

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED JOINT PETITION OF DUKE ENERGY)
INDIANA, INC., INDIANAPOLIS POWER & LIGHT)
COMPANY, NORTHERN INDIANA PUBLIC SERVICE)
COMPANY AND VECTREN ENERGY DELIVERY OF)
INDIANA, INC. FOR APPROVAL, IF AND TO THE)
EXTENT REQUIRED, OF CERTAIN CHANGES IN)
OPERATIONS THAT ARE LIKELY TO RESULT)
FROM THE MIDWEST INDEPENDENT)
TRANSMISSION SYSTEM OPERATOR, INC.'S)
IMPLEMENTATION OF REVISIONS TO ITS OPEN)
ACCESS TRANSMISSION AND ENERGY MARKETS)
TARIFF TO ESTABLISH A CO-OPTIMIZED,)
COMPETITIVE MARKET FOR ENERGY AND)
ANCILLARY SERVICES MARKET; AND FOR)
TIMELY RECOVERY OF COSTS ASSOCIATED WITH)
JOINT PETITIONERS' PARTICIPATION IN SUCH)
ANCILLARY SERVICES MARKET.)

CAUSE NO. 43426 S1

APPROVED: OCT 20 2010

BY THE COMMISSION:

David E. Ziegner, Commissioner

Loraine L. Seyfried, Administrative Law Judge

On January 18, 2008, Duke Energy Indiana, Inc. ("Duke Energy Indiana"), Indianapolis Power & Light Company ("IPL"), Northern Indiana Public Service Company ("NIPSCO"), and Vectren Energy Delivery of Indiana, Inc. ("Vectren South") (collectively "Joint Petitioners" or "MISO Utilities") filed a Verified Joint Petition with the Indiana Utility Regulatory Commission ("Commission" or "IURC"). The Commission granted intervention to the following parties in this proceeding: Indiana Industrial Group ("Industrial Group"), LaPorte County Board of Commissioners ("LaPorte"), Midwest Independent Transmission System Operator, Inc. ("MISO" or "Midwest ISO"), Nucor Steel, a division of Nucor Corporation ("Nucor"), and Steel Dynamics, Inc. – Engineered Bar Products Division ("SDI").

On February 14, 2008, Joint Petitioners and the Indiana Office of Utility Consumer Counselor ("OUCC") filed a Joint Motion for (a) a Determination of the Extent to which Additional Commission Approval of Operational Changes is Required for Participation in the MISO ASM Market under Indiana Code § 8-1-2-83 and (b) an Interim Order Allowing Utilities to Defer Reasonably Incurred Costs Pending Further Review ("Joint Motion"). In the Joint Motion, Joint Petitioners and the OUCC requested a preliminary order: (1) finding the extent to which additional Commission authority is necessary for the operational changes for the start of the Midwest ISO ancillary services market ("ASM"); (2) to the extent such additional Commission approval is required under Ind. Code § 8-1-2-83 setting a bifurcated procedural schedule to address the separates issues of (a) approval under Ind. Code § 8-1-2-83, and (b) cost

recovery; and (3) allowing Joint Petitioners to defer for future recovery reasonably incurred ASM charges, subject to determination of such recoverability in a final Commission Order on the issue of cost recovery. Based upon the agreement set forth in the Joint Motion, the parties agreed on a bifurcated schedule to apply (1) with respect to Joint Petitioners' request for Commission approval, if and to the extent required, of operational changes necessary to permit Joint Petitioners to participate in the Midwest ISO ASM (the Authority of Joint Petitioners Issues) (herein referred to as "Phase I") and (2) with respect to Joint Petitioners' request for a Commission decision determining the manner and timing of recovery or crediting of jurisdictional charges and revenues associated with the Midwest ISO ASM (the Cost and Revenue Recovery Issues) (herein referred to as "Phase II").

In Phase I, both the OUCC and the Industrial Group requested that the Commission condition the participation of the Joint Petitioners in the Midwest ISO ASM upon the performance of a cost-benefit study to confirm that the utilities' participation was beneficial to their respective ratepayers. The OUCC and the Industrial Group each advocated the performance of cost-benefit studies, with some differences between the scope and type of data collection and evaluation. The Joint Petitioners responded by noting that the Midwest ISO had already performed a study on a footprint-wide basis and asserted that it would be extremely difficult or impossible to perform the type of studies being requested.

The Commission issued its Order in Phase I of this proceeding on August 13, 2008 ("Phase I Order").¹ Based upon the evidence presented by the parties, the Commission ultimately denied the request of the OUCC and the Industrial Group to condition the Joint Petitioners' participation in the Midwest ISO ASM upon the performance of a cost-benefit study. Joint Petitioners were authorized to: (1) transfer additional balancing authority functions in accordance with the Amended Balancing Authority Agreement and implement the operational changes necessary to permit Joint Petitioners to participate in the Midwest ISO ASM; (2) seek recovery in their respective fuel adjustment clause ("FAC") or other appropriate proceedings, those items identified as "Modified" in Appendix A attached to the Supplemental Phase I Order, along with the new Non-Excessive Energy Amount and Excessive Energy Amount Charge types and the Commission ruled that the modified charges could continue to be treated for ratemaking purposes as they were currently treated by each of the Joint Petitioners until a final determination by the Commission in this proceeding on the issue of cost recovery; and (3) defer certain identified ASM costs consistent with Appendix A attached to the Supplemental Phase I Order.

While the Phase I Order did not condition the Joint Petitioners' participation in the Midwest ISO ASM upon the performance of a cost-benefit study, the Commission found it reasonable to explore whether, and to what extent, a cost-benefit study could, or should, be performed. The Commission created this Subdocket to allow for further consideration of whether, and to what extent if any, a cost-benefit study of the Joint Petitioners' participation in the Midwest ISO or the Midwest ISO ASM should be performed, and whether any additional data concerning ASM costs and benefits should be provided in the Joint Petitioners' respective FAC filings. The nonexclusive list of topics to be addressed in this Subdocket included:

¹ The Commission issued a Supplemental Phase I Order on August 20, 2008 to correct a clerical oversight to include the Appendix A referenced in the Phase I Order.

1. Whether a cost benefit analysis of participation by Indiana public utilities in, either or both, the Midwest ISO or the Midwest ISO ASM should be performed;
2. The costs and benefits that should be considered in a cost-benefit analysis;
3. The basis (e.g., utility-specific, state-wide, etc.) upon which a cost-benefit analysis should be conducted;
4. Identification of the metrics to measure or otherwise quantify the costs and benefits to be considered in the analysis; and
5. The data concerning ASM costs and benefits that should be provided in FAC filings.

On November 5, 2008, the Commission conducted a Prehearing Conference and Preliminary Hearing in this Cause. Joint Petitioners, the OUCC and representatives from Industrial Group, LaPorte, Midwest ISO, and Nucor appeared and participated at the Prehearing Conference. After discussions with the parties and based upon the breadth and complexity of the technical issues, the Presiding Officers determined that the Prehearing Conference should be continued to a Technical Conference to allow the Commission and parties to further define and narrow the issues to be addressed. To prepare for the Technical Conference and to further assist in narrowing the specific issues and information to be addressed, a Listserv was established to allow for the sharing of information and an active discussion among all parties. By way of the Listserv, the Commission notified the parties concerning the type of information that was expected to be shared via the Listserv prior to the Technical Conference. A Technical Conference was held March 5, 2009.

Based upon the agreement of the parties at the March 5, 2009 Technical Conference, by Docket Entry dated March 6, 2009, the Commission established the procedural schedule and other procedural requirements for this Cause. In accordance with the procedural schedule, the Industrial Group, Joint Petitioners and the OUCC filed their prepared testimony and exhibits constituting their respective cases-in-chief on June 12, 2009. The Industrial Group and Joint Petitioners filed their prepared testimony and exhibits constituting their respective responses to the initial prefilings on August 21, 2009 and the OUCC filed its Notice of Intent Not to File Responsive Testimony.

Pursuant to the procedural schedule approved by the Presiding Officers, and notice of hearing given as provided by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public hearing in this Cause was held on September 17, 2009, in Room 222 of the National City Center, 101 West Washington Street, Indianapolis, Indiana.

At the evidentiary hearing Joint Petitioners, the OUCC, the Industrial Group, LaPorte, the Midwest ISO, Nucor and SDI appeared by counsel and Joint Petitioners, the OUCC and the Industrial Group offered their respective prefiled testimony and exhibits, all of which were admitted into evidence without objection. No other party or members of the general public appeared.

