

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

AUG 05 2005

PUBLIC SERVICE  
COMMISSION

In the Matter of:

Investigation into the Membership of  
Louisville Gas and Electric Company and  
Kentucky Utilities Company in the  
Midwest Independent Transmission  
System Operator, Inc.

Case No. 2003-00266

**Response of the Midwest ISO  
to Hearing Data Requests**

Midwest Independent Transmission System Operator, Inc. ("Midwest ISO") hereby responds to data requests made of its witnesses, on July 20, 2005, during the hearing in this proceeding.

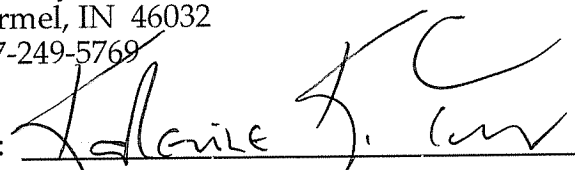
1. In response to a request made of Dr. Ronald R. McNamara, Attachment A hereto provides the resume submitted when Dr. McNamara was considered for a position with the Midwest ISO. Parts of his then-current contact information have been redacted.
2. In response to a request made of Dr. McNamara, the Midwest ISO submits as Attachment B hereto a letter dated April 29, 2005, from J. Steven Smith, President and CEO of Hoosier Energy, to Chairman William D. McCarty of the Indiana Utility Regulatory Commission. In addition, the Midwest ISO submits various other correspondence, which references the Midwest ISO's Day 2 market operations.
3. In response to a request made of Mr. Roger C. Harszy, the Midwest ISO states: On March 22, 2005, the Midwest ISO posted on a "restricted-access" page of the [www.extranet.midwestiso.org](http://www.extranet.midwestiso.org) website its procedures regarding manual redispatch, which posting was available to transmission service personnel at LG&E/KU. In addition, on June 3, 2005, the Midwest ISO posted on a "publicly available" page of the [www.midwestiso.org](http://www.midwestiso.org) website its procedures regarding manual redispatch.

4. In response to a request made of Mr. Harszy concerning the number of hours manual redispatch has been implemented for LG&E/KU since the start of the market, the Midwest ISO states that manual redispatch has been implemented for LG&E/KU a total of 37.5 hours from April 1 through July 28, 2005, which is 1.3% of the total hours of that time period.

Respectfully submitted,

Katherine K. Yunker  
Benjamin D. Allen  
YUNKER & ASSOCIATES  
P.O. Box 21784  
Lexington, KY 40522-1784  
859-255-0629  
fax: 859-255-0746

James C. Holsclaw  
MIDWEST INDEPENDENT TRANSMISSION  
SYSTEM OPERATOR, INC.  
701 City Center Drive  
Carmel, IN 46032  
317-249-5769

By:   
ATTORNEYS FOR MIDWEST INDEPENDENT  
TRANSMISSION SYSTEM OPERATOR, INC.

CERTIFICATE OF FILING AND SERVICE

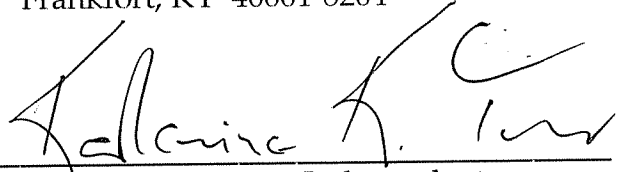
I hereby certify that on this the 5th day of August, 2005, the original and ten (10) copies of this Response were hand-delivered for filing with the Commission, and a copy was sent by first-class U.S. mail to:

Elizabeth Cocanougher  
Senior Corporate Attorney  
LG&E ENERGY CORP.  
220 West Main Street  
P.O. Box 32010  
Louisville, KY 40232

David C. Boehm  
BOEHM, KURTZ & LOWRY  
Suite 2110 CBLD Building  
36 East Seventh Street  
Cincinnati, OH 45202

Kendrick R. Riggs  
W. Duncan Crosby III  
OGDEN, NEWELL & WELCH, PLLC  
1700 PNC Plaza  
500 West Jefferson Street  
Louisville, KY 40202

Elizabeth E. Blackford  
Assistant Attorney General  
UTILITY & RATE INTERVENTION DIVISION  
1024 Capital Center Drive; Suite 200  
Frankfort, KY 40601-8204

A handwritten signature in black ink, appearing to read "Katherine A. Lewis", written over a horizontal line.

Attorney for Midwest Independent  
Transmission System Operator, Inc.

**RONALD R MCNAMARA**  
Woods Drive  
Dublin, Ohio 43017 USA  
Tel: 614                      Cell: 614                      Fax: 614  
E-mail: ronmcnamara@

## SUMMARY

- ***Professional economist***

Ph.D., University of California, Davis

- ***Diversified experience***

Primary focus has been on energy and network industries in restructuring/deregulating environments.

*Private Sector*

American Electric Power, Enron, Duke Energy International (Australia), Electricity Market Company (New Zealand)

*Public Sector*

State regulator for Queensland, Australia (Queensland Competition Authority)

*Consulting*

Putnam, Hayes and Bartlett Asia-Pacific (subsequently purchased by Hagler-Bailly and then PA Consulting)

*Academia*

Queensland University of Technology (Australia), University of Auckland (New Zealand), Bentley College (USA)

- ***Significant accomplishments***

Designed and implemented wholesale and retail electricity market rules in New Zealand. The New Zealand Electricity Market is the least regulated energy market in the world and has been operating successfully since October 1, 1996.

Reorganized the process by which electricity reliability and security standards are established and contracted for in New Zealand.

Worked directly with the CEO and Chairman of the Board to create a new strategic direction for the Electricity Market Company following the establishment of the market.

In a highly charged political and commercial environment, completed the analysis and subsequent investigation of monopoly activities of thirteen Ports in Queensland, Australia. The method of analysis had never been employed before in Australia.

Successfully changed corporate regulatory strategy regarding Duke Energy's Eastern Gas Pipeline (Australia). Access to the \$450 million pipeline (765 km) linking the Bass Strait gas field to Sydney is entirely unregulated.

Instrumental in changing electricity market design policy for three Fortune top 20 companies as well as providing advice on a range of commercial risks/issues related to market design and regulation.

