

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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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

**Supplemental Responses of  
Midwest Independent Transmission System Operator, Inc.  
to the LG&E/KU 12/07/04 Supplemental Data Requests**

Midwest Independent Transmission System Operator, Inc. ("Midwest ISO") hereby supplements its response to certain data requests propounded by Louisville Gas and Electric Company and Kentucky Utilities Company (collectively, "LG&E/KU") on December 7, 2004. The initial response to the LG&E/KU 12/7/04 Data Requests was served on December 20, 2004, and filed with the Commission the next day. An earlier supplement to the LG&E/KU 12/7/04 Data Requests was filed and served on January 20, 2005. The Midwest ISO further supplements its initial response to the following LG&E/KU data requests:

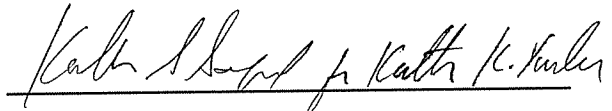
- 47 Additional supplemented text response, with a nine-page attachment; filed separately with the Commission, two (2) complete copies of the referenced voluminous report

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

Stephen G. Kozey  
James C. Holsclaw  
MIDWEST INDEPENDENT TRANSMISSION  
SYSTEM OPERATOR, INC.  
701 City Center Drive  
Carmel IN 46032  
(317) 249-5769  
fax (859) 697-0792

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

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

CERTIFICATE OF FILING AND SERVICE

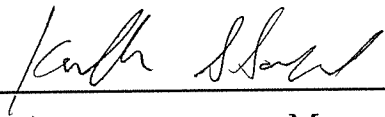
I hereby certify that on this the 3rd day of February, 2005, the original and six (6) copies of this Supplemental Response were hand-delivered to the Commission for filing, and a copy was sent, via U.P.S., to:

Beth Cocanougher  
LG&E ENERGY CORP.  
220 West Main St.  
P.O. Box 32030  
Louisville, KY 40232-2030

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

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

Kendrick R. Riggs  
OGDEN, NEWELL & WELCH, PLLC  
1700 Citizens Plaza  
500 West Jefferson Street  
Louisville, KY 40202

  
ATTORNEY FOR THE MIDWEST ISO

**REQUEST:**

47. With reference to page 70, lines 1-3, please provide data in electronic format (e.g., Excel spreadsheets) on the four tier illustrative FTR allocation results, including without limitation, the percent of peak load FTR that was nominated by each MISO market participant.
- a. Did all market participants provide input in the mock allocation?
  - b. What assumptions were made for market participants that did not provide input in the mock allocation?

**RESPONSE:**

See the Midwest ISO's information filing, submitted to the FERC on April 28, 2004, in Docket Nos. ER04-691-000 and EL04-104-000. This filing is available at the FERC web site, at [http://elibrary.ferc.gov/idmws/File\\_list.asp?document\\_id=4199437](http://elibrary.ferc.gov/idmws/File_list.asp?document_id=4199437).

**SUPPLEMENTAL RESPONSE:**

On January 5, 2005, the Midwest ISO submitted to FERC an interim report describing the process and results of the first two (of four) tiers of its FTR allocation process, including a subsequent FTR "restoration" process through the assignment of CounterFlow FTRs. The Midwest ISO will file complete results of the entire FTR allocation process with FERC on or about January 31, 2005.

The interim report consists of a letter and two attachments. The six-page letter describes the process and summarizes the results. Attachment A lists the complete results of the Tier 1, Tier 2, and Restoration allocations; Attachment B is a Notice of Informational Filing. Attachment A is a table covering 537 (unnumbered) pages, listing for each FTR allocated: candidate and asset owner identifiers; source and sink; starting and end dates; season, period, allocated MW, and tier.

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Witness: Ronald McNamara

Because the interim report is voluminous, only the letter is attached to this supplemented response. Two (2) full copies of the interim report are being provided to the Commission concurrently with this filing. The entire interim report is available as an electronic file at the following URL:

[http://www.midwestiso.org/admin/ferc/files/010505\\_FTR\\_Allocation\\_Entire\\_Filing.zip](http://www.midwestiso.org/admin/ferc/files/010505_FTR_Allocation_Entire_Filing.zip)

**ADDITIONAL SUPPLEMENTAL RESPONSE:**

On January 31, 2005, the Midwest ISO submitted to FERC a report describing the process and complete results of its initial FTR allocation process, which concluded on January 28, 2005. The FTR allocation described in the report covers the period beginning April 1, 2005, and concluding on August 31, 2005.

