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Keith L. Beall
Senior Attorney
Direct Dial: 317-249-5288
Fax: 317-249-5912
E-mail: kbeall@midwestiso.org

July 24, 2009

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, Ohio 43215

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PUCO

RE: Case No. 09-90-EL-COI

Dear Docketing Division:

Enclosed please find an original and one copy of the "Reply Comments of the Midwest Independent Transmission System Operator, Inc." in the Commission's Investigation into the Value of the Continued Participation in Regional Transmission Organizations in the above docketed matter. This document has been faxed to your docketing department today. Please date-stamp the enclosed extra copy and kindly return in the self addressed, postage prepaid envelope provided.

If you have any questions or concerns, please do not hesitate contacting me at: 317-249-5288. Thank you, in advance, for your assistance.

Kindest Regards,

Keith L. Beall
Senior Corporate Counsel
Midwest ISO

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Midwest Independent
Transmission System Operator, Inc.

Mailing Address:
P. O. Box 4202
Carmel, IN 46082-4202

Overnight Deliveries:
720 City Center Drive
Carmel, IN 46032

www.midwestiso.org
317-249-5400

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Commission's)
Investigation into the Value of) **Case No. 09-90-EL-COI**
Continued Participation in Regional)
Transmission Organizations.)

Reply Comments of the Midwest Independent Transmission System Operator, Inc.

Many interested entities filed comments in response to the Public Utilities Commission of Ohio ("PUCO") inquiry Order issued May 4, 2009. The Midwest Independent Transmission System Operator, Inc. (the "Midwest ISO") has reviewed each and in many instances recognizes the many diverse comments, critiques, and criticisms filed in this docket. Most, if not all, have been raised in one or more of the Midwest ISO's own open stakeholder committees and have been or currently are being vetted and evaluated through the stakeholder processes and discussions. In the instant matter it would be difficult, if not impossible, to practically respond to each and every comment and criticism raised by the many parties in this docket. Therefore, the Midwest ISO Reply comments contained below provide summarized response only on certain areas that it believes require further detail or clarification. The Midwest ISO is mindful of the tenor and the stated scope of the inquiry presented in this docket and has tailored its Reply accordingly. That said, the Midwest ISO is compelled to also state that it continues to work with its stakeholders, including the PUCO and many of the parties herein, through its ongoing, open stakeholder processes to consider, understand, address and discuss any and all of these same comments and criticisms as part of its continuing efforts to refine its operations and increase the benefits it provides. This is not only consistent with the Midwest ISO's broader, relentless efforts to continue to improve and evolve, but it is also a fundamental part of its corporate culture.

End-Use Customer Value

There were pointed criticisms that the RTOs may not be concerned with and focused on "...customer value¹..." The Midwest ISO respectfully disagrees and has in its initial comments shown that the wholesale market alone creates far greater benefits than the costs of operation of the organization. The measureable market benefits alone², when coupled with the planning and generation deferral benefits, more than offset and completely eclipse the operation and

¹ See Initial Comments of Ohio Consumer Counsel, pgs. 4, 44- 45; Industrial Energy Users Initial Comments, pgs. 7, 31-36

² The Ancillary Services Market that was launched January 6, 2009, is on pace to provide approximately \$335 Million of annual benefit to the Midwest ISO footprint.

administrative costs³. Indeed, most of the Initial Commentors concede and recognize the reality of and considerable benefits arising from the wholesale RTOs markets⁴. The criticisms that RTOs fail to consider ultimate, end-use customers (i.e. retail customers), are not only misplaced, but they also blur the lines and distinctions carefully and intentionally preserved by FERC and the state regulatory commissions between wholesale and retail issues. Relevant to this discussion is the recognition that RTOs operate bulk power (wholesale) markets.

Ohio, through its legislative process and regulatory determinations, has charted and now adjusted its own path on how the retail portion of the parallel, state-federal regulatory regimes function. This dual regulatory regime has at its foundation the notion that the state or local regulatory body is best positioned to craft, track and ensure that end-use, retail customers realize the appropriate level and type of wholesale market benefits. This regulatory dichotomy also allows the local, varied and unique retail regulatory goals and objectives to be realized and achieved. The vast majority of the criticisms of the RTO model are not focused on whether they create and provide benefits, but rather how these benefits can be better identified, traced to and captured by the ultimate end-use, retail customers of Ohio. This is not to suggest that there are not areas that need improvement at the RTOs, but rather to emphasize and keep perspective on the current wholesale/retail regulatory construct under which the RTOs operate. Additionally, these criticisms that RTOs lack end-use customer perspectives suggest that FERC has overlooked or ignored the reasonable and just rate standards required by the Federal Power Act.

