




2012 Annual Incentive Goals

Draft 2 – October HRC Review – Alternate Version

I. Timeline

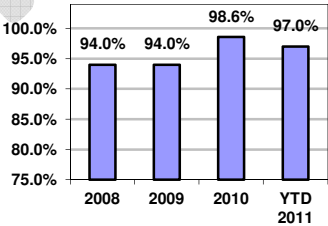
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|-----------------------------------|--|
| ☑ Q2 QBR (July 26 th) | Develop initial guidance on 2012 goals |
| ☑ August HRC Meeting | Review first draft of goals with Human Resources Committee |
| ☑ August 19 – October 15 | Finalize second draft goals |
| October 17 – November 9 | Stakeholder comment period |
| October HRC Meeting | Review Second draft of goals |
| December HRC/BOD Meeting | Review/approve final 2012 goals |

II. Goal & Metric Detail

2011 Incentive Goals and Metrics		2012 Incentive Goals and Metrics
Reliability, Compliance, and Markets (40%)		Core Performance Metrics Group I (35%)
1.1 Reliability Standards (40%)		1.1 Unit Commitment Efficiency (40%)
1.2 Balancing Control Performance (15%)		1.2 Balancing Control Performance (20%)
1.3 Unit Commitment Efficiency (35%)		1.3 Evaluate Transmission Path Discounts (10%)
1.4 Market Efficiency (10%)		1.4 Day-Ahead Post Time (15%)
Financial Control (10%)		1.5 System Availability (15%)
2.1 Operations Budget (75%)		Core Performance Metrics Group II (35%)
2.2 Capital Budget (15%)		2.1 Reliability Standards (25%)
Customer Service (20%)		2.2 Market Efficiency (20%)
3.1 Customer Satisfaction Survey (60%)		2.3 Operations Budget (20%)
3.2 Evaluate Transmission Path Discounts (10%)		2.4 Capital Budget (10%)
3.3 Optimize Point-To-Point Discounting Policies (10%)		3.4 Customer Satisfaction Survey (20%)
3.4 Day-Ahead Post Time (20%)		2.6 Customer Satisfaction Survey Participation (5%)
Strategic Elements (30%)		Strategic Initiatives (30%)
4.1 Support Integrated Infrastructure Investment, Promote the Value Proposition, and Sustain & Grow Membership (45%)		3.1 Business Operations Strategic Goals (50%)
4.2 Support and Foster Technology Introduction and Innovation (25%)		3.2 Product and Performance Enhancement Strategic Goals (50%)
4.3 Enhance Products and Performance (20%)		
4.4 Create a High Performance Organization (10%)		

1. Core Performance Metrics Group I (35%)

Core Performance Metrics are those which are essential to the operations of MISO and for which we have achieved a high current level of performance. Incentives for these activities require the maintenance of the established high performance level. Failure to maintain these performance standards will result in zero incentive for the metric.

	Metric	Wgt	Historic Performance	Required Performance										
1.1	<p><u>Unit Commitment Efficiency</u></p> <p>This metric is designed to ensure MISO effectively commits generation in its forward and intra-day processes to meet demand and mitigate constraints. Beginning in 2012 the metric will include forward RAC unit commitments which imposes a downward pressure on the metric performance. The metric has been a part of the plan since 2007. The metric score is based on the average daily score of the two unit commitment objectives:</p> <ul style="list-style-type: none"> Effectively commit generation to meet projected demand and provide adequate ramp capability. Effectively commit and de-commit units to mitigate constraints. <p>The measures of efficiency related to unit commitment and load forecast will minimize excess capacity and the uplift charges from an operational perspective. The ensuing charges will be a result of market participants' offers and bids in the market.</p>	40%	<p>The chart below lists historic performance on this goal, without inclusion of Forward RAC unit commitments. Adding this requirement would lower the YTD 2011 performance to approximately 95%.</p>  <table border="1"> <caption>Historic Performance on Unit Commitment Efficiency</caption> <thead> <tr> <th>Year</th> <th>Performance (%)</th> </tr> </thead> <tbody> <tr> <td>2008</td> <td>94.0%</td> </tr> <tr> <td>2009</td> <td>94.0%</td> </tr> <tr> <td>2010</td> <td>98.6%</td> </tr> <tr> <td>YTD 2011</td> <td>97.0%</td> </tr> </tbody> </table>	Year	Performance (%)	2008	94.0%	2009	94.0%	2010	98.6%	YTD 2011	97.0%	95%
Year	Performance (%)													
2008	94.0%													
2009	94.0%													
2010	98.6%													
YTD 2011	97.0%													
1.2	<p><u>Balancing Control Performance</u></p> <p>Control Performance Standard 1 and 2 (CPS1 & CPS2) are rolling 12-month measures of performance. This metric requires MISO to be compliant for each 12-month period throughout the year. BAAL is an alternative to the CPS2 standard, also based on a rolling 12-month measure.</p>	20%	<p>2009-2011: Compliant with CPS1 & CPS2 by year end. Zero Disturbance Control Standard violations caused by MISO Balancing Authority.</p>	Compliant with CPS1 and CPS2 (or BAAL for the duration of the field trial) and Zero Disturbance Control Standard violations caused by MISO BA										

