

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;  
Nora Mead Brownell, Joseph T. Kelliher,  
and Suedeem G. Kelly.

Midwest Independent Transmission System Operator, Inc.	Docket Nos. ER04-691-014 ER04-691-025
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Public Utilities With Grandfathered Agreements In the Midwest ISO Region	Docket Nos. EL04-104-013 EL04-104-024
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ORDER ON CERTIFICATION AND CONDITIONALLY APPROVING REVISED  
TARIFF SHEETS

(Issued March 16, 2005)

1. On February 15, 2005, the Midwest Independent Transmission System Operator, Inc. (Midwest ISO) filed a Readiness Certification and stated that its energy markets are ready for start-up on April 1, 2005, as required by the Commission's August 6, 2004 order.<sup>1</sup> Based on the Readiness Certification, supporting comments by the Organization of MISO States (OMS) and the North American Electric Reliability Council (NERC), we find the certification is in compliance with the requirements of our previous orders and therefore approve the Midwest ISO energy markets for start-up. On December 22, 2004, the Midwest ISO filed corrective and minor clarifying changes to the TEMT. We

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<sup>1</sup> *Midwest Independent Transmission System Operator, Inc.*, 108 FERC ¶ 61,163 at P 55 (TEMT II Order), *order on reh'g*, 109 FERC ¶ 61,157 (2004) (TEMT II Rehearing Order). The Transmission and Energy Markets Tariff (TEMT) specifies that all services provided under its terms and conditions will be provided by a Transmission Provider. In turn, the TEMT defines "Transmission Provider" as the Midwest ISO or any successor organization. See Module A, section 1.320, Original Sheet No. 133. For clarity, we will refer to the Midwest ISO wherever the TEMT or the Balancing Authority Agreement refers to the Transmission Provider.

conditionally approve the proposed revisions, subject to conditions. This order benefits customers by approving the start of energy markets that will improve market efficiency by providing certainty on the terms and conditions of service under the TEMT.

## **I. Background**

2. The Commission initially accepted the Midwest ISO's TEMT filing in two orders. In the first of these – the TEMT II Order – the Commission addressed the Midwest ISO-proposed TEMT, which, when implemented, will allow the Midwest ISO to initiate Day 2 operations in its region. The Midwest ISO's Day 2 operations will include, among other things, day-ahead and real-time energy markets, and a Financial Transmission Rights (FTR) market for transmission capacity. In that order the Commission required the Midwest ISO to certify, 30 days before market start-up, the reliability and readiness of its systems. TEMT service cannot commence until the Commission first approves the Midwest ISO's Readiness Certification.<sup>2</sup>

3. The TEMT II Order accepted and suspended the proposed TEMT and permitted it to become effective March 1, 2005, subject to conditions and further orders on grandfathered agreements (GFAs) and Schedules 16 and 17 of the Midwest ISO Tariff.<sup>3</sup> The Commission also accepted certain tariff sheets to be effective on August 6, 2004, subject to conditions and further order on GFAs. In order to address the Midwest ISO's unique features, such as the fact that it lacks experience operating as a single power pool and has only a short period of experience operating under a single reliability framework, the Commission ordered the Midwest ISO to implement safeguards to ensure additional protections for wholesale customers during startup and transition to fully-functioning Day 2 energy markets.

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<sup>2</sup> See *Midwest Independent Transmission System Operator, Inc.*, 110 FERC ¶ 61,169 at P 2 (2005) (Motion Order).

<sup>3</sup> Schedule 16 provides for a deferral of costs related to the development and implementation of the systems and processes required to administer FTRs, and the recovery of those deferred costs and the ongoing costs related to the administration of FTRs. Schedule 17 provides for a deferral of start-up costs related to the establishment of energy markets, and recovery of such deferred costs and the ongoing costs of providing energy markets service once the markets are operational.

4. On September 16, 2004, the Commission issued an order that concluded an investigation of the GFAs and addressed how the GFAs should be treated in the Midwest ISO's energy markets.<sup>4</sup> The GFA Order divided the GFAs into several categories, with differing consequences for their treatment in the Midwest ISO's energy and FTR markets. Among other things, the GFA Order required the Midwest ISO to carve some of the GFAs out of its markets and accepted the tariff sheets that described the prospective treatment of GFAs.

