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**Electricity Delivery and
Energy Reliability**

JOHN R. STAFFIER
(202) 737-8060

November 4, 2011

Mr. Brian Mills
Director, Permitting and Siting Office of
Electricity Delivery and Energy Reliability
U.S. Department of Energy
1000 Independence Ave., SW
Washington, DC 20585

Re: Presidential Permit Docket No. PP-230-4

Dear Mr. Mills:

Attached hereto for filing is a Settlement Agreement which has been executed by the applicant in this case, International Transmission Company, d/b/a *ITC Transmission* ("ITC"), and by the bulk of the other entities that have thus far submitted comments, including the Midwest Independent Transmission System Operator, Inc. ("MISO") and PJM Interconnection, L.L.C. ("PJM").¹ ITC and the other signatories urge the Department of Energy ("DOE") to approve the Settlement Agreement, and resolve this case in accordance with that agreement as promptly as possible.

I. Background

The procedural history of this case is set forth in the Settlement Agreement itself. Suffice it to say, therefore, that this proceeding involves a request by ITC to amend its existing Presidential Permit, PP-230-3, to permit the installation and operation of two 700-MVA phase shifting transformers connected in series (also known as phase angle regulators or "PARs") at its Bunce Creek Station in Marysville, Michigan. The two new PARs will replace a 675-MVA transformer that failed at the site while in service in 2003. ITC's application, which was filed on January 5, 2009, proposed that the new PARs, like the transformer that failed in 2003, would be operated so as to match actual electrical flow across the Michigan-Ontario interface to scheduled flow to the maximum practical extent.

ITC's application was noticed by DOE on February 4, 2009, with comments due on March 12, 2009. Subsequently, in 2011, PJM and several of its transmission-owning members

¹ The other signatories are American Municipal Power, Inc.; Old Dominion Electric Cooperative; Baltimore Gas and Electric Company; American Electric Power Service Corporation; Pepco Holdings, Inc and First Energy Service Company.

("TOs") and other supporters sought to intervene in this proceeding and filed comments objecting to the planned operation of the new PARs on a flow to schedule basis. They alleged that controlling flow to schedule across the Michigan-Ontario interface would cause increased congestion costs on the PJM system. In May, 2011, Detroit Edison Company filed an intervention and comments supporting ITC's application and supporting the proposed flow to schedule operation of the new PARs.

On August 9, 2011, ITC filed the operational agreements between itself, MISO, and Hydro One Networks, Inc. ("Hydro-One"), the owner of the Canadian facilities at the Michigan-Ontario interface, that set forth the proposed operating principles for the new PARs. ITC's filing also included an informational copy of the PARs-related operating agreement between MISO and the Independent Electricity System Operator ("IESO"), the entity that has functional control of Ontario's electricity system, as well as proposed revisions to Articles 3, 9 and 10 of ITC's Presidential Permit. The proposed revision to Article 3 incorporates the proposed operating principles and provides that the PARs will be operated to control flow across the interface to schedule to the maximum practical extent.

DOE noticed the filed operational documents on August 18, 2011, inviting comments on or before September 23, 2011. Since then, the comment due date has been extended twice to permit settlement discussions to continue, with comments now being due November 4, 2011.

II. The Settlement Agreement

Settlement discussions have now been completed and the executed Settlement Agreement is attached hereto. It includes the following major provisions:

- 1) PJM and the several PJM Transmission Owners that have previously submitted comments in this proceeding objecting to the proposed flow to schedule operation of the new PARs have withdrawn their opposition and, subject to the terms of the Settlement Agreement, do not oppose the new PARs being placed into service on a flow to schedule basis in accordance with the operational documents filed by ITC on August 9, 2011.
- 2) A data collection procedure has been agreed to whereby data on the impacts of PARs operations will be collected and shared over a two to three year period. After a full year's data has been collected, ITC, MISO, the IESO and PJM will begin discussions to determine whether changes to PARs operations are warranted and can be agreed to.²
- 3) If operational changes are not agreed to and if any signatory to the Settlement Agreement wishes to propose non-agreed upon changes to DOE, it may do so. If such a filing is submitted, DOE shall refer the proposal to the Federal Energy Regulatory Commission ("FERC") for