The Midwest ISO is confident that the intense scrutiny it constantly undergoes, first by the stakeholder community and then by FERC, ensure that its Transmission and Energy Markets Tariff ("TEMT") and the associated rates and charges there under are reasonable and just and do provide value and benefit to its customers. Furthermore, to the extent there are areas that may require adjustment or can be modified to provide additional value or benefit, the Midwest ISO stakeholder process is always open, transparent, and available to make such adjustments. The Midwest ISO, *on a daily basis*, works with stakeholders to provide information, update them on the operations of the transmission system and the markets, and provide transparency that is unprecedented. While relatively new, the Midwest ISO has adopted and continues to perfect a stakeholder process that has been referenced and touted by many in the industry, including many of the Initial Commentors in the instant docket. These stakeholder efforts are consistent with the Midwest ISO's ongoing efforts to provide information, create further transparency, and enhance confidence in the Midwest ISO operations and underscore its independence. Responsibility and accountability for providing value, which appears to be one of the broader focuses of this inquiry, are certainly obligations that the RTOs have and must continue to shoulder. However, the suggestions to move in a direction that forces the RTO to potentially take on retail level obligations or otherwise retreating from market or regionalized constructs which have been repeatedly shown to provide value, erodes and undermines RTO independence and the regionalized market advancements achieved to date – all of which would be contrary to the interests of Ohio consumers.

³ See also Waterfall Chart summary of 2007 Midwest Value Proposition at: <http://www.midwestiso.org/page/Value%20Proposition>

⁴ See Footnote 1, above.

The Midwest ISO acknowledges and accepts, in part, some of the criticisms leveled directly or indirectly at it. It is still a relatively new organization that is ever evolving, improving and adapting to the multiplying issues the current dynamic energy industry continues to throw at it. Many of the Initial Comments recognize the Midwest ISO's new entry into this field and commend its openness of the stakeholder process, flexibility, and nimbleness. The Midwest ISO stakeholder process is an inclusive process which at times may become burdensome due to the many diverse interests involved. However, it also provides a centralized venue for all to: learn, discuss, debate and vet issues resulting in quicker solutions to new and challenging industry issues and problems. It also provides an established stakeholder structure into which many of the new state and federal alternative or renewable energy initiatives can be reviewed, discussed and accommodated – something that would not have been conceivable under the prior regulatory regime, and likely impossible if it were to be done on a LSE-by-LSE litigated case type basis.

Evolving Energy Markets

Any review and discussion of RTO energy markets and the corresponding customer benefits would be incomplete without first recognizing the difficult to quantify advantages and benefits arising from a regionalized operation and planning. As more extensively reviewed in the initial comments, prior to the Midwest ISO's creation, its region operated as a decentralized, utility-by-utility bilateral market. Further, there was no open and transparent common energy market and only sub-regions which coordinated with one another to maintain reliability of the interconnected transmission systems. Now, with the advent and operation of the Midwest ISO energy markets the LSEs have better information and ability to more efficiently buy and sell energy to better serve their load, while at the same time allowing interested parties, including regulators, to gain access to price information and transparency. This larger-in-scope energy market also provides access to broader sources of viable energy that enables LSEs to better manage resource needs and plan for necessary capital or similar financial commitments that will be required to accommodate load growth or generation plant retirements.

1. Ancillary Service Market.

The Midwest ISO Ancillary Service Markets ("ASM"), which commenced on January 6, 2009, was a follow on requirement of the development of the energy market. The ASM commits and dispatches contingency reserves and regulation in a co-optimized manner with energy. This allows portions of cost-efficient resources that were previously held back to address local system operating reserves to now be dispatched for either energy needs or centrally coordinated operating reserves in order to minimize overall energy and ancillary service costs all-the-while ensuring reliable transmission system operation. The Midwest ISO recognized the importance of and its responsibilities to its stakeholders and crafted, with stakeholder input, agreed upon mechanisms to track and measure the ASM cost savings. The addition and integration of ASM is on track to provide more than **\$212 million in annual** benefits. There is now even further price and value transparency because of the addition of ancillary services to the wholesale energy market. Midwest ISO calculates and posts, on a 5 minute basis, in real time, and on an hourly basis in the day-ahead market, the value of contingency reserves, both spinning and supplemental, as well as regulating reserves. The Midwest ISO has also assumed compliance

responsibility for many of the Balancing Authority standards, significantly reducing member compliance responsibilities.

2. **Resource Adequacy.** As presented in the Midwest ISO's Initial Comments, Module E of the Midwest ISO's TEMT provides requirements and standards to be met by LSEs to ensure access to adequate resources to reliably meet demand on the transmission system. The requirements initially established in Module E were based upon the existing respective state and the Regional Reliability Organizations ("RRO"), mechanisms. On June 1, 2009, the Midwest ISO put into place a permanent resource adequacy construct that has been approved by FERC. The new resource adequacy provisions in Module E establishes a minimum level of planning reserve requirements based upon reliability principles and standards to meet a loss of load event. The implementation of Module E has resulted in significant reductions in the required level of reserves as compared with what was in place before.

In the initial round of comments certain parties presented criticisms about the Midwest ISO's shorter term resource adequacy construct claiming that, without providing detail or support, it may fail to provide longer term price signals and did not fit well with Ohio's retail choice regulatory regime. Other parties raised countering concerns related to potential negative impacts that could result from mandatory longer term capacity arrangements, which may be especially acute in a market with overcapacity, as is the case in the Midwest ISO footprint. These concerns and issues were raised and debated during the Midwest ISO's stakeholder process that resulted in its balanced Resource Adequacy construct. The Organization of MISO States ("OMS") and PUCO Staff representatives in particular were central to that discussion stressing the need for flexibility and provided the leadership on retail choice concerns⁵ in crafting the capacity model that has been adopted and put into place by the Midwest ISO following FERC's approval.