Having considered the evidence and the applicable law and being duly advised, the Commission now finds as follows:

1. Notice and Jurisdiction. Due, legal and timely notice of the commencement of hearings held in this Cause was given and published by the Commission as required by law. Joint Petitioners are public utilities within the meaning of Ind. Code § 8-1-2-1. Ind. Code §§ 8-1-2-42, 8-1-2-61 and 8-1-2-83, among others, are or may be applicable to the subject matter of this proceeding. In addition, the Commission has broad authority pursuant to Ind. Code §§ 8-1-2-58 and 8-1-2-59 to investigate matters relating to public utilities. The Commission has jurisdiction over Joint Petitioners and the subject matter of this proceeding in the manner and to the extent provided by the laws of the State of Indiana.

2. Evidence.

A. Joint Petitioners' Case-In-Chief. Mr. Timothy R. Caister, Director of Electric Regulatory Policy for NIPSCO, testified on behalf of the MISO Utilities. Mr. Caister testified that in Phase I, the OUCC and the Industrial Group proposed differing cost-benefit analyses related to the MISO Utilities' participation in the Midwest ISO. The OUCC proposed tracking of costs and benefits associated with ASM to provide the utilities and regulators an understanding of the cost impact of the MISO Utilities' participation in the ASM. He stated that the MISO Utilities and the OUCC had conducted ongoing discussions regarding this proposal and had reached agreement on a proposed methodology that tracks certain costs and benefits associated with ASM (herein referred to as the "Proposal").

Mr. Caister testified that in Phase I, the Industrial Group proposed an analysis by the respective MISO Utilities of the cost/benefit of continued participation in the Midwest ISO. Mr. Caister addressed the significant expense and allocation of resources associated with such a study and evaluated the potential outcome from such an analysis. Mr. Caister explained that the MISO Utilities opposed the type of study advocated by the Industrial Group because of the costs and the small likelihood that such a study would have any significant impact on participation in the Midwest ISO at this time.

Mr. Caister stated that the MISO Utilities anticipate benefits as a result of participation in ASM. He explained that current reliability requirements will continue to be met with ASM but in a more centralized approach that should provide improved, or at least maintain equal, reliability of the electrical system. He explained that the OUCC and the MISO Utilities began discussing if there were a way to measure these benefits during the primary phase of this proceeding and leading up to the commencement of this Subdocket. Although the parties agreed some benefits are not easily measurable, the parties also agreed that there would be available data that could be used to help evaluate performance of the ASM.

Mr. Caister briefly described the Proposal as follows:

The reporting includes a quarterly report to quantify the expected reduction in reserve requirements, which is expected to be a significant benefit of the ASM market. Data will be provided by reserve product, including spinning, supplemental and regulation reserves and will use calendar year 2008 as the

baseline for comparison. For the reserve requirements calculation for the quarterly period, for each hour, the MW quantity of reserves estimated to be held by the utility pre-ASM is compared to the actual MW quantity of reserves held for the utility post-ASM (using 2008 as the historical baseline period) to determine the MWH savings or excess for an hour. The baseline will be established as a single MW amount for each reserve product for each quarter during the year 2008. A separate calculation will be performed for each product (regulation, spinning, and supplemental reserves).

For pre-ASM reserves held, each utility will provide the hourly average number of MWH reserves, calculated for each calendar quarter in 2008, historically held for regulation, spinning and supplemental reserves. The amount of post-ASM reserves held will be calculated using data from each utility's respective Midwest ISO Real Time settlement statements.

The ASM comparison will be performed quarterly by each MISO Utility using a calendar quarter reporting period and submitted within 45 days after calendar quarter end. Reporting will be done separate from the FAC process so that each utility is reporting this data for the same period at approximately the same time.

The MISO Utilities have also agreed that within 45 days following the calendar year end, the MISO Utilities will each submit an annual report to the Commission, OUCC and other interested stakeholders that include both quantitative and qualitative information regarding market outcomes. The annual reports will include the following: (1) the MISO Utilities will apply the average price charged for each quarter using the cost distribution charge type for each reserve product to assign a value to the change in the number of operating reserves calculated under the methodology used in the quarterly reports; (2) the MISO Utilities will provide annual amounts of off-system sales ("OSS") revenues; (3) the MISO Utilities will report total ASM revenues for each product (regulation, spinning, supplemental reserves); (4) the annual report will include the number of Type 1 and Type 2 demand response resources participating through the utility, and their respective MW amounts; and (5) the MISO Utilities will include qualitative information regarding other benefits that are difficult to quantify. Such qualitative information will address other potential benefits, including increased generation for OSS, reductions in fuel costs and other operational costs, reduced market volatility and impacts on long-term planning. The MISO Utilities will also include in the annual report the total costs charged to load for the regulation, spinning, and supplemental products using the cost distribution amount charge types for each product.

The quarterly and annual reports will be provided for two years following the start of the ASM. Amounts quantified in the initial annual report will also be reported in the 2nd annual report for comparison purposes. There are qualifications to this analysis which must be considered. First, variations are expected between utilities due to load diversity. Second, the data is intended to analyze and identify areas of benefits of the ASM, not to analyze or render judgments regarding

specific market business decisions. Also, the utilities or a utility may request, prior to providing any information, satisfactory confidential treatment. Finally, the data and analysis will not be used as evidence in FAC proceedings.

Mr. Caister stated that there are a few reasons why the MISO Utilities and OUCC propose that the reporting would be conducted separately from the FAC proceedings. First, the MISO Utilities' FAC proceedings do not all cover the same periods. Submitting the reports outside the context of the FAC will enable the MISO Utilities to file reports covering the same period to ease comparison of the data. Second, the Proposal contemplates submission of quarterly reports within 45 days after the calendar quarter end. Timing FAC filings to coordinate with this deadline would be virtually impossible.

Mr. Caister testified that the Proposal is in the public interest and provides regulatory efficiency. The MISO Utilities and the OUCC agreed to a methodology that places a value on the amount of reserves held before and after the start of the ASM rather than spending considerable resources attempting to develop a cost-benefit analysis of the ASM.

Mr. Caister testified that the MISO Utilities do not favor conducting an overall cost-benefit analysis of participation in the Midwest ISO. He stated that the MISO Utilities recognize the importance of working to minimize Midwest ISO costs passed down to the utilities and ultimately to customers and of maximizing the benefits offered through participation in Midwest ISO. Mr. Caister explained that the MISO Utilities have been working within the Midwest ISO structures and stakeholder processes and at the Federal Energy Regulatory Commission ("FERC") to control costs. He stated that those efforts will continue and these efforts, along with Commission inquiry into specific Midwest ISO costs in proceedings like this, satisfy the Industrial Group's objective of providing the benefits of Midwest ISO participation to customers and help to identify areas where improvements can be made by either the MISO Utilities or the Midwest ISO, or both, to the benefit of customers.

Mr. Caister stated that an obvious concern with the cost-benefit analyses the Industrial Group recommends is that the expense of conducting these studies is great, but their usefulness does not justify that expense. Because the benefits cited by the Industrial Group can be achieved without the significant cost and effort of the cost-benefit analysis the Industrial Group recommends, the MISO Utilities believe performing such an analysis would not be a good investment. Mr. Caister explained that myriad assumptions and predictions must be made to depict what market conditions, system reliability, transmission efficiency, fuel costs, purchased power costs and other variables would theoretically have been today if Midwest ISO participation had not been implemented years ago, or what those important characteristics would be in the future without Midwest ISO participation.

Mr. Caister stated that the MISO Utilities have, and will continue to, work before both FERC and within the Midwest ISO stakeholder process to monitor and advocate against unnecessary Midwest ISO costs. Mr. Caister asserted that these efforts have yielded benefits through the advancement of positions that benefit customers and utility operators. Mr. Caister testified that the MISO Utilities participated in FERC's initial proceedings to form and join regional transmission organizations ("RTOs"). He noted that the MISO Utilities have also been willing to challenge before FERC Midwest ISO policies that resulted in unfair distribution of

costs. Mr. Caister stated that in recognition of their duty to reliably serve customers at just and reasonable rates, the MISO Utilities have participated in the Midwest ISO stakeholder process to lobby for rule changes and efficient operation to minimize costs.

Mr. Caister stated that the stakeholder process at the Midwest ISO is a consensus-driven process and there are also FERC policy positions that are involved. He explained that the MISO Utilities' influence over the Midwest ISO is tempered by others who have their own interests, including other states, independent power producers and FERC. Mr. Caister noted that while FERC does not force utilities to participate in RTOs, there is strong encouragement from FERC and this Commission to do so. Mr. Caister explained that for some of the MISO Utilities, participation in the Midwest ISO was a condition included in other proceedings at FERC and that this Commission also actively encouraged the MISO Utilities to join an appropriate RTO. He noted that the Commission initiated an investigation in Cause No. 42349 "to independently examine the alternative courses of action available to I&M and NIPSCO regarding their transfer of functional control of their transmission assets to an RTO." *Commission Investigation Into the Status of Transfer of Functional Control of Transmission Facilities Located in Indiana*, Cause No. 42349 (IURC 12/19/2002), p. 2.

