

February 28, 2002

**VIA FEDERAL EXPRESS**

Mr. Dale Hardy Roberts  
Secretary/Chief Regulatory Law Judge  
Missouri Public Service Commission  
Governor Office Building  
200 Madison Street, Suite 100  
Jefferson City, MO 65101



**FILED<sup>2</sup>**  
MAR 01 2002  
Missouri Public  
Service Commission

Re: In the matter of the Application of Union Electric Company  
(d/b/a AmerenUE) for an Order Authorizing It to Withdraw  
from the Midwest ISO to Participate in the Alliance RTO  
Case No. EO-2001-684

Dear Mr. Roberts:

Enclosed for filing in the above-referenced matter are an original and eight (8)  
copies of Union Electric Company's **Status Update and Motion for Continued  
Abeyance.**

Please kindly acknowledge receipt of this filing by stamping as filed a copy of this  
letter and returning it to the undersigned in the enclosed, self-addressed, stamped  
envelope.

Sincerely,

A handwritten signature in cursive script, appearing to read "David B. Hennen".

David B. Hennen  
Associate General Counsel

DBH:rd  
enclosures  
cc: Parties of Record

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

FILED<sup>2</sup>  
MAR 01 2002  
Missouri Public  
Service Commission

In the matter of the Application of Union )  
Electric Company (d/b/a AmerenUE) for an )  
Order Authorizing It to Withdraw from the )  
Midwest ISO to Participate in the Alliance RTO )

Case No. EO-2001-684

**STATUS UPDATE AND MOTION FOR CONTINUED ABEYANCE**

COMES NOW Union Electric Company d/b/a AmerenUE ("Company" or "UE") and pursuant to 4 CSR 240-2.080 hereby submits a status update, as directed by the Missouri Public Service Commission ("Commission") in its February 11, 2002 order, and further requests that the Commission continue to hold this proceeding in abeyance until May 1, 2002, and in support thereof the Company states the following:

In the *Alliance Companies, et al.*, "Order on Requests for Rehearing," 97 FERC ¶ 61,327 (December 20, 2001) issued by the Federal Energy Regulatory Commission ("FERC") (the "December 20 Order"), FERC directed the Alliance Companies, which includes AmerenUE, to explore how the Alliance business plan (including the proposal for National Grid to become the managing member of the Alliance) can be accommodated within the Midwest ISO. The December 20 Order directed the Alliance Companies "to file a statement of their plans to join an RTO [with FERC], including the timeframe, within 60 days of the date of [the December 20] order."

**The Filings**

On February 19, 2002, the Alliance Companies, the Midwest ISO, Virginia Electric and Power Company, and Consumers Energy Company and Michigan Electric Transmission

Company each made filings in response to the December 20 Order. These filings are attached hereto as Attachment 1 through 4 respectively. On February 25, 2002, the Midwest ISO also filed a response to the Alliance Companies' February 19, 2002 filing. This filing is attached hereto as Attachment 5.

In addition to these filings made in response to the December 20 Order, the Alliance Companies also have filed with FERC a request for rehearing of the "Order on Request for Rehearing" (i.e. the December 20 Order) and a request for rehearing of the order issued in Docket Nos. RT01-87-000, RT01-97-001, ER02-106-000 and ER-02-108-000 (not consolidated) (i.e. the order granting the Midwest ISO RTO status). These filings are attached hereto as Attachments 6 and 7 respectively. Moreover, the Alliance Companies also have filed a Petition for Review with the District of Columbia Circuit Court of Appeals for the orders issued by FERC in *Alliance Companies, et al.*, "Order on RTO Filing," 96 FERC ¶ 61,052 (July 12, 2001), and *Alliance Companies, et al.*, "Order on Requests for Rehearing," 97 FERC ¶ 61,327 (December 20, 2001). This Petition for Review is attached hereto as Attachment 8.

### **SUMMARY OF EACH OF THE FILINGS**

1. **The Alliance Companies' Report (Attachment 1):** The Alliance Companies' report filed with FERC detailed their plans to form the Alliance GridCo as a limited liability company with National Grid as the managing member, and to operate under the umbrella of the Midwest ISO, or another approved RTO. The Alliance Companies' plan includes the following:

- The Alliance GridCo would be established as an independent transmission company under the Midwest ISO RTO umbrella;
- The Midwest ISO RTO will have full oversight authority and responsibility for the entire RTO region;
- The Alliance Companies and National Grid support developing one electricity market in the Midwest;

- Alliance Companies and National Grid will participate as stakeholders in the joint process established by the Midwest ISO and PJM to develop a wholesale energy market;
- The Midwest ISO RTO will calculate Available Transmission Capacity ("ATC") for the entire Midwest ISO RTO region;
- The business plan provides for one-stop shopping for the entire Midwest ISO RTO region;
- The business plan provides a single security coordinator (the "reliability authority") for the entire Midwest ISO RTO region.

The filing also reports that extensive negotiations with the Midwest ISO have focused on the allocation of functions between the Midwest ISO RTO and Alliance GridCo as an independent transmission company. Discussions regarding costs of the Midwest ISO RTO service and transmission rates also have been underway. Moreover, significant progress has been made on the terms of the refund of \$60 million collectively paid to the Midwest ISO by Illinois Power, Commonwealth Edison and Ameren for the right to withdraw from the Midwest ISO.

2. **The Midwest ISO Report (Attachment 2):** The Midwest ISO report filed with FERC primarily details the Midwest ISO's plan for interim operations. However, within the Midwest ISO report, the Midwest ISO notes "that despite the substantial time and effort spent in the discussions [between the Midwest ISO and the Alliance Companies during their weekly meetings], the parties have not found a solution to the challenges of [integrating the Alliance Companies' business plan] that is acceptable to the Alliance Companies, National Grid Company, the Midwest ISO and its stakeholders."

3. **The Virginia Electric and Power Company (Attachment 3):** This report was submitted as a supplement to the report submitted by the Alliance Companies. The report outlines the frustration that Virginia Electric and Power Company has experienced throughout the RTO formation process at the state and federal levels. As a result of the uncertainty over

state and federal RTO policies and alternatives, Virginia Electric and Power Company cannot offer a plan that provides absolute certainty on the timeframe for joining an RTO.

4. **Consumers Energy Company and Michigan Electric Transmission Company Report (Attachment 4):** The report filed by Consumers Energy Company and Michigan Electric Transmission Company points out that the transmission assets owned by these companies are in the process of being transferred to Michigan Transco Holdings, Limited. Until the transfer of these assets is closed, Consumers Energy Company and Michigan Electric Transmission Company intend to continue working with the Alliance Companies and the Midwest ISO on a process and structure by which the Alliance Companies can be brought in to the Midwest ISO RTO.

5. **The Midwest ISO's Response to the Alliance Companies' February 19 Report (Attachment 5):** This filing was submitted by the Midwest ISO in response to the Alliance Companies' February 19 report. Essentially the report outlines the status of the negotiations between the Midwest ISO and the Alliance Companies and identifies areas of continued dispute from the perspective of the Midwest ISO. The report also outlines what the Midwest ISO believes are the key principles for accommodating the Alliance GridCo under the Midwest ISO. Moreover, the Midwest ISO report acknowledges that quick resolution of the issues remaining between the Midwest ISO and the Alliance Companies may only be accomplished if state utility commissions and/or the FERC are invited to participate in the ongoing discussions.

6. **Alliance Companies' Request for Rehearing of the "Order on Request for Rehearing" (i.e. the December 20 Order) (Attachment 6):** This request for rehearing was filed by the Alliance Companies primarily to preserve their legal rights in the event that the

negotiations with the Midwest ISO fail to yield a reasonable approach for folding the Alliance Companies' business plan under the Midwest ISO.

7. **Alliance Companies' Request for Rehearing of the order issued in Docket Nos. RT01-87-000, RT01-97-001, ER02-106-000 and ER-02-108-000 (not consolidated) (i.e. the order granting the Midwest ISO RTO status) (Attachment 7):** This request for rehearing also was filed by the Alliance Companies primarily to preserve their legal rights in the event that the negotiations with the Midwest ISO fail to yield a reasonable approach for folding the Alliance Companies' business plan under the Midwest ISO.

8. **Petition for Review (Attachment 8):** This petition for review was filed by the Alliance Companies with the District of Columbia Circuit Court of Appeals for a couple of reasons. One, there is procedural uncertainty regarding the Alliance Companies' ability to request rehearing of the FERC's order on rehearing issued December 20, 2001 (i.e. the order denying the Alliance RTO's request for RTO status). Secondly, the Alliance Companies want to preserve their legal right of review of the order issued by FERC on July 12, 2001. However, if the negotiations with the Midwest ISO are successful, it is likely that the Alliance Companies will withdraw their Petition for Review.

### **MOTION FOR CONTINUED ABEYANCE**

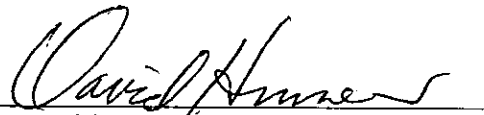
Within the reports filed by the Alliance Companies and the Midwest ISO, there is a clear indication that continued negotiations between the parties is desired and necessary. In fact, as the Midwest ISO has suggested in their response to the Alliance Companies' status report, quick resolution of the issues remaining between the Midwest ISO and the Alliance Companies may only be accomplished if state utility commissions and/or the FERC are invited to participate in the ongoing discussions. The Company agrees. Moreover, the Company remains optimistic that

these ongoing discussions can result in an agreement between the Midwest ISO and the Alliance Companies. In the event such an agreement is reached, the request made in the Company's application to withdraw from the Midwest ISO to participate in the Alliance RTO may become moot.

As such, the Company respectfully requests that the Commission continue to hold this proceeding in abeyance until May 1, 2002 in order to provide the Midwest ISO and the Alliance Companies with additional time to reach resolution of the outstanding issues.

Respectfully submitted,

UNION ELECTRIC COMPANY  
d/b/a AmerenUE

By: 

David Hennen, MBE #46776  
Associate General Counsel  
Ameren Services Company  
One Ameren Plaza  
1901 Chouteau Avenue  
P.O. Box 66149 (MC 1310)  
St. Louis, MO 63166-6149  
314-554-4673  
314-554-4014 (fax)  
dhennen@ameren.com

Dated: February 28, 2002

**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing document was sent by U.S. Mail to the following parties of record on this 28<sup>th</sup> day of February, 2002:

General Counsel  
Missouri Public Service Commission  
P.O. Box 360  
Jefferson City, MO 65102

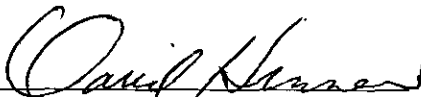
Office of the Public Counsel  
P.O. Box 7800  
Jefferson City, MO 65102

Diana M. Vuylsteke  
Bryan Cave LLP  
One Metropolitan Square  
211 North Broadway, Suite 3600  
St. Louis, MO 63102-2750

Duncan E. Kincheloe  
Missouri Public Utility Alliance  
2407 W. Ash  
Columbia, MO 65203-0045

Lisa C. Langeneckert  
Law Office of Robert C. Johnson  
720 Olive Street, Suite 2400  
St. Louis, MO 63101

Robin E. Fulton  
Schnapp, Fulton, Fall, McNamara & Silvey  
135 East Main Street  
P.O. Box 151  
Fredericktown, MO 63645-0151

  
David B. Hennen



February 19, 2002

**VIA MESSENGER**

Ms. Magalie Roman Sales  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, DC 20426

**Re: The Alliance Companies, Docket No. RT01-88-\_\_, et al.**

Dear Ms. Salas:

On behalf of the Alliance Companies<sup>1</sup> please accept for filing the original and fourteen copies of this transmittal letter and the enclosed attachment as the Alliance Companies' report on the status of negotiations to accommodate the Alliance business plan underneath an RTO umbrella. This report is submitted in compliance with the Commission's December 20, 2001 Order in this proceeding requiring the Alliance Companies to explore whether their business plan can be successfully accommodated underneath an RTO umbrella.<sup>2</sup> Although the Commission directed the Alliance Companies to submit this report, National Grid, which will serve as the independent managing member of Alliance Transmission Company, LLC ("Alliance GridCo"), is actively participating in all of the negotiations described in this report and joins in the report.

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<sup>1</sup> The Alliance Companies are Ameren Services Company ("Ameren") (on behalf of Union Electric Company and Central Illinois Public Service Company), American Electric Power Service Corporation ("AEP") (on behalf of Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company, and Wheeling Power Company), The Dayton Power and Light Company ("Dayton"), Exelon Corporation ("Exelon") (on behalf of Commonwealth Edison Company and Commonwealth Edison Company of Indiana, Inc.), FirstEnergy Corp. ("FirstEnergy") (on behalf of American Transmission Systems, Inc., The Cleveland Electric Illuminating Company, Ohio Edison Company, Pennsylvania Power Company, and The Toledo Edison Company), Illinois Power Company ("Illinois Power"), and Northern Indiana Public Service Company ("NIPSCO"). While members of the Alliance, Consumers Energy Company, along with its wholly-owned subsidiary Michigan Electric Transmission Company, and Virginia Electric and Power Company intend to file separate reports to the Commission.

<sup>2</sup> *Alliance Companies, et al.*, "Order on Request for Rehearing," 97 FERC ¶ 61,327 (2001), slip op. at 3 and 4 ("Alliance VT").

## **I. Executive Summary**

This report is a good faith response to the Commission's directive in *Alliance VI*. The report describes the separate discussions underway with the Midwest ISO and PJM to find a way to accommodate Alliance GridCo underneath the RTO umbrella of one of these organizations. The report describes a modified Alliance business plan whereby Alliance GridCo would be established as an independent transmission company ("ITC") under the plenary authority of an RTO. The tiered approach envisioned in this report enables Alliance GridCo to perform functions essential to its viability as an independent transmission business under the plenary oversight of the RTO. The participation of Alliance GridCo within an RTO does not involve, as some have alleged, the creation of "an RTO within an RTO", or the continuation of the Inter-RTO Cooperation Agreement ("IRCA") within the Midwest. The participation of Alliance GridCo within an RTO, as described in this report, would comply with all of the requirements of *Alliance VI* and with Order No. 2000, and would significantly advance the Commission's goals for seamless market operations in the Eastern Interconnection. These requirements and goals would be met by, among other things, the following:

- Alliance GridCo's operation as an independent transmission business under an RTO umbrella;
- The plenary oversight responsibility of the RTO for the entire RTO Region (including the Alliance area);
- The determination of Available Transmission Capacity ("ATC") by the RTO for the entire RTO Region (including the Alliance area);
- The establishment of one-stop shopping over the entire RTO Region (including the Alliance area);
- The authority of the RTO as the single security coordinator (a/k/a "the reliability authority") for the entire RTO region (including the Alliance area); and
- The development of one energy market within the footprint of the RTO<sup>3</sup>;

The Alliance Companies and National Grid are continuing their discussions with the Midwest ISO and PJM and intend to supplement this report no later than March 5, 2002.

## **II. Background**

Immediately prior to the Commission's order of December 20, 2001, the Alliance Companies' RTO proposal had been substantially approved, and the parties were awaiting a final order on rehearing and approval of National Grid as the independent decision-maker and managing member in order for the Alliance RTO to become operational. Operations were projected to begin in March 2002 and, as required by the Settlement Agreement, would have resulted in non-discriminatory transmission service throughout the Alliance-Midwest ISO Super-

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<sup>3</sup> Alliance GridCo and the Alliance Companies intend to participate as a stakeholder in the joint process established by the Midwest ISO and PJM to develop a wholesale energy market.

Region at non-pancaked license plate rates.<sup>4</sup> In a series of orders issued prior to December 20, 2001, the Commission consistently encouraged the Alliance Companies to pursue development of the Alliance RTO and found that the Alliance RTO substantially satisfied the RTO characteristics and functions of Order No. 2000.<sup>5</sup>

On December 20, 2001, however, the Commission issued *Alliance VI* which reversed prior findings that the Alliance RTO has adequate scope and concluded that there should be only one RTO (the Midwest ISO) in "the Midwest." As Commissioner Breathitt noted in her dissent, *Alliance VI* marks an abrupt and sudden departure from the road map the Commission drew in prior orders. Relying upon the Commission's roadmap, the Alliance Companies expended tremendous effort and incurred significant expense in building the infrastructure and the information and technology (IT) systems necessary for the Alliance RTO to become operational.<sup>6</sup> Making every attempt to meet the Order No. 2000 goal of a December 15, 2001 operational date for RTOs, and in reliance on the Commission's orders approving the Alliance RTO and directing the Alliance Companies to implement their proposal, the Alliance Companies incurred, or committed to incur, approximately \$90 million in start-up costs for formation of the Alliance RTO.<sup>7</sup> In their pending request for rehearing, the Alliance Companies have urged the Commission to reverse its findings in *Alliance VI* and to restore the road map that was in place and relied upon prior to December 20, 2001.

### III. Alliance Business Plan

The Alliance business plan is based upon the formation of Alliance GridCo which will be operated by a wholly-owned subsidiary of National Grid, an entity independent of market participants.<sup>8</sup> Alliance GridCo will be an independent transmission business capable of: providing reliable and non-discriminatory transmission service over a vast interconnected system; attracting and making investment in necessary transmission facilities; and, providing a ready vehicle for the divestiture of transmission facilities.

<sup>4</sup> *Illinois Power Company, et al.*, 95 FERC ¶ 61,183 (2001), *reh'g denied*, 96 FERC ¶ 61,026 (2001); *see also*, "Alliance Companies' Report and Update on IRCA Implementation: Building A Strong Foundation For A Seamless Market" filed on October 9, 2001 in Docket No. RT01-88-000.

<sup>5</sup> *Alliance Companies, et al.*, 89 FERC ¶ 61,298 (1999) ("*Alliance I*"), *order on compliance filings and reh'g*, 91 FERC ¶ 61,152 (2000) ("*Alliance II*"), *order on compliance filings and reh'g*, 94 FERC ¶ 61,070 ("*Alliance III*"), *reh'g denied*, 95 FERC ¶ 61,182 (2001) ("*Alliance IV*") and *Alliance Companies*, 96 FERC ¶ 61,052 (2001) ("*Alliance V*").

<sup>6</sup> None of the systems or infrastructure implemented by the Alliance Companies implicated market design issues or any functions for which the Alliance RTO has not already received regulatory approval. Moreover, all independence-related decisions or responsibilities were reserved for the independent decision-maker.

<sup>7</sup> Comments of Alliance Companies, December 7, 2001, Affidavit of Stanley F. Szwed at 6 in Docket Nos. RM01-12-000 and RT01-88-000. Mr. Szwed identifies approximately \$75 million in start-up expenses for the Alliance RTO, exclusive of legal/regulatory expenses. With the addition of legal, regulatory and consulting expenses incurred in support of their RTO proposal, the total start-up budget for the Alliance RTO is approximately \$90 million.

<sup>8</sup> *National Grid USA, et al.*, 97 FERC ¶ 61,363 (2001).