² As discussed below, the New York Independent System Operator, Inc. ("NYISO") has chosen not to join the settlement at this time. ITC expects, however, that NYISO will ultimately participate voluntarily in the data collection process and the operational discussions.

development of an evidentiary record and for findings of fact. Upon return of the record and factual findings to DOE from the FERC, DOE shall then decide the matter.

III. The Non-Signatory Parties

The bulk of the entities who have previously filed comments in this proceeding, including PJM and all of the PJM TOs who have raised objections to the proposed flow to schedule PARs operating plan, are signatories to the Settlement Agreement. The few non-signatory parties include the following:

As a Canadian entity, not subject to U.S. jurisdiction, the IESO has chosen not to sign the Settlement Agreement. The IESO, however, has authorized the undersigned to inform DOE that it supports the settlement and intends to voluntarily participate in the data collection process and the PARs operational discussions. Similarly, Detroit Edison Company has authorized the undersigned to state that it too supports the Settlement Agreement. The Ohio Public Utilities Commission has also not signed the Settlement Agreement, but it has informed PJM that it does not oppose the Settlement Agreement.

NYISO and the New York Transmission Owners ("New York TOs") have also not signed the Settlement Agreement. While those entities will, of course, speak for themselves to the extent they believe necessary, ITC does not believe that they will oppose the Settlement Agreement or object to the PARs being placed into service promptly on a flow to schedule basis per the August 9, 2011 operational agreements, given that (1) NYISO strongly supported prompt approval and activation of the new PARs, both in its initial comments in this proceeding filed on March 12, 2009 and throughout the Lake Erie loop flow-related proceeding at the FERC in Docket No. ER08-1281, (2) NYISO's stated concerns regarding the August 9, 2011 operational documents have already been satisfied³, and (3) the New York TOs have never opposed ITC's application in this case, and supported NYISO's position on the PARs throughout the loop flow-related proceeding in FERC Docket No. ER08-1281.

Given the extremely broad support for the Settlement Agreement, and, subject to the terms of the Settlement Agreement, the lack of opposition to placing the PARs into service on a flow to schedule basis, ITC respectfully urges that DOE promptly approve the Settlement Agreement and authorize the PARs to be energized and operated in accordance with the operational documents filed by ITC on August 9, 2011, as the Settlement Agreement provides. Through no fault of DOE, this matter has now been pending for almost three years. Since virtually all interested parties are now in agreement, the time has come to place the new PARs into service so they can begin to provide enhanced control of Lake Erie loop flow without further delay.

³ See the joint comments of MISO and the IESO, filed herein on October 12, 2011, at 8-9.


IV. Request to Suspend Comments

Since a settlement is now being submitted which, if approved, will resolve this case, it is unnecessary and could be counterproductive for additional comments (and reply comments) on ITC's permit amendment application to be filed on the current, November 4, 2011, due date. At the same time, ITC understands that potential commenters may be reluctant to forego submitting comments without some assurance that they will be able to do so later if the settlement is not approved. Accordingly, ITC requests that upon receipt of this filing, DOE suspend the present comment period until after the settlement is acted upon, with the understanding that a comment period will be reinstated if the settlement is not approved.