Mr. Caister asserted that the Commission should begin its evaluation of whether to order a cost-benefit analysis of Midwest ISO participation by considering the purpose of conducting such an analysis, *i.e.*, how the results will be used. If the analysis is a purely academic exercise to determine whether the costs borne by Indiana electric utilities and customers exceed the benefits, the Commission needs to carefully weigh whether the cost of an in-depth study justifies gaining this data because there are alternative, less costly and time intensive means of demonstrating net benefits to customers, such as the reporting requirements in the Proposal. The MISO Utilities are members of the Midwest ISO and an analysis to weigh whether one of the MISO Utilities should join an RTO is unnecessary. Consideration of whether to continue participation with a particular RTO is complex. Utilities that have withdrawn from the Midwest ISO, such as Louisville Gas & Electric and Kentucky Utilities Company paid exit fees of nearly \$35 million. Further studies would also be required to incorporate the costs associated with joining an alternative RTO or not participating in an RTO and participating as an independent coordinator of transmission. In addition, withdrawal from the Midwest ISO would also require FERC approval.

Mr. Caister stated that he is familiar with the RTO cost-benefit study conducted by Union Electric Company d/b/a AmerenUE ("AmerenUE"). He stated that he spent time working with AmerenUE and its affiliates at the time the cost-benefit study was being conducted and that he was involved in aspects that affected relationships with the Midwest ISO and matters at FERC. Mr. Caister also participated in one external meeting regarding the study and a number of internal meetings that discussed the study.

Mr. Caister stated that the MISO Utilities have not prepared a specific estimate of the cost to conduct a full-blown Midwest ISO cost-benefit analysis. However, he noted the AmerenUE experience shows that the cost of such a study is substantial, both in terms of outlays and resource commitment. In addition, the AmerenUE study concluded that it was beneficial for AmerenUE to continue participation in the Midwest ISO.

Mr. Caister stated that if the Commission requires such a study to be performed, he would recommend the costs of any such study and report be amortized over a three year period and recovered from customers of each MISO Utility through a rate mechanism that allocates the cost volumetrically. This will ensure that customers who receive the greatest benefit from any potential savings that are hoped to result from this study pay their proportionate share of the costs. Mr. Caister does not believe it is appropriate for the MISO Utilities to bear the cost of any cost-benefit analysis without reimbursement of the expense through rates.

Mr. Caister stated that the Commission should decide whether it wants an extensive, complex and hypothetical analysis similar to the type of study performed by AmerenUE for each of the MISO Utilities or a simplified comparison based on quantifiable information. He noted that the MISO Utilities believe a simplified comparison of ASM market participation based on quantifiable information is the more practical and useful choice, and that the Proposal accomplishes this task. Determining how the costs and benefits are to be measured will aid in determining the level of detail that is required. The MISO Utilities also urged the Commission to strongly consider the difficulties of performing the analysis and whether the analysis will truly provide useful information prior to requiring any cost-benefit analysis beyond the Proposal. Mr. Caister explained that the MISO Utilities will also continue to promote the interests of their customers in Midwest ISO stakeholder forums and in proceedings before FERC related to Midwest ISO policies and tariff provisions.

B. OUCC's Case-In-Chief. Ms. Barbara A. Smith, Director of the Resource Planning, Emerging Technologies and Telecommunications Divisions, recommended the Commission require a cost-benefit analysis of the Joint Petitioners' participation in the Midwest ISO ASM based on the methodology established in the Proposal. Ms. Smith did not believe that a cost-benefit analysis of Joint Petitioners' Midwest ISO participation should be performed because the additional time and expense associated with such a study would not be efficient. She stated that the methodology contained in the Proposal provides significant information on the Midwest ISO ASM without creating excessive burdens on the Joint Petitioners. Ms. Smith noted that the Midwest ISO has already performed analyses of the "Day 2" or energy-only market, and has been working on a "value proposition" which goes some way toward showing region-wide benefits from the Midwest ISO.

Ms. Smith stated that the types of costs that should be included in the analysis of Joint Petitioners' participation in the Midwest ISO ASM include those costs directly associated with ASM-related operations, including production costs, transmission costs, administrative costs, and other costs assessed by the Midwest ISO associated with the ASM. She stated that many of these costs are included in the "new" and "modified" charge types identified in the underlying case. She stated the costs may also include fuel and other operation and maintenance costs included in the respective electric utilities' base rate charges.

Ms. Smith noted that the total cost charges to load for each of the ancillary services products will be included using the cost distribution amount charge types for each product. With respect to other cost information, the OUCC plans to look to the Joint Petitioners' respective FAC filings, tracker filings, and base rates in which the Joint Petitioners may be recovering costs related to ASM operations.

Ms. Smith testified that the possibility exists that through the Joint Petitioners' participation in the ASM there will be both benefits that are easily quantifiable and some that are more difficult to quantify. She noted that in the underlying case, the OUCC presented a chart of potential "quantifiable" and "non-quantifiable" benefits. These benefits included, among other things, increased generation for off-system sales, increased revenue from sale of ancillary services in the ASM, reduced fuel and non-fuel utility production costs, lower operating reserves, and decreased market volatility.

Ms. Smith stated that many parties have raised concerns about the expansiveness and unknown areas from which to draw appropriate costs and benefits. She stated these concerns can be adequately addressed by limiting the study to only Joint Petitioners' participation in the ASM as provided for in the Proposal and through other available information.

Ms. Smith described what quantifiable and qualitative information will be presented for the purposes of understanding Joint Petitioners' participation in the Midwest ISO ASM. She stated that the most readily available data and the most easily quantified benefits will come from the amount of reserves held by each respective utility to provide ancillary services. Ms. Smith noted that prior to market launch, each utility held a specific amount of generation in reserves to supply ancillary services but that after the market launch, utilities no longer need to hold back generation to maintain their own reserves. She stated that this should theoretically lead to a reduction in the amount of reserves needed for ancillary services.

Ms. Smith stated that in addition to the quantification of pre-ASM and post-ASM reserves held, Joint Petitioners will report potential reductions in level of operating reserves, increased off-system sales as a result of increased generation resources (recognizing that increases or decreases in off-system sales revenues may be attributable to a variety of factors beyond ASM), increased revenues from the sale of ancillary service in the ASM, and increased opportunities for demand response resources.

Ms. Smith stated that the Joint Petitioners will make qualitative information available concerning reductions in fuel and other operational costs, reductions in market volatility, and impacts on long-term planning. She stated quantified cost information will be provided in terms of total costs charged to load for each of the ancillary services product using Midwest ISO charge type information.

Ms. Smith testified there will be two (2) separate sets of reporting performed by Joint Petitioners as detailed in the Proposal. Each Joint Petitioner will submit to the Commission, OUCC and other interested stakeholders, a quarterly report to quantify the expected reduction in reserve requirements. Each Joint Petitioner will also submit to the Commission, OUCC and other interested stakeholders, an annual report which includes both the quantitative and qualitative information regarding the remaining expected benefits. The quarterly and annual reports will be provided for two years following the launch of the ASM. The Joint Petitioners will also include in the second annual report quantified amounts contained in the first annual report for comparison purposes.

Ms. Smith stated that although the OUCC testified in the primary case that incremental ASM costs and benefits should be reported in a utility's FAC filings, after discussions with the

Joint Petitioners, the OUCC believes the reporting mechanics detailed in the Proposal are adequate and an improvement from FAC proceedings for two reasons. First, not all of the Joint Petitioners' FAC filings occur over the same time period, making comparison difficult. Second, timing FAC filings with the quarterly and annual reports would be nearly impossible.

Ms. Smith stated that the methodology in the Proposal should be approved as a reasonable and appropriate analysis of the Joint Petitioners' participation in the Midwest ISO ASM. She stated that the Proposal satisfies the OUCC's concern raised in the underlying primary case, that it is important for utilities and regulators to understand the cost impact and related benefits of ASM participation. Such a series of reports will provide necessary information and transparency to the Commission, Joint Petitioners and the public regarding the potential benefits of Midwest ISO ASM participation.