Either as a stand-alone RTO -- if the Commission grants the Alliance Companies' pending request for rehearing -- or as an entity operating underneath the umbrella of another RTO, Alliance GridCo is poised to be the first ITC to provide non-discriminatory transmission service across a vast area that encompasses 54,100 miles of transmission lines, a population of 34.8 million people in nine states and a peak load of nearly 100,800 MW. Alliance GridCo is as large, or larger, than any proposed or approved RTO, including the Midwest ISO. However, the Alliance Companies and National Grid will form Alliance GridCo *only if* there is a reasonable business proposition for the company to operate as a viable ITC that owns or has functional control over all of transmission facilities within the Alliance. In fact, the Commission stated in *Alliance VI* that it is "confident that the Alliance Companies' desire to be a viable transmission business can be accommodated underneath the Midwest ISO umbrella."<sup>9</sup>

If formed, Alliance GridCo would be structured in a manner consistent with the Alliance business plan filed by the Alliance Companies and National Grid on August 27, and November 1, 2001 in this proceeding. The Commission's rejection in *Alliance VI* of the Alliance RTO proposal may require revisions to the definitive agreements filed as part of the Alliance business plan on November 1, 2001 to reflect the business proposition available for Alliance GridCo as an ITC participating within an RTO, rather than as a stand-alone RTO. Nevertheless, the Alliance Companies and National Grid desire to conclude a business transaction that will enable Alliance GridCo to be formed and meet the transmission service and business goals outlined in this report. Consistent with the Commission's directive, the Alliance Companies and National Grid are pursuing negotiations with prospective RTOs with the goal of accommodating the essential elements of the Alliance business plan as previously filed, with the understanding that some functions will not be performed by Alliance GridCo but will shift to the RTO in which Alliance GridCo participates, and that the RTO will oversee many of the operations of Alliance GridCo.

In the comprehensive business plan filings previously submitted, National Grid, through one or more affiliates, would make a substantial investment in, and serve as the managing member of the company, and would assume functional control over the transmission facilities of the Alliance Companies as of the operational start date. Functional control over facilities not yet contributed to Alliance GridCo would be accomplished through an operation agreement, with an initial term of seven years. The seven year term is necessary to provide Alliance GridCo with the latitude and independence necessary to make decisions geared toward the long-term improvement of the entire transmission network within the Alliance area.

The Alliance business plan outlines the first transaction that will provide an *experienced independent company* to manage transmission operations and, equally important for the future of competition in wholesale power markets, make a *major financial investment* in acquiring transmission assets from traditional utilities across a large contiguous area and deploying new assets and technologies to reduce congestion and improve service. With National Grid, through

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<sup>9</sup> *Alliance VI*, 97 FERC ¶ 61,327, slip op. at 4.

a special purpose subsidiary, in control as managing member, Alliance GridCo will be governed by an independent, well-established, well-capitalized and experienced transmission company that will commit to make a significant investment of capital in the enterprise that it will manage.

National Grid would contribute not less than \$1 billion to Alliance GridCo to fund purchases of existing Alliance transmission facilities and construction of new transmission facilities. The Alliance business plan provides commercially feasible mechanisms for ongoing investment by National Grid, as well as outside financial investors. Going well beyond the requirements of Order No. 2000, the plan also provides commercially feasible mechanisms for transmission owners participating in Alliance GridCo to divest their transmission facilities to the company,<sup>10</sup> thereby separating the ownership, as well as the day-to-day operation, of transmission assets from influence by market participants and placing it in the hands of an experienced and financially motivated independent transmission operator. The business plan would provide Alliance GridCo with the opportunity to consolidate ownership, over time, of transmission facilities within the Alliance area and beyond. The Alliance Companies and National Grid share a common vision of Alliance GridCo as an owner and operator of a large interconnected transmission system, subject to Commission regulation. Alignment of ownership and operation provides the greatest incentive for efficient operations and the greatest accountability for poor performance. As an owner/operator, Alliance GridCo will face economic incentives and liabilities that will discipline its business conduct. A non-owner/operator (e.g., an ISO) faces none of these economic incentives or liabilities, and thus its ratepayers -- the customers within the region -- are inevitably left responsible for its commercial conduct or poor performance.

The Alliance business plan also provides a basis for Alliance GridCo to conduct an Initial Public Offering ("IPO") that could occur as early as three years following formation of Alliance GridCo, depending upon various factors including market conditions and the exercise of rights under the LLC Agreement and related agreements. The Alliance Companies have long indicated their support for an IPO and the formation of a publicly-held company as the owner of Alliance GridCo. An IPO is only feasible after allowance for a sufficient period for Alliance GridCo to establish an operating record and to build a sizable asset base. The business plan provides a foundation for each of these requirements to be met. The plan also provides incentives for the contribution of assets, and the free transferability of units issued in exchange for facilities or other contributions. Finally, the Alliance business plan satisfies the Commission's requirements for independence, including provisions to protect Alliance GridCo from influence by market participants.

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<sup>10</sup> While no definitive divestiture agreements have been reached, Commonwealth Edison has formally given notice of its intent to divest transmission facilities valued at over \$1 billion on a gross book basis. Other Alliance transmission owners are interested in divesting their transmission assets to Alliance GridCo, but no other formal notices have been provided.

#### IV. Discussions To Accommodate The Alliance Business Plan Underneath An RTO

##### A. Summary

Although the Alliance Companies remain convinced that approval of the Alliance RTO is in the public interest and provides the most direct and economical path toward realization of the goal of independent, non-discriminatory and cost-efficient operation of the Alliance transmission system, the Alliance Companies have embarked *diligently and in good faith* on the new path charted by the Commission on December 20, 2001. The Commission's directive to the Alliance Companies in *Alliance VI* requires the Alliance Companies to engage the Midwest ISO in discussions aimed at accommodating the Alliance business model underneath the Midwest RTO, while also allowing similar discussions with other RTOs.<sup>11</sup> As directed, the Alliance Companies and National Grid have undertaken extensive and detailed negotiations with the Midwest ISO to explore ways in which Alliance GridCo<sup>12</sup> can participate within the Midwest ISO as a viable transmission business. These negotiations have included seven face-to-face meetings held at least weekly since January 7, 2002, the exchange of data and information, and a number of discussions on specific issues. Because three of the Alliance Companies are directly interconnected with PJM and several actively trade in PJM markets, the Alliance Companies and National Grid are also engaged in on-going discussions with PJM to explore how Alliance GridCo can be successfully accommodated within PJM, or PJM West.

The goals for both the Midwest ISO and PJM discussions are largely the same and are consistent with the Commission's December 20, 2001 orders. The Alliance Companies desire to form Alliance GridCo with National Grid as the managing member; however, Alliance GridCo will not be formed until both the Alliance Companies and National Grid are satisfied that Alliance GridCo can operate as a successful transmission business underneath an RTO umbrella, consistent with the Commission's December 20, 2001 orders. Assuming Alliance GridCo is formed, then Alliance GridCo would enter into an agreement with either the Midwest ISO or PJM to establish the allocation of functions and on-going operational relationship between the RTO and Alliance GridCo. Consistent with the allocation of functions and responsibilities, the agreement would allow Alliance GridCo to purchase certain services from the RTO and to self-provide other services essential to the success of Alliance GridCo's business. The Alliance Companies and National Grid expect that Alliance GridCo would make maximum use of the existing infrastructure, including IT systems, built for the Alliance RTO. This infrastructure is sufficient to provide all of the functions necessary for an RTO as outlined in Order No. 2000. Nevertheless, because of the directive of *Alliance VI* that the Alliance business plan be accommodated under an RTO umbrella, some of the infrastructure investment made to date by the Alliance Companies to enable the stand-alone Alliance RTO to become operational may

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<sup>11</sup> *Alliance VI*, 97 FERC ¶ 61,327, slip op. at 16.

<sup>12</sup> Alliance GridCo refers to the Alliance Transmission Company LLC that will be formed with National Grid as managing member provided the Alliance business model can be successfully accommodated within an RTO.

become "trapped."<sup>13</sup> Costs prudently-incurred on behalf of the Alliance RTO, in reliance on Commission orders, that become "trapped" should not be borne by shareholders of the Alliance Companies. The Alliance Companies have taken the position in these negotiations that Alliance "trapped" costs should not be borne by transmission customers taking service under the Midwest RTO OATT or the PJM RTO OATT, but rather should be costs that are recovered under the Alliance GridCo OATT. Similarly, customers taking transmission service under the Alliance GridCo OATT should be shielded from responsibility for Midwest ISO costs or PJM costs that are not directly attributable to the services purchased by Alliance GridCo. This is a fair and equitable approach that will avoid cost shifts and cross-subsidization.

Another goal pursued by the Alliance Companies in the discussions with the Midwest ISO and PJM is the ability to maintain a rate design methodology and revenue distribution arrangement within the RTO that preserves revenue neutrality for transmission owners during a transition period by providing for the recovery of revenues lost from the elimination of pancaking. The existing Settlement Agreement between the Alliance Companies, the Midwest ISO and the Midwest ISO transmission owners expressly addresses this issue and establishes a transition period rate design and related revenue distribution arrangement between the Alliance and the Midwest ISO that maintains revenue neutrality while providing non-discriminatory access throughout the Alliance-Midwest ISO Super Region for single (non-pancaked) transmission rates.<sup>14</sup> The Settlement Agreement has been approved by the Commission in a final and non-appealable order and must be honored by the Midwest ISO and its transmission owners. The Commission has also approved a lost revenues recovery mechanism for PJM West<sup>15</sup> and a goal of the Alliance Companies in the PJM discussions is to ensure the fair and equitable application of that mechanism to their participation within PJM.

Finally, if Alliance GridCo participates within the Midwest RTO, the Illinois Companies participating in Alliance GridCo (Illinois Power, Commonwealth Edison and Ameren) expect a refund of the \$60 million they collectively paid to the Midwest ISO in exchange for the right to withdraw from the Midwest ISO and join the Alliance RTO as part of a comprehensive Settlement Agreement approved by the Commission in a final and non-appealable order.<sup>16</sup> Obviously, this issue is unique to the Midwest ISO discussions.

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<sup>13</sup> This refers to costs previously incurred to enable the performance of Alliance RTO functions where the responsibility for performing the function(s) shifts to an approved RTO. Assuming the RTO does not find it economical to acquire the systems built by the Alliance Companies for the performance of the acquired RTO function, the Alliance costs are "trapped."

<sup>14</sup> Article IV of the Settlement Agreement.

<sup>15</sup> *PJM Interconnection, L.L.C.*, 96 FERC ¶ 61,060 (2001).

<sup>16</sup> *Illinois Power Company, et al.*, 95 FERC ¶ 61,183 (2001), *reh'g denied*, 96 FERC ¶ 61,026 (2001).

## **B. Discussions with the Midwest ISO**

Since receipt of the December 20, 2001 order, the Alliance Companies and National Grid have engaged the Midwest ISO in negotiations directed at the development of an agreement for the participation of Alliance GridCo underneath the Midwest RTO. The parties have had numerous telephone contacts, seven face-to-face meeting among principals, and a number of meetings among technical experts to discuss operational issues. The parties have exchanged a number of proposals and counterproposals on various issues, including 1) the allocation of functions and the operational relationship between the Midwest RTO and Alliance GridCo, 2) services to be purchased by Alliance GridCo from the Midwest ISO and the proper allocation of the Midwest ISO's capital and operating costs to those services, 3) an appropriate rate design methodology and revenue distribution for transmission service within the Midwest RTO (including the Alliance area), and 4) repayment of the \$60 million paid by the three Illinois Companies in exchange for the right to withdraw from the Midwest ISO.

Representatives of the Alliance Companies and National Grid are meeting with principals of the Midwest ISO and the Midwest ISO transmission owners today at the Midwest ISO headquarters. Yet another meeting among principals of the Midwest ISO, the Alliance Companies and National Grid is scheduled for February 25, 2002. Meetings and other communications are on-going between the parties' technical experts concerning interim ATC calculations (i.e., ATC calculations prior to the start of Alliance GridCo operations), due diligence inquiries concerning the Midwest ISO's budget and cost allocation process, and the operational readiness of Alliance GridCo.

### **1. Allocation Of Functions And Operational Relationship**

As the designated independent transmission operator of Alliance GridCo, National Grid led the discussions on behalf of the Alliance concerning the allocation of functions and the operational relationship between Alliance GridCo and the Midwest RTO. After exchanging a number of draft documents and discussing the issues at length and in technical detail, the parties reached an agreement in principle on February 13, 2002. At that meeting, the document included as Attachment A was reviewed word-for-word and agreed upon, in principle, by representatives of the Midwest ISO, including Mr. Jim Torgerson, the Midwest ISO CEO, and Midwest ISO counsel. The negotiators specifically agreed that the agreement in principle would be submitted to the Commission on February 19, 2002, as part of this report, and presented to the Commission at the technical conference of the same date. Two days later, on the afternoon of February 15, 2002, the Midwest ISO informed the Alliance Companies that it could not support the agreement in principle because the document reflecting the agreement in principle had been shared with a subgroup of the Midwest ISO Advisory Committee and that group of market participants and other stakeholders did not support the agreement.

The Alliance Companies and National Grid are dismayed by the Midwest ISO's sudden reversal of position. The timing of the Midwest ISO's about-face was particularly disconcerting given that the message came to the Alliance Companies and National Grid on the Friday



afternoon before a holiday weekend preceding the due date for this report and the start of the Commission's technical conference concerning the allocation of functions between an RTO and an ITC. For the time the parties first learned of the Commission's intention to hold a technical conference addressing the allocation of functions between an RTO and an ITC, the parties had agreed upon the goal of finalizing an agreement on this topic in time for presentation at the conference. Moreover, the Midwest ISO has given the Alliance Companies and National Grid no explanation for why it no longer supports Attachment A other than the opposition of some market participants and other stakeholders, which opposition has also been unexplained.

The Midwest ISO is treating the Alliance Companies and National Grid differently than they have treated other proposed ITCs seeking to form under the Midwest ISO umbrella. The agreement in principle reached (and then lost) with the Midwest ISO is very similar to Appendix 1 of the Memorandum of Understanding ("MOU") between the Midwest ISO and TRANSLink on the same subject matter.<sup>17</sup> Indeed, in part to avoid the very problem which has arisen, the TRANSLink document was the starting point for the Alliance negotiations with the Midwest ISO which culminated on February 13, 2002 in Attachment A. Both documents provide for a tiered approach for the allocation of RTO functions between the RTO and the for-profit ITC, whereby the ITC has day-to-day responsibility for the performance of most functions within its area, but the RTO retains plenary oversight authority and responsibility for the entire RTO Region. Due to the greater maturity of Alliance infrastructure, including the significant investment in people and systems made to date, and the much greater scope of the Alliance area, somewhat more detail was achieved in the agreement concerning Alliance GridCo than in the parallel TRANSLink document, but the basic underpinnings and philosophies of the two arrangements are nearly identical.

Not only is the agreement in principle reached with the Midwest ISO on February 13, 2002 consistent with the Midwest ISO-TRANSLink agreement, it also resolves the key issues identified by the Commission in *Alliance VI* as the basis for finding that the IRCA between the Alliance and the Midwest ISO was inadequate. In *Alliance VI*, the Commission found that IRCA was inadequate to resolve seams issues because it did not require common methods for the calculation of Available Transmission Capability ("ATC") and Total Transmission Capability ("TTC"). The agreement reached in principle with the Midwest ISO on February 13, 2002 provides that the Midwest RTO shall determine Available Flowgate Capacity ("AFC") and ATC values for the entire RTO Region (including the Alliance area).<sup>18</sup> Consistent with the Midwest ISO-TRANSLink agreement, Alliance GridCo will provide the Midwest RTO with inputs for the AFC and ATC calculations, including Alliance area system parameters, TTC, Transmission Reliability Margin ("TRM") and Capacity Benefit Margin ("CBM") values for the Alliance area. By having the Midwest RTO determine AFC and ATC, Attachment A resolves all issues raised in *Alliance VI* concerning ATC calculations.

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<sup>17</sup> The TRANSLink ITC proposal, supported by the MOU signed by the Midwest ISO, is pending review in Docket Nos. EC01-156 and ER01-3154.

<sup>18</sup> Attachment A, Section 4.6.

*Alliance VI* also concluded that the IRCA was inadequate because it did not require one-stop shopping. Attachment A provides that one-stop shopping will be provided to customers seeking transmission service over any transmission facilities within the Midwest RTO Region (including the Alliance area). Customers will be able to receive information and apply for transmission service across the entire Region by accessing a single OASIS interface maintained by the Midwest RTO. Consistent with the Midwest ISO-TRANSLink agreement, Alliance GridCo will administer transmission service reservations made involving the Alliance area using the single OASIS interface and will be responsible for the administration of the OASIS node for the Alliance area.<sup>19</sup>

*Alliance VI* found that the failure to assign authority over the Alliance-Midwest ISO combined region to a single security coordinator was inadequate. Attachment A establishes that the Midwest RTO is the reliability authority for the entire Midwest RTO Region (including the Alliance area). Consistent with Midwest ISO-TRANSLink agreement, Alliance GridCo, under the oversight of the Midwest RTO, will have responsibility for managing security within the Alliance area. As the regional reliability authority, the Midwest RTO will be able, at any time, to intercede and direct appropriate action if it determines that conditions within the Alliance area are impacting on security outside of the Alliance area.

Notwithstanding the Midwest ISO's abrupt change in heart, the allocation of functions and the operational relationship described in Attachment A is a reasonable approach for accommodating Alliance GridCo within the Midwest RTO. Attachment A preserves the Midwest RTO's full authority and oversight responsibility, while also permitting Alliance GridCo to manage and control the Alliance transmission facilities to assure their optimal utilization and to maintain and protect their value.

## **2. Remaining Issues**

The allocation of functions between the Midwest RTO and Alliance GridCo requires a corresponding agreement between the parties whereby Alliance GridCo would purchase those services that it obtains from the Midwest RTO, such as market monitoring and security coordination. The infrastructure and IT systems built for the Alliance RTO are fully capable of operating the Alliance transmission system and represent the most economical option for Alliance GridCo, as well as the least cost alternative for the Midwest RTO to bring the Alliance area within its umbrella. Thus, Alliance GridCo only needs to purchase a limited number of services from the Midwest ISO which should correspond to the oversight responsibilities it will have as the RTO.

The Alliance Companies and National Grid have spent significant time negotiating with the Midwest ISO on this subject matter, specifically with regard to the proper allocation of

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<sup>19</sup>

Attachment A, Section 4.5.

Midwest ISO costs to the services to be taken by Alliance GridCo. The Alliance Companies and National Grid have agreed that Alliance GridCo would pay all of the Midwest ISO's incremental costs incurred to accommodate Alliance GridCo under the Midwest RTO umbrella, even though doing so means that the Alliance GridCo will incur additional costs that would not be necessary if the Alliance RTO were established on a stand-alone basis. To date, the parties have been unable to reach an agreement concerning fair compensation for the RTO services that Alliance GridCo will receive from the Midwest ISO. However, progress has been made and the Midwest ISO and National Grid have agreed to undertake a "due diligence" process to enable National Grid to learn more about how the Midwest ISO allocates its costs to particular services and to enable the Midwest ISO to gain a better understanding of the operational readiness of Alliance GridCo. The Alliance Companies and National Grid believe that, within the context of a comprehensive agreement for the participation of Alliance GridCo within the Midwest RTO, issues related to the pricing of services purchased by Alliance GridCo will be resolved.

