.pjm.com/rpdoc.html>) and Appendix A of the Midwest ISO Tariff Business Practices, Module B of the EMT, must be updated to reflect the revised timing requirements for the submittal of Transmission Service Requests. The Midwest ISO and PJM manuals may also require updates. Tariff changes are anticipated for both RTOs.

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The RTOs have met to begin work on this initiative. (Initially scheduled for an April 1, 2006 start date for discussions, that process was accelerated to January 31, 2006.) This initiative is being combined with the "Coordinate OASIS" cost benefit analysis.

Pending stakeholder and regulatory approvals, this project is on schedule.

13. Common Treatment of Dynamic Schedules/Pseudo-ties.

This initiative will provide market participants with flexibility to allow their existing dynamically scheduled generating units to participate in their current market configuration and to align the treatment of these entities identically in each region.

This initiative will require the RTOs to determine the efforts required by stakeholders to modify their systems to accommodate the changes to PJM and the Midwest ISO's procedures, applications and systems which are related to dynamic schedules. Moreover, the Midwest ISO and PJM will need to make business rule and procedural changes to accommodate a common treatment of Dynamic Schedules/Pseudo-ties and make the appropriate manual changes to reflect the updated procedures for market participants. The Midwest ISO and PJM also will need to make some minor system changes to accommodate this treatment in ramp, interchange, etc.

Project specifications have been submitted to the software vendor, and the RTOs are awaiting a proposal establishing time requirements and cost estimates.

The RTOs are on schedule for this proposal.

14. Emergency Energy Agreement.

Under this initiative, the Midwest ISO and PJM need to replace existing emergency energy agreements between former control area operators of PJM and the Midwest ISO with an

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emergency energy agreement between the RTOs. These agreements were in place to facilitate the sale of energy during emergency conditions. While these agreements existed prior to RTO development, PJM and the Midwest ISO may not be parties to them. The new emergency energy agreements will be closely aligned with existing PJM agreements and with former control area to control area agreements.

Legal, regulatory and corporate structure issues associated with replacing the prior emergency energy agreements with new RTO agreements may be an obstacle to complete these agreements in the short term. The Midwest ISO has developed a template proposal which it plans to discuss with stakeholder groups. These template agreements would require tariff changes to clarify the allocation of revenues when selling emergency energy.

Pending stakeholder and regulatory approvals, this project is on schedule.

15. Black Start and Restoration.

Under this initiative, the Midwest ISO is developing a cost-based structure very similar to the current PJM cost-based black start procurement process included in Schedule 6A of the PJM Tariff. Future coordination could potentially include joint restoration system plans leading to joint evaluation of critical black start resources.

An obstacle to this initiative is the potentially low number of actual units which may reasonably qualify for black start in both PJM and Midwest ISO. The RTOs will need to determine the actual number of units which reasonably qualify for black start in both regions.

A new Tariff schedule will be proposed for the Midwest ISO Tariff to compensate generators for black start services. The PJM Tariff will need to be changed to reflect black start units identified in both RTOs. These changes would reflect black start compensation

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and other related matters. In addition, the Midwest ISO and PJM systems will need to change to reflect this coordination as well as make the appropriate manual changes to reflect the updated procedures for market participants.

Pending stakeholder and regulatory approvals, this project is on schedule.

16. Joint Expansion Planning and Common Deliverability Studies.

This initiative consists of: (i) the joint expansion planning process through which the RTOs will develop the Coordinated System Plan ("CSP") (as provided for in the JOA) to evaluate impacts on the other RTO's facilities and require facilities upgrades; and (ii) the use of common generation deliverability studies which will include common criteria and study, to obtain results which demonstrate if units are deliverable in both RTOs, and if they are not deliverable in both RTOs what system constraints limit the deliverability.

In addition to the challenges in establishing joint expansion plan study criteria and coordination, there will be regulatory and stakeholder approvals required to implement the common deliverability studies.