Very truly yours,

/s/: Stephen J. Videto

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**UNITED STATES OF AMERICA
DEPARTMENT OF ENERGY
OFFICE OF ELECTRIC DELIVERY
AND ENERGY RELIABILITY**

**International Transmission Company
d/b/a ITCTransmission**

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Docket No. PP-230-4

Settlement Agreement

International Transmission Company d/b/a ITCTransmission ("ITC"), the Midwest Independent Transmission System Operator, Inc. ("MISO"), and PJM Interconnection, L.L.C.. ("PJM") (hereinafter, collectively, the "Parties" or, individually, a "Party") and the several other signatories listed below enter into this Settlement Agreement for the purpose of resolving contested issues among them relating to ITC's pending application in this proceeding to amend its Presidential Permit PP-230-3 to authorize the installation and operation of two 700-MVA phase shifting transformers connected in series at its Bunce Creek Station in Marysville, Michigan.

Recitals

On January 9, 2009, ITC filed its application in this proceeding to amend its Presidential Permit to authorize the installation and operation of two 700-MVA phase shifting transformers connected in series at its Bunce Creek Station at Maryville, Michigan. The new transformers, also known as phase angle regulators ("PARs"), will replace a single 675-MVA phase shifting transformer that failed at that location in 2003. The application proposed, among other things, that the new PARs would be operated as authorized in the original Presidential Permit for the single PAR that failed, so as to control unscheduled loop flow around Lake Erie on a flow to schedule basis to the maximum practical extent.

ITC's application was noticed by the Department of Energy ("DOE") on February 4, 2009 (74 Fed. Reg. 6607 (February 10, 2009)), with comments, protests and requests for intervention being due on March 12, 2009.

The only comments were submitted by the New York Independent System Operator, Inc. ("NYISO"), which submitted a letter of support on March 9, 2009, the Independent Electricity System Operator of Ontario ("IESO"), which filed comments on March 11, 2009, and MISO which submitted comments on March 12, 2009. While supporting the installation of the new PARs and not objecting to the proposed operating plan, both the IESO and MISO requested that DOE condition its approval of ITC's application in certain respects relating to MISO's role in the future operation of the proposed facilities.

ITC filed its initial reply to the comments of these parties on March 31, 2009. ITC stated, among other things, that negotiations regarding MISO's role in future operations were ongoing among the parties and that there was no need for DOE to intercede in the discussion at that time. ITC further stated that before the new PARs were energized, it would file with DOE all agreements concerning future operations of the facilities.

On October 20, 2010, ITC and MISO submitted a rate filing to the Federal Energy Regulatory Commission ("FERC") in Docket No. ER11-1844 proposing to allocate a portion of the costs of the Bunce Creek PARs to NYISO and PJM. The filing, which was protested by NYISO, PJM

and others, was accepted by the FERC, subject to refund, and set for hearing in an order issued on December 30, 2010. (133 FERC ¶ 61,275).

During 2011, PJM, several of its transmission owners, the Ohio Public Utilities Commission, and others filed late interventions and comments in this proceeding alleging that operation of the new PARs on a flow to schedule basis would adversely impact the PJM system. ITC and/or MISO and the IESO have filed responses opposing each of those interventions and comments. In addition, in May, 2011, the Detroit Edison Company filed a late intervention and comments supporting ITC's application and the proposed flow to schedule operation of the New PARs.

On August 9, 2011, ITC filed Supplemental Reply Comments in this proceeding informing DOE that ITC, MISO, the IESO and Hydro One Networks, Inc. ("Hydro One"), the owner of the Canadian facilities that interconnect with ITC's Presidential Permit facilities, had completed their negotiations on operational issues. ITC submitted the following documents for filing in this docket:

- A letter agreement between ITC and MISO dated August 8, 2011 assigning to MISO functional control over the facilities covered by ITC's Presidential Permit, including the new PARs.
- An Amended and Restated Interconnection Facilities Agreement ("IFA") between ITC and Hydro One dated August 8, 2011 which, among other things, included a revised Schedule I setting forth the operating principles for the PARs facilities in place on ITC's and Hydro One's interconnected facilities, including the new PARs which are the subject of ITC's pending application in this docket.¹

In addition to the above-described documents, ITC's August 9 filing also included for DOE's consideration proposed revisions to Articles 3, 9 and 10 of ITC's Presidential Permit. The