The Alliance Companies and National Grid note that the agreement reached between the Midwest ISO and TRANSLink provides a formula for determining the charges that TRANSLink will pay for the services it takes from the Midwest ISO. The formula allocates a percentage of the Midwest ISO's budgeted operating costs to each of the services being taken by TRANSLink and applies those costs to TRANSLink's total MWhs of transmission service. Under the formula, capital costs are allocated to TRANSLink based on the total MWhs of transmission service of those members of TRANSLink that are currently members of the Midwest ISO and signatories to the Midwest ISO Transmission Owners Agreement. No capital costs are allocated to the MWhs of MidAmerican, NPPD, OPPD or Cornbelt because they are not members of the Midwest ISO. In support of this cost allocation approach, Midwest ISO witness Mark Volpe testified that:

Certain of the members of TRANSLink are not members of the Midwest ISO and have not signed the Transmission Owners Agreement. As such, they currently have no contractual obligation to pay for either the deferred pre-operating costs or the capital costs of the Midwest ISO.<sup>20</sup>

Similarly, none of the Alliance Companies are members of the Midwest ISO or are signatories to the Midwest ISO Transmission Owners Agreement. As such, they too have no contractual obligation to pay for either the deferred pre-operating costs or the capital costs of the Midwest ISO. To date, however, the Midwest ISO has been unwilling to treat the Alliance in a manner consistent with how it has treated TRANSLink, in the approach outlined above. An insistence upon a level of contributions far in excess of the costs that the Midwest ISO could reasonably be expected to incur in providing those services would result in a significant shift in costs from customers of the Midwest ISO to customers of the Alliance, requiring Alliance customers to subsidize the Midwest ISO and its customers.

<sup>20</sup>

Docket No. ER01-111-000, Testimony of Mark J. Volpe at pp. 7-8.

Another issue in the negotiations with the Midwest ISO concerns the appropriate rate design methodology and revenue distribution for transmission service within the Midwest RTO (including the Alliance area). The Alliance Companies believe that this issue has already been addressed by the Commission in its orders approving the Settlement Agreement.<sup>21</sup> As noted previously, the Commission's approval of the Settlement Agreement is a final, binding order. The order was not appealed and thus must be honored by the Midwest ISO and the Midwest ISO transmission owners. The Settlement Agreement provides for single (non-pancaked) rates throughout the Alliance-Midwest ISO region during a transition period ending December 31, 2004. The parties to the Settlement agreed that the Alliance and the Midwest ISO would collect a Super-Regional Rate Adjustment ("SRA") within each pricing zone under the respective Alliance and Midwest ISO OATTs. The SRAs are calculated on the basis of lost revenues resulting from the elimination of pancaking throughout the Alliance-Midwest ISO Super Region and are distributed between the Midwest ISO and the Alliance pursuant to the relative sources of lost revenues. SRA rates were included in both the Alliance RTO OATT and the Midwest ISO OATT.<sup>22</sup> On December 4, 2001, the Midwest ISO filed a suspension of the effective date of its SRA rates (designed to collect Alliance lost revenues) pending the effective date of an Alliance OATT.<sup>23</sup> Upon the effective date of the Alliance GridCo OATT, the Midwest ISO SRA rates should be placed in effect. Similarly, the Alliance GridCo OATT, as did the Alliance RTO OATT filed previously, will include SRA rates for the collection of lost revenues to be distributed to the Midwest RTO.

Although the rate design mechanisms are in place to implement the Settlement Agreement, the Midwest ISO has informed the Alliance Companies that many of the Midwest ISO transmission owners do not intend to honor their commitments to the Alliance under the Settlement Agreement.

Finally, the negotiations with the Midwest ISO have included a discussion of repayment of the \$60 million paid by the three Illinois Companies in exchange for the right to withdraw from the Midwest ISO. Contrary to some news accounts of the parties' negotiations, this has not been a contentious issue. The Midwest ISO has acknowledged the equity considerations in repaying the \$60 million to the Illinois Companies following the Commission's decision in *Alliance VI*.

### **C. Discussions with PJM**

To date, the discussions with PJM have not been as extensive as those with the Midwest ISO and have focused on the role of transmission within PJM's centrally-dispatched and integrated market. The Alliance Companies and National Grid have had four face-to-face

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<sup>21</sup> The Alliance Companies would agree to expand the footprint of the Super-Region to include all new members or participants of the Midwest ISO in accordance with pending filings before the Commission.

<sup>22</sup> The Midwest ISO filed its SRA rates on August 31, 2001 in Docket No. ER01-123-004.

<sup>23</sup> Docket No. ER01-123-005, filed December 4, 2001.

meetings with representatives of PJM; the most recent meeting was held just yesterday. Another meetings is scheduled for next week. National Grid has proposed an allocation of functions to PJM similar to the proposal developed in the discussions with the Midwest ISO (see Attachment A). The discussions have resulted in substantial progress toward a possible arrangement between the parties whereby Alliance GridCo could be accommodated under the PJM RTO umbrella. The Alliance Companies and National Grid hope to soon receive a proposal from PJM for a menu of RTO services available for purchase from PJM. While the discussions with PJM are not sufficiently mature to determine whether Alliance GridCo can be a successful transmission business within PJM, recent discussion have been promising, and the Alliance Companies and National Grid hope to continue exploring the PJM option and will provide an updated report on discussions with PJM no later than March 5, 2002.

#### **D. Single Electricity Market**

The Alliance Companies and National Grid support the development of one electricity market within the footprint of an RTO, and perhaps beyond. Both the Alliance Companies and National Grid will participate as stakeholders in the joint process established by the Midwest ISO and PJM to develop a wholesale energy market across the footprint of both RTOs. The principal complaint about the IRCA process in the Midwest has been that it does not provide for a single electricity market across the entire region. Successful implementation of the energy market mechanism contemplated by the Midwest ISO and PJM. This effort is also enhanced by the Commission's Standard Market Design development effort. The Alliance Companies believe that this effort should address the concerns of that some have about the need for a single electricity market in the Midwest and beyond.

#### **V. Conclusion**

The Alliance Companies have embarked in good faith and diligence on the mission directed by the Commission in *Alliance VI*. As described in this report, the object of this mission is to accommodate the modified Alliance business plan within an RTO.

The negotiations with PJM have not matured sufficiently for the Alliance Companies and National Grid to assess the viability of Alliance GridCo within PJM, but recent discussions hold promise and the parties desire to continue those discussions. The Alliance Companies will report further on the PJM discussions in an updated report on March 5, 2002.

The negotiations with the Midwest ISO have been extensive and have involved a full airing of the issues and an exchange of technical information. At the conclusion of the meeting on February 13, 2002, the Alliance Companies and National Grid were cautiously optimistic that an agreement would be reached with the Midwest ISO to accommodate Alliance GridCo as a viable independent transmission business within the Midwest RTO. After receiving word of the Midwest ISO's sudden reversal of position concerning the agreement in principle for the allocation of functions, however, the Alliance Companies and National Grid are concerned about whether an agreement can be reached with the Midwest ISO. The news from last Friday may

have exposed a "Catch-22"<sup>24</sup> for the Alliance Companies and National Grid. Both the Alliance Companies and National Grid are convinced that, if allowed to form under reasonable and equitable arrangements with the Midwest ISO and with the Midwest ISO transmission owners, Alliance GridCo can be a successful transmission business within the Midwest RTO. But – here is the catch – the dominant voices within the Midwest ISO's stakeholder community<sup>25</sup> and the Midwest ISO's inability to exercise its independence from those voices has proven, thus far, to be an intractable obstacle to achieving the reasonable and equitable arrangements necessary to accommodate Alliance GridCo. Hence, under the circumstances prevailing to date, it appears that Alliance GridCo may not be allowed to be a successful transmission business within the Midwest RTO.

The Alliance Companies and National Grid are committed to pursuing, diligently and in good faith, their negotiations with the Midwest ISO; but, at the end of the day, it may be that the only way to unravel what appears to be a looming "Catch-22" is for the Commission to exercise leadership and decisiveness so that equity and fairness may prevail. It is with this fervent hope for progress toward operations and improved transmission service across the Alliance area, that the Alliance Companies submit this report on their negotiations with the Midwest ISO and PJM.

Respectfully submitted,

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Becky Bruner  
Vinson & Elkins L.L.P.  
The Willard Office Building  
1455 Pennsylvania Avenue, NW  
Washington, D.C. 20004-1008  
(202) 639-6557

Attorneys for the Alliance Companies

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<sup>24</sup> Catch-22: A condition or consequence that precludes success, a dilemma where the victim cannot win. -- *The New Shorter Oxford English Dictionary*

<sup>25</sup> Unlike other negotiations that the Midwest ISO has had with parties interested in forming an ITC, these negotiations have drawn considerable attention from market participants and other stakeholders within the Midwest ISO. Some of these market participants may be attempting to advantage their own market position by exerting pressure on the Midwest ISO.

Ms. Magalie Roman Salas

Secretary

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February 19, 2002

cc: The Honorable Pat Wood, III  
Chairman

The Honorable Linda K. Breathitt  
Commissioner

The Honorable Nora Mead Brownell  
Commissioner

The Honorable William L. Massey  
Commissioner

Shelton M. Cannon  
Deputy Director  
Office of Markets, Tariffs, and Rates

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**ATTACHMENT A**



# **OPERATING RESPONSIBILITY AND AUTHORITY OF THE MIDWEST RTO AND ALLIANCE GRIDCO**

## **I. PRINCIPLES**

The Midwest RTO is responsible in matters pertaining to the security and functional control of all transmission facilities within the Region. This responsibility is discharged by use of a tiered approach to control whereby:

- The Midwest RTO has overall responsibility and authority for the security and functional control of the Region as a whole; and
- The Alliance GridCo, under the oversight of the Midwest RTO, has responsibility for the security and functional control of all transmission facilities within the Alliance Area.

To most efficiently achieve the objective of operating a coordinated regional transmission system, it is necessary that the Midwest RTO and the Alliance GridCo (together with the Alliance Transmission Owners' control areas) execute their responsibilities with a spirit of cooperation and with an understanding of the tasks to be accomplished.

## **II. DEFINITIONS**

The following terms shall have the respective meanings set forth below:

**2.1**    "Alliance Area" means the transmission systems and the NERC-certified electrically metered control areas owned by, or under the direct or functional control of, Alliance GridCo.

**2.2**    "Alliance Business Plan" means the proposal filed before the Federal Energy Regulatory Commission to form the Alliance Transmission Company, LLC with a wholly-owned subsidiary of National Grid serving as the independent managing member.

**2.3**    "Alliance GridCo" means the company formed pursuant to agreement by and among National Grid and all or some of the Alliance Companies.

2.4 “Alliance Transmission System” means the transmission facilities under the control of Alliance GridCo pursuant to an Operation Agreement with an NDTO or by virtue of the acquisition of such facilities from a DTO.

2.5 “Alliance Transmission Owners” means Ameren Services Company, a Missouri corporation, as agent for Union Electric Company d/b/a AmerenUE and Central Illinois Public Service Company d/b/a AmerenCIPS, American Electric Power Service Corporation, a New York corporation, on behalf of Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company and Wheeling Power Company, Michigan Electric Transmission Company, a Michigan corporation, Commonwealth Edison Company, an Illinois corporation, on behalf of Commonwealth Edison Company and its affiliate Commonwealth Edison Company of Indiana, Inc., FirstEnergy Corp., an Ohio corporation, on behalf of American Transmission Systems, Incorporated, The Cleveland Electric Illuminating Company, Ohio Edison Company, Pennsylvania Power Company and The Toledo Edison Company, Illinois Power Company, an Illinois corporation, Northern Indiana Public Service Company, an Indiana corporation, The Dayton Power and Light Company, an Ohio corporation, Virginia Electric and Power Company, a Virginia corporation, and any owner of transmission facilities that participates within Alliance GridCo as an NDTO.

2.6 “DTOs” means persons who divest ownership and control of some or all of their transmission facilities to Alliance GridCo.

2.7. “Midwest ISO Agreement” means that certain “Agreement Of Transmission Facilities Owners To Organize The Midwest Independent Transmission System Operator, Inc., A Delaware, Non-Stock Corporation” dated January 15, 1998, as amended from time-to-time.

2.8 “Midwest RTO” means the Midwest Independent Transmission System Operator, Inc. in its capacity as a Regional Transmission Organization approved by the Commission.

2.9 “NDTOs” means transmission owners that transfer functional control over some or all of their transmission facilities while retaining ownership over such facilities.

2.10 “OATT” means an Open Access Transmission Tariff approved by the Commission.

2.11 “Operation Agreement” means an agreement whereby an Alliance Company or future Alliance transmission owner transfers functional control over transmission facilities to Alliance GridCo.

2.12 “Operational Date” means the date upon which Alliance GridCo begins providing transmission service under the Alliance OATT.

2.13 “Operating Protocols” means written procedures and guidelines drawn up in accordance with good utility practice and agreed upon by the Midwest RTO and Alliance GridCo for implementing their operational responsibilities in accordance with this Agreement in Principle and any subsequent agreements between the Midwest RTO and Alliance GridCo.

2.14 “Region” means the electrical transmission systems and the NERC-certified electrically-metered control areas of the Midwest RTO, including the Alliance Area.

2.15 “Reliability Authority” means the authority that the Midwest RTO has for ensuring the overall security and reliability of the Region.

### **III. GENERAL**

3.1 In this document it is assumed that by the beginning of October 2002 Alliance GridCo will take functional control of the Alliance Transmission System from the Alliance Transmission Owners and become the Alliance Area within the Midwest RTO. To achieve this

desirable timescale, a pragmatic approach will be taken to implementation by leveraging as many existing Alliance and Midwest RTO systems and processes as possible (and thereby reducing implementation risk in both cost and time). To this end, implementation of RTO functions with respect to the Alliance Area within the Midwest RTO will be implemented, in some instances, with transition systems and processes designed to deliver improvements for market participants and customers as quickly as possible. Enduring systems and processes will be developed by the Midwest RTO and the Alliance GridCo to incorporate improvements and consolidation options that cannot be provided by the beginning of October 2002. This will allow Alliance GridCo customers to benefit as quickly as possible from many of the features of the Midwest RTO during the transition stage whilst the enduring systems and processes are developed and put in place. In other instances, no transition process is expected in order to implement the "enduring" systems and processes that will be in place for the Alliance Area.

The following sections detail the specific responsibilities of the Midwest RTO and the Alliance GridCo.

#### **IV. OPERATING RESPONSIBILITIES**

##### **4.1 Reliability Authority**

a. Enduring Process. The Midwest RTO is the Reliability Authority for the Region (including the Alliance Area). These responsibilities will be coordinated as set forth in this section 4.1. Alliance GridCo, under the oversight of the Midwest RTO, will have responsibility for managing security within the Alliance Area. Alliance GridCo will discharge this responsibility in a timely manner and may use actions that include (but are not limited to) utilizing short term transmission equipment ratings, dispatching generation, curtailments and seek to unload transmission facilities in the Alliance Area in accordance with Operating Protocols. This process will be in place by the Operational Date.

b. Oversight Authority. Notwithstanding the above, the Midwest RTO at any time may intercede and direct appropriate action in its role as the RTO Regional Reliability Authority if it determines that conditions within the Alliance Area are impacting on

security outside of the Alliance Area. If Alliance GridCo disputes such Midwest RTO action, then the Midwest RTO position shall prevail pending resolution of the dispute.

c. Reliability Assessment System. Alliance GridCo will work with the Midwest RTO to establish a single RTO regional overview function supported by a single region-wide reliability assessment system and thereby ensure that the reliability of the Region, including the Alliance Area, is effectively monitored for reliability by both the Midwest RTO and Alliance GridCo, respectively.

#### **4.2 Congestion Management**

a. Congestion Pricing. Subject to stakeholder input and Commission approval, the Midwest RTO will have authority to determine the congestion pricing methodology for the Region. The Midwest RTO will have authority to calculate congestion prices for the Region in accordance with the approved methodology.

b. Managing Congestion. Subject to the congestion pricing established for the Region, Alliance GridCo shall have responsibility for managing congestion within the Alliance Area, with the objective of ensuring the most efficient allocation between new investment and operational costs.

c. Right to File. Alliance GridCo will have the right to propose to the Commission congestion management incentives applicable within the Alliance Area.

d. Limitations. Any congestion management plan for the Alliance Area shall not operate in instances where its operation would cause a material adverse effect upon the Midwest RTO's transmission system outside of the Alliance Area or upon the users of that system. In addition, before the Alliance Area congestion management mechanism becomes effective, Alliance GridCo and the Midwest RTO shall develop protocols detailing when the Midwest RTO and Alliance GridCo congestion management mechanisms would operate. Alliance GridCo shall file such protocols with the Commission and the protocols must be accepted or approved by the Commission before the Alliance GridCo's proposed congestion management mechanism becomes effective.

#### **4.3 Losses**

Alliance GridCo shall possess the unilateral right to file at the Commission, without any Midwest RTO approval, a mechanism for determining responsibility for energy losses within the Alliance Area, provided that this method does not affect the losses received by transmission owners and generators in areas within the Midwest RTO that are outside the Alliance Area.

#### **4.4 Tariff Administration**

a. OATTs. The Midwest RTO shall administer the Midwest ISO OATT and Alliance GridCo shall administer the Alliance OATT. The Alliance OATT will govern

transmission service over the transmission facilities under the control of Alliance GridCo, that do not require reservation and scheduling over any transmission facilities within the Region other than the Alliance Transmission System. Alliance GridCo shall make all decisions on rate discounts for transactions under the Alliance OATT. In accordance with the Midwest ISO OATT, the Midwest RTO will execute agreements with customers for transmission service and studies, which agreements shall provide for subcontracting the provision of transmission services and studies to Alliance GridCo with respect to transactions under the Alliance OATT.

b. Studies. If a system impact or other study is required to evaluate the ability of Alliance GridCo to provide the requested transmission service and the requested service is under the Alliance OATT, then Alliance GridCo shall possess the right to assume responsibility for the study, subject to coordination with the Midwest RTO. If a facilities study is required to study a constraint within the Alliance Area, then Alliance GridCo shall possess the right to assume responsibility for the study in coordination with the Midwest RTO. With regard to such studies, Alliance GridCo shall retain all fees for studies and shall administer the contracts with the customers and shall provide the notices and make the filings under the Alliance OATT.

#### **4.5 OASIS and One-Stop Shopping**

a. Enduring Process. One-stop shopping will be provided to customers seeking transmission service over any transmission facilities within the Region (including the Alliance Area). Customers will be able to receive information and apply for transmission service across the entire Region by accessing a single OASIS interface maintained by the Midwest RTO. Alliance GridCo will administer transmission service reservations made involving the Alliance Area using the single OASIS interface and will be responsible for the administration of the OASIS node for the Alliance Area.

b. Implementation of One-Stop Shopping. The Midwest RTO and Alliance GridCo will develop the most appropriate method for implementing a single OASIS interface with the goal of having such an interface in place by the Operational Date of Alliance GridCo. A review will be undertaken as soon as possible to determine the most economic and practical method of providing "one stop shopping" with a view to providing such an interface by the beginning of October 2002. The results of this review may determine whether the Alliance OASIS node should be hosted on the existing Alliance OASIS facility or be moved to the existing Midwest ISO OASIS facility by this date.