The Midwest ISO and PJM have made previous filings with the Commission to reflect the Joint Expansion Planning. On May 17, 2005, in compliance with the Commission's November 18, 2004 Order in separate but related proceedings,⁹ PJM and the Midwest ISO filed with the Commission revisions to the JOA, the Midwest ISO Tariff, the PJM Tariff and the PJM Operating Agreement. These revisions complied with the Commission's directive to file a proposal for allocating to the customers in each RTO the cost of new transmission facilities that are built in one RTO but which provide benefits to

⁹ *Midwest Independent Transmission System Operator, Inc., et al.*, 109 FERC ¶ 61,168 (2004) ("November 18 Order").

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customers in the other RTO.¹⁰ The Midwest ISO and PJM will need to make business rules and procedural changes as well as appropriate manual changes to reflect the updated planning coordination.

The common deliverability studies to be completed in 2006 will be for informational purposes. If the Midwest ISO and PJM decide to implement a common deliverability process, modification would be required of the Midwest ISO Tariff (Attachment X), the PJM Tariff and the PJM Operating Agreement, as well as internal Midwest ISO and PJM deliverability study procedures.

Since the December 30 Report, the RTOs have met to develop a scope document, utilizing an IPSAC stakeholder meeting for input. Development of a year 2011 joint planning base system model has been completed. The RTOs plan to complete joint generator deliverability, N-2 and common market analysis between March and June 2006. A joint stakeholder meeting is scheduled for March 8 to address these matters.

Under the JOA CSP, the RTOs have already filed a cross-border cost allocation methodology for reliability projects which allocates to customers in each RTO the cost of new transmission facilities built in one RTO but provide benefits to customers in the other RTO. In an order dated November 21, 2004, the Commission conditionally accepted that

¹⁰ November 18 Order at P 60.

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filing but also directed the RTOs to begin a stakeholder process to develop a cross-border cost allocation proposal to be filed by June 1, 2006 for economic transmission projects.¹¹

The RTOs have begun discussion with its stakeholders with a joint meeting of the PJM Transmission Owners and the Midwest ISO Transmission Owners on February 24, 2006. A series of broader stakeholder meetings have been scheduled, the first of which is in Pittsburgh, Pennsylvania on March 8, 2006. At this time, additional meetings are planned on March 24, 2006, and April 7, 2006.

Pending stakeholder and regulatory approvals, this proposal is on schedule.

B. Status of Further Action Needed Initiatives

As discussed above and in the October 31 Filing, in addition to Committed Initiatives, while under consideration for possible implementation, additional proposals require further cost/benefit studies, investigation, or overcoming of obstacles that prevented the RTOs from committing to a definitive implementation plan and schedule ("Further Action Needed Initiatives") at the time of the October 31 Filing. The RTOs have committed to report back to the stakeholders regarding each of the Further Action Needed Initiatives on the specified timeline set forth in the October 31 Filing. The following is a status report on each of the "Further Action Needed Initiatives" which the Midwest ISO and PJM described in the October 31 Filing:

¹¹ In advance of final JOA amendments, the RTOs were nonetheless able to jointly study and resolve the NIPSCO complaint regarding West to East flows by recommending a cost allocation methodology and alternative engineering solutions to the affected transmission owners. See Final Report and Recommendations of Transmission Study - *Northern Indiana Public Service Co. v. Midwest Independent Transmission System Operator, Inc.*, January 17, 2006, Docket No. EL05-103-000.

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1. Cross-Border FTRs in the Allocations.

As a potential additional step to converge the PJM and Midwest ISO FTR markets, the Midwest ISO and PJM are studying an initiative to align the processes by which FTRs/ARRs are allocated in the two markets. This initiative is dependent on the implementation of the initiative to align PJM and Midwest ISO FTR timelines and products (*See* section IV.A.1. above). The RTOs are on schedule for reporting back to stakeholders on this initiative.

2. Alternative Border Pricing Point Calculations.

PJM and the Midwest ISO are evaluating the suggestion to add additional pricing point options for transactions between PJM and the Midwest ISO by allowing market participants to submit transactions based on physical flow effects on localized transactions. Stakeholders believe that this would provide greater flexibility and a greater opportunity to trade between PJM and the Midwest ISO than only one proxy for each RTO.