Metric		Wgt	Historic Performance	Required Performance
1.3	<p><u>Evaluate Transmission Path Discounts</u></p> <p>Evaluate the discounted transmission paths that are significantly utilized and evaluate the undiscounted transmission paths that are not significantly utilized.</p> <p>Transmission interface discounts should encourage full utilization of the transmission system while not providing discounts where such discounts are unnecessary. To do so, it is appropriate to consider providing discounts on commercially viable interfaces that are not fully utilized, and it is appropriate to discontinue discounts on interfaces that are significantly utilized for which discounts are unnecessary.</p>	10%	Metric adopted in 2011. Annual results are not yet available, but performance is expected to be near the target level of 75%.	Evaluate 80% of discounted and undiscounted paths
1.4	<p><u>Day-Ahead Post Time</u></p> <p>Day-Ahead Post Time measures the availability and stability of the production platform. Success is driven by ability to address performance-driven technology issues. The metric will measure performance to the 4 hour window.</p>	15%	2011 YTD results of 99% posted on-time per the new 4-hour performance window	354 days (97%) posted on time
1.5	<p><u>System Availability</u></p> <p>This measure tracks the availability of Day Ahead Real-Time (DART) operations system. The measure tracks the availability of 5-minute Unit Dispatch System (UDS) cases. "Unavailable" or missed cases are defined as those that are skipped or presented to the Operator after the target dispatch interval because of a planned or unplanned system event or degradation of performance. Planned systems events include failovers, system maintenance, installing DART patches, model updates, etc. Unplanned events include server crashes, performance degradation, software bugs, etc. Operator decisions to skip a case are excluded.</p>	15%	99% available 2011 YTD	99% available

2. Core Performance Metrics Group II (35%)

These metrics represent areas where enhancements are strongly driven by annual performance. They may represent new business activities, areas requiring performance improvement, or areas of high performance variability. Incentives for these metrics vary based on the annual performance against goals. Results for Target performance correspond to 100% goal performance. Threshold performance equates to 50% of the target incentive amount and excellent performance equates to 200%. Performance above Excellent earns no additional incentive. Performance below Threshold equates to 0% for that category.

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Metric		Wgt	Historic Performance	Threshold	Target	Excellent
2.1	Reliability Standards	25%	2006-2011: No severe failures or violations.	See table below	See table below	No violations for FERC approved NERC reliability standards

MISO’s objective is to be fully compliant with all of the FERC approved NERC Reliability Standards. In the event one or more violations are assessed, the MISO Board of Directors will use its discretion to determine an appropriate impact to the incentive payout for this Goal. The guidance below is provided to assist the Directors in this determination.

Guidance:

Since the Sanctions Guideline Table is the best available tool to assess the actual significance of a violation across the broad spectrum of possible violations, the Directors are asked to consider a violation’s placement on that Table as they determine appropriate impacts to the incentive payout for this Goal. In the Table shown below, colored areas have been added for Board guidance. It should also be noted that all binary requirements in the standards currently carry a “Severe” Violation Severity Level. Binary requirements are those that are either met, or not met.

- If the assessment falls in the green area, the Board may elect to consider this a low level violation and elect to consider applying up to a 25% reduction of the total incentive compensation for this Goal. Likewise, if an assessed violation falls within the gray region, the Board may elect to consider applying up to a 50% reduction for each such violation.
- And if the assessment falls within the purple area, the Board may elect to consider applying a reduction of up to 100%.
- The self-report of a violation does not negate the fact of the violation. However, as the plan should not be administered in a punitive fashion so as to discourage self-reporting positive consideration may be given to lessen the impact of self-reports. The impact of any self-reported violation shall be considered on a case-by-case basis.