5. On December 20, 2004<sup>5</sup> and January 21, 2005,<sup>6</sup> the Commission issued orders on compliance with the TEMT II Order. Compliance Order I addressed market start-up issues, such as cost-based bidding and FTR allocation, and market design issues such as the FTR congestion hedge, automatic mitigation and control area mitigation. Compliance Order II also addressed market start-up issues, including the cutover to decentralized power system operations in the event of failure of Day 2 market operations and price correction procedures in the event of software flaws, equipment malfunction or outages.

6. On February 17, 2005, the Commission issued an order approving a motion by the Midwest ISO to change the effective dates of certain tariff sheets to be consistent with the requirements for financially binding energy market operations to commence on April 1, 2005 rather than on March 1, 2005. The Motion Order recognized that TEMT service cannot commence until the Commission first approves the Midwest ISO's Readiness Certification.

## **II. Certification and Compliance Filing**

7. On February 15, 2005, the Midwest ISO filed its Readiness Certification, in compliance with the TEMT II Order. The Readiness Certification includes: (1) a transmittal letter; (2) a Certificate of Operational Readiness from John R. Bear, the Senior Vice President and Chief Operating Officer of the Midwest ISO; and (3) a Certificate of Organizational Readiness from James P. Torgerson, President and Chief Executive Officer of the Midwest ISO and a member of its Board of Directors.

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<sup>4</sup> *Midwest Independent Transmission System Operator, Inc.*, 108 FERC ¶ 61,236 (2004) (GFA Order), *reh'g pending*.

<sup>5</sup> *Midwest Independent Transmission System Operator, Inc.*, 109 FERC ¶ 61,285 (2004) (Compliance Order I), *reh'g pending*.

<sup>6</sup> *Midwest Independent Transmission System Operator, Inc.*, 110 FERC ¶ 61,049 (2005) (Compliance Order II), *reh'g pending*.

8. On December 22, 2004, the Midwest ISO filed proposed revisions to the TEMT (December 22 Filing). The revisions make typographical corrections and minor clarifying changes to tariff provisions on credit policy, designation of network resources and FTR allocations for new transmission service.

9. Notice of the Midwest ISO Readiness Certification was published in the *Federal Register*, 70 Fed. Reg. 9,637 (2005), with interventions and protests due on or before February 25, 2005. OMS filed comments and Detroit Edison Company (Detroit Edison) filed a protest on February 25, 2005. NERC filed a letter with the Chairman of the Commission on February 24, 2005. The Illinois Commerce Commission included a motion to file out of time in their comments to the Readiness Certification.

10. Notice of the Midwest ISO tariff filing was published in the *Federal Register*, 70 Fed. Reg. 1,429 (2005) with interventions and protests due on or before January 12, 2005. Midwest TDUs<sup>7</sup> filed a protest on January 12, 2005.

### **III. Discussion**

#### **A. Procedural Matters**

11. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2003), the notices of intervention and timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding. As the Illinois Commerce Commission's late comments to the Readiness Certification will not unduly burden other parties or disrupt this proceeding, we will grant their motion to file out of time.

#### **B. February 15, 2005 Readiness Certification**

##### **1. Background**

12. The transmittal letter accompanying the Midwest ISO Readiness Certification states that the Readiness Certification "is an attestation that the metrics that the Midwest ISO has identified prior to the commencement of the Energy Markets have been

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<sup>7</sup> The Midwest TDUs are: Great Lakes Utilities, Indiana Municipal Power Agency, Lincoln Electric System, Madison Gas and Electric Company, Midwest Municipal Transmission Group, Missouri Joint Municipal Electric Utility Commission, Missouri River Energy Services, Southern Minnesota Power Agency, Upper Peninsula Transmission Dependent Utilities and Wisconsin Public Power, Inc.

substantially accomplished.”<sup>8</sup> The transmittal letter further explains that 106 out of 125 readiness metrics<sup>9</sup> have been verified as complete, with 13 additional metrics pending final review by the Market Readiness Advisor, three metrics relating to a 168-hour test to be documented in the near future, and three metrics relating to customer participation in prior market trial activities not achieved. Finally, the Midwest ISO states that an appropriate training plan, required for the readiness metric on allocation of responsibilities between the Midwest ISO and the control areas, will be communicated to the control areas after the Commission has acted on the Balancing Authority Settlement.<sup>10</sup>