**Letters Attached**

<u>Date</u>	<u>From</u>	<u>To</u>
4/29/05	J. Steven Smith, President & CEO of Hoosier Energy	William D. McCarty, Chairman of the Indiana Utility Regulatory Commission
5/16/05	William D. McCarty, Chairman of the Indiana Utility Regulatory Commission	J. Steven Smith, President & CEO of Hoosier Energy
5/26/05	J. Steven Smith, President & CEO of Hoosier Energy	John Bear, Chief Operations Officer of the Midwest ISO
4/19/05	James R. Keller, Director, Federal Regulatory Affairs and Policy of We Energies	James Torgerson, President & CEO of the Midwest ISO
4/19/05	Andrea L. Stomberg, Vice President, Electric Supply of Montana-Dakota Utilities Company	James Torgerson, President & CEO of the Midwest ISO
4/21/05	Charles A. Schrock, President & Chief Operating Officer-Generation of the Wisconsin Public Service Corporation	James P. Torgerson, President & CEO of the Midwest ISO
5/25/05	Charles A. Schrock, President & Chief Operating Officer-Generation of Wisconsin Public Service Corporation	James Torgerson, President & CEO of the Midwest ISO
4/21/05	Andrew M. Serri, President of Ameren Energy Marketing	James Torgerson, President & CEO of the Midwest ISO
4/29/05	Andrew M. Serri, President of Ameren Energy Marketing	James Torgerson, President & CEO of the Midwest ISO
4/26/05	LeRoy Koppendraye, Chair, and Ken Nickolai, Commissioner, of the Minnesota Public Utilities Commission; and Glenn Wilson, Commissioner of Minnesota Department of Commerce	James P. Torgerson, President & CEO of the Midwest ISO
5/5/05	James P. Torgerson, President & CEO of the Midwest ISO	LeRoy Koppendraye, Chair, and Ken Nickolai, Commissioner, of the Minnesota Public Utilities Commission; and Glenn Wilson, Commissioner of Minnesota Department of Commerce

**Attachment B**  
Midwest ISO Response  
to Hearing Data Requests  
Page 2 of 2

<u>Date</u>	<u>From</u>	<u>To</u>
5/20/05	Daniel R. Ebert, Chairperson, Robert M. Garvin, Commissioner, and Mark Meyer, Commissioner, of the Public Service Commission of Wisconsin	James P. Torgerson, President & CEO of the Midwest ISO
6/6/05	James P. Torgerson, President & CEO of the Midwest ISO	Daniel R. Ebert, Chairperson, Robert M. Garvin, Commissioner, and Mark Meyer, Commissioner, of the Public Service Commission of Wisconsin

# HOOSIERENERGY

RURAL ELECTRIC COOPERATIVE, INC.

A Touchstone Energy® Cooperative



April 29, 2005

The Honorable William D. McCarty  
Chairman  
Indiana Utility Regulatory Commission  
Indiana Government Center South  
302 West Washington Street  
Indianapolis, IN 46204

RE: Midwest ISO

Dear Chairman McCarty:

As a founding member, Hoosier Energy worked with other transmission owners to form the Midwest ISO because we believed that coordination and planning of the transmission grid would create efficiencies for all customers in the region. An understanding among transmission owners was that the Midwest ISO would not develop energy markets as there were significant concerns, shared by Hoosier Energy, about the cost and complexity of developing these markets. Even when the Midwest ISO, with FERC's encouragement, chose to develop energy markets, Hoosier Energy actively participated in efforts to develop a workable market. Midwest ISO staff stressed that markets would provide even greater efficiencies than those stemming from regional coordination and planning, would serve as a powerful tool in relieving transmission congestion and would reduce the cost of energy by giving customers access to generation over a larger regional footprint.

I am concerned that these expectations of the Midwest ISO energy market are not being and may never be realized. Hoosier Energy and its members are being financially harmed by this market. Hoosier Energy will bear more than \$4 million in annual costs related to the development and operation of the Midwest ISO energy market. In addition to these costs, we are also experiencing higher energy prices than have ever been experienced in this time period. To date, locational marginal prices in the Midwest ISO energy market have been at extraordinarily high levels for this time of year as well as being very volatile. Prior to market startup, prices in PJM's AEP/Dayton hub were consistently higher than prices at the Into Cinergy hub within the Midwest ISO. However, after the market startup, this relationship switched and the Cinergy hub now consistently trades at higher prices than PJM's AEP/Dayton hub.

Furthermore, the Midwest ISO unit commitment strategy seems fundamentally flawed. Many utilities in the Midwest ISO, including Hoosier Energy, have been instructed to run combustion turbine peaking units since the energy market commenced, frequently at minimum output levels. This use of combustion

April 29, 2005

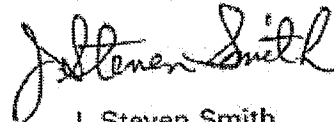
turbines is puzzling since the weather has been relatively mild. Using the limited run time allowed by environmental permits on combustion turbines during a shoulder period may have significant reliability impacts this summer when peaking units are likely to be needed. In addition, the Midwest ISO Revenue Sufficiency Guarantee charges which may not be determined for weeks after a transaction is made seem to be discouraging generation outside the Midwest ISO from participating in the market. This loss of potentially more efficient generation has the impact of keeping prices higher. Evidence can be found in the dramatic reduction in Midwest ISO imports immediately upon market start up.

Although it is appropriate for the reversion plan to have a reliability trigger, we are concerned that the reversion plan does not have a trigger in case of negative economic results. If price levels and volatility stemming from the Midwest ISO energy market do not improve, it would make sense to invoke a reversion plan and return to Day 1 operations in which there is no energy market. Regardless of initial development costs, which we regarded as unnecessarily high, it simply does not make sense to continue to incur the high cost of running the energy market if high and volatile prices are the result. This would be throwing good money after bad.

Hoosier Energy is very concerned about the high cost of operating the Midwest ISO energy market, high and volatile prices resulting from this market and the unconventional unit dispatch that have characterized the Midwest ISO energy market to date. If these high costs and volatile prices continue, there is no doubt Indiana consumers will suffer. Because the Indiana Utility Regulatory Commission has been a strong supporter of the Midwest ISO, I am confident that you are also concerned about the performance of the Midwest ISO energy market.

To protect Indiana utility customers from unnecessary costs, we request that you investigate the Midwest ISO market problems and take appropriate action to ensure they are remedied. Please let me know if there is anything that I can do to assist you.

Sincerely,



J. Steven Smith  
President & CEO

cc: David E. Ziegner, Commissioner, Indiana Utility Regulatory Commission  
Judith G. Ripley, Commissioner, Indiana Utility Regulatory Commission  
David W. Hadley, Commissioner, Indiana Utility Regulatory Commission  
Larry S. Landis, Commissioner, Indiana Utility Regulatory Commission  
Pat Wood III, Chairman, The Federal Energy Regulatory Commission  
James Torgerson, CEO, The Midwest ISO



# STATE OF INDIANA



INDIANA UTILITY REGULATORY COMMISSION  
302 W. WASHINGTON STREET, SUITE E-306  
INDIANAPOLIS, INDIANA 46204-2764

<http://www.state.in.us/iurc/>  
Office: (317) 232-2701  
Facsimile: (317) 232-6758

May 16, 2005

Mr. J. Steven Smith  
President and CEO  
Hoosier Energy  
P.O. Box 908  
Bloomington, Indiana 47402-0908

Dear Steve:

Thank you for your very thoughtful letter of April 29, 2005. On behalf of the IURC, we are sincerely appreciative of your willingness to share your concerns. You can be assured that we are also concerned with the over-utilization of peaking capacity because of its cost, the potential ramifications for meeting demand this summer, and for the implications that this has for confidence in the reformed markets.