C. Industrial Group's Case-In-Chief. James R. Dauphinais, a consultant in the field of public utility regulation and principal of Brubaker & Associates, Inc., testified on behalf of the Industrial Group. Mr. Dauphinais opined that there is a need to determine whether each Joint Petitioner is obtaining a net benefit or cost from participation in the Midwest ISO and how the costs and benefits of that participation are flowing to ratepayers. He stated that while the Midwest ISO has conducted previous cost-benefit studies for its energy market and the addition of its ASM, those studies have focused on the net benefit or cost for the entire Midwest ISO footprint. Mr. Dauphinais recommended the Commission require the Joint Petitioners to jointly undertake a study of the cost-benefit of their continued participation in the Midwest ISO and other realistic alternatives to the Midwest ISO.

Mr. Dauphinais stated that a cost-benefit study of the participation by Joint Petitioners in the Midwest ISO is needed for four reasons: (1) the cost-benefit estimates and studies the Commission has had access to focused on the net benefit for RTOs in general or to the Midwest ISO footprint in particular; (2) as recognized in its Phase I Order, the Commission has the responsibility to ensure that Indiana utilities and ratepayers are fairly treated by regional markets such as those operated by the Midwest ISO; (3) it is not possible to assess whether Indiana utilities and ratepayers are being fairly treated by participation in the Midwest ISO unless the cost and benefits of participation are estimated and their allocation to ratepayers is evaluated; and (4) the Midwest ISO is not currently proposing to perform any cost-benefit studies at the utility level and is not proposing to determine the cost-benefit to retail ratepayers.

Mr. Dauphinais stated that it is not sufficient to examine how the cost and revenues of each Joint Petitioner has changed since the start of the MISO ASM. While the collection of such information would be useful, he stated that it is insufficient to conclusively determine whether Joint Petitioners are receiving a net benefit or cost from MISO participation or how that net benefit or cost is being passed onto ratepayers.

He asserted that it is only possible to determine the net benefit or cost of a change by testing the change while keeping all other inputs fixed. He stated that before and after comparisons have value, but they can sometimes be misleading because factors unrelated to the change in question may distort the apparent impact of that change. In addition, a comparison that only examines the apparent before and after impact of the ASM does not answer the broader

question of whether Indiana utilities and their ratepayers are fairly being treated by the MISO markets in general.

Mr. Dauphinais recommended conducting a looking forward study of the projected costs and revenues of each of the Joint Petitioners. The projections would be performed for both continued participation in the MISO and realistic alternatives to continued participation in MISO. He stated the realistic alternatives to MISO participation for the Joint Petitioners include participation by all four of the Joint Petitioners in PJM and no participation by the four Joint Petitioners in an RTO. Mr. Dauphinais also stated that an example of an unrealistic option would be participation in an RTO or Independent System Operator (“ISO”) both not interconnected with and distant from any of the Joint Petitioners.

Mr. Dauphinais explained the tools needed to perform a study of the type the Industrial Group was proposing. He stated that a multi-area production cost simulation model with a detailed transmission system model would be required to simulate operation of the bulk electric power system over the study horizon under each of the three RTO participation scenarios (*i.e.*, continued participation in MISO, participation in PJM and no participation in an RTO). In addition to a production cost tool, other general analytic tools will be needed to estimate cost and revenues not encompassed within the production cost stimulation and to process the results from the production cost simulation runs.

Mr. Dauphinais stated that such a looking forward study would not be speculative, but instead would be a planning study conducted in a manner consistent with how planning studies are conducted in the electric utility industry. While acknowledging the inability to predict the future, he stated utility planning studies can yield important information in regard to an expected outcome under a specific set of defined assumptions. In addition, he noted, to address the inherent uncertainty associated with some assumptions, it is standard practice to perform a number of sensitivity cases which examine the impact of changes to those assumptions that can have a significant impact on the results of the study.

Mr. Dauphinais noted that other utilities have performed studies that examined RTO participation options. He cited as an example, in Missouri, Aquila-Missouri and AmerenUE had such planning studies performed on their behalf. The Missouri-Aquila study was filed as part of Missouri-Aquila’s request to participate in the Midwest ISO and the AmerenUE study was filed as part of AmerenUE’s request to continue participation within the MISO. Mr. Dauphinais noted that while permission to participate, or to continue to participate, in the Midwest ISO is not at issue in this matter, the approach taken in these studies, especially the AmerenUE study, is applicable to the matter of determining whether there is a net benefit from MISO participation, and if not, why not.

He explained that these two studies were performed on behalf of the affected utility by an independent consultant. The development of the Request For Proposals (“RFP”) for the studies and selection of independent consultants were performed by the affected utility in consultation with the Missouri Public Service Commission (“MOPSC”) staff, the Missouri Office of Public Counsel and in the case of the AmerenUE study, the Missouri Industrial Energy Consumers. In addition, he said the development of the study scope, development of study assumptions, review

of preliminary results and review of the draft report were all performed in consultation with the aforementioned stakeholders. According to Mr. Dauphinais, this approach helped to ensure the study was unbiased and helped toward substantially reducing areas of disagreement and misunderstanding that may have otherwise occurred. The controversy that did later develop before the MOPSC was, in his opinion, caused by not having the affected RTOs involved in the study process. Mr. Dauphinais stated the AmerenUE study took approximately ten months to complete the study from the time of the initial kickoff meeting with parties to develop the study RFP to the filing of the final study report with the MOPSC.

Mr. Dauphinais asserted that a similar study for Joint Petitioners in Indiana would be useful because it would provide information on the projected cost-benefit associated with the various RTO scenarios examined and the timing of such benefits and costs, the specific underlying drivers of those costs and benefits, and the sensitivity of the costs and benefits under alternative assumptions. Mr. Dauphinais testified that this level of detail is important for understanding what issues at the Midwest ISO are driving the results of any net cost benefit and allow identification of how specific costs and revenues will likely flow through to ratepayers.

Mr. Dauphinais stated that arming the Commission and other stakeholders with this information enables action at the Midwest ISO and the Commission to make adjustments necessary to produce fair treatment of Indiana utilities and ratepayers by Midwest ISO's regional markets. He stated that providing this information will move all stakeholders, including the Commission, from the position of wondering what the impact of participating in the Midwest ISO regional markets is on Indiana Utilities and ratepayers to understanding the impact and knowing what actions are needed to obtain and preserve such fair treatment.

Mr. Dauphinais stated that to ensure a consistent approach and to minimize the cost and resources needed, a single study should be performed for the Joint Petitioners with the results for each Joint Petitioner separately broken out. He stated that an independent consultant with extensive experience with examining the issues at hand and multi-area production cost modeling can be engaged by the Joint Petitioners to perform the study. He further stated that, as was done in Missouri, the development of the study scope, the selection of the independent consultant, the selection of assumptions, the review of preliminary results and the review of the draft study report would be performed in consultation with representatives from interested parties from this proceeding.

Mr. Dauphinais concluded by summarizing his recommendation that the Commission require Joint Petitioners to undertake a study of the cost-benefit of continued participation in the Midwest ISO, including MISO's energy and operating reserve markets, versus other realistic alternatives. He recommended the study should be completed for filing with the Commission two years after the startup date of the Midwest ISO ASM.

D. Joint Petitioners' Responsive Testimony. Mr. Caister responded to OUCC witness Smith and Industrial Group witness Dauphinais. Mr. Caister stated that the MISO Utilities agreed with Ms. Smith that the Proposal will provide important information and transparency to utilities, regulators, and the public as to the costs of and benefits achieved through participation in the Midwest ISO ASM. He stated the Proposal identifies readily

available costs and benefits associated with ASM which can be quantified and provides additional qualitative information. He stated the MISO Utilities believe the reporting from the Proposal coupled with data already provided in the FAC filings (including average cost distribution amounts for the ancillary services products) will provide sufficient information about ASM costs and benefits.

Mr. Caister noted that the MISO Utilities agree with Ms. Smith's statement that the additional time and expense associated with a cost-benefit study of the Joint Petitioners' overall participation in the Midwest ISO would not be efficient. He stated that at this point in time, the type of detailed study proposed by the Industrial Group would cause an unnecessary allocation of human resources and cost. Mr. Caister noted (as did Ms. Smith), that the MISO Utilities have already worked with the OUCC to develop a proposed reporting mechanism to identify the costs and benefits of ASM participation—the change precipitating this proceeding.