13. The Midwest ISO explains that the certification by Mr. Bear attests that the Midwest ISO will be ready on April 1, 2005 to reliably operate the transmission assets under the Midwest ISO’s control and to operate the associated energy markets, all in accordance with the terms and conditions of the TEMT. Additionally, according to the Midwest ISO, the certification of Mr. Torgerson attests that the Midwest ISO will be ready on April 1, 2005 to conduct the energy markets. The Midwest ISO states that these certifications follow substantial testing and examination of systems by Midwest ISO employees and the independent Market Readiness Advisor. The Midwest ISO notes that it will immediately inform the Commission, stakeholders and market participants in the event of any unexpected difficulty concerning Midwest ISO systems that would cause any qualification to the certifications that may occur between the date of the filing and April 1, 2005.

14. The Midwest ISO concludes by stating that all necessary legal and regulatory requirements specified in the Commission’s orders regarding the TEMT have been, or will be, complied with to enable the Midwest ISO to implement the TEMT on April 1, 2005.

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<sup>8</sup> Transmittal Letter at 2.

<sup>9</sup> Readiness metrics refer to performance milestones being monitored by the Midwest ISO Market Readiness Advisor, SAIC, as required by the TEMT II Rehearing Order.

<sup>10</sup> The Commission approved the Balancing Authority Settlement three days after the Midwest ISO filed the Readiness Certification. *See Midwest Independent Transmission System Operator, Inc.*, 110 FERC ¶ 61,177 (2005).

15. The Certification of Operational Readiness of Mr. Bear states that, as Senior Vice President and Chief Operating Officer of the Midwest ISO, he has primary responsibility for ensuring that the Midwest ISO reliably operates the transmission assets under its control and that it operates the associated energy markets, all in accordance with the terms and conditions of the TEMT. Based upon his observation of system tests, examination of and reliance upon materials compiled for him, or for those under his direct supervision, concerning the status of the Midwest ISO's various systems, these systems are available, processing and producing information sufficient to support all of the functions of the Midwest ISO's market. In particular:

- The Midwest ISO is ready and able to operate the energy markets established by the TEMT on April 1, 2005, without adverse impact on the reliability of operations in the Midwest ISO region;
- The Midwest ISO's internal market processes and procedures, including but not limited to settlements, bidding and scheduling procedures, have been tested, have been demonstrated to be effective and are ready to be implemented on April 1, 2005;
- The Midwest ISO has appropriate seams arrangements in place with neighboring reliability coordinators and market operators to address interregional issues to ensure that market operations will occur on and after April 1, 2005 in a reliable manner;
- The Midwest ISO has established and exercised communication infrastructure, protocols and procedures with market participants, control areas, Balancing Authorities, adjacent reliability coordinators and adjacent market operators to ensure that the Midwest ISO's systems are operational and will be implemented on April 1, 2005;
- FTRs have been allocated to parties consistent with the requirements of the TEMT, using an effective FTR model, and these initial FTRs will be in place on April 1, 2005;
- The Midwest ISO's systems necessary for market operations, including, but not limited to, the Security Constrained Economic Dispatch, the Reliability Assessment Commitment process, and the Security Constrained Unit Commitment, are sufficiently stable and will provide the functionality required to support the energy markets on April 1, 2005;
- The Midwest ISO systems necessary to perform financial settlements for market operations are sufficiently stable and provide the functionality required to settle market operations;

- The Midwest ISO's systems will be able to successfully transition into market operations on April 1, 2005; and
- Safeguards have been developed to respond to potentially abnormal operations when the energy markets are implemented on April 1, 2005.

16. The Certification of Operational Readiness of Mr. Torgerson states that, as President and Chief Executive Officer of the Midwest ISO, he has responsibility for supervising the other officers of the company, including Mr. Bear, to whom he has delegated operational responsibility for the company's market operations. In connection with the exercise of his executive responsibilities, Mr. Torgerson engaged the services of SAIC as an independent Market Readiness Advisor.