The report consists of a letter and three attachments. The nine-page letter describes the process and summarizes the results. Attachment A provides a chronology of meeting and conferences related to the FTR modeling and allocation process; Attachment B lists the complete results of the Tier 1, Tier 2, Tier 3, Tier 4, and Restoration allocations; and Attachment C is a Notice of Compliance Filing. Attachment B is a table covering more than 500 pages, listing for each FTR allocated: candidate and asset owner identifiers; source and sink; starting and end dates; season, period, allocated MW, and tier.

Because the report is voluminous, only the letter is attached to this supplemented response. Two (2) full copies of the report are being provided to the Commission concurrently with this filing. (For ease of use, Attachment B has been printed in two parts: Tier 1/Tier 2/Restoration/Counterflow (406 pages) and Tier 3/Tier 4 (190 pages). Unlike the filing made at FERC, these two tables have been printed with page numbers beginning at page "1" for each table. Because of this difference in printing, the pagination of Attachment B does not match that of the FERC filing.) The entire report in electronic format was sent to counsel for the parties and the Commission via e-mail on

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Witness: Ronald McNamara

SUPPLEMENTED

Item No. 47

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LG&E/KU 12/07/04 Supplemental Requests to Midwest ISO

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February 1, 2005, and is available as a compressed electronic file at the following URL:

[http://www.midwestiso.org/admin/ferc/files/FTR\\_Filing.zip](http://www.midwestiso.org/admin/ferc/files/FTR_Filing.zip)

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Witness: Ronald McNamara

STEPHEN G. KOZEY  
Vice President, Secretary and  
General Counsel  
Direct Dial: 317-249-5431  
E-mail: skoze@midwestiso.org



MIDWEST INDEPENDENT TRANSMISSION SYSTEM  
OPERATOR, INC.

January 31, 2005

Via Hand Delivery

Honorable Magalie R. Salas, Secretary  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, D.C. 20246

**Re: FTR Allocation Results; FERC Docket Nos. EL04-104-\_\_\_ and ER04-691-\_\_\_**

Dear Secretary Salas:

Pursuant to Rule 1907 of the Federal Energy Regulatory Commission's ("FERC" or "Commission") Rules of Practice and Procedure, 18 C.F.R. § 385.1907, and in compliance with the Commission's directives in its May 26, 2004,<sup>1</sup> and December 20, 2004,<sup>2</sup> orders in this proceeding, the Midwest Independent Transmission System Operator, Inc. ("Midwest ISO") submits an original and five copies of the enclosed report describing the process and results of the Midwest ISO's Financial Transmission Rights ("FTRs")<sup>3</sup> allocation process.

**I. Background**

**A. Procedural History**

On March 31, 2004, the Midwest ISO filed the EMT in this proceeding ("March 31 Filing") based on input it received from stakeholders and guidance provided by the Commission.<sup>4</sup> The essential elements of the EMT submitted with the March 31 Filing included the following: (1) regional, bid-based security-constrained economic dispatch based on Locational Marginal Pricing ("LMP"); (2) Day-Ahead and Real-Time Energy Markets (collectively, the "Energy Markets"); (3) allocation of FTRs and administration of supplemental FTR auctions; (4) an

<sup>1</sup> *Midwest Independent Transmissions System Operator, Inc., et al.*, 107 FERC ¶ 61,191 (2004) (the "May 26 Order").

<sup>2</sup> *Midwest Independent Transmission System Operator, Inc.*, 109 FERC ¶ 61,285 (2004).

<sup>3</sup> Capitalized terms not otherwise defined herein have the meanings ascribed thereto in Section 1 of the Midwest ISO's Open Access Transmission and Energy Markets Tariff ("EMT") approved by the Commission in Docket Nos. ER04-691, *et al.*

<sup>4</sup> *Midwest Independent Transmission System Operator, Inc.*, 105 FERC ¶ 61,145 (2003) ("Guidance Order"), *reh'g denied*, 105 FERC ¶ 61,272 (2003).

appropriate market monitoring and mitigation program; and (5) interim resource adequacy requirements. On May 26, 2004, the Commission issued an order, which, among other things, directed the Midwest ISO to file the results of its initial allocation of FTRs at least 90 days prior to the proposed start of the EMT's Energy Markets.<sup>5</sup>

