
FEDERAL ENERGY REGULATORY COMMISSION



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NEWS RELEASE

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COMMISSION ADDRESSES “GRANDFATHERED” MIDWEST AGREEMENTS; EFFORTS WILL ALLOW THE MIDWEST ISO TO MOVE FORWARD AS SCHEDULED

The Federal Energy Regulatory Commission said today that there is no need to modify scores of transmission agreements in order for the Midwest Independent Transmission System Operator (Midwest ISO) to begin reliably operating its energy markets on its present schedule.

After proceedings before two Administrative Law Judges, the Commission concluded that just 127 of more than 400 “grandfathered” transmission agreements (GFAs) need not be integrated into the new market design, meaning less than 10 percent of the Midwest ISO’s total energy load will still be governed by GFAs. The Commission concluded that the Midwest ISO markets can start on schedule March 1, 2005, and reliably operate and provide benefits to customers without modifying these remaining long-term agreements.

Earlier this year, the Midwest ISO filed a proposed Open Access Transmission and Energy Markets Tariff (TEMT) containing the terms and conditions necessary to implement a market-based congestion management program and energy spot markets. The Midwest ISO was concerned, however, that it would not be able to reliably operate its energy markets without modifying the GFAs. The Midwest ISO initially anticipated that up to 40 percent of total load was covered by these GFAs and might have to be “carved out” of the energy markets. “Carving out” GFAs means that the parties to GFAs would be allowed to exercise the scheduling and energy management provisions of the GFAs in the same manner as they did before the Midwest ISO’s energy markets began.

In May the Commission initiated a three-step proceeding to address the issue and attempt to resolve the prospective treatment of as many of the GFAs as possible. The Commission directed parties to file interpretations of their contracts, established a hearing before two Commission administrative law judges, and encouraged parties to settle the issue of how to treat their GFAs. Today’s action completes the third step of that process.

After overseeing the GFA proceedings, the two Commission Administrative Law Judges presented their Findings of Fact to the Commission on July 28, 2004. Today's order addresses the judges' findings and completes the Commission's initial analysis of the Midwest ISO's proposed TEMT.

The Commission accepted 51 settlements involving the GFAs. Transmission owners and independent transmission company (ITC) participants providing service under GFAs that did not settle and are subject to a just and reasonable standard of review will, under the Commission's order today, participate in the energy markets by choosing between two options and notifying the Midwest ISO of their selection by October 1, 2004. The first option, Option A, allows for the GFA entity to nominate the capacity under the GFA for an allocation of financial transmission rights (FTRs). Participants that select Option C will neither nominate nor receive FTRs. The GFA entity will pay marginal losses and the cost of congestion for all transactions related to the GFA, without receiving reimbursement.

Option B provides that the GFA entity will not nominate or receive FTRs. This option was available for those parties that chose it prior to July 28, 2004.

The remaining GFAs would be "carved out," the Commission said, noting that they represent a small percentage of total load (less than 10% of total load) and may be accommodated without threatening reliability, the Commission said. The increased scope of the energy market under the Midwest ISO's centralized dispatch also will increase the availability of redispatch capability, the Commission further noted. In addition, other security measures and other reliability requirements will enhance the ability of the system operator to anticipate and respond to reliability problems.

However, to ensure that any potential reliability impact of GFAs is addressed, the Commission ordered the Midwest ISO to file a report with the Commission within 30 days if any reliability problems are identified.

The Commission conditionally approved formation of the Midwest ISO in September 1998. In December 2001, the Commission granted the Midwest ISO regional transmission organization (RTO) status.