SCHEDULE 10

ISO Cost Recovery Adder

I. GENERAL

The Transmission Provider will recover its costs pursuant to the terms of this Schedule 10 from Transmission Customers, Transmission Owners and Appendix I entities whose filings have been approved by the Commission.[1] The costs recovered pursuant to the terms of this Schedule 10 are exclusive of those costs recovered pursuant to Schedules 1, 10-D, 10-G, 16, 16-B, 16-C, 17, 17-B or 17-C of this Tariff. Part II of this Schedule 10 presents the cost recovery mechanism and charges applicable to all Transmission Customers, Transmission Owners and Appendix I entities.

The cost recovery mechanism and charges in Part II of this Schedule applicable to: (1) bundled retail load in states without retail access, and (2) wholesale transmission customers subject to Grandfathered Agreements, shall be billed to and recovered from Transmission Owners and Appendix I entities based on the physical location of the load as described in Part II, Section B, Paragraph 2 of this Schedule 10.

II. ISO COST RECOVERY ADDER

The cost recovery mechanism and charges in Part II of Schedule 10 are applicable to all Transmission Customers, Transmission Owners and Appendix I entities whose filings have been approved by the Commission.

The charges applicable to each Transmission Customer are specified under Part II, Section B, Paragraph 1 of this Schedule 10. The charges applicable to each Transmission Owner on behalf of their bundled retail customer load and wholesale transmission service customer load subject to Grandfathered Agreements (collectively, the "Transmission Owner Adder Load") are specified under Part II, Section B, Paragraph 2 of this Schedule 10. The charges applicable to each Appendix I entity are the same as those specified for Transmission Owners under Part II, Section B, Paragraph 2 of this Schedule 10. Collectively, the charges applicable under Paragraph 1 and Paragraph 2 of Part II, Section B of this Schedule 10 are termed the "ISO Cost Recovery Adder."

A. Billing Determinants

For purposes of this Schedule 10, all references to MWhs of Transmission Service shall mean the billing determinant**s** for: (1) Transmission Service provided under Part II and of the Tariff, (2) Transmission Service provided by an Independent Transmission Company ("ITC") under ITC Rate Schedules approved by the Commission in this Tariff, and (3) Transmission Service under the Tariff for all bundled retail customers and wholesale transmission customers subject to Grandfathered Agreements as required by the Commission pursuant to its directive to allocate Transmission Provider's administrative costs to all load. *Midwest Independent Transmission System Operator, Inc.*, 97 FERC ¶ 61,033 (2001).

Each monthly charge shall be calculated based on either budgeted or forecasted costs and estimated MWhs of Transmission Service less the number of MWhs derived pursuant to Schedule 10-D Section III and Schedule 10-G Section III, which will be trued up in the following month's calculation to reflect actual costs and actual MWhs of Transmission Service.

B. <u>Determination of the Monthly Charge</u>

The costs associated with operating the ISO exclusive of those costs recovered pursuant to Schedules 1, 10-D, 10-G, 16, 16-B, 16-C, 17, 17-B or 17-C shall be recovered through Schedule 10 charges. The costs to be recovered under this Schedule 10 shall include the costs associated with building and operating the Security Center, including capital costs and operating expenses; and costs associated with administering the Tariff. For capital costs, the Transmission Provider shall not recover a rate of return on equity, but instead will recover its actual costs of financing any such capital costs.

C. <u>Payments Applicable to Withdrawing Owners</u>

In the event that a Transmission Owner withdraws its transmission facilities ("Withdrawing Entity") from the operational control of the Transmission Provider, the Withdrawing Entity shall pay its share of all Schedule 10-related financial obligations incurred and payments applicable to time periods prior to the effective date of such withdrawal (the "Schedule 10 Withdrawal Obligation") as required by Article Five, Section II(B) of the ISO Agreement. The Withdrawing Entity's total responsibility for the Schedule 10 Withdrawal Obligation shall be based on the outcome of a negotiated or contested settlement accepted by the Commission.