#### **4.6 Available Transmission Capacity ("ATC")**

a. Enduring Process. The Midwest RTO shall determine Available Flowgate Capacity ("AFC") and ATC values for the Region (including the Alliance Area). In accordance with Operating Protocols, Alliance GridCo will provide the Midwest RTO with inputs for the AFC and ATC calculations, including Alliance Area system parameters, Total Transmission Capacity ("TTC"), Transmission Reliability Margin

("TRM") and Capacity Benefit Margin ("CBM") values for the Alliance Area. The Alliance GridCo will work closely with the Midwest RTO in developing the process by which the Midwest RTO will calculate AFC and ATC values for the Region.

b. Implementation. By the Operational Date the Midwest RTO will complete an audit of the AFC and ATC calculation process undertaken by Alliance GridCo to ensure consistency with the Midwest RTO process, thereby allowing Alliance GridCo to provide AFC and ATC values for the Alliance Area in accordance with Operating Protocols. Alliance GridCo will determine system parameter input values and TTC, TRM and CBM values for the Alliance Transmission System in accordance with Operating Protocols. The Midwest RTO will have approval authority for AFC and ATC values and may request the Alliance GridCo to recalculate any AFC or ATC value if the value has not been determined in accordance with Operating Protocols.

#### **4.7 Scheduling**

a. Enduring Process. Alliance GridCo will have tagging and scheduling approval authority for the Alliance Area. Appropriate processes will be put in place between the Midwest RTO and the Alliance GridCo to ensure that coordination of schedules takes place.

b. Implementation. A review will be undertaken as soon as possible to determine the most appropriate systems for undertaking the Tagging and Scheduling process. Alliance GridCo will investigate the feasibility and cost of utilizing the Midwest RTO's tagging and scheduling system within the Alliance Area.

#### **4.8 Operations**

a. Ratings and Operating Procedures. Alliance GridCo shall establish ratings and operating procedures for facilities under its ownership or control subject to dispute resolution if the Midwest RTO disagrees with the ratings or operating procedures established by Alliance GridCo. Alliance GridCo's position shall prevail pending dispute resolution.

b. Planned Transmission Outage Maintenance. The Midwest RTO will provide oversight approval or disapproval for outage applications for critical transmission facilities operating within the Alliance Area. Alliance GridCo will evaluate and approve or disapprove the outage applications for all transmission facilities operating within the Alliance Area subject to oversight approval by the Midwest RTO for Critical Transmission Facilities. Approval or disapproval of outage applications will be in accordance with Operating Protocols. Critical transmission facilities will be identified on a routine basis in accordance with Operating Protocols.

c. Generation Maintenance. Alliance GridCo shall assume from the Midwest RTO the responsibility for coordination of generator maintenance for generators within the Alliance Area. Alliance GridCo shall inform the Midwest RTO of those maintenance

activities. This subsection is not intended to limit the Midwest RTO's authority under section 4.1.b.

d. Congestion Management. Alliance GridCo shall control congestion management consistent with this Agreement in Principle to the extent permitted by the Commission.

e. Temporary Operational Control. The Midwest RTO may assume temporary operational control over Alliance GridCo transmission facilities when required to return the Midwest RTO Region to a secured state as required by its role as a regional security coordinator.

#### **4.9 Planning**

a. Alliance GridCo Plan. Alliance GridCo may develop its plan for the construction of transmission facilities within the Alliance Area. Alliance GridCo shall inform and provide a copy of its plan to the Midwest RTO as soon as it is available and shall coordinate implementation of the plan with the Midwest RTO to the maximum extent practicable. Midwest RTO approval of the Alliance plan is not required, subject to any dispute resolution as provided in clause "b." below. The Alliance plan shall become part of the Region plan, subject to clause "b." If the Midwest RTO determines that a facility included in the Alliance plan will have a material impact on Regional facilities located within the Region but outside of the Alliance Area, the Alliance plan as to such transmission facilities shall not be implemented until such time as the Midwest RTO has a reasonable time to review the Alliance plan and any disputes are resolved.

b. Midwest RTO Disagreement. If the Midwest RTO disagrees with any part of the Alliance plan, the Midwest RTO's disagreement will be resolved through dispute resolution, but the balance of the plan not in disagreement may be implemented by Alliance GridCo.

c. Regional Planning. Nothing in this Agreement in Principle is intended to change the responsibility of the Midwest RTO to develop a plan for the Region.

#### **4.10 Billings and Settlements**

The Alliance GridCo will settle all transactions that fall under the Alliance OATT and will perform all associated invoicing and revenue distribution functions. The Midwest RTO will settle all transactions that fall under the Midwest ISO OATT and will perform all associated invoicing and revenue distribution functions.

#### **4.11 Monitoring and Penalties**

a. Midwest RTO Responsibilities. The Midwest RTO will continue to impose and collect penalties as currently provided in the Midwest ISO Agreement and Midwest ISO OATT, and to perform the monitoring functions for the Region.



b. Exception. Alliance GridCo will be allowed to impose and collect penalties approved by the Commission so long as any such penalty does not cause an entity to be subjected to a penalty by both the Midwest RTO and Alliance GridCo for the same violation or event.

c. Monitoring and Assessment of Alliance GridCo-Midwest RTO Relationship. The Independent Market Monitor for the Midwest RTO shall monitor the Alliance GridCo-Midwest RTO relationship to determine if the division of functions creates a competitive or reliability problem that affects the ability of either to provide reliable, non-discriminatory transmission service. The Independent Market Monitor will monitor activities of Alliance GridCo in accordance with the Market Monitoring Plan approved for the Midwest RTO.

#### **4.12 Operating Protocols**

Alliance GridCo and the Midwest RTO shall develop Operating Protocols necessary for the timely commencement of operations by Alliance GridCo pursuant to this Agreement in Principle. Any disagreements shall be resolved pursuant to dispute resolution. Once such procedures and protocols have been developed, either through agreement or after dispute resolution, the Midwest RTO and Alliance GridCo shall post such procedures and protocols on their websites.

#### **4.13. Customer Care**

Alliance GridCo will have responsibility for interacting directly with customers taking service under the Alliance OATT, and the Midwest RTO will retain responsibility for interacting directly with customers under the Midwest RTO OATT. Interactions with customers include, but are not limited to, query resolution, dispute resolution, communications and training. The Midwest RTO and Alliance GridCo will cooperate fully in exercising their respective customer care responsibilities.

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

Midwest Independent Transmission System Operator, Inc.	) )	Docket Nos. RT01-87-000 RT01-87-001 ER02-106-000 ER02-108-000 (Not Consolidated)
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**SECOND REPORT ON RECOMMENDATIONS FOR INTERIM  
OPERATIONS AND REQUEST FOR COMMISSION ACTION**

On January 9, 2002 the Midwest Independent Transmission System Operator, Inc. ("Midwest ISO"), with the support of its Transmission Owners Committee and certain of its other members, submitted a report to and request for action to the Federal Energy Regulatory Commission ("FERC" or "Commission") regarding the Midwest ISO's first set of recommendations regarding Phase I of interim operations. Today, the Midwest ISO submits a second report. This report has not been circulated in advance to the Midwest ISO's stakeholders.

The report is submitted pursuant to the following directive in the Commission's December 20, 2001 Order Granting RTO Status And Accepting Supplemental Filings in the above-captioned Dockets, 97 FERC ¶ 61,326 (2001):

However, while we are satisfied that Midwest ISO's expansion over the last several months allows it to meet the scope and configuration requirements of Order No. 2000, our finding today in a concurrently issued order in Docket No. RT01-88-000 et al., in which we determine that the public interest is best served by a single Midwest RTO (i.e., Midwest ISO) creates interim problems with the Midwest ISO's eastern seam. Specifically, it creates a hole in the Midwest ISO and isolates Southern Illinois Power Cooperative, International Transmission Company, and Central Illinois Light Company from the other Midwest ISO members. By Midwest ISO's own admission, the configuration is not ideal. However, we have directed Alliance Companies to explore membership in the Midwest ISO, and the successful integration of some or all of

these companies (particularly the Illinois companies) into the Midwest ISO would greatly enhance operational efficiency in the Midwest market. In the interim, the Midwest ISO is directed to explore ways to address the less than ideal situation that will exist prior to the integration of the Alliance Companies into the Midwest ISO and to present recommendations to the Commission for consideration within 60 days. *Midwest Independent Transmission System Operator, Inc.*, 97 FERC ¶ 61,326 (2001) (mimeo at 17).

## **I. Report on Negotiations with Alliance Companies**

Representatives of the Midwest ISO, Alliance Transmission Companies and National Grid have met commencing in January on a weekly basis to explore modes for accommodating the Alliance Companies into the Midwest ISO as a group with National Grid Company as their independent managing member, whether through an arrangement under Appendix I of the Midwest ISO Agreement<sup>1</sup> or otherwise. During this period, although the Midwest ISO's stakeholders were not present at the table, the Midwest ISO kept a subset of its Advisory Committee informed as to the general developments of the discussions.

Despite the substantial time and effort spent in the discussions by all those attending, the parties have not found a solution to the challenges of integration that is acceptable to the Alliance Companies, National Grid Company, the Midwest ISO and its stakeholders. Although the parties directly involved in the discussions approached agreement in principle on a possible functional split once certain details were developed, it became apparent that there in fact was no overall agreement on these matters. The appropriate split of functions between the Alliance Gridco and the Midwest ISO, particularly the territory and transactions to be served under a

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<sup>1</sup> The full title of this agreement is the "Agreement of Transmission Facilities Owners to Organize the Midwest Independent Transmission System Operator, Inc., A Delaware Non-Stock Corporation." The Midwest ISO Agreement is on file with the Commission as Midwest ISO FERC Electric Tariff, Revised Rate Schedule No. 1.

separate tariff for the Alliance Gridco, were subjects of discussion, but were not agreed to. Furthermore, the structure for and determination of an appropriate payment by Alliance Gridco to the Midwest ISO were not agreed upon. In addition, certain basic economic issues as among transmission owners and market participants, namely rates and revenue distribution, were not agreed to. The Midwest ISO remains open to the purchase of the Alliance Gridco's assets and assumption of its liabilities in order to bring the Alliance Companies into the Midwest ISO as a group under Appendix I. Likewise, the Midwest ISO is amenable to individual Alliance members joining the Midwest ISO as individual transmission owner members.

The Alliance Companies will make their separate report to the Commission regarding the negotiations.

## **II. Further Recommendations Regarding Interim Operations**

The first phase of "interim operations" for the entire Midwest region commenced on February 1, 2002 as the Midwest ISO started providing point-to-point and network service under its Open Access Transmission Tariff ("OATT"). This phase will continue until one or more Alliance Companies that will provide electrical connectivity between the Midwest ISO's currently separate segments (Southeastern Michigan, islanded Illinois members, Indiana/Ohio/Kentucky and the western membership from the MAPP region and those companies in MAIN and elsewhere linked to the western companies) are integrated into Midwest ISO operations. The time frame for the end of this phase remains indeterminate. As was stated in its January 9<sup>th</sup> report, the sooner decisions are reached, the sooner the Midwest ISO and the involved companies can schedule installation of the communications links and design, test and validate the computer system interfaces required to provide the information and data flow needed

by the Midwest ISO to coordinate its functions with neighboring systems. Interim cooperation efforts on data sharing are underway; however, as the Midwest ISO stated in its first report, substantial improvement on the interim cooperation efforts already in place will be needed before summer peak demand season.

A second set of discussions has taken place among technical specialists regarding interim operations for the summer of 2002. These discussions and the options presented for consideration in them are summarized below. There is no agreement as yet between the Alliance Companies' representatives and the Midwest ISO's representatives on how these matters will be dealt with. Successful treatment of AFC/ATC issues will be needed to cope well with expected summer or other stressed system conditions. This will require adoption of steps that go beyond matters previously agreed to between the Midwest ISO and Alliance Companies' representatives. The Midwest ISO urges the Commission to encourage continued discussions and urge their completion by a time certain to allow for implementation as early as possible.

### **III. Options Under Consideration For A Second Phase of Interim Operations**

At a meeting held on January 16, 2002, the Midwest ISO discussed the proposal that had been made in the January 9<sup>th</sup> filing and two other options. All three options require defining a detailed process as well as investigating software changes that may be required before they can be implemented.

The three options are:

- (1) Option 1 – The Midwest ISO performs flow-based analysis of request for transmission service whenever it is a party to a transaction that uses the Alliance Companies' transmission systems and Alliance Companies sell transmission service based on the results of the Midwest ISO's analysis.
- (2) Option 2 – Alliance Companies implement their Alliance RTO IT systems, perform separate AFC calculations and coordinate results with the Midwest ISO using the IRCA CPP 9 protocol.
- (3) Option 3 – Alliance Companies use the Midwest ISO's AFC computational processes to perform AFC calculations.

The Midwest ISO's position is that each of the three options would provide improved AFC coordination as part of a second phase of interim operations. The Midwest ISO recommends Option 1 because it has the least operational risk and stands the best chance of being implemented before the summer peak season begins.

**A. Option 1.** The first option considered is the implementation of the proposal contained in the Midwest ISO's January 9 report. The six-element description of that item is included as Attachment A to this report. To summarize this proposal, the Midwest ISO performs its own flow-based analysis for any request for service where it is a party to the transaction and the Alliance Companies would accept the results of the Midwest ISO flow-based analysis. This would cover the circumstances where: (i) the transaction is between two Midwest ISO control areas that depend on the use of an Alliance Company transmission system to complete the path, (ii) the transaction is a drive-in or drive-out transaction between a Midwest ISO control area and

an Alliance control area, or (iii) the transaction involves use of an Alliance Company system and also has a wheel across the Midwest ISO system.

In addition, because the Midwest ISO power-flow network model contains a detailed representation of both Midwest ISO and Alliance control areas, the Midwest ISO believes that many of the transmission service requests made on an Alliance Company OASIS that do not involve the Midwest ISO could also be evaluated using the Midwest ISO flow-based review process. This means that internal Alliance Company transactions between two Alliance control areas and drive-out and drive-in transactions between an Alliance control area and a non-Midwest ISO/non-Alliance control area could still be reviewed using the Midwest ISO process depending on the location of the source control area and the sink control area.

While the Midwest ISO has maintained full transmission system representation of the ECAR, MAIN, MAPP and SPP regions for use in its flow-based analysis, the level of detail in the Midwest ISO models concerning PJM, New York and in the SERC VACAR areas (Carolina Power & Light, Duke and SCANA) is of a reduced nature. If the source control area or the sink control area for a request is located in one of these areas, the Midwest ISO flow-based analysis may not identify limitations within the areas modeled in a reduced fashion. However certain requests nonetheless have other analysis applied as well. Firm request with a duration of one month or longer have a network analysis performed in addition to the flow-based analysis. The network analysis includes full detail as to all the areas identified and would disclose other limitations, if missed by the flow-based analysis. Corresponding transmission service would also be requested from PJM, New York or SERC VACAR members in addition to service from the Alliance Companies. The response to these corresponding service requests will identify any limitations within the non-Midwest ISO systems.

This option requires having a mechanism whereby Alliance Company requests are entered onto the Midwest ISO OASIS and the Midwest ISO processes those requests. This option also requires the Midwest ISO to communicate the results of its flow-based review back to the Alliance Companies. These two requirements are not unique to Option one. All three options have a timing issue on having everything ready for the summer season no later than May 1. Alliance Companies would also need to amend their tariffs such that they are using the results of flow-based reviews and they no longer post ATCs but rely on the AFCs posted by the Midwest ISO. Of the three options, the Midwest ISO believes that this option has the least amount of operational risk because it involves applications that are currently functioning and it is not dependent on implementation of a whole new system or the start-up of a new process.

**B. Option 2.** The second option is to have the Alliance Companies start-up their AFC calculation process that was designed for use by the Alliance RTO. This option would allow the Alliance Companies to coordinate AFCs with the Midwest ISO as had been envisioned in the IRCA CPP 9. This coordination would extend to beyond an exchange of data and would have the Midwest ISO and the Alliance Companies, through use of their AFC calculation process, calculate AFCs once an hour and post this information on an FTP site for use by other entities.

In some regards, the Midwest ISO would be indifferent to the implementation of this option versus the first option in that both provide a level of improved ATC coordination for this second phase of interim operation. However, the Midwest ISO believes there is a substantial degree of operating risk in pursuing this option. Because it involves the implementation of a new process, it will require making modifications from the original design (i.e., the Alliance AFC calculation tool was designed to receive requests through a single ARTO OASIS node and



not from multiple OASIS nodes of the Alliance Companies). The Midwest ISO also believes the time spent pursuing this option instead of Option 1 or 3 could place the other options at risk because of the time spent on Option 2 could be used more productively on Option 1 or 3.

It is not a simple matter of flipping the switch to implement Option 2. Many of the changes that are needed for Option 1 are also needed for this option. As in Option 1, there needs to be a mechanism to transfer requests from individual OASIS pages over to the location of the Alliance AFC calculation process and to communicate back the results of the AFC review to the Alliance Companies. The Midwest ISO has not participated in the tests of the Alliance AFC calculation process and has not seen the results of such tests. The Midwest ISO also does not know whether the features to perform AFC coordination with other entities have already been designed into the Alliance AFC process or whether they intended to add this sometime in the future. Until testing is performed with the Midwest ISO as a participant, we do not have confidence this option is capable of being implemented by this summer as a second phase to interim AFC coordination.

**C. Option 3.** The third option is an extension of the first option where the Midwest ISO AFC calculation process is used by the Alliance Companies when they sell transmission service. This option differs from the first option in that the Midwest ISO would add power-flow model details to the Midwest ISO AFC calculation process that would allow its use by the Alliance Companies this summer. The Midwest ISO has already distributed its power-flow model to the Alliance Companies and has received their comments on areas that need to be changed. A conference call was held on Friday, February 15, to discuss the model changes. The Alliance Company representatives and the Midwest ISO agreed that the focus would be on

producing a good summer model for the Alliance Companies and the control areas to the east of the Midwest ISO and Alliance area.

At the meeting on January 16, the Alliance Companies' representatives agreed to have internal discussions and respond back to the Midwest ISO on which of the three options they would like to pursue or to propose a new option. A conference call was held with the Alliance Company ATC representatives on Wednesday, February 13. During that call, the Alliance Companies' representatives said they met on the previous day where they discussed the three options. They said one of the options had been selected and a recommendation was made to the Alliance Company Management Committee. The recommended option was not shared with the Midwest ISO. Absent any feedback from the Alliance Companies as to the choice to be formally advocated before the Commission, the Alliance Companies' representatives were aware that the Midwest ISO would make this report and that it would describe the options for second phase of the interim operation for this summer but, would not contain a joint recommendation.

#### **IV. Conclusion**

The Midwest ISO will work to ensure reliable regional operation through any interim period. All recommendations as to interim steps and interim operations will be second best to the seamless market envisioned by and encouraged in the Commission's December 20, 2001 Orders regarding the Midwest. Therefore, the shorter any interim period will be, the better the

results will be, and the sooner the time when the Midwest ISO can provide the degree of service expected of it and demanded by its customers.