In response to Mr. Dauphinais' recommendation that the MISO Utilities jointly undertake studies similar to those conducted by AmerenUE and Aquila Missouri Electric ("Aquila") before the Missouri Public Service Commission ("MPSC") (collectively, the "Missouri Studies"), Mr. Caister stated that AmerenUE's study resulted from the MPSC granting AmerenUE authority to join the Midwest ISO upon its conducting a cost-benefit analysis and the Aquila study was presented as part of Aquila's request for authority to join the Southwest Power Pool. Mr. Caister stated that the MISO Utilities were not persuaded that replicating the Missouri Studies for the MISO Utilities would result in benefits for the State of Indiana. Mr. Caister testified that the Missouri Studies were conducted either as a precursor to (Aquila) or to satisfy a condition precedent to (AmerenUE) MPSC approval to join RTOs. In contrast, the MISO Utilities have participated in the Midwest ISO for several years, and Mr. Dauphinais acknowledged that the "purpose of the study would not be to identify whether the [MISO Utilities] should still participate in [the Midwest ISO]." Mr. Caister stated that evaluating alternatives to the Midwest ISO as suggested by Mr. Dauphinais would only be relevant if one of the MISO Utilities was proposing to leave the Midwest ISO, join a new RTO or changing circumstances demonstrated that such alternatives needed evaluation. Mr. Caister stated the MISO Utilities' and other stakeholders' resources are better focused on working with the Midwest ISO to ensure Indiana's interests are considered. Mr. Caister also pointed out there are notable problems with the recommendation to conduct a "joint" study among the MISO Utilities, including disclosure of confidential information, analysis of the accuracy of the report and identifying numerous permutations of possible alternatives.

Mr. Caister stated that because ASM is new, the MISO Utilities agree that it is important to monitor this new market and evaluate whether its benefits exceed its costs. Mr. Caister stated the Proposal is an important foundational step that will provide the Commission, the OUCC, the Industrial Group and the MISO Utilities tools to objectively evaluate the success of this current stage of the Midwest ISO at providing projected benefits. He stated if ASM does not establish the expected benefits in Indiana or other changes occur that appear to be adversely impacting the cost-benefit ratio of Midwest ISO participation unfavorably for any of the MISO Utilities, a more detailed analysis of alternatives might be appropriate at that time.

Mr. Caister stated the Industrial Group acknowledged that the company engaged by AmerenUE to conduct its cost-benefit analysis, CRA International, estimated its fees would be

\$500,000 but the final cost for the AmerenUE study was unknown. He noted that this estimate would not include the opportunity cost of the time spent by AmerenUE personnel, stakeholders and the MPSC staff cooperating with the study. Mr. Caister restated that substantial time was invested by AmerenUE based on his prior tenure with AmerenUE and that these costs are substantial and would increase even more if a joint study proves infeasible. He stated separate studies for each of the MISO Utilities could impose costs upon Indiana in excess of \$2 million just to pay the outside consultant.

The MISO Utilities stated that a Missouri-type study might be appropriate for any of the MISO Utilities if changes to the Midwest ISO market shifted the cost-benefit analysis sufficiently to warrant an in-depth study that considers the cost of Midwest ISO alternatives. Mr. Caister did not agree that a forward-looking study like the Missouri Studies would be an exclusive pre-requisite to proposing an alternative to the Midwest ISO, but that it might be one approach taken by any of the MISO Utilities to support a proposal to change their RTO status.

Mr. Caister asserted it is not necessary for the MISO Utilities to examine the net cost or benefit of Midwest ISO participation and how the costs and benefits are flowing to Indiana ratepayers through Missouri-type studies. He stated that Mr. Dauphinais touts the Missouri Studies as being superior to historical analysis such as the Proposal. Mr. Caister stated the Proposal and the Missouri Studies, however, simply have different attributes. He does not believe that extensive studies are necessary to ensure Indiana is not adversely impacted by Midwest ISO decisions. Mr. Caister stated the MISO Utilities and other Midwest ISO participants have successfully identified Midwest ISO proposals that adversely impact their customers and have been successful in lobbying for changes through the Midwest ISO stakeholder process. Mr. Caister believes this is the most effective way at this time to ensure Indiana is treated fairly by the Midwest ISO.

Mr. Caister asserted that the Proposal will provide sufficient data for a meaningful, measured analysis of ASM and presents quantitative data on reserves held by the MISO Utilities before and after the ASM implementation and other qualitative ASM data. He stated such information will sufficiently inform the Commission and other stakeholders about the benefits and costs that are derived from the ASM and how those costs and benefits are flowing to ratepayers. Although the study advocated by Mr. Dauphinais is more elaborate and is intended to produce information not contemplated by the Proposal (such as information about RTO alternatives), Mr. Caister does not believe the additional data is necessary to evaluate the costs and benefits of ASM at this time.

Mr. Caister disagreed with Mr. Dauphinais that examining how the costs and revenues have changed since the start of ASM is insufficient to determine whether the Joint Petitioners are receiving a net benefit or cost. In response to Mr. Dauphinais' claim that before and after comparisons "can sometimes be misleading because factors unrelated to the change in question may distort the apparent impact of that change," Mr. Caister stated Mr. Dauphinais acknowledged that normalizing the data for these unrelated changes is possible. Mr. Caister noted that Mr. Dauphinais' claim that such normalization is only "occasionally" possible is not supported and that while Mr. Dauphinais may be correct that a model may enable evaluation of different outcomes based on a single changed factor, the outcomes are only as good as the model's accounting for such changes and the validity of the assumptions made in the model. Mr.

Caister noted a change could have an unintended consequence that the model does not capture or the model might not account for side-effects of particular changes.

As to Mr. Dauphinais' claim that "a comparison that only examines the apparent before and after impact of the ASM does not answer the broader question of whether Indiana utilities and their ratepayers are fairly being treated by the [Midwest ISO]," Mr. Caister stated the same is true for the Missouri Studies advocated by Mr. Dauphinais. Those studies did not address the question of whether customers of those Missouri utilities were allocated a fair share of the costs and benefits associated with the RTO, only whether the overall anticipated benefits exceeded the forecasted costs for the individual utilities involved in the studies.

Mr. Caister explained that the MISO Utilities were not asking the Commission to "trust us" rather than conducting their own inquiries into the costs and benefits of the Midwest ISO. Mr. Caister noted that most of the MISO Utilities joined the Midwest ISO at the behest or inquiry of either the Commission or FERC. He noted that it makes sense that the regulatory bodies that believed RTO membership would be beneficial want to ensure that direction was the correct one. Mr. Caister stated the Proposal is an attempt to build on existing data to enable analysis of whether the claimed benefits are panning out. He stated the Midwest ISO claims its benefits outweigh its costs, most recently in the ASM and if that does not prove true in the ASM, further analysis should be conducted.

He noted that the Public Utility Commission of Ohio has sought comments on the benefits of RTO participation and most of the studies that have already been conducted, including the study for AmerenUE and the Midwest ISO's own studies conclude that the energy market has brought benefits from more efficient dispatch of generation. Mr. Caister noted that the 2009 peak usage season has had uncharacteristically low energy prices and that while reduced demand is certainly one factor, the role of regional dispatch and the implementation of ASM should not be dismissed as another factor. He stated absent more experience with the ASM, the ability to analyze the energy market as the economy recovers, and the upcoming changes in allocation of costs, any broader study would be conducted at a time of much uncertainty regarding future market behavior and thus would be poorly timed. Mr. Caister stated the Proposal will enable monitoring of the benefits and costs ASM has wrought in Indiana. If these benefits are small and future developments in the Midwest ISO cause further doubts about whether the benefits outweigh the costs, Mr. Caister noted that a more in-depth study could be warranted to support proposals to reduce the costs and/or improve the benefits associated with Midwest ISO participation. However, he stated a full blown cost-benefit analysis is not a prerequisite to understanding the potential impacts of Midwest ISO proposed policies on Indiana.

Mr. Caister stated that it is not practical to conduct one study for all of the MISO Utilities. He noted that each of the MISO Utilities faces its own set of circumstances with respect to participation in the Midwest ISO. He testified that while it is possible that some efficiency could be gained, the numerous alternatives previously identified would be only one problem with conducting a single study for all of the MISO Utilities. He stated the study would need to account for potentially different bid and offer strategies and unit operation. In addition to adding complexity, the MISO Utilities would need to ensure that no violations of anti-trust laws occur by making information available to each other that is not available publicly. Mr. Caister stated this could preclude representatives from the MISO Utilities from reviewing parts

of the study for fear of discovering (or disclosing) information about this confidential information. Moreover, if any Midwest ISO member were to depart, new RTO seams would be created, historical energy flows could be altered, and the ramifications of such a change could impact not only the departing member but also other Midwest ISO members. Mr. Caister stated that because of the complexities and ramifications associated with such studies, the MISO Utilities question not only the usefulness of such a joint study, but also the ability to manage the results in a constructive manner. He noted this is especially true when the ASM has only recently been instituted and its implications are just becoming known. For these reasons, the MISO Utilities believe conducting a joint study would not be prudent or workable.

E. Industrial Group’s Responsive Testimony. Mr. Dauphinais responded to the Proposal by stating that although it could provide useful information with significant revisions, it is not sufficient to take the place of the cost-benefit study he recommends. He asserted that it would not provide a determination whether the MISO Utilities are expected to receive a net benefit from continued Midwest ISO participation or sufficient information as to how the benefits and costs of Midwest ISO participation are experienced by the MISO Utilities and passed down to ratepayers.