NERC Violation Assessment Table

Violation Risk Factor	Violation Severity Level			
	Lower	Moderate	High	Severe
Lower				
Medium				
High				

Metric		Wgt	Historic Performance	Threshold	Target	Excellent
2.2	Market Efficiency	20%	<p>*Historic performance listed above reflects the revised measure</p>	Market Funding Efficiency % ±15% of target	Market Funding Efficiency % ±10% of target	Market Funding Efficiency % ±5% of target

This metric tracks the alignment between the Financial Transmission Rights (FTR), the Day Ahead Energy Market and the Real Time Market. The ideal value for this metric is one hundred (100%). Target performance for this metric is 100%. Shortfalls in FTR Funding or Net Real Time Congestion Charges drive this measure below 100 percent, indicating that Transmission Capacity was oversold in the forward markets, or stated another way, the value of outstanding rights exceeds the flows that could be scheduled on the Transmission System. Surpluses in FTR Funding or Net Real Time Congestion Credits drive this measure above 100.

The metric is calculated as follows:

$$\text{Market Funding Efficiency} = (1 + ((\text{Financial Transmission Rights Shortfall} + \text{Real Time Excess Congestion charge Fund}) / (\text{Total Financial Transmission Rights Target Credit})) * 100\%$$

The calculation is an update to the one used in 2009-2011 replacing “Total Day Ahead Congestion” with “Total Financial Transmission Rights Target Credit.” This aligns with the FERC metric reports and more accurately reflects the value FTR holders are paid.

Metric		Wgt	Historic Performance/Results	Threshold	Target	Excellent												
2.3	Operations Budget ¹	20%	<table border="1"> <caption>Historic Performance/Results for Operations Budget</caption> <thead> <tr> <th>Year</th> <th>Performance (%)</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>-2.3%</td> </tr> <tr> <td>2008</td> <td>2.1%</td> </tr> <tr> <td>2009</td> <td>1.3%</td> </tr> <tr> <td>2010</td> <td>1.7%</td> </tr> <tr> <td>YTD 2011</td> <td>-1.2%</td> </tr> </tbody> </table>	Year	Performance (%)	2007	-2.3%	2008	2.1%	2009	1.3%	2010	1.7%	YTD 2011	-1.2%	±2.5% budget	±1.5% budget	±1.0% budget
Year	Performance (%)																	
2007	-2.3%																	
2008	2.1%																	
2009	1.3%																	
2010	1.7%																	
YTD 2011	-1.2%																	

Metric		Wgt	Historic Performance/Results	Threshold	Target	Excellent												
2.4	Capital Budget ²	10%	<table border="1"> <caption>Historic Performance/Results for Capital Budget</caption> <thead> <tr> <th>Year</th> <th>Performance (%)</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>-5.4%</td> </tr> <tr> <td>2008</td> <td>21.5%</td> </tr> <tr> <td>2009</td> <td>5.0%</td> </tr> <tr> <td>2010</td> <td>-4.7%</td> </tr> <tr> <td>YTD 2011</td> <td>-4.7%</td> </tr> </tbody> </table>	Year	Performance (%)	2007	-5.4%	2008	21.5%	2009	5.0%	2010	-4.7%	YTD 2011	-4.7%	±10% budget	±5% budget	±3% budget
Year	Performance (%)																	
2007	-5.4%																	
2008	21.5%																	
2009	5.0%																	
2010	-4.7%																	
YTD 2011	-4.7%																	

¹ Operating Budget for metric purposes = Base Operating Costs less Incentive Compensation. This metric also exclude New Member Integration costs.

² Capital Budget for metric purposes = Base Capital Projects plus Carmel Data Center budget to restore facility and replace IT equipment. The metric excludes Synchrophasor Project costs.

Metric	Wgt	Historic Performance/Results	Threshold	Target	Excellent								
2.5	Survey Feedback Rating	20%	72% of survey respondents providing an average rating of 5 or better on a 7 point scale	76% of survey respondents providing an average rating of 5 or better on a 7 point scale	80% of survey respondents providing an average rating of 5 or better on a 7 point scale								
		<table border="1"> <caption>Survey Feedback Rating Data</caption> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>55%</td> </tr> <tr> <td>2008</td> <td>76%</td> </tr> <tr> <td>2009</td> <td>74%</td> </tr> <tr> <td>2010</td> <td>72%</td> </tr> </tbody> </table>				Year	Percentage	2007	55%	2008	76%	2009	74%
Year	Percentage												
2007	55%												
2008	76%												
2009	74%												
2010	72%												