As a result of the IURC's "Summer Reliability" discussions that we just concluded today, as well as numerous meetings and conference calls, we are greatly encouraged that the over-utilization of peaking facilities during the first days of the Midwest ISO's Day-2 markets and the reductions of imports into the Midwest ISO are being corrected. I think statements such as: "working out the bugs" but "no show stoppers" are fair characterizations of most of the comments that we've heard. We understand that the marked improvements have occurred because market participants now better understand how to bid in their peaking units (e.g., incorporating opportunity costs, including start-up costs, and no load costs in the bids) and the Midwest ISO is gaining confidence in dispatching the region.

There was widespread agreement that there were more power plants out for scheduled maintenance than in previous years and thereby necessitating the greater use of peaking generation. This suggests to us that power suppliers need to coordinate maintenance outages with the Midwest ISO.

We appreciate your comment that you may not be seeing benefits yet. While the Midwest ISO's market operations are only a few weeks old and it is difficult to quantify, there seemed to be a consensus that reliability was greatly enhanced and the use of market-based prices to reduce transmission congestion is a substantial improvement over the historic reliance on physical curtailments. For this Commission, reliability is of preeminent importance. Similarly, the ability of Hoosier and other utilities to gain expanded access to the power grid without discrimination and unjustifiable pancaking of rates is also a benefit that will be difficult to quantify. Interestingly, those presenters at our "Summer Reliability" meetings who operate in both the MISO and in the PJM footprints and are new to both reported uniformly that they are seeing benefits from the PJM involvement. At this point, based on the input available to us just weeks into MISO's live startup of Day 2 activities, we believe that once all parties are more familiar

Mr. J. Steven Smith,  
May 16, 2005  
Page 2

with and experienced in the nuances of the bidding process, those benefits are likely to become visible for MISO participants as well.

We are certainly committed to working with Hoosier, other stakeholders, and the Midwest ISO to achieve longer term benefits associated with coordinated planning and implementation of new resources to ameliorate the boom and bust cycles of the past. Like many of the other benefits, more cost-effective and timely additions of resources will be difficult to quantify but are real.

In addition to keeping apprised of the use of gas-fired generation, we were particularly interested in Mr. Mooney's comments that Hoosier hasn't realized the expected benefits of optimal dispatch and transparent prices. Like you, we believed these were two of the compelling advantages of the Midwest ISO's facilitated markets. We would certainly like to be kept updated on your assessments.

In summary, we sincerely hope that the over-utilization of some peaking facilities last month was a temporary aberration rather than a persistent problem. Because of our mutual interest in making these wholesale power market reforms work for the mutual benefit of Indiana's consumers and utilities, the Commissioners and staff are closely following the development of the Midwest ISO's market implementation as well as the evolution of the PJM. In this regard, we would welcome the opportunity to continue this dialogue and we will make our staff available to you to discuss these issues.

Best regards,



Bill McCarty, Chairman  
Indiana Utility Regulatory Commission

cc: The Honorable Pat Wood  
Chairman of the Federal Energy Regulatory Commission

Mr. Jim Torgerson  
President and CEO of the Midwest ISO

# HOOSIERENERGY

RURAL ELECTRIC COOPERATIVE, INC.

A Touchstone Energy\* Cooperative



May 26, 2005

Mr. John Bear  
Chief Operations Officer  
Midwest ISO  
701 City Center Drive  
Carmel, IN 46032

RE: Hoosier Energy Board Meeting

Dear John:

Thank you for attending Hoosier Energy's May Board meeting and discussing the Midwest ISO's perspective on market start up. I also appreciate the MISO's approval of our August tour. This will provide one more way to acquaint our Board and member CEO's with MISO.

Since your visit, the MISO market has improved its performance from our view. Pricing has returned to more anticipated levels and CT operation for reliability reasons has significantly reduced. However, the real time market continues to be volatile and settlements remain a challenge, especially related to RSG cost uncertainty. We are still concerned over the lack of imports into the MISO as well as the noticeable drop off in bilateral activity. These are long term market liquidity issues and have the potential to exacerbate any capacity shortages as the summer peak periods approach. We are hopeful that your expectation of further improvements with the start of market-based bidding is affirmed.

We welcome the opportunity to continue working together to achieve both reliability and economic benefit expected from the new market.

Sincerely,

A handwritten signature in cursive script that reads "J. Steven Smith".

J. Steven Smith  
President & CEO

JSS/mjt

cc: Jim Torgerson

**weenergies**

231 W. Michigan Street  
Milwaukee, WI 53203  
www.we-energies.com



April 19, 2005

Mr. James Torgerson  
President and CEO  
Midwest ISO  
701 City Center Drive  
Carmel, IN 46032

Dear Jim:

This letter is to confirm the high level issues and concerns We Energies has regarding the operations to date of MISO's new energy markets. We appreciate MISO's efforts to maintain system reliability at the same time as you "work the bugs" out of the new market. We have raised issues at the daily afternoon conference calls and provided other issues via the market portal and via formal billing disputes. We thought it might be constructive to summarize our concerns in one place.

The concerns of We Energies with the MISO market at this time include:

1. High use of CTs run at minimum load for long periods. We are concerned that such operations increase overall costs to We Energies' customers, raise O&M and emissions issues, and depress LMP prices.
2. Simultaneous shut down of one or more CTs and start of similar CTs.
3. MISO requests to start multiple units at a plant at the same instant when it is not physically possible.
4. MISO personnel's reluctance to provide assistance, even on apparently generic questions.
5. Lack of PJM to MISO transactions. This is a possible indicator of inefficiencies in the PJM/MISO markets caused by a lack of confidence in the MISO market.
6. FERC data request on offers and reference levels dated 4/6/05 relied on data from MISO's IMM that was, in large part, not correct. In nearly all cases, the information for We Energies from the IMM did not match the data on the MISO portal.

Mr. James Torgerson  
April 19, 2005  
Page 2

7. MISO has not yet provided make-whole compensation for peakers run in real-time. We understand MISO is working to correct this problem, but we are concerned that MISO relies on disputes from market participants to know if their settlements systems are working.