Mr. Dauphinais stated that due diligence dictates that the MISO Utilities actively take prudent action in the Midwest ISO structures, stakeholder processes and at FERC to reasonably minimize their respective cost to serve customers, but that such action is not evidence of whether continued participation in the Midwest ISO will provide a net cost benefit to Indiana utilities and ratepayers versus realistic alternatives. He asserted that the Proposal does not provide a comprehensive indication of the areas where Midwest ISO participation is not delivering a net benefit versus other reasonable alternatives to such participation. He stated these can only be determined by taking a step back from the “trenches” of the MISO structures, MISO stakeholder processes and FERC and taking a look at the big picture. Mr. Dauphinais opined that this can be best accomplished by undertaking his recommended cost-benefit study.

Mr. Dauphinais stated that the Commission has noted it has the responsibility to ensure that Indiana Utilities and ratepayers are fairly treated by regional markets such as that of the Midwest ISO. He stated that the purpose of the study would not be to provide input on whether the MISO Utilities should continue to participate in the Midwest ISO, but rather to determine whether such continued participation is expected to provide a net benefit, and, if not, why not. He stated that such information will allow the Commission to determine whether it is expected that Indiana utilities and ratepayers will be fairly treated by the Midwest ISO markets, and, if not, the underlying causes of such mistreatment in order to guide action to correct that mistreatment.

Mr. Dauphinais disagreed with Mr. Caister’s assertion that the employees of the MISO Utilities with Midwest ISO experience could better spend their time participating in stakeholder meetings and monitoring regulatory action rather than focusing on conducting a cost-benefit analysis. He stated there is a danger of losing sight of the big picture if the MISO Utilities confine themselves to the “trenches” of participating in stakeholder meetings and monitoring regulatory action. He stated it is important to periodically step back and assess whether continued participation in the Midwest ISO is expected to provide a net benefit and to identify any impediments to receipt of a net benefit, noting that the latter provides important insight that

in turn will allow the MISO Utilities, the Commission, the OUCC and other interested parties to better focus their respective efforts within the Midwest ISO stakeholder processes and at FERC. He also stated that his recommended study would help identify where the benefits and the costs associated with continued MISO participation will be realized, which would provide information as to how these costs and benefits are flowing through to ratepayers under the rate structures of the individual MISO Utilities. Mr. Dauphinais did not believe this latter information could be derived from either participation in the Midwest ISO stakeholder processes, involvement at FERC or through the information gathered under the Proposal.

Mr. Dauphinais expressed disagreement with Mr. Caister's assertion that it could take years to complete the study recommended by the Industrial Group, and noting that the AmerenUE study took eight months. Mr. Dauphinais also responded to Mr. Caister's observation that the AmerenUE study recommended staying in MISO by stating that the MISO Utilities are not necessarily in the same position as AmerenUE. He noted the load shape and generation portfolio of each of the MISO Utilities was not the same as those of AmerenUE, resulting in different levels of sales and purchases within the Midwest ISO. He also stated that the geographic location is different enough that the reasonable alternatives to MISO participation will be different for the MISO Utilities than it was for Ameren UE. Thus, he stated, the Ameren UE study provides a roadmap for how a study can be reasonably performed, rather than an indication of the outcome of a similar study for the MISO Utilities.

Mr. Dauphinais disagreed with Mr. Caister that the cost of his recommended study be amortized over a three year period and recovered from customers of each MISO Utility through a rate mechanism that allocates the cost volumetrically. He stated the Industrial Group does not oppose allowing the MISO Utilities to each defer their share of the study cost such that they can each seek recovery in a future base rate proceeding, but it is not necessary to allow recovery of this cost outside of a base rate proceeding. He stated the cost of the study is an administrative and general cost that should be allocated through rates in the manner other study work conducted by the MISO Utilities would typically be collected. He stated that at the time of a base rate proceeding, the Commission could examine, when considering granting recovery of the deferred expense, whether there were additional revenues or reductions in costs that offset the deferred expense.

In response to Mr. Caister's recommendation that the Commission require those advocating a more in depth cost/benefit analysis than the Proposal to define the metrics or the costs and benefits to be considered, Mr. Dauphinais suggested it was more appropriate for the metrics to be developed collaboratively during the study process. He recommended that the measurement of benefits and costs be performed in a manner similar to that used for the AmerenUE study. He asserted that such a study as the AmerenUE study is practical and will provide necessary information to the Commission. He reiterated his belief that this type of study will provide insight into the expected net benefit or cost of continued MISO participation and details in regard to where the expected costs and benefits are expected to be derived. He stated that this level of detail taken in conjunction with the existing rate structure of the MISO Utilities will allow the Commission to understand how the expected benefits and costs would flow to the ratepayers.

Mr. Dauphinais described the Proposal as a proposal for obtaining quantitative and qualitative information about the ASM. He stated that the quantitative analysis would focus only on changes in operating reserve responsibility amounts, costs and revenues since the start of the ASM. He stated the Proposal would not provide information similar to the study he recommended. He stated the Proposal cannot provide any conclusion about changes from before to after the ASM for those areas that are influenced by other factors besides the establishment of the ASM and that the Proposal only looks at a small portion of the Midwest ISO regional market. Mr. Dauphinais stated the Proposal also does not provide an assessment of whether Midwest ISO participation as a whole is fairly treating Indiana utilities and ratepayers. Mr. Dauphinais stated that with modifications, the Proposal could provide some useful supplemental information and recommended the following changes to the Proposal:

1. On page 2 of the Proposal, Pre-ASM Reserves Held should be calculated based on what the MISO Utilities were required to hold for operating reserves, not the amount of operating reserves they actually held. For example, if an expensive quick start combustion turbine was not dispatched by MISO, it might be considered held operating reserve, but it may not have been required to be held. If the pre-ASM held amount is not based on required held operating reserves, the post-ASM reduction in held operating reserves may be overstated.
2. On page 3 of the Proposal, off-system sales margins should be reported rather than off-system sales revenues. It is off-system sales margins that are either retained by the utilities as earnings or shared in part with ratepayers between base rate proceedings, not off-system sales revenues.
3. On page 3 of the Proposal, the change in operating reserve revenues should be a comparison to post-ASM operating reserve revenues net of operating reserve purchases. Otherwise, the comparison will overstate the change in operating reserve sales to third-parties.
4. Changes in purchased power volumes and costs should be reported. A reduction in purchased power costs through the more efficient utilization of low cost generation resources in the MISO market has been previously identified as a potential benefit of the ASM.
5. On page 1 of the Proposal, the prohibition on using the reported information in FAC proceedings should be deleted. The Commission should not be constrained from considering any information that provides insight in regard to the reasonableness of utility costs and revenues.

Mr. Dauphinais concluded that the study he recommended is a practical and necessary analysis that the Commission needs to ensure the Midwest ISO regional market is fairly treating Indiana utilities and ratepayers. He stated that while the Proposal can provide useful supplemental information if modified as he recommended, it will not be sufficient alone for the Commission to determine whether the Midwest ISO regional market is fairly treating Indiana utilities and ratepayers.

3. **Commission Discussion and Findings.** As noted above, the OUCC and the Industrial Group requested in the underlying cause that the Joint Petitioners be required to perform some type of cost-benefit analyses following the start of the Midwest ISO ASM. The Commission, recognizing its responsibility to Indiana utilities and ratepayers, concluded it was necessary to explore “the issues associated with performing a cost-benefit analysis or requiring Joint Petitioners to provide additional cost-benefit information . . . as a means of providing information concerning Joint Petitioners’ experiences in the Midwest ISO ASM, and allowing for further evaluation of whether anticipated benefits are being realized.” Phase I Order at 14. We therefore convened this Subdocket as a means to allow for further “consideration of whether, and to what extent if any, a cost-benefit analysis of the Joint Petitioners participation in the Midwest ISO or the Midwest ISO ASM should be performed, and whether any additional data concerning ASM costs and benefits should be provided in the Joint Petitioners’ respective FAC filings.” *Id.*

The Joint Petitioners, OUCC and Industrial Group agree that additional data collection to evaluate the impacts of the Midwest ISO market on Indiana is possible. Remaining disagreement exists over the extent to which additional data should be collected and subjective analysis performed in an effort to ascertain the costs and benefits of MISO participation for each of the Joint Petitioners. The Joint Petitioners and the OUCC have agreed on a Proposal for the collection of additional metrics designed to promote review of costs and benefits resulting from the Joint Petitioners participation in the Midwest ISO ASM. The metrics and reporting requirements in the Proposal are set forth in the testimony of Mr. Caister. The Industrial Group, however, proposes a more involved study modeled after the Missouri Studies to evaluate the costs and benefits of Joint Petitioners’ Midwest ISO participation and to compare the results with other alternatives. Consequently, the controversy is not whether some data collection and evaluation of the costs and benefits resulting from Joint Petitioners’ Midwest ISO participation is possible, but the appropriate breadth of the evaluation to be prepared, and the optimum timing of more extensive and costly evaluation.