Respectfully submitted,

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Stephen L. Teichler  
DUANE, MORRIS & HECKSCHER LLP  
1667 K Street, N.W., Suite 700  
Washington, DC 20006-1608  
Telephone (202) 776-7830  
Facsimile (202) 776-7801

Stephen G. Kozey  
Lori A. Spence  
Midwest ISO  
701 City Center Drive  
Carmel, IN 46032  
Telephone (317) 249-5400  
Facsimile (317) 249-5912  
Email: [skozey@midwestiso.org](mailto:skozey@midwestiso.org)  
[lspence@midwestiso.org](mailto:lspence@midwestiso.org)

Dated: February 19, 2002

**Attorneys for Midwest ISO**

## CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in the above-captioned proceedings. In addition, I have served the foregoing document upon each person designated on the official service list compiled by the Secretary in Docket Nos. ER01-3000-000 and -001; RT01-101-000 and -001; EC01-146-000 and -001; EL01-80-001; RT01-88-000, -001, 002, -003, -004, -005, -006, -007, -008, -009, -010, -011, and -012; ER99-3144-000, -001, -002, -003, -004, -005, -006, -007, -008, -009, -010, -011, -012, -013, and -014; EC99-80-000, -001, -002, -003, -004, -005, -006, -007, -008, -009, -010, -011, -012, -013, -014 and -015; ER01-2992-000; RT01-84-000, and -001; ER01-123-000, -001, -002, -003, and -004; ER01-2999-000; RT01-26-000 and -001; ER01-2993-000; RT01-37-000 and -001; ER01-2997; and ER01-2995-000.

Dated at Washington, D.C. this 19th day of February 2002.

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Stephen L. Teichler

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## **Attachment A**

### **MIDWEST ISO SUGGESTIONS FOR INTERIM ATC COORDINATION PROCESS BETWEEN ARTO/MIDWEST ISO/SPP FROM JANUARY 9 REPORT**

To prepare for the contingency that the steps for the desired integration of the Midwest ISO footprint systems are not agreed to by February 18, 2002, the Midwest ISO and its members considered the appropriateness of requesting that the Commission require that affected public utility companies honor the following six protocols until the Alliance Companies necessary to provide connectivity for the Midwest ISO are integrated, or these issues are otherwise addressed:

1. The Alliance Companies will accept the Midwest ISO's flow-based review of transmission service requests sourcing and sinking in the Midwest ISO footprint. The Midwest ISO will perform a flow-based review of all requests made on its OASIS node. The flow-based review will consider the impact of transactions on both Midwest ISO flowgates and Alliance flowgates. Longer term requests will include, in addition to a flowgate AFC review, a full network analysis that considers all constrained elements and contingencies within planning criteria on the systems of both the Midwest ISO and Alliance Companies' systems. Where the transaction source control area and sink control area are within the Midwest ISO footprint and the transaction requires use of an Alliance Company transmission system to complete the path, Alliance Companies will coordinate their response with the Midwest ISO such that they accept the Midwest ISO results.
2. The Alliance Companies will coordinate their response with the Midwest ISO on transmission service requests either sourcing or sinking in the Midwest ISO footprint that involve an Alliance Company. To the extent a transmission customer has requested transmission service from one or more Alliance Companies and the Midwest ISO at the

same time, the Midwest ISO will provide the results of its flow-based review to the Alliance Companies, which will utilize the Midwest ISO response. If the transaction sources or sinks in the Midwest ISO, but the transmission customer elects to initially only make a request with an Alliance Company (*i.e.*, a Cinergy Hub transaction with transmission service arranged up to the border between the Midwest ISO and the Alliance Company), the Alliance Company will act on the request using its own review process. The Midwest ISO will consider this transmission service to be a partial path until the Midwest ISO service has been requested.

3. The Alliance Companies that do not join the Midwest ISO will implement the flow-based review process that was initially designed and built for use by the Alliance RTO ("ARTO"). The Alliance Companies will be responsible for integrating their current ATC calculation and transmission service administration process with the ARTO flow-based review process. This will provide ATC coordination between Alliance Companies and the Midwest ISO as Alliance Companies process requests that do not involve the Midwest ISO (*i.e.*, between two Alliance control areas and between an Alliance control area and a control area outside the Super-Region). If this is impractical, the Midwest ISO is willing to host a page on the Midwest ISO OASIS where requests that do not involve the Midwest ISO are entered and a flow-based review is performed by the Midwest ISO. The Alliance Companies would use the results of the Midwest ISO flow-based review to respond to the request. In either case, there will be costs associated with modifying the Midwest ISO system to accommodate Alliance Companies and costs associated with implementing the ARTO system. Those costs will be paid by the Alliance Companies

that do not join the Midwest ISO directly or through an Appendix I arrangement under the Midwest ISO OATT.

4. The Alliance Companies will cooperate with the Midwest ISO to allow customers to only submit reservations and schedules with the Midwest ISO for Midwest ISO transactions (even if those transactions involve a path across Alliance Companies). The Midwest ISO would inform the Alliance Companies of the schedules and coordinate with such companies, but the reservation and scheduling process would be seamless for the customers. To the extent the Alliance Companies do not implement the ARTO flow-based review process described in Item 3 above, requests that do not involve the Midwest ISO will be automatically entered onto a Midwest ISO OASIS page for review using the Midwest ISO OASIS Automation System.
5. The data exchange process described in Attachment A is not sufficient for ATC coordination between the Midwest ISO and Alliance Companies beyond an interim period. For those Alliance Companies that do not join the Midwest ISO, they will take steps to improve the data exchange process described in Attachment A such that it is equivalent to the data exchange commitment that was made in IRCA Cooperative Procedure and Protocol 9 ("CPP 9"), ATC Determination and Coordination. If Alliance Companies do not implement the ARTO flow-based review process described in Item 3 above, they will be unable to exchange flowgate AFC as had been committed in CPP 9.
6. The Alliance Companies will coordinate maintenance outages with the Midwest ISO as had been envisioned in IRCA Cooperative Procedure and Protocol 16, Operations Planning Coordination. The Alliance Companies will provide generation and transmission outage schedules using the existing NERC SDX system. The Midwest ISO

will utilize network applications to analyze planned critical facility maintenance to determine its effects on flowgate AFC and the security of the transmission system. If the outage analysis indicates unacceptable system conditions, then the Midwest ISO and the Alliance Companies will work with one another to provide remedial steps to be taken in advance of such proposed maintenance. The Alliance Companies will notify the Midwest ISO of emergency maintenance and forced outages as soon as possible after these conditions are known. The Midwest ISO and the Alliance Companies will jointly evaluate the impact of emergency and forced outages on each other's systems and will work with one another to develop remedial steps as necessary.



UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

Alliance Companies, et al.	)	Docket Nos. RT01-88-000,
	)	-001, -002, -003, -004, -006,
	)	-007, -008, -009, -010, -011,
	)	ER99-3144-000, -001, -002,
	)	-003, -004, -005, -006, -007,
	)	-008, -009, -010, -011, -012,
	)	-014, EC99-80-000, -001, -002,
	)	-003, -004, -005, -006, -007,
	)	-008, -009, -010, -011, -012,
	)	-014
Illinois Power Company	)	Docket Nos. RT01-84-000,
	)	-001, ER01-123-000, -001,
	)	-002, -003, and -004
Northern Indiana Public Service Company	)	Docket Nos. RT01-26-000,
	)	-001
The Dayton Power and Light Company	)	Docket Nos. RT01-37-000,
	)	-001

(Not Consolidated)

**STATEMENT OF  
VIRGINIA ELECTRIC AND POWER COMPANY**

As directed by the Commission in its "Order on Requests for Rehearing," issued December 20, 2001,<sup>1</sup> in the proceedings referenced above, Virginia Electric and Power Company ("Dominion Virginia Power" or the "Company") hereby files a statement of its plans to join a

<sup>1</sup> *Alliance Companies, et al.*, "Order on Request for Rehearing," 97 FERC ¶ 61,327 (2001) ("*Alliance VT*").

regional transmission organization ("RTO"). Dominion Virginia Power files this statement to supplement the RTO statement of the Alliance Companies<sup>2</sup> filed on this date.

The Company remains committed to supporting electric deregulation and formation of standardized market rules, tariffs and interconnection agreements. It is essential that all generation suppliers are treated equally and obtain enhanced access to non-discriminatory delivery service. We fully intend to satisfy the Company's state and federal regulatory obligations with regard to RTO participation.

Beginning in late 1997, Dominion Virginia Power was a founding member of the companies to establish the Alliance RTO. At that time, six companies<sup>3</sup> came together to create an independent regional transmission organization to provide viable and market-accepted business solutions to the challenges facing electric transmission providers in a restructuring industry. The effort included working with stakeholders over a sixteen-month period in four working groups and a Steering Committee. Initially, the effort resulted in the development of white papers detailing the plans and various options to create the Alliance RTO, which were provided to stakeholders, regulators and posted on the Alliance RTO website. After completion of the white papers, the companies and the stakeholders continued the enormous task of

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<sup>2</sup> For purposes of this statement, the Alliance Companies are Ameren Services Company (on behalf of Union Electric Company and Central Illinois Public Service Company) ("Ameren"), American Electric Power Service Corporation (on behalf of Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company, and Wheeling Power Company) ("AEP"), The Dayton Power and Light Company ("DP&L"), Exelon Corporation (on behalf of Commonwealth Edison Company and Commonwealth Edison Company of Indiana, Inc.) ("ComEd"), FirstEnergy Corp. (on behalf of American Transmission Systems, Inc., The Cleveland Electric Illuminating Company, Ohio Edison Company, Pennsylvania Power Company, and The Toledo Edison Company) ("FirstEnergy"), Illinois Power Company ("Illinois Power"), Northern Indiana Public Service Company ("NIPSCO"), and Virginia Electric and Power Company ("Virginia Power"). While a member of the Alliance, Consumers Energy Company and its affiliate, Michigan Electric Transmission Company intend to file a separate report.

<sup>3</sup> The six companies involved in 1997 included Allegheny Power, Duquesne Light, Consumers Energy Company, Detroit Edison Company, FirstEnergy, and Dominion Virginia Power and their respective public utility operating companies. Ultimately, AEP joined the effort and helped develop the June 1999 filing and Allegheny Power and Duquesne Light pursued other options.

developing the applications and supporting documents that were filed with the Commission in June 1999.

For the next three and a half years, Dominion Virginia Power participated in efforts in federal and state proceedings involving the proposal to form the Alliance RTO. In a series of five orders<sup>4</sup>, the Commission consistently encouraged Dominion Virginia Power and the Alliance Companies to pursue development of their RTO proposal. Significantly, during that time the Commission approved a settlement allowing three former MISO members to join the Alliance RTO, approved a MISO/ARTO coordination agreement, and ensured the survival of the Midwest ISO<sup>5</sup>. The Commission also found that the proposed Alliance RTO substantially satisfies the RTO characteristics and functions of Order No. 2000, including scope and regional configuration that included the Company as part of the Alliance Companies<sup>6</sup>.

In order to obtain regulatory approval to transfer operational control of its transmission facilities to the Alliance RTO, the Company filed applications with the North Carolina Utilities Commission ("North Carolina Commission") and the Virginia State Corporation Commission ("Virginia Commission"). The Virginia Commission issued an Order April 13, 2001 directing the filing of additional testimony and establishing hearing procedures on the Company's application. The North Carolina Commission issued an Order November 1, 2001 scheduling hearings and directed filed testimony supporting the application and providing analysis on the costs and benefits of RTO participation. The North Carolina Commission also required pre-hearing briefs addressing (1) the effect of approval of the application over North Carolina Commission's jurisdiction over transferred transmission facilities and bundled retail rates and

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<sup>4</sup> *Alliance Companies, et al.*, 89 FERC ¶ 61,298 (1999) ("Alliance I"), order on compliance filings and reh'g, 91 FERC ¶ 61,152 (2000) ("Alliance II"), order on compliance filings and reh'g, 94 FERC ¶ 61,070 ("Alliance III"), reh'g denied, 95 FERC ¶ 61,182 (2001) ("Alliance IV") and *Alliance Companies*, 96 FERC ¶ 61,052 (2001) ("Alliance V").

<sup>5</sup> *Illinois Power Company et al.*, 95 FERC ¶ 61,183 (2001).

<sup>6</sup> *Alliance V*, 96 FERC ¶ 61,052 (2001).

service, (2) whether ARTO would become a public utility under its jurisdiction, and (3) other jurisdictional issues. In response to FERC's *Alliance VI* Order, the North Carolina proceedings were dismissed without prejudice to a subsequent filing on the Company's RTO plans, and the Virginia proceedings were suspended pending clarification of the Company's RTO plans.

The Virginia and North Carolina Commissions offered comments to this Commission on RTO policy, which raised concerns over the costs of RTO participation and urged a go-slow approach. The Virginia Commission filed comments October 16, 2001 in Docket No. RM01-12-000 in "RTO Week" held October 15 through 19, 2001, November 30, 2001 in response to the Commission's November 9<sup>th</sup> letter in Docket Nos. RT01-88-000, and January 17, 2002 in response to the Commission's December 10<sup>th</sup> letter in Docket Nos. RT01-2-001, et al. In their January 17 comments the Virginia Commission stated:

"The Virginia Commission has been struggling with the issue of where Virginia utilities fit in the larger RTO scheme. This uncertainty is highlighted by the fact that we were previously asked to comment on the appropriate RTO structure for the Midwest [footnote omitted], and we are now being asked to provide our views regarding RTOs in both the Northeast and in the Southeast [footnote omitted]. The fact that Virginia, which is far from the largest state in the union, is linked with three different potential RTO regions clearly illustrates that the Commission needs to take a hard look at proposed RTO configurations to ensure that they represent the best approach for fulfilling the public interest."

North Carolina filed comments November 30, 2001 in response to the Commission's November 9<sup>th</sup> letter in Docket Nos. RT01-88-000, et al., which referenced its filed comments in Docket No RM01-12-000 in "RTO Week" held October 15 through 19, 2001. Specifically, the North Carolina Commission recommended that:

- (1) FERC should delay any further action on a Southeastern RTO until completion of a study of the Southeastern Association of Regulatory Commissioners ("SEARUC");
- (2) Upon completion, FERC and SEARUC can review the study and determine appropriate action;

- (3) A cost/benefit analysis should then be undertaken concerning the appropriate action identified in the study, including, if necessary, configuration and operational issues concerning the formation of more than one RTO in the region; and
- (4) Explicit consideration of the costs and benefits to retail ratepayers.

A tremendous amount of effort went into the development of the June 1999 initial proposal, the subsequent five Alliance Company filings at FERC, and the Company's state regulatory filings. Significant time and money was spent by Dominion Virginia Power and the other Alliance Companies to develop state and federal applications, RTO tariffs and protocols, business and contractual documents, and new transmission rates. The Company attempted to address state concerns in their respective state applications and had the expectation that the Alliance RTO would become operational by December 15, 2001, the time established in Order No. 2000.

In *Alliance VI* the Commission directed the Alliance Companies to determine how their business plan can be accommodated within the Midwest ISO, and stated that the Midwest ISO may not be the ideal RTO for the Company, and if so, the Company should explore membership in another RTO. The Commission also directed the Alliance Companies to report on their RTO plans within 60 days and that it expects significant progress to be made during this period.

While it is understandable and appropriate that regulatory authorities from time to time change policies and direction, the Commission must bear in mind that major policy changes can offer confusion, at least initially. The states that regulate the Company are pulling it in different directions. Therefore, the Company is anxious to avoid repeating this scenario with a different RTO. Specifically, the Company does not want to work diligently on a revised RTO effort only to be told, in a year or so, the effort must be redirected, the chosen RTO will be substantially reconfigured, or the Company should explore membership in a more ideal RTO.

Given this background, it appears that the RTO model and scope is evolving and we need to obtain a better understanding of the current Commission policies on RTOs, examine the alternative RTOs structures, markets, and costs, and discuss these matters with regulatory authorities and interested stakeholders. The Midwest ISO and Alliance Company negotiations to accommodate the Alliance business plan have not concluded, and so it is unclear whether this alternative is appropriate for the Company. The Southeast alternative appears to be evolving at a slower pace. The Northeast alternative, while the most developed, is also evolving. For each of these alternatives, the Company will need to consider the transmission issues relative to its state rate freeze period.

Given the uncertainty over state and federal RTO policies and alternatives, the Company cannot offer a plan that provides absolute certainty on the timeframe for joining an RTO. The Company expects that its RTO plan will develop so that the state and federal regulatory authorities and interested stakeholders are consulted and participation is accomplished with all due speed and diligence.

Despite the delays in the formation of the Alliance RTO, and the uncertainties of joining an RTO that would be acceptable to state and federal regulatory authorities, the Company remains committed to enhancements in electric generation competition, access to non-discriminatory transmission services, and standardized interconnection procedures. The movement to RTO formation and participation has created transition issues, but the Company has generally found willingness by state and federal regulatory authorities to address these issues. The Company commits to continue its efforts to find an RTO solution that will be accepted by state and federal regulatory authorities and by its customers, and to communicate with these groups to find that solution.

Respectfully submitted,

Michael C. Regulinski  
Senior Counsel  
Dominion Resources Services, Inc.  
P.O. Box 26532  
Richmond, VA 23261  
Phone: (804) 819-2794  
Fax: (804) 819-2183  
E-Mail: [Michael\\_Regulinski@dom.com](mailto:Michael_Regulinski@dom.com)

UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

Alliance Companies	)	Docket Nos. RT01-88-000, -001,-002,-003,-004,-006, -007,-008,-009,-010,-011, ER99-3144-000,-001,-002,
Ameren Corporation	)	-003,-004,-005,-006,-007, -008,-009,-10,-011,-012,- 014, EC99-80-000,-001,- 002,-003,-004,-005,-006,- 007,- 008,-009,-010,-011,-012,-014

On behalf of:

Union Electric Company	)
Central Illinois Public Service Company	)
American Electric Power Service Corporation	)

On behalf of:

Appalachian Power Company	)
Columbus Southern Power Company	)
Indiana Michigan Power Company	)
Kentucky Power Company	)
Kingsport Power Company	)
Ohio Power Company	)
Wheeling Power Company	)
Consumers Energy Company	)
and Michigan Electric Transmission Company	)
Dayton Power and Light Company	)
Detroit Edison Company	)
and Internal Transmission Company	)
Exelon Corporation	)



On behalf of:

Commonwealth Edison Company )  
Commonwealth Edison Company of Indiana, Inc.)

Docket No. ER01-2992-000

First Energy Corporation )

On behalf of:

American Transmission Systems, Inc. )  
The Cleveland Electric Illuminating Company )  
Ohio Edison Company )  
Pennsylvania Power Company )  
The Toledo Company )

Illinois Company )

Docket Nos. RT01-84-000,  
001  
Docket Nos. ER01-123-000,  
001, 002, 003, and 004,  
Docket No. ER01-2999-000

Northern Indiana Public Service Company )

Docket Nos. RT01-26-000,  
001

Virginia Electric and Power Company )

Docket No. ER01-2993-000

The Dayton Power and Light Company )

Docket Nos. RT01-37-000,  
001 and Docket No.  
ER01-2997-000

American Electric Power Company )

Appalachian Power Company )

Columbus Southern Power Company )

Indiana Michigan Power Company )

Kingsport Power Company )

Ohio Power Company )

Wheeling Power Company )

Docket No. ER01-2995-000

STATEMENT OF PLANS  
TO JOIN AN RTO  
BY CONSUMERS ENERGY COMPANY  
AND  
MICHIGAN ELECTRIC TRANSMISSION COMPANY

In its December 20, 2001, order herein the Federal Energy Regulatory Commission ("Commission") issued the following directive:

Alliance Companies are hereby directed to file a statement of their plans to join a [Regional Transmission Organization] RTO, including the timeframe, within 60 days of the date of this order.