We Energies is concerned that, taking these issues together, the MISO market may be operating well off of a least cost dispatch resulting in higher costs to We Energies' customers and to other market participants. We also recognize that some of the improvements in market operations may need to come from additional education for market participants and look to MISO to be more proactive in their education efforts.

Thank you in advance for all your efforts. We Energies looks forward to continuing to work with MISO to resolve these issues.

Sincerely,



James R. Keller, Director  
Federal Regulatory Affairs and Policy

cc: Rick Kuester  
Tom Hawley  
Rick Hensley  
Todd Hillman



# MONTANA-DAKOTA

UTILITIES CO.

A Division of MDU Resources Group, Inc.

400 North Fourth Street  
Bismarck, ND 58501  
(701) 222-7900

April 19, 2005

James P. Torgerson  
President and CEO  
Midwest Independent Transmission System Operator, Inc.  
701 City Center Drive  
Carmel, IN 46032

Dear Mr. Torgerson:

Montana-Dakota has serious concerns regarding the Independent Market Monitor's practice of making changes to the IMM reference prices for our generation units to conform to "peer group" prices without notice. This practice has occurred to our Heskett generation units. These units are considerably smaller and older, thus less efficient, than the other units in the Lignite peer group. The original prices were based on actual costs submitted to the IMM by Montana-Dakota, and for those to be changed, especially without notice given to Montana-Dakota, is unthinkable.

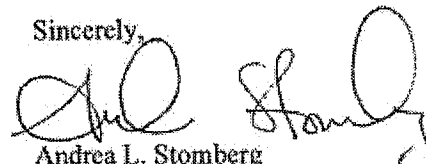
We also are experiencing continual changes to the reference prices for our generation units, apparently due mostly to the fluctuations in the natural gas and emissions allowance market indexes. These changes are also being made by the IMM without notification to Montana-Dakota.

These changes especially concern us when they are made over the weekend. As most other market participants do, we submit our offers for the weekend and Monday on Friday, and must lower the offer prices to compensate for possible changes initiated by the IMM, to make sure we do not exceed 110 percent of whatever the IMM reference price becomes.

On several occasions we have also experienced reference price changes that have been posted very near to the deadline for making offers for the day ahead market.

We believe any changes made by the IMM to the incremental cost, no-load cost, and start-up costs except for those specifically tied to price indexes should only be made after the IMM has notified the market participant of intentions to make changes.

Sincerely,



Andrea L. Stomberg  
Vice-President, Electric Supply



Wisconsin Public Service Corporation  
is a subsidiary of WPS Resources Corporation  
600 North Adams Street  
P.O. Box 19002  
Green Bay, WI 54307-9002

April 21, 2005

Mr. James Torgerson  
President and CEO  
Midwest ISO  
701 City Center Drive  
Carmel, IN 46032

Dear Mr. Torgerson:

Wisconsin Public Service would like to echo the comments that we're sure you're hearing from other market participants: we are very troubled by the MISO's excessive commitment of combustion turbine generators. We have two particular concerns in this regard:

1) The number of operating hours that are being used up by this overuse of peakers now may limit our ability to use these generators later this summer when the weather gets hot and the load gets high.

2) The make-whole payments, by which the generation owners will be reimbursed for those costs not covered by the market, will be very high and could be the subject of a lengthy dispute process. It may be sometime before all of the payments are completely settled, even if the over-commitment problem were resolved today. The make-whole payments have not been properly reflected in the settlements statements which only compounds our worry that this will be a complicated financial situation to unwind. This uncertainty creates additional risks for our company and our ratepayers.

To date in the Day 2 market, our peakers have generated 43,723 MWH and have run at a 20% capacity factor. This compares with the 510,641 MWH and 12% capacity factor that we expect to see for these units over an entire year. We believe that with continued dispatch as requested in Day 2 operations to date, we will have to declare several of our combustion turbines unavailable as early as July 2005 for environmental permit limitations.

We would be pleased to work with the MISO to resolve this issue and we believe that this urgent issue must be addressed soon.

Sincerely,

A handwritten signature in black ink that reads "Charles A. Schrock".

Charles A. Schrock  
President and COO-Generation  
Wisconsin Public Service Corporation



Wisconsin Public Service Corporation  
(a subsidiary of WPS Resources Corporation)  
600 North Adams Street  
P.O. Box 19002  
Green Bay, WI 54307-9002

May 25, 2005

Mr. James Torgerson  
Midwest ISO  
701 City Center Drive  
Carmel, IN 46032

**RE: Your Letter Dated April 27<sup>th</sup>**

Dear Mr. Torgerson:

I appreciate your prompt response to my letter of April 21<sup>st</sup> in which I expressed our concern about the excessive commitment and dispatch of combustion turbine (CTs) generating units by the MISO.

We are following closely the MISO's use of our CTs. Although MISO reduced the number of starts on these units beginning in early May, the MWhs of CT operation has not yet gone down appreciably. If this trend continues reliability is at risk for the summer months because of environmental permit limits restricting hours of operation. We understand that MISO is working on the issue even while it believes that its dispatch of the units is proper. (Your message to the 5/18/05 Advisory Committee indicated that MISO recognizes a problem with CT usage and is diligently working to correct the problem.)

We remain concerned about the continued increase in run times of our CTs, especially considering the environmental limits on operating hours that these CTs must abide by in this narrowly constrained market. We will continue to pursue management strategies consistent with MISO and IMM tariff and business practices that we can implement to provide reliable service to our customers.

Thank you for your attention to this important issue. As was promised at the 5/18/05 Advisory Committee meeting, I think it would be helpful for us to meet with you or your staff to understand the MISO CT usage and efforts to reduce that usage in WUMS. Please have your staff contact Bill Bourbonnais to schedule such a meeting as soon as you have the information needed. Mr. Harzey was informed of the date and time of a WPSC example incident so we can use that incident for our discussions. Bill can be reached by phone (920) 433-1573 or email, [wbourbo@wpsr.com](mailto:wbourbo@wpsr.com).

Sincerely,

Charles A. Schrock  
President & Chief Operating Officer-Generation  
Wisconsin Public Service Corporation



Cc: Larry Borgard A3  
William Bourbonnais D2  
Don Carlson D2  
Larry Weyers G6

Andrew M. Serri  
President

One Ameren Plaza  
1801 Chouteau Ave., MC 902  
St. Louis, MO 63103



April 21, 2005

Mr. James Torgerson  
Midwest Independent Transmission System Operator, Inc.  
701 City Center Drive  
Carmel, IN 46032

RE: Market Operation Issue

Dear Jim:

This letter is intended to make you aware of a few concerns that Ameren has been expressing to members of your organization regarding the initial implementation of the Midwest ISO's Day 2 energy market. Since April 1, Ameren has been perplexed by the Midwest ISO's dispatch of combustion turbine generators, oil fired generators and other uneconomical units at this time of the year. In fact, Ameren has been routinely ordered to run high-cost generators that have not been dispatched for years, even during system peak conditions.

