FTR Alignment

Joint Stakeholder Meeting
June 6, 2008

Introduction

- Joint Common Market Initiative
  - As part of the of the Midwest ISO and PJM “Joint and Common Market” (JCM) process, the Midwest ISO stakeholders began development of revised FTR market rules to better align with the PJM FTR market.
    - In an October 31, 2005, filing, the Midwest ISO and PJM committed to pursuing alignment of FTR timelines and products
- EPA 2005
  - Section 1233(b) of the Energy Policy Act of 2005 required that FERC assure RTO/ISO markets include mechanisms that allow
    - “load-serving entities to secure firm transmission rights (or equivalent tradable or financial rights) on a long-term basis…”
- On July 20, 2006, FERC issued Order No. 681 titled “Long-Term Firm Transmission Rights in Organized Electricity Markets” requiring RTOs to incorporate Long-Term Transmission Rights (LTTRs) into existing financial transmission rights markets

Introduction (cont.)

- The order provided regional flexibility, but established seven guidelines that all proposals must follow.
- The effort to address the requirements from JCM and Order No. 681 were combined to form the new Annual ARR Allocation methodology.
- After nearly a year of work, the Market Subcommittee passed a motion on January 9, 2007, to adopt new allocation procedures to
  - Modify the annual FTR allocation to better align with the PJM FTR market process.
  - Comply with Commission requirements for Long-Term Transmission Rights (LTTR).
- Midwest ISO submitted new FTR/ARR tariff sheets on January 29, 2007, per the 180-day compliance requirement in the Order No. 681.
- On May 17, 2007, FERC issued an order that largely accepted the January 29 filing and directed the Midwest ISO to implement the new allocation rules in 2008.

LTTR Guidelines

- LTTRs as Point-to-Point instruments
- Full funding of LTTRs
- Availability of LTTRs for transmission expansions
- LTTRs must have a term of at least 10 years
- LTTR priority for load serving entities over non-load serving entities
- Ability to re-assign LTTRs when another entity acquires the load obligation
- The initial allocation of LTTRs shall not require recipients to participate in an auction

LTTR Proposal Overview

In order to comply the May 17 FERC Order, the Annual FTR Allocation procedures were modified in the new tariff sheets to:

- Transition from an allocation of FTRs to an allocation of Auction Revenue Rights (ARRs)
- Provide certainty that Network Load may nominate and receive LTTRs
  - In the form of ARRs that may be self-scheduled as FTRs in the Annual FTR Auction
  - From base load generation resources
  - In a quantity sufficient to cover base load (50% of annual peak)
  - For a 10-year period (Annual ARRs with roll-over rights)

Implementation

- The implementation of ARR/LTTR mechanism was a 3-step process:
  - Initial data gathering
  - Annual ARR registration
  - Annual ARR Allocation
- The initial data gathering was conducted during August 1 – December 14, 2007
  - Conducted via templates
- Annual ARR Registration was conducted during December 17, 2007 – March 10, 2008
  - Conducted via ARR Admin Tool (Phase 1 cutover in the JCM milestone)

Implementation (cont.)

- Annual ARR Allocation was conducted during March 13, 2008 – April 22, 2008
  - Conducted via ARR/FTR System
  - The initial design for the ARR/LTTR related enhancements was initiated in July 2007 and the final system was put in production on February 26, 2008 (Phase 2 cutover in the JCM milestone)
  - The Stage 1A nomination began on March 13, 2008
- The ARR Allocation was followed with the Annual FTR Auction
  - The bidding window was opened during May 7 – 9, 2008
  - The Summer season auction results were posted on May 19, 2008
  - The Fall, Winter and Spring results were posted on May 28, 2008

Implementation (cont.)

- The Phase 3 cutover, as specified in JCM milestone, was moved into production by June 1, 2008.
- Phase 3 involves Settlement related changes.
- This concludes the JCM Alignment Initiative.
- There will be additional enhancements developed and implemented for the future annual allocations and auctions. These would be beyond the scope of the JCM Initiative.
  - The additional enhancements include long term aspects of the ARR related tariff sections and ability to conduct multi-round auction.