Consumers Energy Company ("CECo") and Michigan Electric Transmission Company ("METCo") are Alliance Companies. This filing constitutes their statement in accordance with the December 20 order.

By order issued February 13, 2002, in Docket Nos. EC02-23-000 and ER02-320-000, the Commission approved the sale and transfer of all jurisdictional facilities and assets owned by CECo and METCo to Michigan Transco Holdings, Limited, the general partner of which is Trans-Elect Michigan, LLC, a wholly-owned subsidiary of Trans-Elect, Inc. Though certain conditions were included in the transfer authorization given by the Commission in the February 13 order, CECo intends to comply and close the sale to Trans-Elect early this year. Once the sale is complete, CECo will no longer be in the business of transmitting electricity subject to the jurisdiction of this Commission.

In the period of time before closing, CECo and METCo intend to continue working with the other Alliance Companies and the Midwest Independent System Operator on a process and structure by which the Alliance or the Alliance Companies can be brought into the MISO RTO.

Respectfully submitted,

CONSUMERS ENERGY COMPANY  
and  
MICHIGAN ELECTRIC TRANSMISSION  
COMPANY

By \_\_\_\_\_

William M. Lange  
Assistant General Counsel  
Consumers Energy Company  
Suite 100  
1016 16<sup>th</sup> Street, N.W.  
Washington, D.C. 20036  
(202) 293-5795

Their Attorney

February 19, 2002

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Washington D.C. this 19th day of February 2002

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William M. Lange

## DUANE MORRIS

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 PALM BEACH  
 ALLENTOWN  
 HOUSTON  
 BANGOR

STEPHEN L. TEICHLER  
 DIRECT DIAL: 202.776.7830  
 E-MAIL: [sleitchler@duanemorris.com](mailto:sleitchler@duanemorris.com)

[www.duanemorris.com](http://www.duanemorris.com)

February 25, 2002

**VIA MESSENGER**

Honorable Magalie Roman Salas  
 Secretary  
 Federal Energy Regulatory Commission  
 888 First Street, NE  
 Washington, DC 20426

**Re: The Alliance Companies' Report on the Status of Negotiations to  
 Accommodate the Alliance Business Plan Underneath an RTO Umbrella,  
 The Alliance Companies, Docket No. RT01-88-000, et al.**

Dear Secretary Salas:

The Midwest Independent Transmission System Operator, Inc. ("Midwest ISO") submits this letter to the Federal Energy Regulatory Commission ("FERC" or "Commission") in response to the letter report filed by the Alliance Companies<sup>1</sup> in Docket No. RT01-88-000, *et al.*, on February 19, 2002. While the Midwest ISO disagrees with the tenor of that report, we believe it would be most constructive to offer a general framework against which our discussions with the Alliance Companies have taken place. The Midwest ISO has consistently represented to the Alliance that it will support participation of the Alliance Gridco on the same terms as approved for the TRANSLink Transmission Company LLC's ("TRANSLink") as to the scope of the RTO footprint versus the zone for application of the independent transmission company's tariff, the

split of functional responsibilities between the RTO and the independent transmission company and the determination of a fair share of payment of the Midwest ISO's costs. Likewise, if the Alliance Gridco desires to follow the path the Commission has already approved for International Transmission Company, the Midwest ISO would support that approach as well. The Midwest ISO believes that this position is fair to both the Alliance Gridco as well as its existing members. The issues that separate the Alliance and the Midwest ISO relate to the degree to which the Alliance Companies seek greater preference with respect to their participation in the Midwest RTO.

**I. PROCESS TO DATE.**

**A. Differences In Framework**

The Alliance Companies report that the parties have not reached closure on the incorporation of their business plan into the Midwest RTO structure. In part, lack of closure reflects a fundamental difference in the perception of the two entities as to what the Commission sought to achieve in its December 20, 2001 Order in *Alliance Companies, et al.*, Docket Nos. RT01-88-000, *et al.* The Midwest ISO has focused on the following discussion:

In addition, the views of many of the state commissions have persuaded us that allowing two RTOs in the Midwest would be a second-best solution that would not serve the best interests of customers throughout the Midwest. Combining the two entities should not only dramatically reduce costs (as there will now be one rather than two separate entities) but will achieve the

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<sup>1</sup> The individual Alliance Companies and their proper corporate identification are listed in footnote 1 of their February 19, 2002 letter.

goal of a seamless market in the Midwest. We conclude that the public interest would best be served if Alliance were to join the Midwest ISO. Of the two proposed RTOs, Alliance RTO and Midwest ISO, we believe that the Midwest ISO, because it is further along in its development and more fully complies with Order No. 2000, represents the foundation upon which a single Midwest RTO should be built. While we cannot approve Alliance RTO as a stand-alone RTO, we are confident that it can be a successful transco under the Midwest ISO's Appendix I. Therefore, we direct Alliance Companies to explore how their business plan (including National Grid) can be accommodated within the Midwest ISO, e.g., via Appendix I.<sup>2</sup>

The Alliance Companies interpret the Commission's direction as follows:

However, the Alliance Companies and National Grid will form Alliance Gridco *only* if there is a reasonable business proposition for the company to operate as a viable ITC that owns or has functional control over all of [the] transmission facilities within the Alliance. In fact, the Commission stated in *Alliance VI* that it is "confident the Alliance Companies' desire to be a viable transmission business can be accommodated underneath the Midwest ISO umbrella." (Alliance letter at 4, footnotes omitted).

These two approaches are quite different: 1) the Alliance Gridco has an Appendix I relationship with the Midwest ISO and is a part of one RTO with a uniform footprint for its functions, rates and cost responsibility; or 2) a minimal Midwest ISO umbrella partially covers a parallel organization with limited common rate matters, certain transactions and relationships reserved to the Alliance Gridco and limited cost contribution to the Midwest ISO. The difference in approach is at the base of many of the disagreements between the two entities. On the issue of the footprint for the RTO and the appropriate functional split of responsibilities, the

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<sup>2</sup> 97 FERC ¶61,327 (2001) (emphasis added). Appendix I creates a framework for membership and operation of independent transmission companies within the Midwest ISO. See, *Commonwealth Edison Company, et al.*, 90 FERC ¶ 61,192 (2000).

heart of the matter is what role does the RTO play and what role does an independent transmission company play in the performance of functions necessary to reliably operate the transmission system in a single RTO market environment. The Alliance Gridco believes it should control, through application of an Alliance Gridco Tariff, all transactions and relationships between Alliance Gridco and parties contiguous to the Alliance Gridco that are not directly connected to Midwest ISO transmission systems, *e.g.*, PJM, APS, Duke and others. The Midwest ISO believes the RTO's Tariff should apply and it should be the entity that interfaces with systems along its borders, which view envisions a single RTO with Alliance Gridco having its functions under the RTO umbrella; the alternative view contemplates two, largely separate organizations operating in parallel.

**B. Negotiations During the Week of February 11.**

The Alliance Companies state that they are dismayed that the Midwest ISO could not support an agreement in principle on allocation of functional responsibilities because its stakeholders could not support the agreement. The fact of the matter, however, was that the representatives of the Midwest ISO were careful and persistent in pointing out to the Alliance Companies' representatives that the matters as to which agreement in principle had been reached would be reviewed by a representative subgroup of the Midwest ISO Advisory Committee and, ultimately, the full Advisory Committee. In its negotiation on the split of functions, the Midwest ISO was guided principally by operational feasibility. Upon its review, the Midwest ISO stakeholder review group was unanimous in its belief that the agreement fell short of the



aspirational objectives of the Commission in its December 20 Order that there be one seamless RTO for the region.

The Alliance Companies suggest that the involvement of the Midwest ISO stakeholder process creates a "Catch 22" that precludes achieving the arrangements necessary to accommodate Alliance Gridco into the Midwest RTO structure. The Midwest ISO disagrees; the stakeholder process has been a positive aspect for the Midwest ISO. The Commission has pointed with pleasure to the actions of the Midwest ISO when matters brought before the Commission have first been vetted before the Midwest ISO's Advisory Committee.<sup>3</sup> The Commission has also returned matters to the Midwest ISO for action when it has felt that the vetting process has not been thorough enough.<sup>4</sup> Appendix I to the Midwest ISO Agreement that allows the flexibility to encompass independent transmission companies within the ISO arose through that procedure. The modification to the Midwest ISO Agreement necessary to accommodate Municipal entities without harming the tax-free status of their bonds was also arrived at through that process.

The Midwest ISO stakeholder process has never been a hindrance in accomplishing transactions. In fact, it has facilitated many successful results. On February 20, 2002, the

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<sup>3</sup> *Midwest Independent Transmission System Operator, Inc.*, 97 FERC ¶ 61,326 (2001).

<sup>4</sup> *See, e.g., Midwest Independent Transmission System Operator, Inc.*, 98 FERC ¶ 61,137 (2002) regarding the Midwest ISO's Operating Protocols for existing generators, which was issued February 13, 2002 in Docket No. ER02-488-000.

Advisory Committee unanimously endorsed proceeding with the combination of the Midwest ISO with the Southwest Power Pool, and the Board of Directors unanimously approved the definitive agreements on the following day.

The stakeholder process does not impair the independence of the Midwest ISO as alleged by the Alliance Companies. The Midwest ISO Board of Directors and management can and do make independent decisions. There have been times, notably in the case of the Midwest ISO's relation to TRANSLink, where Midwest ISO stakeholder reaction was not uniformly positive to the Midwest ISO's decision to act. Indeed, there are Midwest ISO stakeholder participants in the TRANSLink proceeding that are opposed to such an Appendix I relationship. There will be other filings that the Midwest ISO makes in regards to matters such as parallel flow scheduling and compensation that will not be supported by all segments of its Advisory Committee. Nonetheless, although the Advisory Committee is purely advisory and not controlling, the Midwest ISO finds that consulting with its broad base of stakeholders significantly enhances its decision-making process.

In the instant case, stakeholder comment was unanimous and immediate. At the Advisory Committee meeting on February 20, 2002, the Alliance Companies' letter to the Commission and the Midwest ISO's second report on interim operations were discussed. The Midwest ISO received clear communications from its Advisory Committee that the discussions with the Alliance Companies should continue, but that such negotiations should respect the FERC's RTO principals. In particular, the state commission representatives presented their

views on an appropriate basis for incorporating the Alliance Gridco into the Midwest ISO as a Transco. Those views, as presented by Commissioner Gary Gillis of the Kentucky Public Service Commission, were as follows:

The states have worked for a long time now, in many different forums, to develop a consistent regulatory framework for the Midwest that resulted in a seamless market.

We have been involved in the advisory committee and its many sub-committee work groups, and will continue to do so.

My comments now, however, are not made as one of many stakeholders. Rather, I make these comments representing state regulators who have higher statutory obligations to the public interest.

Any negotiations, with the Alliance Companies, National Grid, or any future entity, should not negotiate away what has already been established by FERC or the states. Any settlement that results in creating seams rather than eliminating them is a non-starter. Any settlements that result in pancaking of rates are a non-starter. Our message to both the MISO and the Alliance Companies is to urge them to continue to negotiate in good faith. We should recognize the parameters of the reality of what has already been laid out by the FERC orders, as a minimum. The time to make the hard choices is now, and we urge both parties to conclude these discussions and get the much need certainty into the Midwest markets.

The Midwest ISO would be derelict in its duty if it were to ignore the unanimous views of its membership. The Midwest ISO is obligated to be free from the control or influence of any one participant, or class of participants, but must be responsive to the desires of its membership as a whole. This is the essence of governance and a necessary component to an RTO that will be capable of serving its customers. Here, a representative group of the entirety of the Midwest ISO's membership spoke as one, and the Midwest ISO was compelled to listen. The Midwest

ISO regrets that the Alliance Companies are dismayed that stakeholder reaction required the Midwest ISO to withdraw its support of Attachment A, but they knew that the Midwest ISO intended to seek stakeholder input and that the Midwest ISO is responsive to its membership.

C. **Claims of Discriminatory Treatment of Different Independent Transmission Companies.**

The Alliance Companies complain that the Midwest ISO is discriminating against Alliance Gridco vis-à-vis other independent transmission companies. The Midwest ISO disagrees. The Midwest ISO would support a relationship with the Alliance Gridco on the same basis as the one already approved by the Commission for the International Transmission Company. The Alliance Gridco has thus far indicated that it does not wish to use that model.

The second model available to the Midwest ISO is the proposal that TRANSLink has pending before the Commission, which also envisions divestiture of transmission assets to an independent entity. The Midwest ISO would support the admission of Alliance Gridco into the Midwest RTO on the same terms and conditions that the Commission ultimately approves for TRANSLink after it considers the issues that have been raised in the protests, including those submitted by Midwest ISO stakeholders in that proceeding. The Midwest ISO would be willing to execute a copy of the Memorandum of Understanding it had entered into with the TRANSLink Parties concerning their proposed Appendix I relationship with the Midwest ISO with the appropriate name changes and other editorial changes made to facilitate the formation and submission to the Commission of an Appendix I-type application. Again, if the Alliance

Companies (either alone or in combination with National Grid) wish to sign and accept that relationship and the outcome the Commission determines in response to that application based on the TRANSLink approach, the Midwest ISO will accept and support that outcome for Alliance Gridco as well. Of course, this support recognizes that the Commission may evaluate the application in view of the law, facts and circumstances it presents. In the past, this has not been acceptable in concept to the Alliance Gridco. They have requested preferential terms and conditions based upon assertions of "the greater maturity of Alliance infrastructure."

While the Midwest ISO has attempted to be accommodating on operational issues, it has faced substantial resistance from Alliance Gridco on cost responsibility. A comparison of the Alliance Companies' proposal to the TRANSLink Protocols is included as an attachment to this letter. It covers the Midwest ISO's general concerns and then compares the two in regards to their approaches to the NERC reliability authority function, congestion management, losses, tariff administration, system impact studies, OASIS, AFC/ATC calculations, scheduling, operations, transmission maintenance outages, generator maintenance outages, planning, billings and settlements and issues not yet addressed in the Alliance Companies' proposal that the details of the TRANSLink protocols cover. The protocols agreed to with TRANSLink are also included for reference.

**D. Other Open Issues.**

The Alliance Companies suggest that functional issues are all that prevent the successful accommodation of Alliance Gridco into the Midwest ISO. In fact, a number of significant

financial issues are outstanding as to which little progress toward resolution has been made.

Some of these issues are:

1. Midwest ISO Cost Recovery.

The parties remain far apart in negotiations over RTO cost responsibility. The Alliance Companies want to limit their contribution to the incremental cost incurred by the Midwest ISO to integrate their systems. The Midwest ISO believes that the Alliance should bear its fair share of the Midwest ISO's embedded cost, the incurrence of which cost is the *sine qua non* for integration itself.

The Commission has held that an RTO provides a generic benefit to the region that it serves, and hence load within its footprint should share in the cost responsibility for its operation. While the Midwest ISO is willing to unbundle its administrative charge to allow the self-provision of certain services by an ITC, it is not willing to offer a menu of services that can be offered, or declined, on an a la carte basis. The Midwest ISO must provide certain RTO services. Alliance Companies' offer to limit their cost responsibility to incremental costs incurred by their inclusion is fundamentally unfair to existing Midwest ISO members, which have committed to support the Midwest ISO's infrastructure cost to provide benefits to all users in the region.

2. Super Regional Rate Adjustment ("SRA")

The Alliance Companies maintain that the SRA approach set forth in the *Illinois Power Company, et al.*, settlement in Docket No. ER01-123-002, *et al.*, including its "SRA" lost

revenue recovery mechanism, is fixed and immutable. Some members of the Midwest ISO disagree. Unless the Alliance Companies and the Midwest ISO transmission owners can come to a consensual resolution, Commission guidance will be required.

The Midwest ISO would note, however, that the SRA approach was predicated upon a two-RTO structure. As ultimately quantified in filings with the Commission, it involved a transfer of money from the Midwest ISO Transmission Owners to Alliance Gridco owners. That rate approach may have to be modified to conform to a single RTO format. The Midwest ISO Transmission Owners have been approached by Alliance Gridco and may have a response this week. Other constituencies are not convinced that that arrangement, with no link back to a two RTO condition, is relevant.

### 3. Sixty Million Dollar Repayment

The Alliance Companies represent that there is no disagreement as to the return of the \$60 million withdrawal fee. This statement is overbroad.

The Midwest ISO has consistently represented that it will return the \$60 million paid by the three Illinois Companies that withdrew from the Midwest ISO if they rejoin the Midwest ISO individually or through an Appendix I relationship that includes payment of the cost adder applicable to Midwest RTO members. If the Alliance Gridco joins PJM, there will be no basis for return of those amounts. In addition, if members of the Alliance Gridco pay only incremental costs within Midwest ISO, there would be no basis upon which the full withdrawal fee should be returned.

## **II. PRINCIPLES FOR SUCCESSFUL CONCLUSION.**

### **A. Key Principles For Accommodation.**

The Midwest ISO believes the end result of the relationship between it and the Alliance Gridco must accomplish the following objectives:

1. Incorporate the Alliance Gridco into the Midwest ISO RTO for the region covered by the Midwest ISO, as now configured and with the inclusion of SPP and TRANSLink East.
2. Provide a level playing field for competition in general and, in particular, ensure that all sources of generation whether outside or within the footprint of the Midwest ISO RTO/Alliance Gridco common market face the same transmission costs (excluding losses and congestion) to reach the same sink whether it is within the common market or to reach the same out location;
3. Provide one seamless market within the footprint of the RTO encompassing the Midwest ISO RTO and Alliance Gridco.
4. Provide for Transmission Owners and Independent Transmission Companies to receive their revenue requirements.
5. Compensate Transmission Owners and Independent Transmission Companies fairly for the flows on their systems.
6. Provide the Alliance Transmission Companies the opportunity to recover money spent in good faith development of their business model.
7. Ensure that the system within the footprint of the Midwest ISO RTO and the Alliance Gridco is operated in a safe and secure manner.
8. Ensure that the allocation of the Midwest ISO RTO's administrative charge appropriately reflects the RTO services the Midwest ISO can and must provide to its Transmission Owners and Independent Transmission Companies.