The Midwest ISO heard and understood that retail choice providers wanted and needed flexibility, rather than strict, mandated long-term deals. Additionally, as described in more detail in its Initial Comments,⁶ the Midwest ISO recognized that the majority of capacity transactions, including those in retail choice states, are conducted bilaterally. The bilateral capacity contracting process has been further facilitated by and through the Midwest ISO posting requirements, which are consistent with FERC Order 719⁷ With that understanding squarely in mind, the Midwest ISO adopted a capacity construct that merely standardizes all of the fundamental components and does not differentiate (unless a particular state commission decides to override the Midwest ISO, which is perfectly within the tariff for them to do), or disadvantage either a traditional or retail access type of market. This standard framework puts that flexibility and ownership responsibility into the hands of the LSE itself, and through its regulatory oversight, the PUCO too. The Midwest ISO Resource Adequacy construct provides both the ability for an LSE to procure longer-term capacity, monthly capacity (including via the Midwest

⁵ See also Brief of Amicus Curie of NARUC, where the state regulatory groups (including the OMS), stated: "Through negotiations with stakeholders and the Midwest ISO, the Organization of MISO States recently developed an approach to resource adequacy applicable to both retail-choice and traditionally-regulated States." *Connecticut Department of Public Utility Control v. FERC*, No. 07-1375 (D.C. Circuit, June 23, 2009).

⁶ See Initial Comments of the Midwest ISO, p. 19 (May 26, 2009).

⁷ Order 719, October 17, 2008, 125 FERC ¶61071, Docket Nos. RM07-19-000 and AD07-7-000, at ¶¶ .

ISO Voluntary Capacity Auction⁸), or in the case of retail choice states, on an intra-monthly basis. The Midwest ISO submits that it: (1) provides the level of planning reserve margin required to maintain reliability; (2) has provided the tools and mechanisms to enable LSEs to select as many forms and types of capacity to meet that reserve margin and reliably serve their load; and (3) thereby leaves in the capable hands of the particular state regulatory commissions and LSEs the complete flexibility and control to determine what makes the most sense for them. The Midwest ISO's Resource Adequacy design is uniquely constructed to provide options and nimbleness that allows greater opportunity to capture additional benefits that will help Ohio LSEs to better maximize value to the Ohio customers they serve. Specific examples of other benefits under the Midwest ISO Module E include, but are not limited to, the following:

(a). **Added Value - Generation Investment Deferral.** As noted in the Midwest ISO's Initial Comments, within Module E, individual LSEs maintain reserves based on their monthly peak load forecasts. These peak forecasts do not sum to the system coincident peak because they are reported based solely on the entities own peak, which could occur at a different time than the system peak. To account for this diversity within the system, a reserve margin was calculated for application to individual LSE peaks utilizing a 2.35% diversity factor. This was the lowest diversity experienced on the system since Midwest ISO market start and was a conservative initial selection. Using this 2.35% diversity factor resulted in an average individual LSE reserve level of 12.69%, which was a reduction from what would otherwise would have been a 15.4% reserve level without considering and accounting for diversity.

As the Midwest ISO continues development and analysis of the Planning Reserve Margin ("PRM"), calculation for Planning Year # 2 (June 2010 - May 2011), information from an additional summer of operations will be factored into the appropriate determination of the diversity factor that will result in the PRM for the next planning year. Given that the 1st Planning Year was based on the most conservative diversity factor since the inception of the Midwest ISO energy markets, it is reasonable to conclude that the with greater experience and refinements to the determination of the subsequent diversity factor will have greater opportunity to further reduce the Planning Reserve Margin (PRM) for future Planning Years.

This diversity factor is central to the calculation of one of the major components of the Midwest ISO's Value Proposition - Generation Investment Deferral⁹. The reasonable and supportable system-wide lower planning reserve margin translates into the deferral of construction of fewer additional electric generating resources in the future. This in turn reduces the capital cost for new generation to be recovered from end use customers. The shift from localized use of the electrical system to regional use allows more efficient and effective use of the existing generation assets which, in turn, allows

⁸ See Section 3, below.

⁹ Another important factor that increases the value proposition is the requirement that LSEs meet their resource obligation with unforced capacity. We expect forced outage rates to decline systematically over the next few years, for two reasons: one, resource owners can receive larger capacity payments when their units have lower forced outage rates and two, resource owners collect larger energy market revenues when their units have more availability. A few studies in the eastern RTO areas have highlighted this effect, but the Midwest ISO area has not been studied in this area to date.

for a reduction in the planning reserve margins for the region. The avoided cost benefit is annualized using an estimated revenue requirement for the *capital costs only*.