17. In reliance upon Mr. Bear's Certificate of Operational Readiness and the Market Readiness Advisor's documentation attesting to the completion of substantially all the market readiness metrics and based upon Mr. Torgerson's executive supervision of the organizational and financial condition of the organization, Mr. Torgerson finds that:

- The Midwest ISO is staffed to fulfill its obligations in meeting business functions essential to implement the TEMT on April 1, 2005;
- The Midwest ISO has prepared its personnel for their duties and responsibilities in implementing the energy market on April 1, 2005 in accordance with the provisions in the TEMT and to operate the energy markets on an ongoing basis in both normal and abnormal conditions;
- The Midwest ISO has sufficient financial resources to operate the energy markets starting on April 1, 2005; and
- The Midwest ISO is ready to commence operations of the energy markets on April 1, 2005.

## **2. Comments and Protests**

18. On February 25, 2005, OMS provided its assessment of market readiness. OMS states it provides its comments based on its involvement in the Metric Interpretive Guidance Task Force, Readiness Advisory Meetings, Parallel Operations Meetings, the Midwest ISO's Market Readiness Workshop and Project Managers Readiness Meetings. OMS commends the Midwest ISO for allowing stakeholders to review and comment on many aspects of the Readiness Advisory process and results.

19. OMS indicates there will be additional testing of settlements in the second and third weeks of March. OMS recommends that the Midwest ISO follow up on 17 metrics that the Transmission Owners Core Work Group identified to the Midwest ISO as priorities for completion prior to market start-up.

20. OMS states that, based on the information available to it, many of the Midwest Market Initiative (MMI) systems appear to have been tested and OMS expects the Midwest ISO to thoroughly test all of its systems and software, including upgrades and patches, before market launch. OMS also states that the stress tests scheduled for March 2 and 16 are important to ensure the Midwest ISO Day 2 energy markets are indeed ready.

21. OMS commends the Midwest ISO for allowing stakeholders to review its internal cutover plan<sup>11</sup> and notes that, while the Business Continuity Focus Group comments to the Midwest ISO on cutover may pertain more to post-market launch, the Midwest ISO should strive to respond to the follow-up items as soon as possible to provide additional assurance of efficient Day 2 operations in a timely manner.<sup>12</sup>

22. OMS states the Market Readiness Advisor expects to verify Unit Dispatch System Contingency Completion Review Documents needed to ensure successful completion of the steps necessary for the Midwest ISO Reversion Plan.<sup>13</sup> OMS is confident that the Reversion Plan will be thoroughly tested by the Midwest ISO and the relevant market participants before the Commission is asked to approve the Reversion Plan in advance of

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<sup>11</sup> “Cutover” refers to the process of shifting system operations from decentralized control area operations to centralized security-constrained dispatch, as required in the transition from Day 1 to Day 2 markets at start-up.

<sup>12</sup> The follow-up items include ensuring business continuity plans are in place for vendors and suppliers of data, providing more detail in the Business Continuity Plan for the Midwest ISO St. Paul office, reviewing information technology functional plans, inclusion of timeframe requirements for testing of different business function plans and confirming that requirements for operation at alternate sites are available.

<sup>13</sup> The Commission required a detailed plan (Reversion Plan), including demonstration of successful testing of the plan, for cutover to decentralized power system operations in the event of a serious failure of Day 2 operations. *See* TEMT II Order, 108 FERC ¶ 61,163 at P 58. The Midwest ISO filed such a plan in December 2004, and the Commission approved it subject to further revisions. *See* Compliance Order II, 109 FERC ¶ 61,285 at P 16-47.



market launch. Also, OMS states that it takes comfort from statements in the Midwest ISO Readiness Certification that safeguards have been developed to respond to potentially abnormal operations when the energy markets are implemented, and that the Midwest ISO has prepared its personnel to operate the grid on an ongoing basis under both normal and abnormal conditions. OMS also notes its interest in the readiness of Balancing Authorities' and market participants' systems and personnel for their Day 2 functions and responsibilities under normal and abnormal conditions.

23. OMS indicates some Midwest ISO stakeholders appear to question the availability of communication links between the Midwest ISO and some control areas' back-up facilities and that it trusts that the Midwest ISO is aware of this concern and will address this to the satisfaction of the Commission. OMS urges the Commission to ensure that the Midwest ISO provides a detailed plan to establish communication links with control areas' back-up facilities, or, in the alternative, explain why such communication links are not necessary or reasonable.