On September 15, 2004, the Commission issued an order that concluded its investigation into how grandfathered transmission agreements ("GFAs") should be treated in the Midwest ISO's new energy markets.<sup>6</sup> The GFA Order also discussed how GFAs should be treated for purposes of the allocation of FTRs to Market Participants operating under GFAs. As a result of the need for the Midwest ISO to evaluate and respond to the FTR related directives of the GFA Order, the Midwest ISO informed the Commission in its October 5, 2004, compliance filing in this proceeding that it would not be able to complete and file with the Commission the results of FTR allocations until at least January 31, 2005.<sup>7</sup> As a result, the Commission granted the Midwest ISO leave to make the required compliance filing of FTR results on or near the expected completion date of FTR allocations.<sup>8</sup>

In accordance with the Commission's directives discussed above, this report will provide the Commission and interested Market Participants with a description of the process used by the Midwest ISO to allocate FTRs in accordance with the provision of the EMT and the results of this initial FTR allocation, which concluded on January 28, 2005.

The EMT also includes provisions for an annual auction. However, in the August 6 Order the Commission directed that the Midwest ISO's initial FTR allocation should "remain valid only for a limited period, to allow market participants time to adjust their positions based on market experience."<sup>9</sup> The Commission also stated that following this initial period, "the Midwest ISO's annual FTR allocation should follow PJM's schedule, from June 1 of each year to May 31 of the following year."<sup>10</sup> In response to these directives, the Midwest ISO modified the timeline for the initial and second FTR allocation periods so that after the first two FTR allocation periods, the Midwest ISO and PJM FTR allocation timelines will be aligned. The FTR allocation described in this report covers the period beginning with the initiation of the Day-Ahead Energy Market, April 1, 2005, and concluding on August 31, 2005.

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<sup>5</sup> May 26 Order at P 95.

<sup>6</sup> *Midwest Independent Transmission System Operator, Inc.*, 108 FERC ¶ 61,236 (2004) (the "GFA Order").

<sup>7</sup> *See Midwest Independent Transmission System Operator, Inc.*, 109 FERC ¶ 61,285 at P 53 (2004).

<sup>8</sup> *Id.* at P 88.

<sup>9</sup> August 6 Order at P 194.

<sup>10</sup> *Id.*

## **B. Development of the FTR Allocation Process**

The FTR allocation procedures found in the EMT were developed over several years as part of an extensive stakeholder process. The stakeholder process used to develop FTR allocation procedures began in mid-2001 through the Midwest ISO's Congestion Management Working Group ("CMWG") and Transmission Rights Task Force ("TRTF"). The basic framework for the FTR allocation process was determined in March 2003.<sup>11</sup> At that time, stakeholders voted to adopt an FTR allocation process that was based on customer nominations, reduced as necessary to satisfy the conditions of simultaneous feasibility. On September 4 and 5, September 18 and 19, and October 2 and 3, 2003, the Midwest ISO made detailed presentations on proposed FTR nomination and allocation procedures to its stakeholders, and provided stakeholders with access to presentation materials through the Midwest ISO's website. On September 18, 2003, the Midwest ISO took a straw vote during a Markets Subcommittee ("MSC") meeting to determine whether stakeholders felt that the then current FTR proposal represented an acceptable basis for further development of an FTR allocation methodology. The result of the vote indicated that a majority of the participants felt that the proposed allocation method was an acceptable basis for further development.

On November 20, 2003, Cinergy presented an alternative proposal for the FTR nomination and allocation procedures.<sup>12</sup> A motion to further develop that proposal at the December 18, 2003, MSC meeting passed by a narrow margin. The Midwest ISO Advisory Committee subsequently requested that the MSC develop a compromise between the proposal presented by Cinergy and the proposal previously under development by the MSC. Independently, the Organization of MISO States ("OMS") task force responsible for addressing FTR issues began development of an FTR allocation proposal that balanced the objectives of Cinergy and prior Midwest ISO staff proposals. Based on the OMS proposal outline, the Midwest ISO developed a detailed compromise proposal for consideration by the MSC. On January 20, 2004, the Midwest ISO presented to stakeholders a white paper providing the details of a compromise FTR allocation proposal that took into consideration elements in the Midwest ISO's earlier proposal, Cinergy's alternative proposal, and the compromise proposal developed by the OMS.<sup>13</sup> In addition, at the January 20, 2004 meeting, the Midwest ISO took straw polls to gather stakeholder input on several elements related to the compromise FTR allocation proposal discussed in the white paper. Based on the results of those straw polls, an updated version of the compromise FTR allocation white paper was developed and discussed with stakeholders at the February 3, 2004, MSC meeting.