Resolution of this atypical dispatch issue should have been a top priority for the Midwest ISO from the first day the market started. However, we are now three weeks into the market and for the first time on a call yesterday, the Midwest ISO finally acknowledged that it has a "system" problem that is causing the peculiar dispatch of uneconomical generation. Moreover, it is still not clear when this "system" problem will be resolved or what other steps the Midwest ISO is taking to eliminate the impact of the "system" issue.

Furthermore, Ameren believes that there could be other factors aside from the "system" issue contributing to the peculiar dispatch of generation. These factors include offer strategies or outage scheduling undertaken by certain Market Participants. The Midwest ISO should demand that the Independent Market Monitor vigorously investigate these factors to determine whether there has been inappropriate behavior on the part of any Market Participants and if so, FERC should be notified so that the Market Participants are held accountable.

Obviously, Ameren is gravely concerned about the costs that will result from the unnecessary operation of these uneconomical units, including Ameren's own units. In addition to the high cost, the unexpected use of these peaking units at this time of year may inhibit the use of these peaking units when really needed for reliability reasons because of environmental permit limitations.

# Marketing

In addition to the operational issues, Ameren is also troubled by the apparent flaw in the settlement process that is preventing the Midwest ISO from fully reimbursing generators dispatched in real-time. Ameren has already experienced several of these revenue deficiencies on its settlement statements only to be told by Midwest ISO personnel to file an official dispute for each day and each CP Node where such revenue deficiency has occurred. This is an extremely laborious process to collect what Ameren is entitled to receive from the Midwest ISO for running its generation.

In summary, Ameren expected that there would be some market issues that would need to be worked out during the early days of the market. Ameren did not expect, however, that combustion turbine generators would be dispatched on a daily basis several weeks into market start-up. Nevertheless, Ameren fully expects the Midwest ISO to deploy appropriate resources so that each of these issues, especially the errant dispatch issue, can be resolved as soon as possible.

If I can be of assistance in resolving any of these matters please do not hesitate to call me.

Sincerely,



Andrew Serri

One Ameren Plaza  
1801 Chouteau Ave., MC 902  
St. Louis, MO 63103

Andrew M. Serri  
President



## Marketing

April 29, 2005

Mr. James Torgerson  
Midwest Independent Transmission System Operator, Inc.  
701 City Center Drive  
Carmel, IN 46032

**RE: Ameren's Midwest ISO Day 2 Energy Market Issues**

Dear Jim:

Per our conversation yesterday I would like to ask you for quick resolution on three major issues related to MISO DAY 2. Although, there are numerous issues needing to be resolved, I believe that if MISO is able to address these items quickly, the marketplace could perform in a more efficient manner. Ameren continues to be very concerned about the initial implementation of the Midwest ISO's Day 2 energy market. The significant major issues of concern are summarized below:

### **Inefficient Marketplace**

The Midwest ISO market, as a whole, is operating inefficiently with limited fundamentals upon which trading decisions can be based. The overwhelming contributing factor to the inefficient market is the over-commitment of CTGs by MISO to cover their load and interchange obligations. This over-commitment causes LMPs to be set by a lower cost unit and not the higher cost CTGs that MISO is dispatching. The market is being sent the wrong signals due to the lower LMPs in the market place, but it is widely known that MISO is dispatching higher cost CTGs which are not being reflected in the price. Physical and financial trading as a result of the incorrect market signals has suffered a large decline in depth and liquidity. (Should be implemented by: May 6, 2005)

### **Online Operating Reserve MWs Available for MISO Dispatch**

A business practice change needs to be made to allow MISO to utilize control area's Regulation MWs and Operating Reserve MWs during peak load periods of the day (two hours in morning and two hours in evening in a winter load pattern, two hours in the afternoon in a summer load pattern). Implementing this change will allow the MISO to utilize the control area's online Operating Reserves in the same manner as before the start of the market.

# Marketing

This should free up approximately 1000-1500 MWs of reserves to cover system load peaks resulting in fewer CTGs needing to be dispatched. This issue has been discussed by multiple balancing authority representatives, as well as, Roger Harszy and Joe Gardner of MISO. All are in agreement to implement this proposal. Roger Harszy and Joe Gardner should implement this within the next week. (Should be completed by: May 6, 2005)

**Reduced Imports Into MISO (1000 MW Ramp Limitation)**

A number of issues are contributing to the reduced imports into MISO since the start of the market. Two major factors being the 1000 MW ramp limitation & the inability to view the future ramp capabilities due to inadequate tools available to market participants. Market participants are hesitant to import power into the MISO in fear that the import will be cut due to the limitation which results in financial loss of transmission reservation fees as well as lost opportunity to sell the MWs to other participants outside of MISO. A MISO ramp availability tool and reservation tool needs to be developed to overcome the 1000 MW ramp limitation problem. (Should be completed by: May 2, 2005)

**Request for Resolution:**

The current utilization of uneconomical units cannot continue. The operational capabilities for this summer are being jeopardized and the significant costs to the marketplace are not acceptable. Ameren requests these issues be addressed immediately and remains committed to assist the Midwest ISO in efforts to achieve the desired solutions.

As always, please contact me directly at (314) 613-9136 to further discuss these issues or for further clarification.

Sincerely,

  
Andrew M. Serri



MINNESOTA  
PUBLIC UTILITIES  
COMMISSION



April 26, 2005

James P. Torgerson  
President and CEO  
Midwest Independent Transmission System Operator, Inc.  
701 City Center Drive  
Carmel, IN 46032

RE: Operational Issues Associated with Energy Market Start-Up

Dear Mr. Torgerson:

The Minnesota Public Utilities Commission (MPUC) and Minnesota Department of Commerce (MDOC) have been closely monitoring the activities associated with MISO Day 2 and are extremely concerned about several market start-up issues. We appreciate that the energy market start-up was a difficult and complex process, however, we did not expect to see the continued energy market start-up problems three weeks into the process. Based on recent meetings at MISO, largely the MISO Advisory Meeting, Minnesota continues to hear about significant problems regarding market start-up, such as:

- routinely running gas turbines in April (when gas peakers' usage should be conserved for July and August peaks);
- not dispatching generating units in the most economic manner (there have been examples of baseload plants being backed down while gas turbines are being dispatched in April, or where gas turbines are required to sit at minimum levels for long periods of time and are never ramped up);
- significant decreases in the level of imports of purchased power into the MISO footprint since market start-up (imports may have decreased due to: a) transmission constraints that are preventing this power from being imported into MISO, and b) concerns about price uncertainty and uplift costs that may keep traditional generation imports out of the MISO market);
- significant increases in generation plant outages, compared to expected levels, both for maintenance and forced outages, (it appears there is a lack of coordination or oversight of generation plant outages within the MISO footprint);
- problems with generation cost offers and unit characteristics; and
- treatment of reserves by the balance authority (i.e. control area).