As set forth further below, we agree that some type of evaluation is warranted to ensure that Indiana utilities and ratepayers are fairly treated by those markets. Based on the evidence presented, we are unable to conclude that an analysis of the type proposed by the Industrial Group will provide the information necessary to make reasonably accurate cost-benefit determinations concerning the Joint Petitioners participation in either the Midwest ISO or the Midwest ISO ASM. However, we do find the Proposal, as modified herein, provides a reasonable and useful means for developing a better understanding of the ASM market and operations of the utilities therein.

A. **Whether a cost-benefit analysis of participation by Indiana public utilities in, either or both, the Midwest ISO or the Midwest ISO ASM should be performed.** An evaluation of whether to order a cost-benefit analysis of participation in the Midwest ISO or the Midwest ISO ASM should begin by considering the purpose of conducting such a data collection and evaluation, *i.e.*, how the results will be used. In establishing this Subdocket, we noted our “responsibility to ensure that Indiana utilities and ratepayers are fairly treated by those markets.” Phase I Order at 14. Consequently, any study we would endorse in this Subdocket should be one designed to help us evaluate whether Indiana utilities and ratepayers are being fairly treated.

We note that the Commission has been generally supportive of FERC policies leading to participation in RTOs. Over the last decade, we have witnessed the gradual transition to this new environment of regional transmission planning and operating, and development of regional energy and ancillary service markets. The costs have been substantial. However, as the energy industry grapples with the intricate planning of billions of dollars of investment in necessary infrastructure upgrades, the need for a regional approach is apparent. Consequently, any utility benefit study should be cost-effective, provide information useful to forming a better understanding of the particular Midwest ISO market(s) to be evaluated and the operations of the utilities therein, and assist in determining the most effective manner of participation.

We conclude that, at this time and based on the evidence presented, the Proposal offers the more reasonable approach for evaluating whether Indiana utilities and ratepayers are being fairly treated by the Midwest ISO's developing ASM market. The Proposal will provide important information and transparency to utilities, regulators, and the public as to the costs of, and benefits achieved through, participation in the Midwest ISO ASM. It identifies readily available costs and benefits associated with ASM that can be quantified and provides additional qualitative information. The MISO Utilities and the OUCC believe the reporting from the Proposal coupled with data already provided in the FAC filings (including average cost distribution amounts for the ancillary services products) will provide sufficient information about ASM costs and benefits. We believe the Proposal's data will appropriately report primarily on the impact of the ASM market. The ASM market was the focus of the underlying proceeding and it is the newest market in the Midwest ISO. Evaluating this new market and determining over time whether it generates the benefits that it is touted to provide will allow Indiana the opportunity to have ongoing input on ASM issues and thereby help ensure Indiana is being fairly treated as the Midwest ISO markets develop. If the Proposal demonstrates that ASM is not generating net benefits for Indiana, further inquiry may be warranted.

The Industrial Group proposed more in-depth studies of the overall costs and benefits of the Midwest ISO, such as the Missouri Studies. Studies like the Missouri Studies involve significant cost in terms of financial outlays and resources. The purpose of those studies was to provide a basis for deciding among several RTO options. Those studies were not designed to evaluate the impact of the RTO structure or identify actions that may be needed to ensure fair treatment. The Industrial Group failed to provide any evidence demonstrating how the Missouri Studies would provide the necessary information to allow for a determination that Indiana utilities and ratepayers are being fairly treated by the applicable RTO. Instead, the Industrial Group simply assumes this would be the result.

While the type of study proposed by Mr. Dauphinais would provide additional detail, some of this detail is purely academic. For example, Mr. Dauphinais proposes the Joint Petitioners evaluate alternatives to Midwest ISO participation even though he acknowledges the purpose of these studies is not to support withdrawal from the Midwest ISO. The Missouri Studies evaluated alternatives because they were conducted at the time utilities were evaluating joining or continuing with a particular RTO. That is not the case here where the Joint Petitioners have been operating within MISO for years. The Joint Petitioners have also noted some of the difficulties and complexities in jointly conducting studies like the Missouri Studies, including a myriad of permutations to consider, concerns with disclosure of confidential information, and the

variety of significant, and likely controversial, assumptions that would need to be made in conducting such studies.

Based upon the evidence presented, the Commission finds that the Proposal recommended by the MISO Utilities and the OUCC, a copy of which is attached hereto, should be accepted and implemented by the Parties, except with respect to the use of the data and analysis in FAC proceedings as discussed further below. While we understand the Industrial Group's concerns, as explained above, the Industrial Group failed to provide sufficient evidence demonstrating that conducting studies like the Missouri Studies would provide cost-effective and reliable information from which the Commission could draw reasonable conclusions concerning the costs and benefits of participation in the Midwest ISO. Consequently, the Proposal represents a reasonable start to capturing cost/benefit data.

We further believe that in Indiana, where Joint Petitioners and the Commission have the benefit of several years of experience with the Midwest ISO, we can evaluate the changes in the Midwest ISO through evaluations like the Proposal and by monitoring events at FERC and in the Midwest ISO stakeholder process. Based on evaluation of such data, we can then consider the timing and scope of other types of appropriate studies in the future.

B. The costs and benefits that should be considered in a cost-benefit analysis.

Both the Joint Petitioners and the OUCC recommend use of an agreed upon methodology set out in the Proposal, whereas the Industrial Group recommends that the MISO Utilities jointly undertake studies similar to the Missouri Studies. For the reasons we have already discussed, the Commission concludes that the costs and benefits outlined in the Proposal represent the appropriate cost-benefit evaluation. The Proposal defines certain quantifiable and non-quantifiable information that must be reported on a quarterly basis. The Phase I Order provides for recovery of certain ASM costs through the FAC filings. Over time, customers should benefit from such things as lower fuel costs, decreased operating reserves and better reliability.

Based upon the evidence presented, the Commission finds that the Proposal recommended by the MISO Utilities and the OUCC, except as set forth below with regard to use of the data and analysis in FAC proceedings, requires the provision of information sufficient to analyze the costs and benefits of the MISO Utilities' participation in the Midwest ISO ASM, is in the public interest, and should be approved.

The purpose of the Proposal was to ensure that Joint Petitioners are providing information that would otherwise be unavailable so that the costs and benefits of the Midwest ISO ASM can be evaluated. Although Mr. Dauphinais recommends certain revisions to the Proposal, we do not believe such revisions are necessary.

C. The basis (e.g., utility-specific, state-wide, etc.) upon which a cost-benefit analysis should be conducted.

The Commission recognized in the Phase I Order that the Midwest ISO has conducted a cost-benefit analysis showing the benefits of ASM on a footprint-wide basis and understands that the Midwest ISO has proposed to create a task force to work with stakeholders and state commission representatives to perform an ongoing analysis of the costs and benefits associated with the ASM. However, such analyses do not adequately enable us to evaluate whether Indiana's utilities and ratepayers are benefitting from Midwest ISO ASM

participation. For this reason, we believe the Proposal should be approved. The Proposal represents a utility-specific basis for a cost-benefit evaluation, which we believe is appropriate. It is important for the Parties to understand, as much as reasonably possible, the cost impact of participating in the ASM and how the benefits of participating may or may not offset that cost. While a state-wide analysis may provide some broad insights, each of Indiana's electric utilities is differently situated. A utility specific analysis would be necessary to know whether each utility and its customers are benefited. The Proposal submitted by the OUCC and the Joint Petitioners appropriately addresses specific costs and benefits of each of the Joint Petitioners and their respective ratepayers.

D. Identification of the metrics to measure or otherwise quantify the costs and benefits to be considered in the analysis. Based upon the evidence presented, the Commission finds that the Proposal includes both quantifiable and non-quantifiable metrics that would be reported on a quarterly and annual basis. Such information will include reserves held for each reserve product, spinning, supplemental and regulation reserves. The comparison will be made against pre-ASM market information to appropriately consider the impact on the amount of reserves each Joint Petitioner holds or is charged for.