PJM and the Midwest ISO are concerned that this proposal may create gaming opportunities because of the difficulty (if not impossibility) in verifying that the physical MWs associated with a particular transaction are actually source/sinking in the physical location represented by more specific pricing points. An alternative still under consideration would be to weight the individual nodes that are combined to constitute the single interface pricing point currently used by each RTO (*i.e.*, real time weighing of proxy bus components). Such an approach, would provide a better indication of the impact of transmission constraints on trade between the two RTOs, and would achieve the greatest level of price transparency between PJM and the Midwest ISO, as well as the greatest level of price transparency possible with regard to trade between the regions.

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The RTOs are on schedule for reporting back to stakeholders on this initiative.

3. Shared Regulation Market.

PJM and the Midwest ISO recognize that this proposal would create a larger area over which a market is operated and thus, a more efficient market. The implementation of a shared regulation market between PJM and the Midwest ISO would require real time, two-second exchange of energy between the two regions. Before this initiative can be evaluated and implemented, however, it is necessary for control area consolidation and reserve market issues in the Midwest ISO to be resolved.

The RTOs are on schedule for reporting back to stakeholders on this initiative.

4. Common Time Zones (Modify PJM Systems to Eastern Standard Time).

This proposal would have moved PJM's systems to Eastern Standard Time ("EST") to align with the Midwest ISO. Assumed benefits of such a change were reduced ongoing IT costs (for both RTOs and market participants), reduced confusion when scheduling and interacting with both RTOs, and increased efficiency between market and system operators.

This proposal would move PJM's systems to Eastern Standard Time for the entire year to align with the Midwest ISO time standard. A PJM operations stakeholder group, the System Operations Subcommittee, assessed the impact on operations personnel and on PJM and stakeholder systems and recommended that PJM remain on Eastern prevailing time. At this time, PJM does not have plans to further pursue this initiative.

The RTOs are on schedule for reporting back to stakeholders on this initiative.

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5. Coordinated OASIS.

This proposal would link the PJM OASIS and the Midwest ISO OASIS nodes so there is single logon to both nodes simultaneously, thus allowing a single request to be submitted. The Midwest ISO and PJM recognize that there are user advantages created by this recommendation in that market participants would not need to use two separate nodes and it would allow Transmission Service Requests to be submitted once. There are, however, significant obstacles which require further evaluation. The obstacles include the limitation of OASIS Standards and Communications Protocol templates that will limit the functionality of the approach. Also, the benefits of this initiative will not allow requests to be linked for evaluation purposes.

This initiative was introduced after a cost/benefit analysis moved the Single OASIS initiative to a No Action category. The late introduction of this option did not permit time for the completion of a strong cost/benefit analysis or sufficient stakeholder input. Further investigation is required. In addition, the initiative to align OASIS business practices (See section IV.A.12. above) may result in enough significant benefits which may negate the value of this initiative.

The RTOs are on schedule for reporting back to stakeholders on this initiative.

C. **No Action Initiatives**

In the October 31 Filing, the RTOs reported that they and their stakeholders evaluated certain "No Action Initiatives." Those initiatives could not be justified on a cost/benefit basis and lacked sufficient stakeholder support to pursue at this time. As a result, those initiatives were not recommended for further consideration at the time of the

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October 31 Filing. The No Action Initiatives are more fully described in the October 31 Filing (pages 45-49 and Attachment D). The RTOs have not identified any changes to the status of the No Action Initiatives at this stage.

V. Modification to Reporting Period

Beginning with the December 30 Report, the RTOs ceased reporting on the inactive categories listed in earlier reports and instead focused on current issues and progress reports related to the joint and common market as set forth in the October 31 Filing. The RTOs propose to submit these periodic reports every 90 days following this filing. The filing of such reports every 90 days will align the reporting process with the joint RTO stakeholder process associated with the further evaluation, development and reporting of additional joint and common market initiatives as described in the October 31 Filing. Reporting at or about the time of the quarterly stakeholder meeting will allow the RTOs to more fully relate the staff work completed in preparation for the approaching quarterly meeting, and to update the Commission on stakeholder decisions from the previous meeting.

V. Conclusion

The Midwest ISO and PJM request that the Commission accept the foregoing Status Report.

Respectfully submitted,

/s/ Gregory A. Troxell

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Submitted on behalf of the Midwest
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