Each megawatt of new generation deferred or eliminated due to the need to carry fewer planning reserves translates into a savings of \$1.2 million in avoided construction costs. Therefore, under the Midwest ISO's conservative estimate of its PRM, this was initially determined to result in annual benefits of \$135 million to \$150 million for our stakeholders. Information on the generation investment calculation can be found at the following link and navigation:

Link: <http://www.midwestmarket.org/page/Value+Proposition+Development> or
Navigation: About Us Tab > Value Proposition > Development

The Midwest ISO is currently finalizing the next iteration of its Value Proposition, which will include the actual 2009-2010 diversity factor and Planning Reserve Margin into the calculation of the Generation Investment Deferral. It is estimated that this updated calculation will result in significantly greater benefits than previously estimate¹⁰, with the updated Deferral savings now amounting to **\$218 to \$273 million** annually.

(b). **State Jurisdictional Issues.** The Midwest ISO is mindful of the rights of the states within the Midwest ISO region to exercise their jurisdictional authority with regard to supply adequacy issues, as well as the authority of FERC to approve tariff terms pursuant to Section 205 of the Federal Power Act that are "just and reasonable." In developing the long-term resource adequacy plan, the Midwest ISO has been cognizant that certain issues (*e.g.*, the implementation of mandatory procedures to ensure that resource adequacy standards are met by all LSEs appear to be located at the confluence of federal/state issues. In these situations, the Midwest ISO has focused on working closely with the OMS and other stakeholders to develop flexible solutions that recognizes and is coexistent with state jurisdictional authority (consistent with the state jurisdictional rights pursuant to Section 215(i) of the Energy Policy Act of 2005) while facilitating the reliable operation of the Midwest ISO Transmission System. For example, Section 68 of Module E of the TEMT¹¹ recognizes the right of states to establish PRMs for LSEs in states that may either be higher or lower than the PRMs that the Midwest ISO would otherwise calculate for LSEs to satisfy a uniform Loss of Load Expectation ("LOLE") of no more than one occurrence every ten years. The Midwest ISO has enjoyed the benefit of close coordination with the OMS in the development of Module E.

(c). **Demand Response Issues.** The success of the Midwest ISO's resource adequacy construct depends not only on FERC approval of its market design but also on the cooperation of the state regulatory commissions having state jurisdiction over the LSEs within the Midwest ISO footprint. With this in mind, the Midwest ISO has pursued extra effort to communicate and coordinate with the states through the OMS and other

¹⁰ The increases in PRM Deferred Generation benefit are based on updated construction costs and further refinements in the computation inputs, with the calculation methodology and assumptions remaining consistent.

¹¹ See Midwest ISO TEMT, Module E, §68, Original Sheet 810.01 (March 27, 2008).

stakeholder groups, with particular emphasis on demand resource issues related to resource adequacy.

The Midwest ISO recognizes the considerable amount the states have already invested in demand side programs and the progress that has been made by the states and OMS in the realm of resource adequacy and demand response. The Midwest ISO, in cooperation with the states, has allowed and enabled significant amounts of demand resources to be considered as part of the Module E resource adequacy construct. The most recent figures from July 2009 reveal nearly 8,200 MWs. This amount does not account for any price responsive demand ("PRD") or energy efficiency ("EE") that the states and their respective LSEs may be enabling nor does this capture LSEs that have demand resources under retail programs that have already been netted from their load forecasts which, per recent FERC filings, could amount to over an additional 1,000 MW; however, the Module E construct does allow both EE and PRD to count towards resource obligations. Moving forward, the Midwest ISO will continue to work closely with the states and the OMS (and other stakeholders), to address and accommodate PRD and EE into its Module E construct so as to maximize the benefits that may be provided by these additional resources opportunities.

3. **Midwest ISO Voluntary Capacity Auction (VCA).** Another series of criticisms and concerns were raised by certain parties surrounding the resource adequacy requirements. The Midwest ISO's Voluntary Capacity Auction (VCA) has been conducted for the planning months of June, July and August 2009. Below are the summary results for each of these auctions:

Planning Month	Total Amount Bid into Auction	Total Amount Offered into Auction	Total Amount Cleared Auction	Auction Clearing Price (\$/APRC ¹²)
June	864	7,525.3	864	50
July	1,216.6	363.8	363.8	10,015
August	110	3,588	110	1

It is important to note that the VCA is designed to be "a useful alternative option for obtaining capacity in the Midwest ISO, with the primary instrument still being bi-lateral transactions." The VCA can be thought of as a balancing market, similar to the Midwest ISO's Real-Time Energy Market, where very small amounts of MWs actually trade (the majority occurring in the Day-Ahead Market or in the bilateral markets). This is seen in the amount of capacity both bid and offered in the first three planning months. For example, June 2009 total amount bid (864 MW) was less than 0.8% of the reliability footprint peak load for the June operating month (107,694 MW). Given the actual MW cleared for July and August 2009, the percentage of load procured via the VCA will be even lower than 0.8% of total peak load for those months. The rapid change in auction clearing price between the June/August levels and July was primarily related to the prices of the bids and offers and the significant reduction in the amount offered (364 MW versus 7,525 MW in June and 3,588 MW in August). Thus, the auction clearing prices may not provide

¹² "APRC": Aggregate planning resource credit.

price signals for capacity costs in the Midwest ISO footprint, but rather serves the purpose for which it was intended - useful (voluntary) alternative option to compliment the bi-lateral capacity market.