We recognize that MISO has been working with market participants and the independent market monitor to try to get these issues resolved. We also recognize that MISO has been trying to communicate with market participants and stakeholders both through the recent daily briefings and other forums. For example, MISO set up the call on April 21, 2005 regarding MISO Market

James P. Torgerson  
April 26, 2005  
Page 2

Issues Meeting to discuss concerns raised by MISO stakeholders, including the MPUC and MDOC, at the MISO April 20, 2005 Advisory Meeting and in discussions after that meeting.

We acknowledge MISO's efforts to date and urge you to resolve these problems quickly. But, in addition to these specific issues of running of gas turbines during April, the decrease in imports, lack of coordination regarding generator outages, and dispatching of generation in uneconomic order we have a broader concern about the rate impact on Minnesota customers of the manner in which the system has been operating. Thank you for your immediate attention.

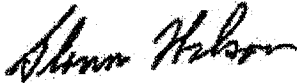
Sincerely,



LEROY KOPPENDRAYER  
Chair, Minnesota Public Utilities Commission



KEN NICKOLAJ  
Commissioner, Minnesota Public Utilities Commission and  
Minnesota Lead Commissioner pertaining to Organization of MISO States



GLENN WILSON  
Commissioner, Minnesota Department of Commerce

LK/KN/GW/jl

c: Honorable Tim Pawlenty, Minnesota Governor  
Edward Garvey, Deputy Commissioner of Energy and Telecommunication Division of the  
Minnesota Department of Commerce

▶ *Jim Torgerson*  
President & Chief Executive Officer



May 5, 2005

Mr. Leroy Koppendrayer  
Chair, Minnesota Public Utilities Commission

Mr. Ken Nickolai  
Commissioner, Minnesota Public Utilities Commission and Minnesota Lead Commissioner  
pertaining to Organization of MISO States

Mr. Glenn Wilson  
Commissioner, Minnesota Department of Commerce

In reply to: letter dated April 26<sup>th</sup>

Dear Mr. Koppendrayer, Mr. Nickolai and Mr. Wilson:

Thank you for your letter of April 26<sup>th</sup> that discussed your concerns associated with the running of gas turbines, economic dispatch and generation cost offers, import levels, plant outages and the treatment of reserves by the Balancing Authority.

I have highlighted each issue below and will provide details and progress-to-date on each of your concerns. Please be assured that these issues are the highest priority at the Midwest ISO and are demanding our immediate attention.

As you pointed out in your letter, the Midwest ISO set up a conference call on April 21<sup>st</sup> to discuss these and other concerns with the Market Participants. We had follow-up conference calls on April 28<sup>th</sup> and May 5<sup>th</sup>. In addition, the Midwest ISO conducted a market update call with the OMS on Friday, April 29<sup>th</sup> to provide a status update on our progress.

#### **Routinely Running Gas Turbines in April**

The Midwest ISO, during the first 30 days of the Midwest Market, cleared combustion turbines (CT's) in the Day-Ahead market and subsequently committed CTs through the Reliability Assessment Commitment (RAC) process. The primary reason for this in the Day-Ahead market is due to the units being offered in as either "must-run" units or with offer parameters that would enable the units to be cleared. In the Day-Ahead and forward RAC timeframes, CT's were committed to meet demand and ramping during large, swift increases in demand. As we discuss in more detail later in this document, there is currently a significant amount of baseload and intermediate capacity on outage. Given this, it is necessary to operate the least costly available generating units, in this case CTs, to meet load. As we have seen more baseload and intermediate capacity complete maintenance, we have seen the number of CT's required decrease in the RAC commitment.



A good example of this is for the May 3<sup>rd</sup> operating day, out of a total of 401 CT's in the Midwest ISO footprint, only 7 were dispatched (4 in Day-Ahead due to must-run status and 3 in Real-Time). This represents only 7% of total CT capacity and 1% of total Midwest ISO capacity.

The Midwest ISO is making every effort to mitigate the number of CT's and length of duration that these CT's are running, with the full appreciation that these same CT's will be required to run during the summer months in 2005. As an action item from the April 21<sup>st</sup> conference call, the Midwest ISO has asked Market Participants to submit offer parameter limitations for their CT's. The Midwest ISO in an effort to adequately plan for Summer 2005 in the Midwest Market is doing this proactively.

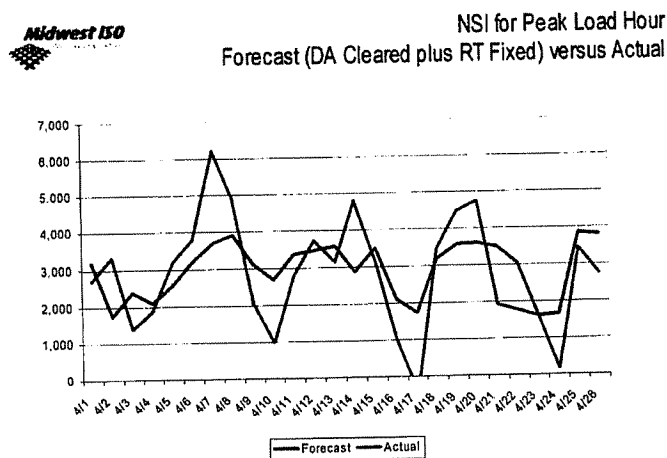
### **Economic Dispatch & Issues with Generation Cost Offers and Unit Characteristics**

Via the efforts of Midwest ISO Staff and the information shared during the April 21<sup>st</sup> and April 28<sup>th</sup> conference calls, the Midwest ISO is seeing solid progress and improvement in the generation offers and unit characteristics. Specifically, staff are discussing with Market Participants the implications of such actions ("walking them through") to ensure that the outcome that would result from such an offer is the desired strategic outcome.

It is important to note regarding economic dispatch that the algorithms by which generation is being dispatched in the Midwest ISO footprint are working correctly and consistently with the Energy Market Tariff. While there are instances in any non-automated process of error, in most cases, the manner of dispatch has been due to market conditions. Such conditions have included the mitigation of a transmission constraint and/or real-time response to forced outages.