24. OMS states that the Midwest ISO's willingness to examine its own readiness and to listen to the concerns of its stakeholders gives the OMS confidence that the Midwest ISO will do what it must to assure that the energy markets will commence operations only when the Midwest ISO and its stakeholders are ready. Finally, OMS states the Commission should carefully consider the state of affairs as the market launch date approaches before giving significant weight to the Midwest ISO Readiness Certification in the Commission's determination of whether the Midwest ISO ought to commence energy market operations.<sup>14</sup>

25. In its comments, the Illinois Commerce Commission generally supports the OMS comments, with the exception of the OMS' statement regarding the weight to be given to the Midwest ISO Readiness Certification.

26. In a letter to the Chairman of the Commission, NERC sets out the steps it has taken to evaluate the capability of the Midwest ISO to meet its reliability responsibilities when it begins market operations, and reports the Midwest ISO is ready, from a reliability perspective, to commence market operations. These steps included reliability readiness

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<sup>14</sup> OMS notes, however, that the Pennsylvania Public Utility Commission submits that the Midwest ISO's Readiness Certification ought to be given significant weight in the Commission's determination of whether the Midwest ISO ought to commence energy markets operations. OMS adds that the Indiana Utility Regulatory Commission strongly supports the Pennsylvania Commission's comment. The Illinois Commerce Commission agrees with the position of the Pennsylvania and Indiana Commissions.

audits of the Midwest ISO's Carmel and St. Paul operations centers, and on-site verification of Midwest ISO capabilities. NERC indicates these audits provided NERC with the assurance that the Midwest ISO was capable of carrying out its responsibilities as a reliability coordinator.

27. NERC states that the NERC Operating Committee on March 25, 2004 approved the Midwest ISO Reliability Plan, which delineated the Midwest ISO's capability for reliably operating the bulk electric system for which it has responsibility and its ability to carry out certain obligations to manage the reliability impacts of its market operations on third parties.

28. NERC indicates the Midwest ISO has made tremendous progress in improving its state estimation and real-time contingency analysis capabilities, so that the Midwest ISO now has state-of-the-art state estimation and real-time contingency analysis tools. NERC also indicates it is confident that the Midwest ISO is capable of reliably operating the system within its boundaries, based on its previous audits of the Midwest ISO and additional information received from the Midwest ISO, but recognizing that NERC cannot verify that the Midwest ISO has included every operating scenario and every transmission element in its market operations.

29. NERC states that its Operating Reliability Subcommittee accepted, on February 9-10, 2005, the results of the technical verification of the Midwest ISO's readiness to implement the NERC policy waivers<sup>15</sup> and continue with market startup. The verification, according to NERC, was based on testing and verifications of the NERC Interchange Distribution Calculator (IDC) Working Group, which included a five-day test of the Midwest ISO's ability to effectively load its market dispatch into the IDC and a test of the IDC to ensure it is capable of properly handling the Midwest ISO's market flow calculations when calculating transmission line-loading relief curtailments in the Eastern Interconnection.

30. Detroit Edison contends that the Midwest ISO has failed to adequately test the operational changes necessary for Detroit Edison's dynamic scheduling of its remote, 936-megawatt Ludington pumped storage generation facility. According to Detroit Edison, Mr. Torgerson recently sent a letter to Consumers Energy Company recognizing the need to implement system changes to accommodate dynamic scheduling at Ludington

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<sup>15</sup> In July 2003, the NERC Operating Committee granted the Midwest ISO's request for waivers to NERC's operating policies to allow the Midwest ISO to serve as "scheduling agent" for its control area members and upload its market flow calculations directly into the Eastern Interconnection's Interchange Distribution Calculator.

and stating that the Midwest ISO was “committed to working with [Michigan Electric Transmission Company, LLC] toward programmatic solutions in the longer-term, with procedural workarounds for market launch.”<sup>16</sup> Detroit Edison argues the value of these “procedural workarounds” have not been fully demonstrated and therefore urges the Commission to direct the Midwest ISO to complete, prior to market launch, thorough testing of these workarounds.

31. Detroit Edison also asserts the Midwest ISO should be required to verify that the East Central Area Reliability Council (ECAR) has agreed to the manner in which the Midwest ISO intends to ensure compliance with ECAR’s capacity reserve requirements. Detroit Edison claims that the Day 2 energy market requirements that: (1) load-serving entities (LSEs) within ECAR offer 104 percent of projected next-day load by the close of the Midwest ISO day-ahead market and (2) that the Midwest ISO ensures sufficient capacity is available in the real-time market to meet ECAR capacity reserve requirements, represent a significant departure from current practice that requires the LSE to provide 104 percent of its daily peak load in real time. This new approach, according to Detroit Edison, has not been reviewed or approved by ECAR and therefore the Midwest ISO cannot certify that it can operate the energy markets without adverse impact on reliability. Detroit Edison requests that the Commission direct the Midwest ISO to verify prior to market launch that it has obtained ECAR’s approval of the Midwest ISO’s proposed means of meeting ECAR’s capacity reserve requirements.