¹ MISO and the IESO also agreed to similar operating principles set forth in an Operating Instruction entitled "Operation of the Michigan-Ontario Tie Lines and Associated Facilities" (the "CO2 Agreement"). The CO2 Agreement was submitted to DOE for informational purposes as part of ITC's August 9, 2011 filing.

proposed revision to Article 3 updated the operating principles for ITC's PARs to incorporate the principles set forth in the above-referenced revised Schedule I included in the Amended and Restated IFA, and confirmed the intent that the PARs would be operated so that actual flows across the Michigan-Ontario interface match scheduled flows to the maximum practical extent.

DOE noticed ITC's August 9, 2011 filing on August 18, 2011 (76 Fed.Reg. 52945), inviting interested parties to submit comments on or before September 23, 2011. Thereafter, the comment period was extended until October 14, 2011, and then until November 4, 2011, to permit the parties to pursue and finalize ongoing settlement discussions.

Now, therefore, in order to resolve this proceeding, the signatories hereto agree as follows:

1. The signatories hereto that have heretofore raised objections to ITC's pending application in this proceeding to amend its Presidential Permit, hereby withdraw their opposition and, subject to the terms of this Settlement Agreement, do not oppose the new PARs being operated to control Lake Erie loop flow on a flow to schedule basis to the maximum practical extent pursuant to the operational documents filed herein by ITC on August 9, 2011.
2. Upon commencement of the PARs operations, MISO and PJM will collect data to examine and quantify, on an hourly basis, the harms, if any, and benefits, if any, to both markets (including congestion costs) and reliability, as a result of controlling Lake Erie loop flow on a flow to schedule basis. Specific data to be collected is set forth in the letter agreement attached hereto as Attachment A. The data collection process will continue over a period that includes at

least two summers (May-September). Any of the Parties may extend this data collection obligation of all Parties for a third year. Although not a signatory to this Settlement Agreement, the IESO fully intends to submit comparable data for analysis. The collected data will be shared among the Parties and the IESO at the end of each quarter during the data collection period.

3. Following the accumulation of a full year's data, ITC, MISO, the IESO and PJM shall commence discussions to determine whether changes to PARs operating procedures are warranted and can be agreed upon. These discussions will begin during the second year following the commencement of the PARs operating on a flow to schedule basis. The discussions will include consideration of other elements that significantly influence Lake Erie circulation such as the operation of the Ramapo and St. Lawrence PARs. The goal and intent of the discussions shall be to reach a consensus as to the impacts of flow to schedule operation of the Michigan-Ontario PARs and as to any changes that may be made in the operation of those PARs. The discussion period will extend through the December 31 following the last summer of data collection, so as to allow sharing and evaluation of data from the last summer period.

4. If operating changes are agreed upon by consensus of ITC, MISO, the IESO and PJM at any point during the discussion period, they will be filed with DOE by ITC, will be supported by all Parties, and will be implemented by ITC, MISO and the IESO upon DOE approval.

5. If the Parties fail to reach agreement on changes to the operating procedures for the Michigan-Ontario PARs, then at any time within six months following the end of the second summer of data collection, any signatory that supports any such operational changes may propose to DOE

that such operational changes be incorporated in the Presidential Permit, which will then be subject to the procedures set forth in the next paragraph. If no signatory has proposed any such changes during the six month window following the end of the second summer of data collection, and if a third year of data collection has been requested and is ongoing, there will be an additional six month window for the proposal of such changes following the end of the third summer of data collection, which will, again, be subject to the procedures set forth in the next paragraph.