The withdrawing Transmission Owner may, at the Transmission Owner's election, pay the Schedule 10 Withdrawal Obligation amortized over five (5) years including interest based on the Commission mandated interest rate for refunds, or (ii) pay the entire Schedule 10 Withdrawal Obligation in lump sum at the time of withdrawal.

D. Credit for Schedule 10-D and Schedule 10-G Withdrawal Obligations

In determining the costs to be recovered under Schedule 10 a monthly credit shall be applied to the total monthly costs to be recovered to reflect Schedule 10 Withdrawal Obligation payments received from Withdrawing Entities. The amount of the credit shall be based on the Schedule 10 Withdrawal Obligation defined in Schedule 10-D and Schedule 10-G of this tariff.

The effective date for the monthly credit associated with Schedule 10-D under this Schedule 10 shall be June 1, 2011. The termination date shall be May 31, 2026. The monthly amount of the credit shall be the unamortized balance of the Withdrawal Obligation under Schedule 10-D as of May 31, 2011 divided by the number of months between June 1, 2011 and May 31, 2026.

The effective date for the monthly credit associated with Schedule 10-G under this Schedule 10 shall be January 1, 2012. The termination date shall be December 31, 2026. The monthly amount of the credit shall be the unamortized balance of the Withdrawal Obligation under Schedule 10-G as of December 31, 2011 divided by the number of months between January 1, 2012 and December 31, 2026.

E. Credit for Schedule 10-D and Schedule 10-G Payments

In determining the costs to be recovered under Schedule 10 a monthly credit shall be applied to the total monthly costs to be recovered to reflect projected payments to be received by the Transmission Provider during the month under Schedule 10-D and Schedule 10-G.

III. RATES FORMULA

Each month, the Transmission Provider shall determine two rates, a "Reserved Capacity Rate" and an "Energy Rate" for application under this section. The two rates are necessary because each will be multiplied by a different type of billing determinant. The Reserved Capacity Rate will be multiplied by billing units of Reserved Capacity, and the Energy Rate will be multiplied by billing units of MWhs of scheduled energy. In the rate calculations, 50% of the billing units used will be based on MWhs of Reserved Capacity and 50% of the billing units used will be based on MWhs of Energy.

The Transmission Provider shall determine the dollar target for recovery under the ISO Cost Recovery Adder for each month based on either the Transmission Provider's budgeted costs or forecasted costs to be recovered under this Schedule 10 for that month exclusive of the costs to be recovered under Schedule 10-D and Schedule 10-G and any other deferred costs;[2] the monthly credit for Withdrawal Obligations paid under Schedules 10-D and 10-G; and a true-up amount from the prior month. The true-up amount is the difference between the Transmission Provider's actual costs to be recovered under this Schedule 10 for the prior month and the actual amount of Schedule 10 revenue received for that prior month. Transmission Provider shall separate the formula into two components -- one for recovery through the Energy Rate and one for recovery through the Capacity Rate.

The methodology for determining these two rates is as follows:

$ER_t =$ $[X_t\% \text{ x } (TMRA_t – COST\_10D_t – COST\_10Gt – COST\ 31 - CREDIT\_10D_t – CREDIT\_10G_t)] / (FE_t)$; and

$CR_t =$ $[(1 – X_t\%) \text{ x } (TMRA_t – COST\_10Dt –COST\ \_10Gt – COST\ 31 - CREDIT\_10D_t -CREDIT\_10Gt)] / (FMET_t)$

where:

t = the effective month.

T = True-up amount from prior month defined as the difference between Actual Schedule 10 Costs and Actual Schedule 10 Revenue, where

"Actual Schedule 10 Costs" equal the sum of cost components A.1 through A.9 for the prior month.

"Actual Schedule 10 Revenue" equals the Energy Rate (ER)x actual Schedule 10 Energy for Transmission Service (FE) + Capacity Rate (CR) x actual Schedule 10 Demand for Transmission Service (FMET).

ER = the Energy Rate.

CR = the Capacity Rate.