32. Detroit Edison also disputes the Midwest ISO’s statement that appropriate seams agreements are in place with neighboring reliability coordinators and market operators to ensure reliable grid operation on and after April 1, 2005, since the Midwest has failed to resolve critical seams issues at the Ontario border. Detroit Edison urges the Commission to require the Midwest ISO to implement, by June 1, 2005, an effective seams agreement with the Ontario Independent Electricity System Operator (Ontario IESO).<sup>17</sup>

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<sup>16</sup> Detroit Edison Protest at 2.

<sup>17</sup> Detroit Edison has raised the issue of seams between the Midwest ISO and the Ontario IESO several times in the course of this proceeding. The Commission ordered the Midwest ISO to develop and file a seams agreement with the Ontario IESO prior to market start up. *See* Compliance Order I at P 465.

33. Detroit Edison contends the Midwest ISO has not demonstrated that its settlement software is capable of properly reflecting the capacity and costs allocated to Detroit Edison and Consumers Energy Company during an Automatic Reserve Sharing event. It urges the Commission to require the Midwest ISO to make such a demonstration prior to market launch.

34. According to Detroit Edison, the Midwest ISO has failed to demonstrate that its market settlement process is sufficiently supported by system and operations design and has been adequately tested. Furthermore, the settlement process has yet to be tested “live” on the Midwest ISO’s internet-based electronic portal, states Detroit Edison. For these reasons, Detroit Edison requests that the Commission direct the Midwest ISO to successfully operate its settlement system through an entire billing cycle, including at least one reconciliation period. Detroit Edison asserts that the Midwest ISO cannot certify the readiness of its settlement process until it has made this demonstration.

### 3. Discussion

35. We find the Midwest ISO Readiness Certification to be in compliance with the requirements of our previous orders, and therefore consider the Midwest ISO energy markets to be ready for start-up on April 1, 2005.<sup>18</sup> The Midwest ISO has made operational the necessary systems for market start-up, conducted numerous tests, completed the FTR allocation and certified that testing will be completed prior to market start.<sup>19</sup> Furthermore, the independent Market Readiness Advisor has been verifying that all necessary steps for market start have been completed and tested.

36. The filing by OMS and the letter from NERC corroborate our ruling. OMS commends the Midwest ISO for its readiness preparation and cites to the additional and extensive testing of systems by the Midwest ISO. The NERC letter indicates, from a reliability perspective, readiness of the Midwest ISO market for market start and expresses NERC’s confidence in the capability of the operating systems to perform reliably, based on the extensive testing by NERC working groups and the approval of these results by the NERC Operating Reliability Subcommittee.

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<sup>18</sup> See Compliance Order II, 110 FERC ¶ 61,049 at P 72.

<sup>19</sup> We also note the Midwest ISO has stated that it tested the Reversion Plan on February 11, 2005, as required by Compliance Order II. See *Midwest Independent Transmission System Operator, Inc.*, Docket Nos. ER04-691-003 and EL04-104-004 (Feb. 23, 2005).

37. While NERC did not identify communication links with control area back-up facilities to be an impediment to either market start or system reliability in its readiness approval and audits, we agree with OMS that the Midwest ISO should make an informational filing detailing its progress in establishing communication links with control areas' back-up facilities, thereby ensuring reliability of system operations in the event the primary control area centers fail. We will require the Midwest ISO to make this informational filing within 60 days of the date of this order.

38. Responding to the issues raised by Detroit Edison, we note that additional testing and system refinements and demonstrations will continue to occur before market start.<sup>20</sup> We understand that the ongoing testing has included testing of procedural workarounds for Ludington, as requested by Detroit Edison. We also expect refinements and demonstrations of settlement software to continue, such as the financial settlement and Automatic Reserve Sharing software mentioned by Detroit Edison.<sup>21</sup> In this regard, we note that the Midwest ISO indicates that it will continually evaluate outstanding issues, and will determine if a delay in market start-up is necessary. This process is in keeping with prior Commission statements that the market should not start if it is not ready, and that this determination should reflect the best judgment of the system operator.