Metric	Wgt	Historic Performance/Results	Threshold	Target	Excellent						
2.6	Survey Participation Rate	5%	Survey participation is increased by 5% over 2010 levels	Survey participation is increased by 10% over 2010 levels	Survey participation is increased by 15% over 2010 levels						
		<table border="1"> <caption>Survey Participation Rate Data</caption> <thead> <tr> <th>Year</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>2008</td> <td>180</td> </tr> <tr> <td>2009</td> <td>170</td> </tr> <tr> <td>2010</td> <td>137</td> </tr> </tbody> </table>				Year	Count	2008	180	2009	170
Year	Count										
2008	180										
2009	170										
2010	137										

The customer satisfaction survey is independently administered by Opinion Dynamics Corporation (ODC). The MISO works with ODC in the development of the questions. The survey maintains consistency in questions from one year to the next for comparison of year-on-year results. New questions are added as services at MISO evolve. The survey attempts to measure all phases of customer interaction with the MISO.

The 2012 goals represent three enhancements: (1) the desire to continuously improve service, (2) the desire to have a continuous stream of customer feedback, and (3) the desire to increase participation and feedback.

3. Strategic Initiatives (30%)

These metrics represent milestone steps towards long-term strategic initiatives. These goals represent a strong pull on MISO resources. Their concurrent achievement requires significant coordination of resources and performance efficiency. Results are tabulated in total. Results for Target performance correspond to 100% goal performance. Threshold performance equates to 50% of the target incentive amount and excellent performance equates to 200%. Performance above Excellent earns no additional incentive. Performance below Threshold equates to 0% for this category.

Metric	Wgt	Threshold	Target	Excellent
3.1 Business Operations Strategic Goals	50%	1. Add a New Transmission Owner and Increase Net Load to the Market In evaluating the Company's growth performance the Board of Directors may use its discretion to base performance on the net impact of load served if one or more Transmission Owners takes substantive action to add or withdraw transmission assets from the functional control of the Company		
		2. SEAMS/PJM Pursuant to the Joint and Common Market: <ul style="list-style-type: none"> • Implement Enhanced Data Exchange with PJM to access (and provide) data at agreed upon frequency • Implement Shadow Calculation to verify PJM's calculation on a regular basis • Secure greater transfer deliverability of capacity on MISO SEAMS 		
		3. Data Center Metric 1 <ul style="list-style-type: none"> • Test, cutover, reversion strategies and plans completed and approved by IT Migration Steering Committee for all Mission Critical Applications by 7/1/12 		
		4. Data Center Metric 2 <ul style="list-style-type: none"> • All environments, both facilities (CDC/OC2) ready to commence end to end testing 12/31/12 • All moves and migrations for Non-Mission Critical Applications completed by 12/31/12 • Operations has completed and IT Migration Steering Committee has Approved the Operational Testing Plan in preparation of cutover by 12/31/12 		
		5. Workforce Demand Management Implementation (ChangePoint) Complete the implementation of the Workforce Demand Management tool to support on-going MISO performance efficiency efforts, to include: <ul style="list-style-type: none"> • Review rolling 6 quarter forecast of resources assigned to Key Projects at each Quarterly Business Review starting with Q2 2012 • Adjust resources as needed to achieve Key Deliverables associated with Key Projects by scheduled milestone dates 		

			<p>6. Compliance</p> <p>For new and revised high risk Tariff requirements that become effective after January 1, 2012, an initial self-assessment of the organization’s ability to comply will be conducted. Each Requirement Owner will conduct a self-assessment to be reviewed by the appropriate compliance personnel within 90 days of the effective date of the requirement, or the date of commission action imposing the requirement, whichever is later, to confirm the organization has implemented appropriate processes to produce adequate evidence to demonstrate compliance.</p> <p>Note: in the event the requirement does not trigger or occur immediately within the above referenced ninety day period, Requirement Owners will supply evidence sufficient to demonstrate that the organization has implemented appropriate processes to demonstrate compliance should the requirement occur.</p> <p>The target for this goal is 80% of those which are submitted for review within 90 days of the effective date pass the quality assurance review.</p>		
			<p>7. Diversity</p> <p><u>Supplier Diversity</u></p> <p>Economic inclusion opportunities of more than 10% for qualified diverse suppliers for: One time Request for Proposals (RFP) and Request for Quotations (RFQ) opportunities of \$100K of more; which could include annualized economic inclusion as a result of a multi-year Request for Proposals (RFP) and Request for Quotations (RFQ) award; Annualized economic inclusion addresses the annualized amount realized in multi-year contracts or proposals</p> <p><u>Employee Diversity</u></p> <p>The final pool for entry level and development level positions will include a minimum of 30% qualified women and/or minority candidates; “final pool” denotes those chosen to interview for the position; 30% is the aggregate average across all positions and does not apply to each position individually; “entry and development level” includes engineering, IT, and other professional positions below the Senior level</p>		
			<p>5 of 7 Goals Complete by 12/31/2012 or Listed Completion Date</p>	<p>6 of 7 Goals Complete by 12/31/2012 or Listed Completion Date</p>	<p>7 of 7 Goals Complete by 12/31/2012 or Listed Completion Date</p>