Information and clearing results for the Midwest ISO Voluntary Capacity Auction (VCA) can be found at the following link and navigation:

Link: http://midwestmarket.org/publish/Document/7e7fdb_1225bf59491_-7eeb0a48324a

Navigation: Documents Tab > Resource Adequacy > Voluntary Capacity Auction Summaries > VCA Monthly Summaries PY 2009-10

4. **Regional Benefits**

(a). **Coordinated Planning**

The Midwest ISO regional Transmission Planning process has as its goal the development of a comprehensive expansion plan that meets both reliability and economic expansion needs. The planning process identifies solutions to reliability issues that arise from the expected dispatch of Network Resources. These solutions include evaluating alternative costs between capital expenditures for transmission expansion projects, and increased operating expenses from redispatching Network Resources or other operational actions. The planning process is, as noted by several of the other parties filing comments, is fully compliant with the Planning Principles presented in the Federal Energy Regulatory Commission's (FERC) Order Nos. 890 and 890-A. Unlike many planning processes which are designed to minimize transmission costs, the Midwest ISO's planning process is designed to identify and recommend the transmission expansions that provide reliable power at the lowest delivered cost. The Midwest ISO open and coordinated approach provides the best and most cost effective result which translates into value and enormous benefit.

The Midwest ISO's Transmission Expansion Plan captures over \$1 billion in benefits from implementation of the plan. These benefits arise primarily from enabling more economic generation to reach load resulting in \$950 million in annual production cost savings. The expansion plan once implemented will also result in between \$60 and \$111 million in construction deferral savings due to reduced capacity losses. However, since these benefits ultimately result from the transmission owner's investment in the transmission infrastructure, the Midwest ISO does not include these benefits in our value proposition. The value that the Midwest ISO provides is optimizing the overall investment in transmission infrastructure – studying the optimal mix of the transmission plans submitted by prospective projects, eliminating redundant or inefficient projects and selecting the best mix of projects to provide the lowest cost of reliably delivered energy.

(b). **Centralized Dispatch.**

Through the Day-Ahead and Real-Time Energy Markets, the Midwest ISO is able to optimize the dispatch of energy throughout the region, ensuring that energy needs are met by the

most cost effective, deliverable generation available in the region. Some of the Commentors were critical of the processes, but did concede that this does provide benefit if properly managed and overseen. The Midwest ISO has determined its efforts produce annual benefits between \$200 million and \$250 million.

(c). The MISO-PJM Joint Operation Agreement - Buckeye Power

There have been some comments and concerns raised with regards to seams issues that result from the two RTOs operating in Ohio. As noted in the initial comments, seam issues have been comprehensively addressed by the Midwest ISO and PJM through a FERC approved Joint Operating Agreement ("JOA")¹³. As is the case with most dynamic situations, there are certain unique circumstances that do arise. One such situation is that raised by Buckeye Power in its comments¹⁴. Further, the PJM-MISO JOA requires an ongoing analysis from a cost-benefit perspective of Joint and Common Market features having the potential to improve seams coordination. As well, PJM and MISO regularly coordinate to resolve seams issues raised by differences in their protocols that impact transmission system transactions. There are provisions of the JOA and the Congestion Management Process ("CMP") incorporated into the JOA, have been implemented, greatly reducing the cost of managing transmission congestion cost at the seams through dispatch of generation in both RTOs, based on least cost dispatch, to manage congestion. By reducing redispatch, congestion cost is reduced providing direct saving to customers in Ohio through lower overall supply cost.

The JOA obligates the two RTOs to exchange real-time and day ahead operating information, and planning information, to increase reliability coordination. The JOA spells out how outage coordination, voltage control, and emergency operations will be handled between the two entities, and adopted the highly detailed CMP to govern congestion management during the period when PJM operated energy markets, but Midwest ISO did not. After Midwest ISO started its own energy markets, Midwest ISO and PJM implemented a "market-to-market" congestion management process called the "Interregional Coordination Process" (ICP). The ICP builds on the CMP and moves to a financial system allowing one RTO to compensate the other when the second RTO redispatches internal generation to solve a congestion problem occurring in the first RTO's system. This occurs when the economics of the congestion are more reasonably addressed by redispatch than by having the first RTO attempt to reduce its own flows to relieve congestion.

Finally on this point, the economic and coordination seams issues that existed during the early phase of RTOs have been largely resolved. Moreover, to the extent that there are seam issues that remain or crop up, a framework is in place to address such issues, which the anticipated resolution with Buckeye Power illustrates.