39. The fact that the reserve requirement for LSEs within ECAR will shift, upon start of Day 2 energy markets, from a 104 percent daily peak load requirement in real time to the same requirement by the close of the day-ahead market, with the Midwest ISO managing real-time capacity needs, does not appear to be a substantive change in capacity management. We note that ECAR has not expressed concern on this issue. Therefore, we will not delay market start for this issue and, instead, we leave it to ECAR to determine if this change in procedure complies with its requirements.

40. We do not consider the Ontario seam to be a market readiness issue. Detroit Edison has requested that the Midwest ISO be required to implement a seams agreement with Ontario by June 1, 2005.<sup>22</sup> As we stated in the Motion Order, however, we will address this issue in a future proceeding with a fuller record.<sup>23</sup>

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<sup>20</sup> The OMS states mandatory testing will continue through March 18. *See* OMS Comments at 5.

<sup>21</sup> The OMS states additional settlements testing is scheduled by the Midwest ISO for the second and third weeks of March. *See Id.* at 4.

<sup>22</sup> *See* Motion Order, 110 FERC ¶ 61,169 at P 13.

<sup>23</sup> *See Id.* at P 18.

41. With regard to settlement procedures, we consider these adequate based on the Midwest ISO Readiness Certification and its verification that the appropriate metrics have been completed. We encourage parties to continue to work with the Midwest ISO as it continues to test these procedures. We also encourage parties to continue to work with the Midwest ISO to ensure their own readiness for market start-up, including obtaining training for the appropriate personnel and attendance at Midwest ISO conferences.

**C. December 22, 2004 Filing**

**1. Background**

42. The Midwest ISO filed a revised TEMT to be effective March 1, 2005, which included proposed typographical corrections and clarifying changes to the credit policy section of the TEMT. In addition, the Midwest ISO presented supplementary information and explanations connected with the directives in the TEMT II Order and Compliance Order I. The Midwest ISO did not include the compliance requirements of the TEMT II Rehearing Order, but it states that those will be addressed by another Midwest ISO compliance filing on January 7, 2005.<sup>24</sup>

43. Specifically, the Midwest ISO made several changes to Attachment L – the credit policy – to clarify the credit evaluation, the credit scoring process, Virtual MWh Limit, FTR Auction Credit Allocations, and estimated/potential exposures. These changes include further information about the variables used to calculate credit scores, as well as factors used to evaluate the qualitative portion of each market participant’s overall credit score. The Midwest ISO provided further information to clarify how it intends to enforce the Virtual MWh limit by taking the absolute value of all bids and offers at a particular node for a given operating day. The Midwest ISO also increased, from two business days to three business days, the time required after an FTR auction clears before an FTR auction participant may request that its FTR credit allocation be reduced. The Midwest ISO further defined the determination of estimated real-time, day-ahead, and congestion exposure. Finally, the Midwest ISO modified the formula for determining the FTR Portfolio Potential Exposure so that congestion costs are now evaluated at the 50<sup>th</sup> percentile, whereas before it was the 97<sup>th</sup> and 3<sup>rd</sup> percentile, respectively.

44. The December 22 Filing also proposes the following tariff sheet revisions:

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<sup>24</sup> See Transmittal Letter at 2. The Commission will consider the Midwest ISO’s January 7 compliance filing in a future order.

(1) clarify that the designation of a new Network Resource in section 30.2 must be made in accordance with procedures established by the Midwest ISO and meet the requirements of Module E of the TEMT; (2) revise the FTR allocation procedures for new transmission service so that: (a) the section relating to new point-to-point transmission service no longer refers to Schedule 9 (which applies to network integration transmission service), (b) to allow customers to request FTRs for daily point-to-point transmission service requests, and (c) to require that weekly requests for point-to-point transmission service begin on Monday and end on Saturday to fit industry standards in Order No. 638;<sup>25</sup> (3) set an effective date of August 6, 2004 for the tariff sheets that relate to FTRs and the FTR allocation process, set an effective date of February 22, 2005 for tariff sheets relating to timing requirements in the day-ahead market, Reliability Assessment Commitment process and resource adequacy requirements so that market participants and the Midwest ISO follow these procedures under an effective Commission-approved tariff and set an effective date of March 1, 2005 for all other tariff sheets; (4) incorporate open access transmission tariff changes into the TEMT, for both filings that have been ruled on and those that have not yet been ruled on; and (5) correct typographical and editorial errors.