### **Import Levels into the Midwest ISO Footprint**

The Midwest ISO had an initial hypothesis that the level of imports into the Midwest ISO footprint had decreased. However, upon further analysis (which was presented in the April 28<sup>th</sup> conference call), we determined that it is not the level of imports that is the concern, but the inconsistency and unreliability of imports that is the crux of the import issue. Specifically, there is significant volatility in the actual imports that enter the Midwest ISO footprint between what is cleared in the Day-Ahead market and what actually enters in real-time (see chart below).



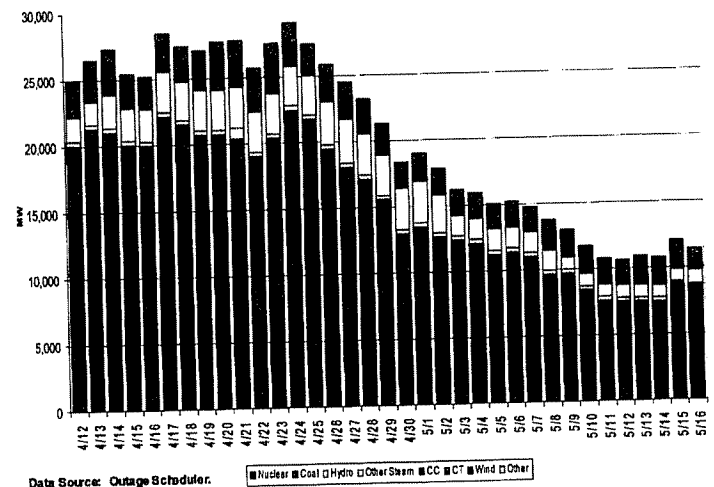
DRAFT - April 28, 2005

The Midwest ISO participated in a positive discussion with Market Participants in the April 28<sup>th</sup> conference call on what can be done to improve the stability and predictability of imports into the footprint. We are currently analyzing a number of concrete suggestions and reported our progress on the May 5<sup>th</sup> conference call.

**Generation Outages (both Maintenance & Forced)**

We continue to encourage Midwest ISO Market Participants to provide as much information (in the Outage Scheduler) as possible regarding both planned and forced outages. As you can see from the chart below, the amount of generation out on maintenance decreases beginning this week. While we currently cannot control or modify the amount of generation on maintenance, we welcome the opportunity to assist in this effort.

Midwest ISO  
Outage Schedule  
As of April 26, 2005



Data Source: Outage Scheduler. Legend: Nuclear, Coal, Hydro, Other Steam, CC, CT, Wind, Other. DRAFT - April 28, 2005 Page 7

**Treatment of reserves by the Balancing Authority**

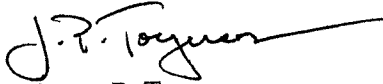
Significant progress has been made with respect to the treatment of reserves and the Midwest ISO's possible utilization of Balancing Authority reserves. As a result of meetings held on Monday, April 25<sup>th</sup> between the Midwest ISO and a number of the Balancing Authorities, a recommended "workaround" was presented to Market Participants on the April 28<sup>th</sup> conference call.

This workaround entails the use of the "Regulation Up" reserves during the evening peak hours (HE 20 and 21 EST). During this time, when CT use is likely, the Midwest ISO would ask the Balancing Authorities to modify their offer curves to reduce their "Regulation Up" reserves for those evening peak hours and correspondingly raise their Dispatch Maximum limits. The Midwest ISO would then make the corresponding reductions in its CT commitment and instead dispatch the previously held reserves. The benefit of this workaround is the reduction on the Midwest ISO's reliance on CT's to meet this evening peak.

The processes by which the workaround would be implemented are currently being formulated. In the event that this workaround is required, the Midwest ISO is working to ensure that the final process will be completed this week.

We appreciate your efforts and assistance and look forward to continuing to work with you along with your state market participants to resolve these issues. Please do not hesitate to call me if you have further questions.

Sincerely,



James P. Torgerson  
President & Chief Executive Officer  
Midwest ISO

Cc: Honorable Tim Pawlenty, Minnesota Governor  
Edward Garvey, Deputy Commissioner of Energy and Telecommunication Division of the  
Minnesota Department of Commerce



# Public Service Commission of Wisconsin

Daniel R. Ebert, Chairperson  
Robert M. Garvin, Commissioner  
Mark Meyer, Commissioner

610 North Whitney Way  
P.O. Box 7854  
Madison, WI 53707-7854

May 20, 2005

Mr. James P. Torgerson, President and Chief Executive Officer  
Midwest Independent System Operator, Inc.  
701 City Center Drive  
Carmel, IN 46032

Re: Reliability Assessment for the 2005 Summer Season

Dear Mr. Torgerson:

The Public Service Commission of Wisconsin (PSCW) is conducting our annual review of the reliability of our State's electric utilities for the upcoming summer season. As part of this review, we will analyze updated load and generation information from our Wisconsin utilities. The PSCW requires electric utilities under our jurisdiction to maintain an 18 percent planning reserve margin; this reserve margin is based in part upon the availability of reserves outside Wisconsin elsewhere in the MAIN and MAPP regions. Therefore, we will also review the MAIN and MAPP Summer Assessments and the capability of the transmission system in the Upper Midwest to deliver energy to Load Serving Entities (LSEs) in Wisconsin from resources within and outside our state.

Several issues have arisen during the initial six weeks of operation the Midwest ISO Day 2 that have raised concerns regarding the reliability of the electric system in the Midwest ISO footprint for the upcoming summer season. We are seeking any information, analyses or insights that the Midwest ISO might have concerning these issues.

1. During the past six weeks, the Midwest ISO has dispatched combustion turbine generators for a considerable number of hours. It is very typical for these peaking units to operate under air emission permits that limit the number of hours these units operate on an annual basis. If these units continue to operate during the next six weeks at the same level, there is a possibility that some of these peaking units could reach their permit maximums prior to the months of July and August, when system peaks typically occur. Has the Midwest ISO conducted any analysis relating to the possible diminished availability of peaking generation during the summer months caused by the significant number of hours these units have been dispatched to date? Please provide any such quantitative analysis as well as data on the extent of CT usage during market start up.