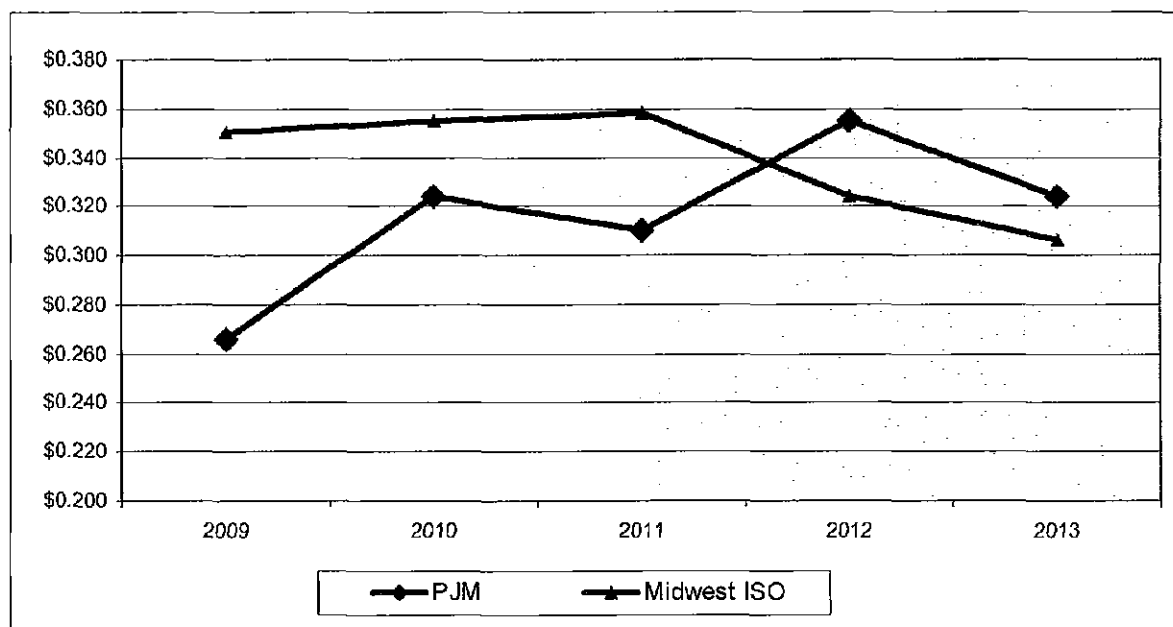
5. RTOs' administrative expenses – both reasonable and trending downward.

¹³ See Docket No. ER04-375, 106 FERC ¶61,251 (March 18, 2004) and 108 FERC ¶ 61,143 at PP 58, 59 (August 5, 2004), and Docket No. EL02-65-000, et al., 100 FERC ¶61,137 (July 31, 2002 Order).

¹⁴ See Initial Comments of Buckeye Power, Inc., filed on June 8, 2009, (PUCO Case No. 09-090-EL-COI).

The Midwest ISO's administrative costs and corresponding member assessments are reasonable and continue to provide value to the members. As demonstrated earlier in its Initial Comments, the Midwest ISO is currently and continues to add value for its customers, including those in Ohio. Based on its ongoing iterative review of the Midwest ISO's Value Proposition, gross annual value of between \$955 million and \$1,220 million is obtained through the provision of Midwest ISO services at an annual cost of approximately \$240 million. This results in an estimated annual benefit of between \$755 million and \$981 million. These figures do not capture the benefits of: (1) a regionalized planning and operation; (2) the transparency provided by the wholesale energy market operations; (3) stakeholder vetting and input access to the day-to-day operations; and (4) independence all of which has gone well beyond the base RTO services envisioned by the FERC Orders 2000 and 890.

Although broader RTO costs information is available,¹⁵ the Midwest ISO and PJM are the two lowest costs per MWh RTOs. The following graph showing declining per MWh costs for each was presented as part of the formal presentation on December 4, 2008 for the Midwest ISO Board of Directors Audit and Finance Committee and stakeholder review process:



As more fully discussed in its Initial Comments, the Midwest ISO makes available and regularly provides stakeholders with detailed information on its budget and actual expenditures. Management also provides a five-year forecast of revenues, expenses, and administrative costs per MWh as part of the budget process. Stakeholders have requested and been provided with information on the bases of actual expenditures as well as the budget processes. In addition, the open stakeholder process also provides for overall budget review and scrutiny as well as specific project review and feedback. In many instances it is stakeholder input and feedback that

¹⁵ See United States Government Accountability Office, Report to the Committee on Homeland Security and Governmental Affairs, U.S. Senate, "ELECTRICITY RESTRUCTURING – FERC Could Take Additional Steps to Analyze Regional Transmission Organizations' Benefits and Performance" (Sept. 22, 2008)

initiates, expands, or sometimes scales back certain efforts by the Midwest ISO that ultimately flow through to the budget. The collective efforts of the Midwest ISO Board and management along with the invaluable stakeholder input have helped the Midwest ISO to effectively pursue efforts beneficial to its core mission and have allowed it to achieve a downward trend in its costs as illustrated in the above graph. This downward trend is anticipated to continue – as are the annual reviews and scrutiny given by the Board and the stakeholder committee.

6. Conclusion

The Midwest ISO recognizes and understands the reasons for and obligations of the PUCO to pursue the review and investigation this particular docket entails. The Midwest ISO appreciates and welcomes the opportunity to present its Initial Comments and Reply which summarily review some of its successes as well as some of the areas where further improvements can be made. Further refinements, improvements, and advances in the RTO construct are needed and with help from all interested they are achievable. Ohio has been a very active participant in the development, implementation, operation and on-going improvement of the Midwest ISO. That is true for the PUCO, Ohio's RTO member companies, the OCC and many of the other Commentors in this instant docket. The Midwest ISO respectfully requests that this participation and involvement continue. The open and inclusive Midwest ISO stakeholder process facilitates that participation and encourages stakeholders to craft solutions that many times are better because of the interplay and collective thinking and discussion among and between various groups. There is little doubt that these groups sometimes have opposing roles and interests but, through the open feedback processes Midwest ISO employs, most recognize that they have the same ultimate goal, namely to reliably and cost effectively provide service. This is also an ultimate goal of the Midwest ISO and one reason it devotes so much effort to facilitating these sometime difficult, but regularly successful stakeholder processes.