## 2. Protest

45. The Midwest TDUs argue that the proposed creditworthiness criteria will systematically and discriminatorily understate public power creditworthiness. The Midwest TDUs state that this understatement of creditworthiness occurs because of a lack of clarity in the category of non-financial measures labeled “other,” and a general failure of the Midwest ISO to adequately recognize the public power sector’s strong credit history and their special business structure. However, the Midwest TDUs acknowledge that many of the matters related to the Midwest ISO’s credit policy will be addressed on rehearing of Compliance Order I. Therefore, the Midwest TDUs request that the Commission’s ruling on the Midwest ISO’s December 22, 2004 Filing be made subject to rehearing of Compliance Order I.

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<sup>25</sup> See *Open Access Same-Time Information System and Standards of Conduct*, Order No. 638, 90 FERC ¶ 61,202 at P 19-20 (2000) (discussing Standard 2.1.3, which sets the time period for weekly point-to-point transmission service).

### 3. Discussion

46. We note that, in Compliance Order I, the Commission gave the Midwest ISO the option, where no due date for compliance was specified, to consolidate any future compliance filings with its “clean-up” edits filing to reduce the administrative burden and eliminate redundant filings.<sup>26</sup> Therefore, in this unique instance, we will accept the Midwest ISO’s combining new tariff proposals under section 205 of the Federal Power Act<sup>27</sup> with a compliance filing. With respect to the Midwest TDUs’ credit issues, they acknowledge that they have raised the same issues on rehearing of Compliance Order I. The Commission will rule on those issues, and the merits of all substantial new information meant to clarify the tariff regarding creditworthiness, in a future order that addresses the requests for rehearing of Compliance Order I.

47. In the case of tariff sheets not yet approved in pending proceedings, we will conditionally accept the proposed revisions, suspend them for a nominal period and make them effective April 1, 2005 subject to refund and subject to the outcome of the relevant pending proceedings. We note that the tariff sheets revised to become effective near or at market start should be revised to become effective based on the April 1, 2005 market start date approved in this order. We will require the Midwest ISO to file those revised tariff sheets within 60 days of the date of this order.

48. Certain tariff sheets were revised in the Midwest ISO filing that were not referenced to Commission orders in Attachment A of that filing. Recognizing that the Midwest ISO may have inadvertently left out the order or docket reference from Attachment A, we conditionally accept these tariff sheets subject to the Midwest ISO either indicating the order in which revisions to these sheets were directed or refiling those revised tariff sheets within 60 days of this order.

49. On sheet 50, the Midwest ISO proposes to revise the Applicable Reliability Standard definition in section 1.12 by replacing “Reliability Council” with “Reliability Authority.” The Reliability Authority, per the definitions in sections 1.267 and 1.268, is the Midwest ISO and therefore the revision has the effect of making the Applicable Reliability Standard the Midwest ISO’s own requirements and guidelines, and eliminates reference to Reliability Councils, which still have reliability functions. Therefore, we find this proposed revision to adversely impact reliability and require the Midwest ISO to retain the original definition.

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<sup>26</sup> See Compliance Order I, 109 FERC ¶ 61,285 at P 469.

<sup>27</sup> 16 U.S.C. § 824d (2000).



50. On sheets 467 and 563, the Midwest ISO proposes to replace the word “original” with “First Revised.” We note that the capitalized words “First Revised” have no definition in Module A, and therefore we direct this phrase be revised or defined.

The Commission orders:

(A) The Midwest ISO energy markets are hereby approved for start-up on April 1, 2005, based on the Certificate of Operational Readiness and the Certificate of Organizational Readiness provided by the Midwest ISO.

(B) The Midwest ISO’s December 22 Filing is hereby conditionally accepted, suspended, and made effective April 1, 2005, subject to refund and subject to the outcome of other proceedings and subject to clarification and revision, as discussed in the body of this order.

(C) The Midwest ISO is hereby directed to make compliance filings, as directed in the body of this order.

By the Commission.

( S E A L )

Linda Mitry,  
Deputy Secretary.