On March 31, 2004, the Midwest ISO filed an FTR allocation process as part of the EMT that was based on the compromise FTR allocation white paper. The Commission first addressed the filed FTR allocation proposal in the May 26 Order, in which the Commission accepted and suspended the FTR related portions of the EMT, to become effective on or before November 7,

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<sup>11</sup> See Midwest Market Initiative Transmission Rights Task Force, Agenda March 6, 2003, available at [http://www.midwestiso.org/meeting\\_agendas/cmwg/20030306.pdf](http://www.midwestiso.org/meeting_agendas/cmwg/20030306.pdf).

<sup>12</sup> See Market Subcommittee Agenda, available at [http://www.midwestiso.org/meeting\\_agendas/mkt\\_subcommittee/MSC20031120.zip](http://www.midwestiso.org/meeting_agendas/mkt_subcommittee/MSC20031120.zip).

<sup>13</sup> See Market Subcommittee Agenda and Meeting Material, available at [http://www.midwestiso.org/meeting\\_agendas/mkt\\_subcommittee/msc\\_01202004.zip](http://www.midwestiso.org/meeting_agendas/mkt_subcommittee/msc_01202004.zip).



2004, subject to refund and further orders by the Commission.<sup>14</sup> Subsequently, in an order issued on August 6, 2004, the Commission accepted the FTR related tariff sheets and permitted them to become effective as of that date.<sup>15</sup> On September 15, 2004, the Commission, in the GFA Order, directed the Midwest ISO to modify certain parts of the FTR allocation process to address FTR allocations for GFAs. The Midwest ISO conducted the initial FTR allocation that is the subject of this filing in accordance with the FTR allocation process filed with the Commission on March 31, 2004, as modified and accepted by the Commission in its subsequent orders.

The compromise FTR allocation process, as accepted by the Commission, consists of three basic steps: registration, nomination and allocation. This three-step process was designed to give all Market Participants the opportunity to receive an allocation of FTRs from resources used to serve base load.<sup>16</sup> The compromise FTR allocation proposal struck a balance between certain stakeholders that wanted mandatory FTR allocations based on historical uses of the transmission system and others that sought flexibility in the ability to nominate and be allocated FTRs.<sup>17</sup> As explained by the Commission, the compromise allocation proposal was based on the idea that while nominations for the first two tiers of FTR allocation would be voluntary, to the extent that a voluntary decision not to nominate FTRs from baseload generation resources within these tiers resulted in there not being counterflow available to support the simultaneous feasibility of other Market Participant's FTR nominations, then entities would be required to accept FTRs that were needed to provide the necessary counterflows to make the FTRs that were nominated but not granted in the first two tiers feasible.<sup>18</sup> This entire FTR allocation process is explained in more detail below.

## II. Process Used to Allocate FTRs and the Results of the FTR Allocations

The Midwest ISO conducted the FTR allocation process in accordance with the requirements of the EMT. Pursuant to Section 43 of the EMT, the FTR Allocation process consists of three basic steps: registration, nomination and allocation.

### A. Registration

In the first phase of the FTR allocation process, existing transmission entitlements were registered and converted to FTR entitlements. Transmission entitlements eligible for registration included existing OATT service valid for one or more seasons during the allocation period and pre-OATT agreements that elected to be treated as Options A or B GFAs under the EMT. The

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<sup>14</sup> May 26 Order at Ordering Para. (B).

<sup>15</sup> *Midwest Independent Transmission System Operator, Inc.*, 108 FERC ¶ 61,163 at P 3 and Ordering Para. (A) (2004) ("August 6 Order"); *order on reh'g*, 109 FERC ¶ 61,157 (2004).

<sup>16</sup> *See* August 6 Order at P 141 (2004); *Midwest Independent Transmissions System Operator, Inc., et al.*, 109 FERC ¶ 61,157 at P 128 (2004) (discussing the nature of the "compromise" proposal).

<sup>17</sup> *Id.*

<sup>18</sup> *Id.*

registration process included defining FTR entitlements in terms of CPNode sources and sinks, MW quantities and terms of service. In addition, Market Participants identified FTR entitlements that meet the definition of an Eligible Base Candidate FTR ("CFTR"), as defined under the EMT.