X% = the percent of the Targeted Monthly Recovery Amount to be recovered using the Energy Rate (as of June 1, 2009, X is equal to 50%).

TMRA = $A.1 + A.2 + A.3 + A.4 + A.5 + A.6 + A.7 – A.8 + A.9 + T_{t-1} + S_t$

COST 31 = the projected costs to be recovered under Schedule 31 for the upcoming month based on prior month's actual cost recovery.

A.1 = Sum of [Operation Expense (401) + Maintenance Expense (402) + Taxes Other Than Income Taxes (408)] directly charged to Schedule 10 accounts ("Direct Schedule 10 Costs").

Direct Schedule 10 Costs are limited to operating expenses associated with building and operating the Security Center, including capital costs and operating expenses; and costs associated with administering the Tariff. Direct Schedule 10 Costs exclude costs allocated to Schedule 1, Schedule 16 and Schedule 17.

A.2 = Sum of [Operation Expense (401) + Maintenance Expense (402) + Taxes Other Than Income Taxes (408)] not directly charged to Schedule 1, Schedule 10, Schedule 16 or Schedule 17 accounts ("Indirect Costs") x Operating Expense Allocation Factor - Schedule 10, where:

Operating Expense Allocation Factor – Schedule 10 = Base Wages 10 / (Base Wages 1 + Base Wages 10 + Base Wages 16 + Base Wages 17), where:

Base Wages 1 = Administrative and General Salaries (401.920) directly charged to Schedule 1 accounts exclusive of fringe benefits

Base Wages 10 = Administrative and General Salaries (401.920) directly charged to Schedule 10 accounts exclusive of fringe benefits

Base Wages 16 = Administrative and General Salaries (401.920) directly charged to Schedule 16 accounts exclusive of fringe benefits

Base Wages 17 = Administrative and General Salaries (401.920) directly charged to Schedule 17 accounts exclusive of fringe benefits

Indirect Costs are the operating expenses associated with corporate support functions, including but not limited to the Transmission Provider's executive, facilities, finance and human resources support functions. Indirect Costs exclude any costs of the Transmission Provider that are directly charged to a Schedule 1, Schedule 10, Schedule 16 or Schedule 17 operating expense account. As such, Indirect Costs exclude any costs recovered under Variable A.1 in this Schedule 10.

A.3 = Depreciation Expense (403) directly charged to Schedule 10 accounts (account 403, Transmission Plant sub-account 403.010) and amortization expense (account 405) directly charged to Schedule 10 (Account 405 sub acct 405.010).

Depreciation expense directly charged to Schedule 10 is maintained in account 403, Transmission Plant sub-account 403.010 of MISO's internal books and records. Variable A.3 under this Schedule 10 excludes depreciation directly charged to Schedule 1, Schedule 16 and Schedule 17 accounts as well as depreciation associated with general plant accounts.

Amortization expense directly charged to Schedule 10 is maintained in account 405, Transmission Plant sub-account 405.010 of MISO's internal books and records. Variable A3 under this Schedule 10 excludes amortization directly charged to Schedule 1, Schedule 16 and Schedule 17 accounts as well as amortization associated with general plant accounts. Account 405 shall include charges for amortization of intangible or other electric utility plant which does not have a definite or terminable life and which is not subject to charges for amortization expense, for example, land cost.

As enhancements to MISO's assets are completed the new assets will be added to this sub-account (403.010) based on use studies. The results of such use studies for each enhancement completed will be posted on MISO's website. Any changes to the use study findings would require a Section 205 filing to change the allocated amount of depreciation associated with the affected enhancement or enhancements. MISO will provide support for these study findings upon request of stakeholders or Market Participants.

A.4 = Depreciation Expense (403) and amortization (405) not directly charged to Schedule 1, Schedule 10, Schedule 16 or Schedule 17 accounts ("General Plant Depreciation") x Operating Expense Allocation Factor – Schedule 10.

A.5 = Sum of [Interest on Long-Term Debt (427) + Amortization of Debt Discount and Expense (428)] directly charged to Schedule 10 accounts.