**B. Structures For Accommodation While Recognizing Key Principles.**

The Midwest ISO proposes that the operating relationship with the Alliance Gridco would be structured under Appendix I of the Midwest ISO Agreement (with any modifications to Appendix I that may be required by the Commission). The Alliance Gridco would be a member of the Midwest ISO with the same rights and obligations as any other independent transmission company. A summary of those rights and obligations are:

- **Security Coordination (Reliability Authority)** – FERC has defined Security Coordination as an RTO function. As the control area(s) operator, the Alliance Gridco will handle most of the day-to-day activities of Alliance Gridco facilities. The day-to-day activities would include physical operation and maintenance of the Alliance Gridco's transmission facilities. The Midwest ISO would only oversee those activities in order to fulfill its duties as Regional Security Coordinator.
- **Transmission Pricing** – The Midwest ISO agrees that the Alliance Gridco has full authority to set its own zonal rates with FERC approval. FERC will determine whether this is accomplished through two Tariffs or by Alliance Gridco rate matters being treated as distinct provisions within the Midwest ISO Tariff. FERC has indicated there will be no pancaking within an RTO. Therefore, either the Midwest ISO Tariff would apply or the Alliance Gridco Tariff would apply, but not both. For Network load located within the Alliance Gridco, the Alliance Gridco zonal rate would apply and no additional access fee could be imposed. The Midwest ISO's Tariff would apply to all drive-in, drive-through and drive-out transactions associated with the entire RTO footprint, including the Alliance Gridco.
- **Revenue Distribution** – The Midwest ISO believes the standard revenue distribution in Appendix C to the Midwest ISO Agreement should apply to the Alliance Gridco for transactions outside the Alliance Companies' geographical footprint.
- **Congestion Management** – FERC has defined Congestion Management as an RTO function. One Congestion Management System would be used for all of Midwest ISO Transmission Owners and Appendix I entities. All stakeholders are participating in developing this system.

- **Losses** – The Midwest ISO believes that one Loss Process, which follows a consistent methodology that is fair to all parties, must be used.
- **Tariff Administration** – If the Commission approves a separate Tariff for the Alliance Gridco, then the Midwest ISO agrees that the Alliance Gridco should administer its Tariff for any transactions from a source within the Alliance Gridco to a sink within the Alliance Gridco. The Midwest ISO should administer any transactions between sources or sinks within the Alliance Gridco and their counterparts in other external systems using the Midwest ISO Tariff. Without prejudice as to how the FERC determines the separate Tariff matter, customers will need access to one-stop shopping. Only one OASIS would be utilized for the entire RTO footprint and would be operated by the RTO. The Alliance Gridco and Midwest ISO would have separate Tariff pages on this common OASIS node. Separate OASIS nodes would introduce complexities for such things as queue positions, while increasing the cost to both the RTO and the Alliance Gridco. One-stop shopping is also easier and less expensive using a single OASIS node.
- **ATC/AFC Calculations** – The Midwest ISO would perform all ATC/AFC calculations with input from the Alliance Gridco. This would be less expensive than using two separate models with the resulting possibility of differing methodologies and conflicting numbers. The Alliance Gridco should also use the Midwest ISO's ATC/AFC numbers when selling service from a source within the Alliance Gridco to a sink within the Alliance Gridco.
- **Scheduling System** – Assuming that the FERC would approve a separate Tariff for the Alliance Gridco, in order for the Midwest ISO to efficiently and effectively perform its role as Security Coordinator and Tariff Administrator, the Alliance Gridco would use Midwest ISO's scheduling system for all schedules involving the Alliance Gridco and other parties outside of the Alliance Gridco. The Alliance Gridco could use either its own scheduling system or Midwest ISO's scheduling system for transactions from a source within the Alliance Gridco to a sink within the Alliance Gridco. However, the Midwest ISO would prefer that the Alliance Gridco use the Midwest ISO scheduling system for all schedules – internal or external.
- **Billing** – The Alliance Gridco would bill for all transactions from a source within the Alliance Gridco to a sink within the Alliance Gridco. The Midwest ISO would bill for any transactions between the Alliance Gridco and other parties outside the Alliance Gridco.

- **Incurred System Costs** – The Midwest ISO would be willing to purchase all current Alliance Gridco systems and use these systems to more effectively provide the necessary services to the Alliance Gridco and its customers.

### **III. RECOMMENDATIONS FOR PROSPECTIVE PROCEDURES.**

In an effort to bring about quick resolution, the Midwest ISO is willing to have representatives from the state utility commissions and/or the FERC participate in the discussions between the parties. We have participated in the discussions in good faith but feel that certain areas will need facilitation in order to be resolved. It remains the Midwest ISO's position that transmission rate issues require the involvement of customers, state commissions and Transmission Owners and that revenue distribution matters require the involvement of Transmission Owners. Compromises on these matters will require the direct involvement of these parties.

In addition, the Midwest ISO believes that the guidance the Commission can provide the industry, in general, and parties in the Midwest, in particular, through an early order related to the split of functions in the TRANSLink ITC filing will greatly facilitate discussions between the Midwest ISO and the Alliance Gridco.

### **IV. CONCLUSION.**

The Midwest ISO is committed to realizing the Commission's objective of a single RTO for the Midwest that includes the Alliance Companies; however, simply agreeing to keep meeting with the Alliance Companies without being able to bridge the gulf on what is trying to be arranged or accommodated is likely to be time consuming and unsuccessful. The Commission's guidance on

Honorable Magalie Roman Salas, Secretary  
February 25, 2002  
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how to proceed further will be crucial to progress. The Midwest ISO commits, again, to its willingness to accept and support an Appendix I relationship for Alliance Gridco like the one the Commission has already approved for the International Transmission Company or consistent with the Commission's decision in the TRANSLink proceeding. The Midwest ISO will be communicating these positions directly to the Alliance Companies, along with a schedule of dates on which it can meet.

The Midwest ISO is anxious to resolve footprint issues in order to turn its attention to the development of a common market for the Eastern Interchange. As has been reported to the Commission, the Midwest ISO and PJM have reached agreement on developing standard market design that would create a seamless market between the two organizations. This is truly the objective of Order No. 2000, and organizational details, such as how to accommodate the interests of various transmission companies or groups thereof, while necessary, detract the attention of all participants from the overarching objective.

Respectfully submitted,

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Stephen L. Teichler  
DUANE MORRIS LLP  
1667 K Street, N.W., Suite 700  
Washington, DC 20006-1608  
Telephone (202) 776-7830  
Facsimile (202) 776-7801

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Stephen G. Kozey  
Lori A. Spence  
Midwest Independent Transmission  
System Operator, Inc.  
701 City Center Drive  
Carmel, Indiana 46032  
Telephone (317) 249-5400  
Facsimile (317) 249-5912

Attorneys for the  
MIDWEST INDEPENDENT TRANSMISSION  
SYSTEM OPERATOR, INC.

## **Comparison of Alliance Proposal to TRANSLink Protocols**

### **GENERAL CONCERNS**

- There are no detailed protocols between the Midwest ISO and the Alliance. There is a proposal for an agreement from which detailed protocols would be produced. There is concern that the effort to develop detailed protocols will be another long and potentially contentious effort. There can also be significant implementation difficulties depending on the details.
- The proposal calls for “leveraging as many existing Alliance and Midwest RTO systems and processes as possible (and thereby reducing implementation risk in both cost and time).” MISO Staff expects there may be considerable difference of opinion in these matters, and MISO Stakeholders would prefer to see the systems and processes implemented “right” the first day, even if the first day is delayed. The RTO should have decision authority on systems and decisions that match up with RTO functional authority.

### **RELIABILITY AUTHORITY**

- The TRANSLink Protocols indicate that the real-time security responsibility will be a shared responsibility and that TRANSLink will have the authority to react to emergency situations. However, the protocols recognize the RTO as the sole Security Coordinator (Reliability Authority) for the entire Region as defined in NERC Policy 9 and the approved RTO Security Plan.
- The Alliance proposal recognizes the MISO as the Reliability Authority for the entire Region (including the Alliance Area). However, it states that the MISO may intercede and direct appropriate action within the Alliance Area only if it determines that conditions within the Alliance Area are impacting on security outside of the Alliance Area. The proposal has no acknowledgement of NERC Policy 9 or the approved RTO Security plan.

### **CONGESTION MANAGEMENT**

- The TRANSLink protocols stipulate that TRANSLink will use the Midwest ISO Day-1 Congestion Management. It also stipulates that the Midwest ISO will administer congestion management for constraints internal to the TRANSLink Transmission System under Commission Approved Procedures.
- The Alliance Proposal only provides the RTO the authority to determine the congestion pricing methodology for the Region and calculate congestion prices. The Alliance Gridco shall have responsibility for managing congestion. It discusses the potential existence of congestion management mechanisms specific to the Alliance Area and managed by the Alliance Gridco.

## LOSSES

- The TRANSLink Protocols stipulate that the mechanism for determining losses within the TRANSLink system will be the RTO methodology.
- The Alliance Proposal provides the Alliance Gridco the unilateral right to file at the Commission, without Midwest RTO approval, a mechanism for determining responsibility for energy losses within the Alliance Area.

## TARIFF ADMINISTRATION

- The TRANSLink Tariff is applicable to all transaction internal to TRANSLink, where “internal” is defined as both sourcing and sinking within TRANSLink.
- The Alliance Proposal includes an Alliance Tariff applicable to all transactions internal to the Alliance Area, but defines internal to include all transactions that do not require reservation and scheduling over any transmission facilities within the Region other than the Alliance Transmission System. This would result in some In, Out, and Through transactions being under the Alliance Tariff and would also result in two-parties approving service over the same facilities. This is unworkable.

## STUDIES

- TRANSLink Protocols stipulate that TRANSLink will participate in coordinated RTO System Impact Studies.
- The Alliance Proposal stipulates that the Alliance Gridco shall assume responsibility for the study, subject to coordination with the Midwest RTO. It also stipulates that the Alliance Gridco will retain all fees for the studies and shall administer the contracts with the customers.

## OASIS

- The TRANSLink Protocols stipulate that the RTO shall be the Regional OASIS service provider and that the TRANSLink tariff will have a page on the Regional OASIS node.
- The Alliance Proposal only commits to a study to determine the most economic and practical method of providing “one-stop shopping” and includes the option of using the existing Alliance facility to host the Alliance OASIS.

## ATC

- Both the Alliance Proposal and the TRANSLink Protocols stipulate that the Midwest ISO shall determine Available Flowgate Capability (AFC) and ATC values for the entire Region, including the areas of the Alliance Gridco and TRANSLink. In each case, they reserve the right to provide input for those calculations such as TTC, TRM, and CBM values.
- The Alliance Proposal, however, goes on to indicate that the Alliance will perform AFC and ATC calculations in accordance with Operating Protocols and subject to Midwest ISO approval. Section 4.6b appears to contradict Section 4.6a.

#### **SCHEDULING**

- TRANSLink Protocols stipulate that TRANSLink will provide Control Area approval for all tags involving TRANSLink and will provide transmission provider approval for transactions under the TRANSLink tariff.
- The Alliance Proposal stipulates that Alliance Gridco will have tagging and scheduling approval authority for the Alliance Area. Note the definition of "the Alliance Area" previously discussed.

#### **OPERATIONS**

- Both stipulate that the Transco shall establish facility ratings and operating procedures for facilities under their respective ownership or control.
- TRANSLink protocols acknowledge the authority of the RTO on decisions involving the reliability of the system. If dispute resolution occurs, the position of the RTO prevails during the period of resolution.
- The Alliance Proposal stipulates that Alliance Gridco position shall prevail pending dispute resolution.

#### **Transmission Maintenance Outages**

- The TRANSLink Protocols stipulate that all transmission maintenance will be coordinated with the RTO and that any disputes shall be subject to RTO dispute resolution.
- The Alliance Proposal stipulates that only critical transmission facility outages will be subject to RTO oversight approval and defers identification of critical transmission facilities.

#### **GENERATOR MAINTENANCE OUTAGES**



- Both indicate that the Transco shall coordinate generator maintenance schedules within the Transco territory, subject to Reliability Authority oversight by the RTO.

#### **PLANNING**

- Both stipulate that the Transco shall develop its transmission plan to the RTO and RTO approval is not required. Any disagreements will be subject to RTO dispute resolution. The Transco plans will become part of the Regional Plan.
- The TRANSLink Protocols, however, also stipulate that the RTO will be responsible for coordination of transmission planning with all other RTO members and neighboring RTO's.

#### **BILLING AND SETTLEMENTS**

- Both stipulate that the Transco will be responsible for billing and settlements under their respective tariffs.

#### **ISSUES NOT ADDRESSED BY ALLIANCE PROPOSAL**

The following are issues that are addressed in the details of the TRANSLink Protocols that have not yet been addressed in the written Alliance Proposal:

- Provision of Ancillary Services and the development of Ancillary Service markets.
- Treatment of Grandfathered Agreements.
- Initial and ongoing coordination of Transmission Reservation Queues.
- Network Modeling and data sharing.
- Authority for Reliability Redispatch
- Day-1 and Long Term Energy Imbalance
- Responsibilities for System Restoration

The detailed actual protocols proposed for the TRANSLink – Midwest ISO relationship are matters of record in Docket Nos. EC01-156-000 and ER01-3154-000.

**VINSON & ELKINS L.L.P.**  
THE WILLARD OFFICE BUILDING  
1455 PENNSYLVANIA AVE., N.W.  
WASHINGTON, D.C. 20004-1008  
TELEPHONE (202) 639-6500  
FAX (202) 639-6604  
www.velaw.com

**Becky M. Bruner**  
Direct Dial (202) 639-6557  
Direct Fax (202) 639-6604  
bbruner@velaw.com

January 22, 2002

**VIA MESSENGER**

The Honorable Magalie Roman Salas  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, DC 20426

**Re: The Alliance Companies, Docket No. RT01-88-000, et al.**

Dear Ms. Salas:

Enclosed for filing please find an original and fourteen copies of the Alliance Companies'<sup>1</sup> Application for Rehearing of the Commission's "Order On Requests For Rehearing" issued December 20, 2001 in *Alliance Companies, et al.*, 97 FERC ¶ 61,327 (2001) ("*Alliance VI*").

In *Alliance VI*, the Commission reversed prior findings that the Alliance Regional Transmission Organization ("Alliance RTO") has adequate scope and concluded that there should be only one RTO (the Midwest ISO) in "the Midwest." As Commissioner Breathitt noted in her dissent, *Alliance VI* marks an abrupt and sudden departure from the road map the Commission drew in prior orders. The Alliance Companies have worked in good faith and have expended tremendous time and resources to comply with Order No. 2000 and with the Commission's prior orders conditionally approving the Alliance RTO and the *Illinois Power Settlement Agreement*.<sup>2</sup> For the reasons articulated in the enclosed rehearing request, the

<sup>1</sup> For purposes of this request for rehearing, the Alliance Companies are Ameren Services Company (on behalf of Union Electric Company and Central Illinois Public Service Company) ("Ameren"), American Electric Power Service Corporation (on behalf of Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company, and Wheeling Power Company) ("AEP"), The Dayton Power and Light Company ("DP&L"), Exelon Corporation (on behalf of Commonwealth Edison Company and Commonwealth Edison Company of Indiana, Inc.) ("ComEd"), FirstEnergy Corp. (on behalf of American Transmission Systems, Inc., The Cleveland Electric Illuminating Company, Ohio Edison Company, Pennsylvania Power Company, and The Toledo Edison Company) ("FirstEnergy"), Illinois Power Company ("IP"), Northern Indiana Public Service Company ("NIPSCO"), and Virginia Electric and Power Company ("VP"). Consumers Energy Company and its affiliate, Michigan Electric Transmission Company, do not join in this request for rehearing.

<sup>2</sup> *Illinois Power Co., et al.*, 95 FERC ¶ 61,183 (2001), *order denying reh'g*, 96 FERC ¶ 61,026 (2001).

January 22, 2002

Alliance Companies urge the Commission to reverse its findings in *Alliance VI* and to restore the road map that was in place and relied upon prior to December 20, 2001.

While the Alliance Companies clearly have legitimate reasons for exercising their legal option to seek rehearing of *Alliance VI*, they also are fully complying with the Commission's directive to explore how the business plan for the Alliance Transmission Company, LLC ("Alliance Transco"), with a wholly-owned subsidiary of National Grid as managing member, can be accommodated within the Midwest ISO. The Alliance Companies and the Midwest ISO have held three face-to-face meetings to explore how Alliance Transco can be "a successful Transco<sup>3</sup>" within the Midwest ISO and have scheduled a series of additional meetings in the coming weeks.

*Alliance VI* also directs the Alliance Companies to file a statement of their plans to join an RTO within sixty (60) days of the date of the order. To comply with this directive, the Alliance Companies are exploring other RTO options, in addition to the Midwest ISO. The Alliance Companies have been in communication with the PJM ISO to explore RTO participation in PJM. A meeting with PJM representatives is scheduled for later this week.

As they have for the past four years, the Alliance Companies are working diligently and in good faith to comply with the Commission's directives, even as those directives take sudden and unexpected departures from prior directives. The Alliance Companies will provide a more detailed report on their plans for RTO participation in the report due February 19, 2001.

Please time and date stamp the 3 receipt copies enclosed and return it to our messenger. Thank you for your attention to this matter. Please direct any questions regarding this filing to the undersigned.

Respectfully submitted,

Becky Bruner

Enclosures

cc: service list

<sup>3</sup> *Alliance VI*, mimeo at 16.

UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

Alliance Companies, et al.	)	Docket Nos. RT01-88-000,
	)	-001, -002, -003, -004, -006,
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	)	-002, -003, and -004
Northern Indiana Public Service Company	)	Docket Nos. RT01-26-000,
	)	-001
The Dayton Power and Light Company	)	Docket Nos. RT01-37-000,
	)	-001

(Not Consolidated)

**REQUEST FOR REHEARING OF  
THE ALLIANCE COMPANIES**

Becky Bruner  
Donna J. Bobbish  
Curtis D. Blanc  
Vinson & Elkins L.L.P.  
1455 Pennsylvania Ave., N.W.  
Washington, D.C. 20004  
202-639-6500 (phone)  
202-639-6604 (fax)

Attorneys for  
the Alliance Companies

January 22, 2002

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UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

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The Dayton Power and Light Company	)	Docket Nos. RT01-37-000,
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(Not Consolidated)

**REQUEST FOR REHEARING OF  
THE ALLIANCE COMPANIES**

Pursuant to Section 313 of the Federal Power Act ("FPA"),<sup>1</sup> and Rule 713 of the Commission's Rules of Practice and Procedure,<sup>2</sup> the Alliance Companies<sup>3</sup> request rehearing of

<sup>1</sup> 16 U.S.C. § 8251 (2001).

<sup>2</sup> 18 C.F.R. § 385.713 (2001).

<sup>3</sup> For purposes of this request for rehearing, the Alliance Companies are Ameren Services Company (on behalf of Union Electric Company and Central Illinois Public Service Company) ("Ameren"), American Electric Power Service Corporation (on behalf of Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company, and Wheeling Power Company) ("AEP"), The Dayton Power and Light Company ("DP&L"), Exelon Corporation (on behalf of Commonwealth Edison Company and Commonwealth Edison Company of Indiana, Inc.) ("ComEd"), FirstEnergy Corp. (on behalf of American Transmission Systems, Inc., The Cleveland Electric Illuminating Company, Ohio Edison Company, Pennsylvania Power Company, and The Toledo Edison Company) ("FirstEnergy"), Illinois Power Company ("Illinois Power"), Northern Indiana Public Service Company ("NIPSCO"), and Virginia Electric and Power Company ("Virginia Power"). Consumers Energy Company and its affiliate, Michigan Electric Transmission Company, do not join in this request for rehearing.

the Commission's "Order on Requests for Rehearing," issued December 20, 2001,<sup>4</sup> in the proceedings referenced above.