6. In its order approving ITC's pending permit amendment application in this proceeding, DOE shall provide the following: If a proposal to change the operating procedures for the Michigan-Ontario PARs is submitted by a signatory pursuant to Paragraph 5, DOE will open a docket pursuant to its authority under *Executive Order 10485* to address the proposed changes to PARs operating procedures. Upon opening such docket, DOE shall delegate to the FERC the tasks of assembling an evidentiary record regarding the operations of the PARs on a flow to schedule basis and the proposed changes to PARs operating procedures and making proposed findings of fact based on that record, with the *proviso* that the FERC shall then return the record and its proposed findings of fact to DOE, without making a decision or a recommendation. Upon the return of the evidentiary record and proposed findings of fact to it, DOE will adopt FERC's findings on matters of fact except when it finds that they are not supported by the record evidence. DOE shall then decide, based on the findings of fact and any other relevant considerations within its authority under Executive Order 10485, whether additional conditions should be imposed on ITC's Presidential Permit to address the PARs operating procedures. All Parties and all signatories to this Settlement Agreement will be free to support or oppose the

proposed changes as they see fit, but may not argue that DOE's issuance of the amended Presidential Permit in this proceeding bars DOE from imposing subsequent conditions or otherwise amending the Presidential Permit. DOE shall determine whether to direct changes to the PARs operating procedures as promptly as practicable and shall endeavor to issue its decision within 12 months following return of the evidentiary record and the proposed findings of fact from the FERC. During the pendency of DOE's and FERC's processing of the proposed changes to the PARs operating procedures, the PARs will remain in service and will continue to operate on a flow to schedule basis unless and until DOE orders otherwise.

7. Nothing in this Settlement Agreement shall preclude any signatory from proposing to DOE at any time changes in PARs operating principles in order to protect the reliability of the U.S. transmission grid, it being understood that the concerns raised thus far in comments in this proceeding, including but not limited to the concerns regarding and related to alleged increased congestion that have been raised by PJM and others, cannot be reopened pursuant to this paragraph and must be pursued, if necessary, pursuant to the procedures set forth in Paragraphs 5 and 6 of this Settlement Agreement

8. Nothing in this Settlement Agreement shall preclude a signatory from proposing in any appropriate forum changes in the manner in which transactions between MISO and Ontario are modeled in the NERC TLR process that are designed to ensure that the modeling accurately reflects (1) the actual impacts of the PARs upon Lake Erie loop flow, and (2) the flows that are actually occurring on the Michigan-Ontario interface, provided, however, that before any signatory proposes any such changes, it will first notify the other signatories and the IESO of its

intentions and allow a reasonable period for discussion of the proposed changes among those entities.

9. If DOE makes changes to this Settlement Agreement that are not acceptable to any signatory, then DOE shall reopen the comment period in this proceeding for an additional 21 days and shall thereafter rule on the merits of ITC's application to amend its Presidential Permit without regard to this Settlement Agreement which shall otherwise be considered null and void.

IN WITNESS WHEREOF, the signatories have caused this Settlement Agreement to be duly executed.

International Transmission Company d/b/a ITCTransmission

By: Gregory Panidis

Midwest Independent Transmission System Operator, Inc.

By: 21777

PJM Interconnection, L.L.C.

By: B. S. Specter
Barry S. Specter, Counsel

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By: Gary J. Newell
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Old Dominion Electric Cooperative

By: Adrian Clair / BGS
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Peeco Holdings, Inc.

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American Electric Power Service Corporation

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November 3, 2011

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Gentlemen:

The purpose of this letter is to set forth the agreement of International Transmission Company d/b/a *ITC Transmission* ("ITC"), the Midwest Independent Transmission System Operator, Inc. ("MISO"), and PJM Interconnection, L.L.C. ("PJM" collectively the "Parties") regarding the collection of certain information and data in furtherance of a settlement agreement concurrently being filed in Department of Energy ("DOE") Docket No. PP-230-4 concerning ITC's application for an amended Presidential Permit to authorize it to install two phase angle regulators ("PARs") at its Bunce Creek Station in Marysville, Michigan.