## **B. Nomination**

The FTR allocation process took place through a series of four tiers in which a set percentage of eligible FTRs were eligible for nomination by each Market Participant in each tier and then granted to the extent determined to be feasible by the Midwest ISO according to the results of a simultaneous feasibility test ("SFT") that evaluates the ability to actually accommodate the FTRs nominated. In addition, at the end of the second tier of nominations and allocations, the Midwest ISO completed a "restoration process" which restored some FTRs that were not allocated in Tiers I and II. During this restoration process, the Midwest ISO attempted to restore FTRs that were previously requested, but not granted by defining Counter Flow FTRs sufficient to make nominated (but not granted) FTRs simultaneously feasible.

FTR entitlements are nominated by Market Participants and allocated in four tiers. In each tier, Market Participants may nominate up to the tier limit, based on a percentage of their total entitlements for both Network Integration Transmission Service plus GFAs, and for Point-To-Point Transmission Service. Tier caps are as follows:

- Tier I: 35 percent
- Tier II: 50 percent
- Tier III: 75 percent
- Tier IV: 100 percent.

Tiers are cumulative, meaning that in each tier, Market Participants may nominate to the cap, less amounts allocated in previous tiers. For example, in Tier II, Market Participants could have nominated up to 50 percent of their total eligibility, less amounts allocated in Tier I. In this manner FTR quantities that are nominated but not granted in one tier are carried forward and may be re-nominated in later tiers.

In addition, a "Restoration Allocation," was conducted after Tier II. Market Participants with Eligible Base CFTRs that were nominated, but curtailed during Tier II, had the opportunity to request restoration of those curtailed quantities. Such restoration requests were granted to the extent feasible by adding counter flow provided by Eligible Base CFTRs that had not been previously allocated or requested for restoration.

## **C. Allocation**

After all nominations are received, the Midwest ISO analyzes nominated CFTRs to determine the amount that can be awarded, given the aggregate of nominations and any physical (*e.g.*, thermal) or operational (*e.g.*, contingency) limits that may arise. To the extent nominated CFTRs exceed the level that can be awarded due to such limitations, CFTRs are curtailed to a feasible level.

#### **D. Process Dates and Results**

The model used by the Midwest ISO to determine the simultaneous feasibility of nominated FTRs was developed as part of a lengthy stakeholder process. As detailed in Attachment A, the Midwest ISO met with stakeholders on numerous occasions to discuss and solicit comments on model inputs and assumptions.<sup>19</sup> The network model to be used in the initial FTR allocation model was released for stakeholder review on September 12, 2004. Other FTR modeling assumptions and methodologies were discussed with Market Participants during 2004 in EMS FTR Models Task Force and Transmission Rights Task Force Meetings (see Attachment A for meeting dates). On November 12, 2004, the Midwest ISO published for stakeholder review and comment the model assumptions to be used in the upcoming allocation period, including:

- Summer and Spring network models;
- Carve out GFAs assumptions;
- Contingencies to be included in the model, including contingency selection criteria;
- Flowgate constraints to be included in the model;
- Loopflow assumptions; and
- Phase-Angle-Regulator assumptions.

The FTR registration period opened on August 9, 2004, and closed on November 19, 2004. Prior to the initiation of registration activities and during the allocation process, the Midwest ISO held several conference calls with Market Participants to provide information, including training on FTR Registration applications used by Market Participants, and to address Market Participant questions related to the registration process. In addition, the Midwest ISO worked extensively with individual Market Participants to facilitate registration of transmission and FTR entitlements.

The Tier I nomination period opened on November 22, 2004, and closed on November 30, 2004. Tier I allocations were posted on December 6, 2004, and a conference call was held to discuss results with stakeholders on December 7, 2004. Updated Tier I allocation results were posted on December 12, 2004. Overall, Tier I FTR allocations were 97 percent of nominated values, broken down by period as follows:

- Summer Peak: 95 percent
- Summer Off-Peak: 97 percent
- Spring Peak: 97 percent
- Spring Off-Peak: 98 percent.

The Tier II nomination period opened on December 7, 2004, and closed on December 14, 2004. Tier II allocations were posted on December 20, 2004, and a conference call was held to discuss results with stakeholders on December 21, 2004. Updated Tier II allocations were posted on December 26, 2004. Overall, Tier II FTR allocations were 89 percent of nominated values, broken down by period as follows:

- Summer Peak: 82 percent
- Summer Off-Peak: 85 percent

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<sup>19</sup> These meetings were in addition to stakeholder discussions and training that have been ongoing since mid-2001, as generally described above.