The Midwest ISO continues to work with the PUCO and its representatives on the OMS, to broaden the considerations and existing definitions of the public interest to include the differing needs of the varying state perspectives, as the Module E, Resource Adequacy results as discussed above demonstrates. This is but one of many such efforts and discussions that the Midwest ISO is engaged in and regularly invites to better understand and accommodate the unique needs of its member states. The Midwest ISO has proven that it remains open to and works tirelessly to accommodate the sometimes differing state regulatory models and needs. It has built in sufficiently flexible mechanisms and tools that not only have successfully allowed it to overcome regional differences, but also created platforms and processes that are sufficiently flexible to consider and adapt to more recent changing state and federal, environmental, and global issues that continue to arise.

The many important issues confronting the industry today are becoming less and less able to be addressed and bounded by state geographic boundaries. Resource portfolio diversity (including renewable portfolio standards, possible carbon restrictions, energy efficiency, and price responsive demand), transmission planning, transmission cost recovery and other issues are becoming much broader, with regionalized focus which should likewise be considered and addressed from a regional perspective to maximize collective benefit. Common issues tie the

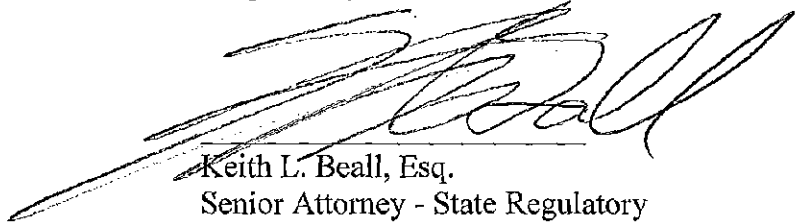
states in a region together, even when their underlying regulatory constructs may differ. Most all of the Comments presented in this docket have directly or indirectly recognized that attempting to tackle many of these evolving issues within a localized utility proceeding or plan would be counterproductive to the public interests of the consumers of Ohio. One of the primary goals should be to create solutions that work for both the region and Ohio. The OMS, working collectively with the various state commissions, has made great progress on many issues, but there are still challenges that must be met. These many new issues and concerns presented within our industry require all participants to recognize and adjust, where necessary, the traditional and habitual processes that may otherwise be used as obstructions to progress.

The specific and general initiatives and efforts of the Midwest ISO discussed above and in its Initial Comments each have designed into them the ability and flexibility to achieve and ultimately serve the interests of its customers. Modifications, improvements and innovative efforts are constantly being presented and pursued by the Midwest ISO through its many stakeholder processes. Furthermore, these stakeholder processes are backstopped by mandatory FERC review of each and every change that the Midwest ISO proposes to implement which prevents any one stakeholder faction from dominating and promoting lopsided results. The Midwest ISO submits that each industry participant and stakeholder is ultimately responsible to the end-use electric consumer. How those respective responsibilities and oversight obligations are effectively and efficiently managed and implemented is key to accomplishing the respective goals each stakeholder is obliged to handle. To adopt the suggestion or invitation of some parties to retreat from the many gains thus far achieved or further blur the federal-state distinctions by insisting on retail ratemaking considerations/requirements be directly infused/injected into a wholesale market structure would serve to further erode a particular state's ability to advance its own objectives and goals, and potentially call into question an RTOs independence. Many of these state level goals cannot be realized without the mechanisms and benefits created by the larger, regionalized independent RTO with its transparent markets and operational and forward looking planning initiatives. The practicality and enormity of the benefits for end-use consumers remain undisputed. It is just the magnitude and the appropriate way of capturing and sharing those benefits that continues to challenge all involved. The Reply comments presented above can, as noted, provide only a limited response to certain issues raised. Therefore, the Midwest ISO continues to remind and promote its open invitation and encouragement of the PUCO and all of the parties to this docket to continue their vitally important involvement in and with Midwest ISO's stakeholder processes. This will allow us to work collectively to enhance and maximize the achievable benefits.

In conclusion, the Midwest ISO has shown that it does create and provide significant value for those LSEs and the ultimate consumers they serve in Ohio and elsewhere. As noted above, the Midwest ISO's activities are currently conservatively estimated to create between **\$755 million and \$981 million in annual benefits** across its footprint, which is net of costs. The Midwest ISO's regional approach to transmission service administration, energy and ancillary services markets, and transmission planning have led to increased reliability, optimized and cost-effective commitment of generating reserves, and optimized and cost-effective transmission investment planning. The Midwest ISO is committed to continue to evolve and improve upon those benefits through: (i) its ongoing open and transparent stakeholder processes; and (ii) drive value creation through efficient, reliable market operations, coordinated and effective planning,

and creative innovation. This commitment is shown daily by the Midwest ISO employees in the level of time they devote to stakeholder communications, discussions, and incorporation of input. This openness and flexibility is not only fundamental but tantamount to the Midwest ISO's regular and recurring culture of self assessment, business responsibility, and accountability, all of which rolls up into its Value Proposition, which illustrates the ongoing value created by the Midwest ISO.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'K. Beall', written over a horizontal line.