Telephone: (608) 266-5481  
Home Page: <http://psc.wi.gov>

Fax: (608) 266-3957

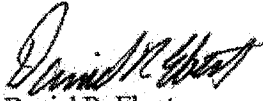
TTY: (608) 267-1479  
E-mail: [pscsecs@psc.state.wi.us](mailto:pscsecs@psc.state.wi.us)

Mr. James P. Torgerson  
Page 2

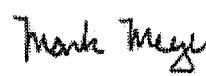
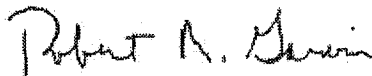
2. As stated above, the 18 percent planning reserve margin adopted by the PSCW is based upon the availability of reserves elsewhere in the MAIN and MAPP regions.<sup>1</sup> During the past six weeks, imports of energy from the west into the Midwest ISO footprint have declined from the level of imports that existed prior to the implementation of the Day 2 Market. Will energy import limitations from the west reduce the level of planning reserves in the Midwest ISO footprint? Will any such limitations affect the ability of LSEs in the Midwest ISO footprint to serve load during the upcoming summer season? Finally, please provide actual data on the extent of firm and non-firm imports into the MISO footprint from the west.

We look forward to your assistance with these issues as we continue our reliability update.

Sincerely,



Daniel R. Ebert  
Chairperson



Robert M. Garvin  
Commissioner

Mark Meyer  
Commissioner

DJG:ash:k:\djg\letter\Torgerson MISO Assessment

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<sup>1</sup> The PSCW also recognizes that LSE's elsewhere in MAIN and MAPP plan their systems and rely on the availability of planning reserves in Wisconsin to serve their loads during emergency conditions.



MIDWEST INDEPENDENT TRANSMISSION SYSTEM OPERATOR, INC.

*James P. Torgerson  
President and CEO*

June 6, 2005

Mr. Daniel R. Ebert, Chairperson  
Mr. Robert M. Garvin, Commissioner  
Mr. Mark Meyer, Commissioner  
Public Service Commission of Wisconsin  
P.O. Box 7854  
Madison, WI 53707-7854

Dear Chairman and Commissioners:

Thank you for your letter. The Midwest ISO is eager to address your concerns about the reliability of the electric system in the Midwest ISO footprint for summer 2005. We are pleased to report that the desired planning margin will be available to serve the region's needs.

We foresee adequate combustion turbine availability for the summer months. The Midwest ISO also agrees with the broader NERC regional assessments that show reserves as a whole are sufficient for the summer months of 2005. Available generation capacity is estimated to provide a reserve margin of 18 percent.

We are proud of the success of the Midwest ISO market to date. We are continually working to improve the system, but at the same time we recognize there will be periodic concerns about operations at the Midwest ISO and how they affect the various regions within our footprint.

Here are the answers to your questions about reliability for the upcoming summer season, to the best of our knowledge at this time.

- 1. Question:** During the past six weeks, the Midwest ISO has dispatched combustion turbine generators for a considerable number of hours. It is very typical for these peaking units to operate under air emission permits that limit the number of hours these units operate on an annual basis. If these units continue to operate during the next six weeks at the same level, there is a possibility that some of these peaking units could reach their permit maximums prior to the months of July and August, when system peaks typically occur. Has the Midwest ISO conducted any analysis relating to the possible diminished availability of peaking generation during the summer months caused by the significant number of hours these units have been dispatched to date? Please provide any such quantitative analysis as well as data on the extent of CT usage during market startup.

**Answer:** The Midwest ISO attempted a survey of market participants to verify what operating limits might be in terms of available hours specified by environmental permits. The response was less than our expectations with only 35% of those contacted providing information. Two market participants indicated a 1000-hour limit on oil fired combustion turbines (typically more expensive than gas fired, but whether they are dispatched is dependent on the offers submitted by the machines' market participants). Evaluating the entire fleet at the 1000-hour limit, in spite of no such macroscopic limit existing, indicates that the turbine fleet could operate for nearly 11% of all hours in a year or 40% of all hours within the summer months of June through August. Forecasts for total combustion turbine utilization do not exceed 5% for the fleet. It is our belief that combustion turbine owners that do have restrictions are appropriately pricing the offers to reflect the scarceness of the resource, and that as a result there will be adequate combustion turbine availability for the summer months.

2. **Question:** The 18 percent planning reserve margin adopted by the PSCW is based upon the availability of reserves elsewhere in the MAIN and MAPP regions. During the past six weeks, imports of energy from the west into the Midwest ISO footprint have declined from the level of imports that existed prior to the implementation of the Day 2 market. Will energy import limitations from the west reduce the level of planning reserves in the Midwest ISO footprint? Will any such limitations affect the ability of LSEs in the Midwest ISO footprint to serve load during the upcoming summer season? Finally, please provide actual data on the extent of firm and non-firm imports into the Midwest ISO footprint from the west.

**Answer:** Any Market Participant that is utilizing capacity for planning reserves must designate that capacity as a Network Resource. In order to qualify as a Network Resource, firm transmission capacity must be procured. Firm transmission ensures that the Network Resources are deliverable under all normal market conditions. These Network Resources will receive firm transmission priority and firm service in both the Midwest ISO Day-Ahead and Real-Time markets. If the capacity is correctly designated by the Market Participant and is scheduled correctly into the Midwest ISO markets, there are no additional limitations and thus no impact on the ability of Load Serving Entities (LSE) to supply their customers in the upcoming summer season.

During the opening days of the Midwest market, there were notable scheduling issues, such as over 700 MW of capacity designated as non-firm rather than firm by a Market Participant. There were also some anomalies during Transmission Loading Relief events (TLR's) that aggressively curtailed some import transactions, which in peak times would have flowed.

The Midwest ISO sees no current energy import limitations from the West. Import limitations may occur due to transmission line outages and/or generation outages. LSE's will be able to serve load just as they have in the past from sources outside the Midwest ISO to the extent the LSEs have designated those resources as Network Resources. If they served load in the past using spot purchases then we believe the market will supply those same spot sales with the same risks related to availability and price.

The issue with the dispatch of combustion turbines (CTs) should be put in perspective. CTs have generally been used at a moderate level for a limited period of time. There are approximately 400 CTs in the Midwest ISO footprint. On our busiest day in April, we used about 40 of those CTs. On a typical day only about 10 CTs are called on. I am pleased to report that we have largely resolved this issue. In the more than two months since we began operating the market, most of the issues with the use of CTs were due to limited generation capacity and, to a lesser extent, the market participant learning curve. Those problems have been resolved, and as more generation has come on line the usage of CT's continues to dissipate.

Coincidentally, each of the issues that are raised in your letter were addressed at the May Advisory Committee, at our Board Meeting, and at our customer issue meeting on May 24, 2005. A presentation of the results of the analysis used at these meetings is posted on our website under the "Documents" tab in a report titled "Seasonal Evaluations - May 25, 2005". See [www.midwestmarket.org](http://www.midwestmarket.org) >Documents>Seasonal evaluations> 2005 Summer Evaluation.

A copy is also attached for your convenience.

Please let me know if there is more information you need, and I will see that it is made available.

Sincerely,

James P. Torgerson  
President and CEO  
Midwest Independent System Operator, Inc.