Metric	Wgt	Threshold	Target	Excellent
3.2 Product and Performance Enhancement Strategic Goals	50%	1. Multi-Period Monthly FTR Auction Complete the auction and technical design, stakeholder review, and file tariff changes with FERC required to implement a multi-period monthly FTR auction		
		2. Look Ahead Commit (LAC) Upon acceptance of file tariff changes, place Look Ahead Commit tool in production and begin issuing starts		
		3. Extended Locational Marginal Pricing (ELMP) Implementation <ul style="list-style-type: none"> • Complete detailed software design • Finalize cost and finalize implementation schedule 		
		4. Interchange Optimization Complete conceptual design and file tariff changes with FERC for Coordinated Interchange Scheduling with PJM or Real-time Dispatchable Transactions in MISO		
		5. Physical Scheduling System (PSS) Move MISO's Physical Scheduling System to the vendor's standard platform and upgrade the software to reduce the risk of performance and compliance issues and the cost to maintain the system; increase functionality to allow for MISO-specific validations and functionality that will enhance operational excellence, compliance and customer service This goal requires the upgraded system to be in production by year-end		
		6. Open Access Same-time Information System (OASIS) Replace or upgrade the OASIS system to one that is: <ul style="list-style-type: none"> • Cost effective to maintain compliance with regulatory requirements • Increases operational efficiency • Reduces costs to comply with new standards • Reduces the risk of compliance with new standards • Increases the reliability of the OASIS system • Delivers efficiency gains through a more automated tariff administration process This goal requires the new or upgraded system to be in production by year-end		

			<p>7. Resource Adequacy Develop and implement enhancements to the Resource Adequacy application including adding locational market mechanisms (required by a June 8, 2011 FERC order), enhanced load forecasting processes, retail load tracking and capacity settlement, and enhanced auction mechanism This goal requires the upgraded system to be in production by year-end</p>		
			<p>5 of 7 Goals Complete by 12/31/2012 or Listed Completion Date</p>	<p>6 of 7 Goals Complete by 12/31/2012 or Listed Completion Date</p>	<p>7 of 7 Goals Complete by 12/31/2012 or Listed Completion Date</p>

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Appendix

Purpose and structure of Incentive Plans, Goals, and Metrics: MISO has established incentive plans, goals, and metrics for Officers and other employees of the company consistent with our Rewards Philosophy. Specific to Incentives, the Philosophy states:

- Incentive awards will be based primarily on enterprise-wide and team performance. In particular, annual incentive opportunities will be based on the major areas of organization focus (e.g., operations, customer service, etc.).
- Given MISO's paramount goal of reliability and top-quality operations, operational excellence will be particularly emphasized in the annual incentive plan.
- Behaviors and core values are expected as a base line level of performance; consequently, annual incentive awards will be based on progress toward and achievement of results.

The goals in this plan, including target levels of performance and pay, reflect this philosophy.

The goals are formally vetted through a stakeholder comment process. All incentive plan goals are reviewed and approved by the Board, with authority delegated to the Human Resources Committee of the Board. The Board reviews the goals for a balance between stretch achievement and attainable results.

The criteria selected by the Board includes a minimum performance standard below which no incentive will be earned, below the "Threshold," and a maximum performance level above which no increased payment will be made, the "Maximum".

Determining overall performance: Overall performance is determined based on the results from each category. Results for the Core Performance Metrics Group I will be evaluated with a pass/fail result. Meeting or exceeding the performance goal will earn the target award for that metric. A failure to meet the goal will result in no reward for that metric.

For the Core Performance Metrics Group II and Strategic Initiatives, results of Target performance correspond to 100% Incentive plan performance. Threshold performance equates to 50% of the target incentive amount and Excellent performance equates to 200%. Performance above Excellent earns no additional incentive. Performance below Threshold equates to 0% for that category. When determining performance for results which fall between each specified performance level (Threshold, Target, and Excellent) a linear interpolation is used.

The Board of Directors has the responsibility to review the overall performance of the company and make any adjustments to the total plan performance as may be indicated by that performance.