Keith L. Beall, Esq.

Senior Attorney - State Regulatory
Midwest ISO - Legal Dept.

P.O. Box 4202

Carmel, IN 46082-4202

(317) 249-5400 (phone)

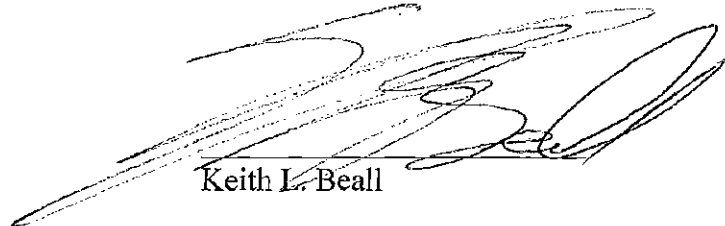
(317) 249-5912 (fax)

kbeall@midwestiso.org

July 24, 2009

CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing reply comments of the Midwest ISO was delivered via first class mail delivery on this the 24th day of July 2009 to the following:



Keith L. Beall

Jacqueline Roberts, Attorney At Law
Ohio Consumers' Counsel
10 West Broad Street Suite 1800
Columbus, OH 43215

Ohio Power Company
1 Riverside Plaza, 29th Floor
Columbus, OH 43215

David Boehm
Ohio Energy Group, Inc.
36 E. Seventh Street Suite 1510
Cincinnati, OH 45202

Michael Kurtz
Boehm, Kurtz & Lowry
36 E. Seventh Street Suite 1510
Cincinnati, OH 45202

Marc Gerken, P.E., President
American Municipal Power-Ohio Inc
2600 Airport Drive
Columbus, OH 43219-2226

Matthew S. White, Attorney At Law
Chester Wilcox & Saxbe LLP
65 East State Street, Suite 1000
Columbus, OH 43215

John Bentine
Chester Wilcox & Saxbe LLP
65 East State Street, Suite 1000
Columbus, OH 43215

Buckeye Power, Inc
P.O. Box 26036
Columbus, OH 43226-0036

Carolyn S. Flahive
Thompson Hine LLP
41 South High Street Suite 1700
Columbus, OH 43215-6101

Theodore S. Robinson, Staff Attorney
Citizen Power
2121 Murray Avenue Third Floor
Pittsburgh, PA 15217

Matthew D. Vincel
The Legal Aid Society of Cleveland
1223 West 6th Street
Cleveland, OH 44113

Steven T. Nourse, Senior Counsel
American Electric Power Company
1 Riverside Plaza
Columbus, OH 43215

William L. Massey
Covington & Burling LLP
1201 Pennsylvania Avenue, NW
Washington, DC 20004-2401

Duke Energy Business Services Inc
221 E. Fourth Street 25 At II
Cincinnati, OH 45202

Dianne Kuhnell
Duke Energy Ohio Inc
139 East Fourth Street, R 25 At II P.O. Box 980
Cincinnati, OH 45201-0960

David Hughes, Ex. Dir.
Citizen Power
2121 Murray Avenue Third Floor
Pittsburgh, PA 15217

Joseph Meissner
Citizens Coalition
1223 West Sixth Street
Cleveland, OH 44113

Columbus Southern Power Company
1 Riverside Plaza
Columbus, OH 43215

Compete Coalition
1317 F. Street NW Suite 600
Washington, DC 20004

Dona Seger-Lawson
Dayton Power & Light Company
1065 Woodman Drive
Dayton, OH 45432

Amy B. Spiller
Duke Energy Business Services Inc
139 Fourth Street 25 Atrium II
Cincinnati, OH 45202

Dan Dolan, VP
Electric Power Supply Association
1401 New York Ave, N.W. 11th Floor
Washington, DC 20005

Burk James W
Firstenergy Service Company
76 S Main St
Akron, OH 44308

Samuel C. Randazzo
Industrial Energy Users Of Ohio
21 East State Street, 17th Floor
Columbus, OH 43215-4228

M. Howard Petricoff
Integrays Energy Services, Inc.
52 East Gay Street P.O. Box 1008
Columbus, OH 43216-1008

Glen Thomas
PJM Power Providers Group
1060 First Avenue Suite 400
King of Prussia, PA 19406

Morgan Parke, Attorney At Law
Firstenergy Service Company
76 S Main St
Akron, OH 44308

Lisa McAlister
McNees, Wallace & Nurik
21 East State Street, 17th Floor
Columbus, OH 43215-4228

Randall V. Griffin, Chief Regulatory Counsel
Dayton Power And Light Company
1065 Woodman Drive P O Box 8825
Dayton, OH 45401

William Whitehead, VP
PJM Interconnection L.L.C.
955 Jefferson Ave
Norristown, PA 19403