Specifically, the Alliance Companies request rehearing of: (1) the Commission's reversal, on rehearing, of its prior findings that the Alliance Regional Transmission Organization ("Alliance RTO") satisfies the scope and configuration requirements of Order No. 2000; (2) the Commission's conclusion that there will be one regional transmission organization ("RTO") in the Midwest; (3) the Commission's conclusion that the public interest would best be served if the Alliance Companies were to join the Midwest Independent Transmission System Operator, Inc. (the "Midwest ISO"); and (4) the Commission's directive that the Alliance Companies explore joining the Midwest ISO.

The Alliance Companies request that the Commission not "toll" this request for rehearing but, rather, make a decision promptly with respect to the legal and factual issues raised on rehearing of *Alliance VI*, so that, if necessary, the Alliance Companies may promptly pursue judicial review of the Commission's orders. Time is of the essence in resolving, once and for all, with respect to the Alliance Companies' RTO proposal, the rights and obligations of all parties under (1) the Commission's Order No. 2000<sup>5</sup> and its RTO regulations,<sup>6</sup> (2) the "Settlement Agreement Involving the Midwest Independent Transmission System Operator, Inc., Certain Transmission Owners in the Midwest ISO, the Alliance Companies and Other Parties," (the "Settlement"), which was approved by the Commission, and (3) the Commission's prior orders

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<sup>4</sup> *Alliance Companies, et al.*, "Order on Request for Rehearing," 97 FERC ¶ 61,327 (2001) ("*Alliance VI*").

<sup>5</sup> *Regional Transmission Organizations*, Order No. 2000, FERC Statutes and Regulations, Regulations Preambles ¶ 31,089 (1999), *order on reh'g*, Order No. 2000-A, FERC Statutes and Regulations, Regulations Preambles ¶ 31,092 (2000), *petitions for review dismissed*, *Public Utility District No. 1 of Snohomish County, Washington v. FERC*, 272 F.3d 607 (D.C. Cir. 2001).

<sup>6</sup> "Procedures and Requirements Regarding Regional Transmission Organizations," 18 C.F.R. § 35.34 Subpart F (2001) (the "RTO regulations").

in these proceedings. Moreover, the issues presented here; that is, whether the "Inter-RTO Cooperation Agreement" (the "IRCA") between the Alliance Companies and the Midwest ISO has been implemented in accordance with its terms and whether the proposed Alliance RTO satisfies the scope and configuration requirements of Order No. 2000 and the Commission's RTO regulations, are easy for the Commission to resolve. Therefore, the Alliance Companies request that the Commission rule on this request for rehearing within the 30-day time frame contemplated in the FPA.<sup>7</sup>

## **I. STATEMENT OF ERROR**

The Commission erred, both as a matter of fact and of law, in concluding that the proposed Alliance RTO lacks sufficient scope and configuration to exist as a stand-alone RTO and in directing the Alliance Companies to explore membership in the Midwest ISO. The Commission also erred, both, as a matter of fact and of law, in ruling that there will be only one RTO in the "Midwest."

The Commission should reverse its rulings in *Alliance VI* because they are arbitrary, capricious, unduly discriminatory and an abuse of the Commission's discretion, for the following reasons:

1. The Commission's ruling that there should be only one RTO in the Midwest fails to give effect to the Settlement approved by the Commission.
2. The Commission fails to provide a rational explanation for its departure from its earlier orders in these proceedings.

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<sup>7</sup> 16 U.S.C. § 8251(a) (2001).

3. The Commission's ruling that the Alliance RTO lacks adequate scope is unsupported by substantial evidence in the record, is based on a misinterpretation of the IRCA, and is unduly discriminatory.

4. The Commission's finding that the public interest would best be served if the Alliance Companies were to join the Midwest ISO is inconsistent with Order No. 2000.

5. The Commission's decision in *Alliance VI* is invalid because it is based on ex parte communications not permitted by its regulations or by the Administrative Procedure Act ("APA").

6. The Commission has abdicated its responsibility under the FPA to engage in reasoned decision-making by deferring to the views of state commissions.

7. The Commission's requirement that the Alliance Companies' explore joining the Midwest ISO constitutes a "taking" prohibited by the U.S. Constitution.

On rehearing, the Commission should reverse its rulings in *Alliance VI*, reinstate the Alliance Companies' RTO proceedings and find that the Alliance RTO satisfies the requirements of Order No. 2000.

## **II. STATEMENT OF THE CASE**

The facts of this case are straight-forward. In response to Order No. 2000, the Alliance Companies filed with the Commission a proposal to form an RTO as a for-profit transmission company ("Transco"). In a series of orders, the Commission gave substantial approval to that proposal. The Alliance Companies also entered into the Settlement, which preserves their preferred for-profit business model and permits two proposed RTOs -- the Midwest ISO and the Alliance RTO -- to proceed to operations. The Commission approved the Settlement. However, on the eve of issuing a final order on rehearing, the Commission engaged in unlawful ex parte

communications with state commissioners that are parties to these proceedings, and proceeded to issue an order that reverses its prior rulings, requires that there be one RTO in the "Midwest," and requires the Alliance Companies to explore joining the Midwest ISO. In making these rulings, the Commission ignores Order No. 2000, its RTO regulations, and its prior orders in these proceedings, and fails to give effect to the settlement agreement it approved, or its prior orders in these proceedings.

**A. Order No. 2000 Established a Framework for the Voluntary Formation of Multiple RTOs**

Order No. 2000 and the Commission's RTO regulations, establish the standard against which the Commission must evaluate the Alliance Companies' RTO proposal and which the Commission ignored in *Alliance VI*.

**1. Order No. 2000**

In 1999, the Commission issued Order No. 2000, in which it accelerated its effort to reduce barriers to a competitive market for electricity. Finding that many vertically-integrated utilities continue to use control over their transmission systems to disadvantage competing suppliers, and that transmission management, reliability and planning is best performed by an entity with a regional perspective, the Commission in Order No. 2000 sought to address these issues through the voluntary creation of independent RTOs. Under Order No. 2000, RTOs were to assume functional control of key aspects of electric transmission, free from the influence of market participants, by December 15, 2001.

In Order No. 2000, the Commission provides for voluntary formation of RTOs, establishes characteristics and functions of RTOs, permits more than one form of RTO, and provides for RTO regions to be determined in the first instance by the industry.

*a. Order No. 2000 provides for voluntary formation of RTOs*

In Order No. 2000, the Commission adopted, as a matter of policy, a voluntary approach to RTO formation. "In other words," as the Commission put it, "Order No. 2000 does not mandate RTO participation."<sup>8</sup> In adopting this approach, the Commission explained that a voluntary approach to RTO formation "will allow the industry the opportunity to develop mutually agreeable regional arrangements."<sup>9</sup>

*b. Order No. 2000 establishes required characteristics and functions of RTOs*

In Order No. 2000, the Commission established that, at a minimum, an RTO must have four characteristics: (1) independence from market participants; (2) appropriate scope and configuration; (3) operational authority over transmission facilities within the region; and (4) exclusive authority to maintain short-term reliability. These required characteristics are codified in the Commission's RTO regulations.<sup>10</sup> In addition, the Commission established that an RTO would be required to perform eight functions: (1) design and administer its own tariff; (2) manage congestion; (3) address parallel path flow; (4) serve as provider of last resort of all ancillary services; (5) administer its own OASIS and independently calculate TTC and ATC; (6) provide for objective monitoring of the markets it operates or administers; (7) take primary responsibility for planning and expansion of transmission facilities; and (8) participate in interregional coordination of reliability practices.<sup>11</sup> These required RTO functions are codified in the Commission's RTO regulations.<sup>12</sup>

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<sup>8</sup> Order No. 2000-A at 31,357.

<sup>9</sup> Order No. 2000-A at 31,358.

<sup>10</sup> 18 C.F.R. § 35.34(j) (2001).

<sup>11</sup> Order No. 2000 at 30,993-94.

<sup>12</sup> 18 C.F.R. § 35.34(k) (2001).

With respect to satisfying these requirements, the Commission stated: “[w]e do not foreclose the possibility that an RTO may satisfy some of the minimum characteristics and functions by itself, while satisfying others through a strong cooperative agreement with neighboring RTOs to create a ‘seamless trading area.’”<sup>13</sup>

*c. Order No. 2000 permits more than one form for RTOs*

In Order No. 2000, the Commission also found that “[t]he characteristics and functions [of RTOs] could be satisfied by different organizational forms, such as ISOs, transcos, combinations of the two, or even new organizational forms not yet discussed in the industry or proposed to the Commission.”<sup>14</sup> Consequently, the Commission did not “propose to require or prohibit any one form of organization for RTOs. . . .”<sup>15</sup>

*d. Order No. 2000 does not establish specific regions for RTO formation*

With respect to the second required RTO characteristic, scope and configuration, the Commission held in Order No. 2000 that an RTO “must serve an appropriate region, i.e., a region of sufficient scope and configuration to permit the RTO to effectively perform its required functions and to support efficient and non-discriminatory power markets.”<sup>16</sup> Significantly, the Commission concluded that, “as a matter of policy,” it “is not proposing . . . the establishment of fixed or specific regional boundaries” for RTOs.<sup>17</sup> Rather, the Commission emphasized that “[i]ndustry participants . . . retain flexibility in structuring RTOs that satisfy the minimum

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<sup>13</sup> Order No. 2000 at 31,083.

<sup>14</sup> Order No. 2000 at 30,994.

<sup>15</sup> Order No. 2000 at 30,994.

<sup>16</sup> Order No. 2000 at 31,079.

<sup>17</sup> Order No. 2000 at 30,994.

characteristics and functions,”<sup>18</sup> and that “regions should be configured so as to recognize trading patterns.”<sup>19</sup>

In addition, the Commission’s RTO regulations do not establish fixed or specific regional boundaries for RTOs. Specifically, the Commission’s regulation pertaining to “scope and regional configuration” requires that an RTO must serve “an appropriate region,” which in turn, is defined as one that is “of sufficient scope and configuration to permit the [RTO] to maintain reliability, effectively perform its required functions, and support efficient and non-discriminatory power markets.”<sup>20</sup>

**2. The Court of Appeals dismissed petitions for review of Order No. 2000, in part, because Order No. 2000 is voluntary**

On December 11, 2001 – just eight days before the Commission rendered its decision in *Alliance VI* – the United States Court of Appeals for the District of Columbia Circuit dismissed, for lack of jurisdiction, petitions seeking judicial review of Order No. 2000.<sup>21</sup> The Court found that “the validity of the Commission’s jurisdictional argument turns on whether Order 2000 requires the Utilities to participate in an RTO, or rather merely encourages them to join or form an RTO voluntarily.”<sup>22</sup> The Court also observed that the voluntariness of Order No. 2000 lies in the existence of the ability of “any public utility to opt not to participate in an RTO.”<sup>23</sup> The Court found that the contentions of the utilities “are premised on the view that Order 2000 . . . has the effect of mandating RTO participation.”<sup>24</sup> The court rejected this view of Order No.

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<sup>18</sup> Order No. 2000 at 30,994.

<sup>19</sup> Order No. 2000 at 31,084.

<sup>20</sup> 18 C.F.R. § 35.34(j)(2) (2001).

<sup>21</sup> *Public Utility District No. 1 of Snohomish County, Washington v. FERC*, 272 F.3d 607 (D.C. Cir. 2001).

<sup>22</sup> 272 F.3d at 613.

<sup>23</sup> 272 F.3d at 614.

<sup>24</sup> 272 F.3d at 609.



2000, “hold[ing] first that the challenged requirements of Order 2000 are voluntary and impose no mandatory requirements upon the Utilities.”<sup>25</sup> The Court further observed, however, that “[i]t is conceivable that Order 2000’s provisions on RTOs are, in effect, mandatory if Order 2000 will result in participation in RTOs because of the benefits of joining or forming an RTO (and, in the same vein, the resulting costs of not doing so),”<sup>26</sup> but found that appellant utilities had not presented evidence to support a conclusion that Order No. 2000 was, in fact, mandatory.

**B. Since 1999, the Commission Has Issued Orders Conditionally Approving the Alliance RTO**

Since 1999, the Alliance Companies have been parties to several adjudicated, on-the-record, contested proceedings involving their proposal to form the Alliance RTO, in compliance with Order No. 2000. In a series of orders,<sup>27</sup> the Commission consistently has encouraged the Alliance Companies to pursue development of their RTO proposal and has found that the proposed Alliance RTO substantially satisfies the RTO characteristics and functions of Order No. 2000.

**1. In *Alliance I*, the Commission authorized the transfer of ownership/control of jurisdictional facilities to the Alliance RTO**

On December 20, 1999, the Commission conditionally authorized the transfer of ownership and/or functional control of the jurisdictional transmission facilities of several transmission-owning public utilities to the Alliance RTO. The Commission also conditionally accepted under section 205 of the FPA certain agreements, and conditionally approved the general framework of the filing.

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<sup>25</sup> 272 F.3d at 609.

<sup>26</sup> 272 F.3d at 616.

<sup>27</sup> *Alliance Companies, et al.*, 89 FERC ¶ 61,298 (1999) (“*Alliance I*”), order on compliance filings and reh’g, 91 FERC ¶ 61,152 (2000) (“*Alliance II*”), order on compliance filings and reh’g, 94 FERC ¶ 61,070 (“*Alliance III*”), reh’g denied, 95 FERC ¶ 61,182 (2001) (“*Alliance IV*”) and *Alliance Companies*, 96 FERC ¶ 61,052 (2001) (“*Alliance V*”).

**2. In *Alliance II*, the Commission directed the Alliance Companies to make additional filings**

On May 18, 2000, the Commission found that the Alliance Companies' compliance filing to the *Alliance I* order was deficient and directed further filings. On September 15, 2000, the Alliance Companies filed a revised proposal which proposed to create a for-profit Transco, Alliance Transco, in compliance with Order No. 2000, and also submitted an open-access transmission tariff under section 205 of the FPA.

**3. In *Alliance III*, the Commission encouraged the Alliance Companies to proceed with start-up and development of the Alliance RTO**

*Alliance III*, issued on January 24, 2001, was the first Commission order to evaluate the Alliance Companies' proposal under the criteria of Order No. 2000, and was the clearest indication the Alliance Companies had received from the Commission that they should move forward with start-up and development of the infrastructure for the Alliance RTO with the goal of achieving operation by mid-December 2001, consistent with Order No. 2000.

In *Alliance III*, the Commission found that the Alliance Companies' filing basically met the four characteristics and most of the functions discussed in Order No. 2000; that is, subject to certain modifications, the Alliance Companies' filing "can form the basis for an appropriate RTO filing establishing the independence of Alliance as a for-profit Transco."<sup>28</sup> Notably the scope and configuration of the proposed RTO at the time of *Alliance III* included only five companies (AEP, Consumers Energy, Detroit Edison Company, FirstEnergy and Virginia Power) and the Alliance Companies had not yet executed the IRCA with the Midwest ISO. The Commission

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<sup>28</sup> *Alliance III*, 94 FERC at 61,304.

held that "the Alliance Companies' proposed scope and configuration are consistent with Order No. 2000."<sup>29</sup>

In addition to these findings, the Commission directed the Alliance Companies to participate in the settlement discussions concerning the requests of Illinois Power, ComEd and Ameren for approval to withdraw from the Midwest ISO,<sup>30</sup> and to negotiate a seams agreement with neighboring RTOs, including the Midwest ISO.<sup>31</sup>

**4. In *Alliance IV*, the Commission denied requests for rehearing of its rulings in *Alliance III***

On May 8, 2001, in *Alliance IV*, the Commission denied rehearing of its *Alliance III* order. In particular, the Commission denied rehearing of its determination in *Alliance III* that the Alliance Companies' proposed scope and configuration are consistent with Order No 2000. The Commission emphasized that its determination in *Alliance III* with respect to scope "was based on a totality of circumstances and not solely on any one rationale,"<sup>32</sup> holding that:

Alliance in scope is consistent with Order No. 2000. Alliance has approximately 40,000 miles of transmission lines covering 132,000 square miles with a population of 30 million people in nine states and a load of nearly 71 gigawatts. \* \* \* The sheer size of Alliance, coupled with a revised rate proposal that eliminates rate pancaking, are significant factors that underlie our finding in the *Alliance III* Order."<sup>33</sup>

<sup>29</sup> *Alliance III*, 94 FERC at 61,307.

<sup>30</sup> By order issued January 24, 2001, the Commission issued an order establishing settlement proceedings concerning the proposed withdrawal of Illinois Power from the Midwest ISO. *Illinois Power Co., et al.*, 94 FERC ¶ 61,069 (2001). These settlement proceedings were to resolve three issues: (1) the desire of some parties to continue development of an arrangement that would carry forward Independent System Operator ("ISO") features that were critical to certain parties in the Midwest ISO; (2) the desire of other parties for the different business model that had been developed by the Alliance parties; and (3) the desire of transmission customers, state regulators and consumer representatives for an arrangement that would allow the entire Midwest region to operate as a seamless market. *Illinois Power Co., et al.*, 94 FERC at 61,295.

<sup>31</sup> *Alliance III*, 94 FERC at 61,307.

<sup>32</sup> *Alliance IV*, 95 FERC at 61,629.

<sup>33</sup> *Alliance IV*, 95 FERC at 61,628.

The Commission also stated: "Alliance Companies, as well as other Midwest market participants deserve to know as promptly as possible whether the Alliance proposal is consistent with Order No. 2000. In fact, the *Alliance III* order was intended, among other things, to provide guidance to the Alliance Companies so that Alliance could become a fully functioning RTO by its projected operational date."<sup>34</sup>

**5. In *Alliance V*, the Commission approved the Alliance Companies' RTO filing**

On July 12, 2001, in *Alliance V*, the Commission approved the Alliance Companies' RTO filing, subject to certain conditions. In particular, the Commission held that: "Alliance Companies have satisfied our requirements for scope and configuration under Order No. 2000."<sup>35</sup>

The Commission also conditionally authorized Ameren, ComEd, DP&L, Illinois Power and NIPSCO to transfer their jurisdictional facilities to the Alliance RTO.<sup>36</sup> The addition of these companies doubled the number of transmission owner participants in the Alliance and greatly expanded the scope of the Alliance RTO, better enabled it to manage congestion and loop flows over a broad area, and eliminated an additional transmission charge for numerous transactions.<sup>37</sup>

Finally, in *Alliance V*, the Commission found either of the two proposals submitted by the Alliance Companies in their Order No. 2000 compliance filing for achieving independence of the Alliance Transco<sup>38</sup> can satisfy the requirements of Order No. 2000 provided the investors are not

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<sup>34</sup> *Alliance IV*, 95 FERC at 61,627.

<sup>35</sup> *Alliance V*, 96 FERC at 61,135.

<sup>36</sup> *Alliance V*, 96 FERC at 61,135.

<sup>37</sup> See Affidavits of David B. Patton and Ronald F. Szymczack, filed January 16, 2001.

<sup>38</sup> On January 16, 2001, the Alliance Companies submitted a filing in compliance with Order No. 2000 ("Order No. 2000 compliance filing") to implement the proposed Alliance Transco LLC ("Alliance Transco") as an RTO. The Alliance Companies proposed that independence of the Alliance Transco would be established through one of two business approaches. The Alliance Companies noted that they are pursuing the possibility of attracting a