The Parties hereby agree as follows:

1. Upon commencement of the PARs operations, MISO and PJM will collect data to examine and quantify, on an hourly basis, the harms, if any, and benefits, if any, to both markets (including congestion costs) and reliability, as a result of controlling Lake Erie loop flow on a flow to schedule basis, as proposed by ITC in connection with its amended

Presidential Permit application. The specific data to be collected shall include, but not be limited to¹:

- a. PAR tap settings (each movement and the time moved) and the corresponding changes in both scheduled and actual flows of power on the PARs at Ramapo, Ontario-Michigan, and St. Lawrence when tap changes are made.
- b. Scheduled and actual flows of power across the transmission interfaces between the Independent Electricity System Operator of Ontario, Inc. ("IESO")-MISO (Michigan and Ontario), IESO-NYISO, MISO-PJM, and NYISO-PJM.
- c. Interface prices on the MISO-PJM, IESO-MISO, IESO – NYISO, and NYISO – PJM interfaces (5 minute data intervals).
- d. Constraints binding, shadow prices, flows, and ratings on all flow gates in IESO, MISO, PJM, and NYISO identified in the Regional Power Control Device Study impacted by the Ramapo, Michigan-Ontario or St. Lawrence PARs (5 minute data intervals). Other flow gates can be added to this list by agreement. Interchange transactions between MISO and IESO, IESO and NYISO, NYISO and PJM, and PJM and MISO.
- e. Status (in-service or out-of-service) of all Ramapo, Ontario-Michigan, and St. Lawrence PARs.
- f. Status of regulate and non-regulate mode for Ontario-Michigan PARs.
- g. Target flow and actual flow at Ramapo.
- h. TLR activity in IESO, MISO, PJM, and NYISO.
- i. Significant transmission (345 kV or greater) and generation (500 MW or greater) outages.
- j. Notable, unusual system conditions or events.

2. The data collection process will continue over a period that includes at least two summers (May-September). Any of the Parties may extend this data collection obligation of all Parties for a third year. Although not a signatory to this letter agreement, IESO has informed the Parties that IESO fully intends to submit comparable data for analysis. The collected data will be shared among the Parties and the IESO at the end of each quarter during the data collection period, subject to confidential information and/or Critical Energy Infrastructure Information (CEII) requirements, as necessary.

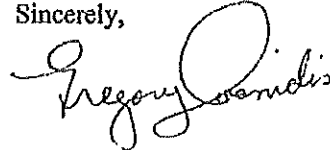
3. Following the accumulation of a full year's data, ITC, MISO, IESO, and PJM shall commence discussions to determine whether changes to the PARs operating procedures submitted to the DOE in Docket No. PP-230-4 are warranted and can be agreed upon. These discussions will begin during the second year following the commencement of the PARs operating on a flow to schedule basis. The discussions will include consideration of other elements that significantly influence Lake Erie circulation such as the operation of the

¹ Each of MISO and PJM (and the IESO to the extent it participates in the data collection process) shall only be expected to collect data which is reasonably accessible and available to it.

Ramapo and St. Lawrence PARs. The goal and intent of the discussions shall be to reach a consensus as to the impacts of flow to schedule operation of the Michigan-Ontario PARs and as to any changes that may be made in the operation of those PARs. The discussion period will extend through the December 31 following the last summer of data collection, so as to allow sharing and evaluation of data from the last summer period.

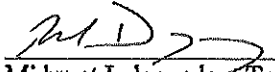
4. In connection with these discussions, MISO and PJM may share collected data and analysis with their members, consistent as necessary with any obligations to protect the disclosure of confidential information or CEII as set forth in the membership agreements and tariffs of MISO and PJM, any applicable regulatory requirements regarding the protection of confidential information and CEII, and the execution to the extent necessary of any required confidentiality and CEII agreements.

Sincerely,



Gregory Ioanidis
President, ITC Michigan and
Vice President, ITC Holdings Corp.

Accepted and agreed to this 3rd day of November, 2011



Midwest Independent Transmission System Operator, Inc.



PJM Interconnection, L.L.C.