The interest expense directly charged to Schedule 10 account number 427 includes interest expense associated with all senior, unsecured notes authorized by the Commission and issued by MISO.

All interest expense not directly allocated to Schedule 1, Schedule 10, Schedule 16 or Schedule 17 and all interest income earned by the Transmission Provider are included in the category Indirect Interest Expense.

The amortization of debt discount and expense directly charged to Schedule 10 account number 428 includes amortization of debt discount and expense associated with all senior, unsecured notes authorized by the Commission and issued by MISO.

All amortization of debt discount and expense not directly allocated to Schedule 1, Schedule 10, Schedule 16 or Schedule 17 is included in the category Indirect Interest Expense.

Variable A.5 under this Schedule 10 excludes interest on long-term debt and amortization of debt discount and expense directly charged to Schedule 1, Schedule 16 and Schedule 17.

A.6 = Sum of [Interest and Dividend Income (419) + Interest on Long-Term Debt (427) + Amortization of Debt Discount and Expense (428) + Other Interest Expense (431)] not directly charged to Schedule 1, Schedule 10, Schedule 16 or Schedule 17 accounts ("Indirect Interest Expense") x Operating Expense Allocation Factor – Schedule 10

Variable A.6 under this Schedule 10 excludes interest on long-term debt and amortization of debt discount and expense directly charged to Schedule 10, as well as interest on long-term debt and amortization of debt discount and expense directly charged to Schedule 1, Schedule 16 and Schedule 17.

A.7 = Regulatory Debits (407.3) and Amortization of property losses, unrecovered plant and regulatory study costs (407) directly charged to Schedule 10

A.8 = Regulatory Credits (407.4) directly charged to Schedule 10

A.9 = Any revenue or expense item reported on Form 3Q or Form 1 that is not included in variables A.1 through A.9 for Schedule 10, Schedule 16 or Schedule 17.

$COST\_10D_t$ = the projected costs to be recovered under Schedule 10-D for the upcoming month based on prior month's actual cost recovery

$COST\_10G_t$ = the projected costs to be recovered under Schedule 10-G for the upcoming month based on prior month's actual cost recovery

$CREDIT\_10D_t$ = the unamortized balance as of May 31,2011 of the Schedule 10 Withdrawal Obligation paid by ATSI/First Energy divided by 180 months

$CREDIT\_10G_t$ = the unamortized balance as of December 31,2011 of the Schedule 10 Withdrawal Obligation paid by Duke divided by 180 months

FE = the Transmission Provider's Forecast of Energy for Transmission Service exclusive of Energy for Transmission Service subject to Schedule 10-D and Schedule 10-G.

FMET = the Transmission Provider's Forecast of Maximum Energy Transfer for the billing month in MWhs defined as the summation of the: (i) Reserved Capacity for all Point-To-Point reservations times the duration of each reservation within the month, plus (ii) Network Load for all Network Integration Transmission Service requests in the billing month times the hours in the billing month in MWhs, and (iii) Transmission Owner Adder Load in the billing month for all Transmission Owners times the hours in the billing month. The Maximum Energy Transfer for the billing month is exclusive of the Maximum Energy Transfer subject to Schedule 10-D and Schedule 10-G.

The depreciation rates to be used for calculating depreciation expense for variables A.3 and A.4 above are a function of when the asset is placed into service. For assets placed into service prior to June 1, 2009, the depreciation rates are as follows:

Asset	Life	(percent)
General Hardware	3 years	33.33
ICCS Hardware	6 years	16.67
Market Hardware	6 years	16.67
General Software	5 years	20.00
ICCS Software	7 years	14.29
Market Software	7 years	14.29

Furniture & Fixtures	7 years	14.29
Telecommunications	7 years	14.29
Leasehold Improvements	20 years	5.00

For assets placed into service on or after June 1, 2009, the depreciation and amortization rates are as follows:

Asset	Life	Rate (percent)
General Hardware	3 years	33.33
ICCS Hardware (Commodity)	3 years	33.33
ICCS Hardware (Enterprise)	5 years	20.00
Market Hardware (Commodity)	3 years	33.33
Market Hardware (Enterprise)	5 years	20.00
General Software	3 years	33.33
ICCS Software	5 years	20.00
Market Software	5 years	20.00
Furniture & Fixtures	7 years	14.29
Telecommunications	7 years	14.29
Building	20 years	5.00

Leasehold Improvements (Structural Modifications) – Lease term

Leasehold Improvements (Affixed Equipment) lesser of 4 years or lease term

Land*	20.00

*Life is not terminable amortizing cost over 5 years

The terms "ICCS Hardware" or "ICCS Software" as used in the tables above are defined as the cost of hardware or software associated with the Transmission Provider supplying regional transmission service. The terms "Market Hardware" or "Market Software" as used in the tables above are defined as the cost of hardware or software associated with supporting the market-based, congestion management systems and processes of the Transmission Provider. "Commodity" hardware includes computer systems that provide economical but limited compute resources in support of standard workloads. These computer systems are typically built using standardized commodity parts. "Enterprise" hardware includes computer systems that provide support for programs that collectively serve the needs of multiple users, departments, or specialized applications – typically under heavy workloads. These computer systems are designed and built to address specific reliability, availability and scalability ("RAS") requirements. Costs for Market Hardware and Market Software are recorded to sub-accounts by cost recovery schedule.

Loan principal is recovered through depreciation variable A.4 as well as other line items.

The Transmission Provider will bill the Transmission Customers, Transmission Owners and Appendix I entities for their respective shares of the costs. The foregoing provisions in this Part II, Section A shall constitute a formula rate, and changes to the relative percentages of the Targeted Monthly Recovery Amount to be recovered under the two components will not require a filing. The Transmission Provider shall notify its customers in advance of invoicing of any change in the relative percentages.

IV. CHARGES

A. Transmission Customers

The Schedule 10 charges for Transmission Customers taking Point-To-Point Transmission Service under Part II of this Tariff shall be calculated for each Point-To-Point reservation and their total Schedule 10 Point-To-Point charges shall be the sum of the charges for each of those reservations.

The following formula shall be used to calculate the charges associated with each reservation:

PtPt = (ERt x ESt) + (CRt x RCt x HRt); where;

t = the effective month.

PtP = Schedule 10 charge associated with Point-To-Point Transmission Service reservation.

ER = the Energy Rate established by the Transmission Provider in accordance with Part II, Section A of this Schedule 10.

CR = the Capacity Rate established by the Transmission Provider in accordance with Part II, Section A of this Schedule 10.

ES = the MWhs of energy for the Point-To-Point Transmission Service reservation.

RC = the Reserved Capacity for the Point-To-Point Transmission Services reservation.

HR = the duration, in hours, of the reservation within the month.

The Schedule 10 charges for Transmission Customers taking Network Integration Transmission Service under Part II of this Tariff shall be calculated for each Network Integration Transmission Service reservation and their total Schedule 10 charge for Network Integration Transmission Service shall be the sum of the charges for each of those reservations.

The following formula shall be used to calculate the charges associated with each reservation:

$NITS_t = (ER_t \text{ x } ES_t) + (CR_t \text{ x } NL_t \text{ x } HR_t)$ where:

t = the effective month.

NITS = Schedule 10 charges associated with Network Integration Transmission Service reservation.

ER = the Energy Rate established by the Transmission Provider in accordance with Part II, Section A of this Schedule 10.

CR = the Capacity Rate established by the Transmission Provider in accordance with Part II, Section A of this Schedule 10.

ES = the MWhs of energy for Network Integration Transmission Service reservation.

NL = the Network Customer's Monthly Network Load as determined in accordance with Module B, Section 34.2 of this Tariff.

HR = Hours in the billing month.

Confirmed Point-To-Point Transmission Service reservations made by a Transmission Customer shall be exempt from payment of Schedule 10 charges if such reservations: (a) sink in a Local Balancing Authority Area where the Transmission Customer has native load; and (b) serves the load that would otherwise be served by a confirmed Network Integration Transmission Service reservation.