E. The data concerning ASM costs and benefits that should be provided in FAC filings. The MISO Utilities and OUCC proposed that the ASM reporting would be conducted separately from the FAC proceedings. First, the MISO Utilities' FAC proceedings do not all cover the same periods. Submitting the reports outside the context of the FAC will enable the MISO Utilities to simultaneously file reports covering the same period to ease comparison of the data. Second, the Proposal contemplates submission of quarterly reports within 45 days after the calendar quarter end. Timing FAC filings to coordinate with this deadline would be virtually impossible.

We note that all utilities are currently reporting detail regarding the Midwest ISO charges and credits which are included in the fuel costs proposed for recovery in FAC proceedings. This includes charges and credits related to the ASM. In addition, each utility is reporting in each FAC filing the average cost of the cost distribution charges for each reserve product, spinning, supplemental and regulation reserves.

Based upon the evidence presented, the Commission finds that the reporting provisions in the Proposal provides regulatory efficiency and that the data should be provided separately from the FAC proceedings. We further find that sufficient data is being reported by the MISO Utilities in their respective FAC proceedings to enable the Commission and other stakeholders to understand the amount of ASM costs and credits being included in the fuel cost requested for recovery and that no additional data related to the ASM is required to be included in FAC proceedings.

Finally, we note that the Proposal includes a statement in the Introduction section that "the data and analysis will not be used as evidence in FAC proceedings." While the MISO Utilities and the OUCC may certainly enter into an agreement that they will not offer such data and analysis into evidence in an FAC proceeding, the Commission finds a blanket prohibition on the admissibility of such data and analysis in an FAC proceeding to be unreasonable and not in the public interest. Whether the data and analysis provided under the Proposal is admissible as

relevant evidence in a particular proceeding is best determined in that proceeding. Therefore, the Commission finds that whether the data and analysis provided under the Proposal may be admitted into evidence in an FAC proceeding shall be determined when an offer to admit such evidence is made in an FAC proceeding.

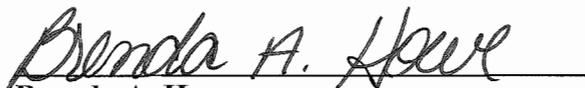
IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Proposal recommended by the MISO Utilities and the OUCC, a copy of which is attached hereto and made a part hereof, is approved as modified herein.
2. The MISO Utilities shall file all Quarterly and Annual Reports required by the Proposal as compliance filings in this Cause.
3. This Order shall be effective on and after the date of its approval.

ATTERHOLT, LANDIS AND ZIEGNER CONCUR; MAYS ABSENT:

APPROVED: OCT 20 2010

**I hereby certify that the above is a true
and correct copy of the Order as approved.**



Brenda A. Howe
Secretary to the Commission

Ancillary Services Market Reporting Proposal

Introduction

The purpose of this document is to provide the methodology of obtaining and presenting quantifiable and qualitative information about the Midwest ISO ASM. The information will be obtained from Indiana investor owned utilities, and calculations will be based upon individual Company experiences beginning with ASM-launch in January 2009. This information provides a comparison of post-ASM reserve requirements to the generating capacity withheld by each Company to meet all NERC standard requirements prior to ASM implementation, in addition to other qualitative and quantitative information to aid in understanding ASM costs and benefits. The reporting includes a quarterly report to quantify the expected reduction in reserve requirements. Data will be provided by reserve product, including spinning, supplemental and regulation, and will use calendar year 2008 as the baseline for comparison. An expected reduction in overall reserve requirements is considered to be one of many potential benefits provided to ratepayers through utilities' participation in the ASM. Other metrics and qualitative information will be provided in an annual report.

There are qualifications to this analysis which must be considered. First, variations are expected between companies due to load diversity. Second, the data is intended to analyze and identify areas of benefits of the ASM, not specific market business decisions. Also, the companies or a company may request, prior to providing any information, satisfactory confidential treatment. Finally, the data and analysis will not be used as evidence in FAC proceedings.

Description of Reserve Requirements Calculation for Quarterly Report

For each hour, the MW quantity of reserves estimated to be held by the utility pre-ASM is compared to the actual MW quantity of reserves held for the utility post-ASM (using 2008 as the historical baseline period), to determine the MWH savings or excess for an hour. The baseline will be established as a single MW amount for each reserve product for each quarter during the year 2008.

Summing the hourly savings or excess amounts over the period will give the net estimated savings or excess reserves in MWH.

A separate calculation will be performed for each product (regulation, spinning, supplemental).

Data Points Used in Reserve Requirements Calculation

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Pre-ASM Reserves Held

Each utility will provide the hourly average number of MWH reserves, calculated for each calendar quarter, historically held for regulation, spinning, and supplemental reserves. These amounts will be determined from the hourly average of the cleared Day Ahead resource offers made by the utility over the calendar year 2008.

Post-ASM Reserves Held

The amount of post-ASM reserves held will be calculated using data from each utility's respective Midwest ISO Real Time settlement statements. For each hour, for each product (regulation, spinning, and supplemental reserves):

$$\text{MISO Real Time Net Cleared Volume plus MISO Day Ahead Cleared Volume} = \underline{\text{Total MISO Cleared Volume}}$$

$$\text{Utility's Distribution Volume for each Zone divided by MISO Distribution Volume} = \underline{\text{Utility's Load Ratio Share of Reserves}}$$

$$\underline{\text{Total MISO Cleared Volume}} \text{ times } \underline{\text{Utility's Load Ratio Share of Reserves}} = \underline{\text{Utility's Post-ASM Reserves Held.}}$$

For utilities which have load in more than one zone, this calculation will be done for each zone and totaled before comparing results. MISO settlements information will be utilized from S14 settlement reports.

Difference in Reserves Held

For each hour in the quarter, subtract the MWH of calculated reserves held post-ASM from the average MWH reserves held for each quarter, pre-ASM. A positive number indicates MWH's saved due to ASM, and a negative number suggests excess reserves were required under ASM. Hourly amounts will be totaled by product, then totals accumulated for all reserves.

Quarterly Reporting

The ASM comparison will be performed quarterly by each utility using a calendar quarter reporting period and submitted within 45 days after calendar quarter end. Each Company will indicate the number of Midwest reserve (or operating) zones in which their respective loads are served. In addition, the Companies may include anecdotal information such as extended unit outages or cooling/heating degree days. Reporting will be done separate from the FAC process.

Annual Report

Within 45 days following the calendar year end, the utilities will each submit a report to the IURC, OUCC, and other interested stakeholders that includes both

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quantitative and qualitative information regarding market outcomes. Because an expected reduction in overall reserves requirements is just one of the potential benefits, the annual reports will also include narrative and examples of other benefits of the utilities' participation in ASM as detailed below:

- **Reduced level of operating reserves required.**
The utilities and the OUCC expect the ASM to lead to more efficient use of utility resources, and therefore a reduction in operating reserves. The utilities will apply the average price charged for the quarter using the Cost Distribution Charge Type for each reserve product to assign a value to the change in the number of operating reserves calculated under the methodology used in the quarterly reports.
- **Increased generation for Off-System Sales (OSS).** Prior to the start of the Midwest ISO ASM, utilities withheld part of their generation to provide ancillary services. With the start of the ASM, such generation may be available for sales into the Midwest ISO energy market. The utilities will provide annual amounts of OSS revenues. Such increases or decreases in OSS revenues may be due to economic and operational factors beyond the ASM, and such factors will be noted.
- **Increased revenue from the sale of Ancillary Services in the ASM.**
The utilities have built and have access to low-cost generation sources which can produce energy and ancillary services that the utilities and the OUCC expect to be competitively priced in the ASM. To the extent utilities sell their ancillary services into the market, they are able to receive increased revenues. The utilities will report total ASM revenues for each product (regulation, spinning, supplemental). If any revenues from ancillary services were received during 2008, prior to the start of the ASM, such amounts will be reported for comparison purposes.
- **Increased opportunities for Demand Response Resources (DRRs).**
The ASM will allow for the participation of DRRs and is designed to compensate DRRs the same as supply-side resources. The report will include the number of Type 1 and Type 2 DRRs participating through the utility, and their respective MW amounts.

In addition, the utilities will include qualitative information regarding other benefits that are difficult to quantify. Such qualitative information will address other potential benefits, including increased generation for Off-System Sales (OSS), reductions in fuel costs and other operational costs, reduced market volatility and impacts on long term planning.

The utilities will also include in the annual report the total costs charged to load for the Regulation, Spinning, and Supplemental products using the cost distribution amount charge types for each product.

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Term of Reporting Requirement

The quarterly and annual reports will be provided for two years following the start of the ASM. Amounts quantified in the initial annual report will also be reported in the 2nd annual report for comparison purposes.

Limitations

This is not intended to be and should not be considered a full analysis of the costs or the benefits of ASM. It is intended to provide key metrics and discussion to aid in understanding costs and benefits.