- Spring Peak: 90 percent
- Spring Off-Peak: 99 percent.

The restoration nomination period opened on December 20, 2004, and closed on December 28, 2004. Market Participants in all cases nominated all eligible CFTRs for restoration. Restoration allocations were posted on January 3, 2005, and a conference call was held to discuss results with stakeholders on January 5, 2005. Overall, FTR allocations for Tiers I, II and the restoration, excluding Counter Flow FTRs, were 98 percent of nominated values, broken down by period as follows:

- Summer Peak: 96 percent (67,322 MW)
- Summer Off-Peak: 97 percent (67,983 MW)
- Spring Peak: 99 percent (68,371 MW)
- Spring Off-Peak: 100 percent (69,023 MW).

In addition to restored FTRs, Counter Flow FTRs were also allocated to Eligible Base CFTRs that had not been previously nominated or allocated, broken down by period as follows:

- Summer Peak: 3,809 MW
- Summer Off-Peak: 3,107 MW
- Spring Peak: 846 MW
- Spring Off-Peak: 133 MW.

The Tier III nomination period opened on January 3, 2005, and closed on January 10, 2005. Tier III allocations were posted on January 16, 2004, and a conference call was held to discuss results with stakeholders on January 18, 2005. Overall, Tier III FTR allocations were 85 percent of nominated values, broken down by period as follows:

- Summer Peak: 80 percent
- Summer Off-Peak: 84 percent
- Spring Peak: 91 percent
- Spring Off-Peak: 88 percent.

The Tier IV nomination period opened on January 17, 2005, and closed on January 21, 2005. Tier IV allocations were posted on January 28, 2004. Tier 4 results are scheduled to be discussed with Market Participants at the Market Subcommittee meeting on February 1, 2005. Overall, Tier IV FTR allocations were 44 percent of nominated values, broken down by period as follows:

- Summer Peak: 29 percent
- Summer Off-Peak: 57 percent
- Spring Peak: 56 percent
- Spring Off-Peak: 52 percent.

Overall FTR allocations, including all GFA (Options A and B), Network Integration Transmission Service, and Point-To-Point Transmission Service (excluding Counter Flow FTRs), were 95% of nominated values, broken down by period as follows:

- Summer Peak: 90 percent

- Summer Off-Peak: 96 percent
- Spring Peak: 97 percent
- Spring Off-Peak: 97 percent.

The complete results of the Tier I, Tier II, Tier III, Tier IV and Restoration Allocations are included herein in Attachment B to this filing.

### **III. Notice and Service**

Included herein as Attachment C, and also provided on diskette, is a Notice of Compliance Filing suitable for publication in the *Federal Register*. The Midwest ISO hereby respectfully requests waiver of the requirements set forth in 18 C.F.R. § 385.2010 (2003). The Midwest ISO has served a copy of this filing electronically, including attachments, upon all Midwest ISO Members, Member representatives of Transmission Owners and Non-Transmission Owners, the Midwest ISO Advisory Committee participants, as well as all state commissions within the region. In addition, the filing has been posted electronically on the Midwest ISO's website at [www.midwestiso.org](http://www.midwestiso.org) under the heading "Filings to FERC" for other interested parties in this matter.

Good cause exists for granting this waiver due to the volume of interested parties in this matter, the limited resources available to make service and the financial burden to the Midwest ISO in copying and mailing copies of this filing. Many parties, in fact, prefer receiving their copy in electronic format or by the Midwest ISO's website. In addition, the Midwest ISO will provide hard copies to any interested party upon request.

**IV. Conclusion**

For all of the foregoing reasons, the Midwest ISO respectfully requests that the Commission accept the report filed herein and grant waiver of any Commission regulations that the Commission may deem applicable to this filing.

Respectfully submitted,

Stephen G. Kozey  
James C. Holsclaw

Midwest Independent Transmission System Operator, Inc.

Richard A. Drom  
Michael L. Kessler  
Craig Galligan  
Powell Goldstein, LLP  
901 New York Avenue, N.W., Third Floor  
Washington, D.C. 20001

Counsel for the Midwest Independent Transmission System  
Operator, Inc.

Attachments

cc: Michael C. McLaughlin, FERC  
Patrick Clarey, FERC  
Christopher Miller, FERC  
Penny Murrell, FERC  
Stephen Teichler, Esq.