B. Transmission Owners and Appendix I Entities

The Schedule 10 charges for Transmission Owners will be calculated by the Transmission Provider. The Transmission Provider will determine the Transmission Owner Adder Load as follows. First, the monthly peak of the Transmission Owner where the Transmission Owner Adder Load is physically located ("Transmission Owner Monthly Peak") will be determined. For Control Areas that have load associated with multiple Transmission Owners, the Transmission Owner Monthly Peak for each Transmission Owner is that portion of the Local Balancing Authority Area load, including the load served under Grandfathered Agreements, and therefore subject to payment of Schedule 10 fees, assignable to each individual Transmission Owner. Next, the Transmission Provider will subtract from the Monthly Peak of the Transmission Owner that operates the Local Balancing Authority Area all non-transmission owners' Network Customer's monthly Network Load that is physically located where the Transmission Owner Adder Load is physically located. The end result shall be the Transmission Owner Adder Load in megawatts.

The Schedule 10 charges for Transmission Owners taking Point-To-Point Transmission Service under of this Tariff shall be calculated for each reservation and their total Schedule 10 charge shall be the sum of the charges for each of those reservations. The following formula shall be used to calculate the charges associated with each reservation:

$$TO_t = (ER_t \text{ x } ESTO_t) + (CR_t \text{ x } TOAL_t \text{ x } HR_t) \text{ where:}$$

TO = Schedule 10 charges associated with Transmission Service for Transmission Owner Adder Load for that month.

ER = the Energy Rate established by the Transmission Provider in accordance with Part II, Section A of this Schedule 10.

CR = the Capacity Rate established by the Transmission Provider in accordance with Part II, Section A of this Schedule 10.

ESTO = the MWhs of energy in the billing month associated with Transmission Owner Adder Load.

TOAL = the Transmission Owner Adder Load in the billing month as established in accordance with this Part II, Section B, Paragraph 2.

HR = Hours in the billing month.

The charges for Appendix I entities shall be the same as those for a Transmission Owner as established in the Part II, Section B, Paragraph 2.

Confirmed Point-To-Point Transmission Service reservations made by a Transmission Owner or Appendix I entity shall be exempt from payment of Schedule 10 charges if such reservations: (a) sink in the Local Balancing Authority Area where the Transmission Owner Adder Load is physically located; and (b) serves load that would otherwise be served by a confirmed Network Integration Transmission Service reservation.

D. EXCEPTIONS

The charges in this Schedule 10 are subject to the exceptions in the Settlement Agreements described below, as accepted by the Commission,[3] regarding the following grandfathered agreements ("GFAs" or "Agreements").

1. **Settlement Agreement among the Transmission Provider, Otter Tail Corporation d/b/a Otter Tail Power Company ("Otter Tail"), and Central Power Electric Cooperative, Inc. ("CPEC"), regarding Agreement No. 297**

   Neither CPEC nor Otter Tail shall be assessed any Schedule 10 charges with regard to CPEC's loads and transmission rights under Agreement No. 297.

2. **Settlement Agreement among the Transmission Provider, Otter Tail Corporation d/b/a Otter Tail Power Company, and Minnkota Power Cooperative, Inc., regarding Agreement Nos. 309, 313, 314 and 317**

Neither Otter Tail nor Minnkota shall be assessed any Schedule 10 charges with regard to Minnkota's loads, generation, and transmission rights under Agreement Nos. 309, 313, 314 and 317.

3. Settlement Agreement among the Transmission Provider, Otter Tail Corporation d/b/a Otter Tail Power Company, Montana-Dakota Utilities Co. ("MDU"), Minnkota Power Cooperative, Inc. as agent for Northern Municipal Power Agency, and Northwestern Corporation d/b/a NorthWestern Energy ("NorthWestern"), regarding Agreement Nos. 311/273 and 320/274

Neither Minnkota nor NorthWestern shall be assessed any Schedule 10 charges with regard to Minnkota's and NorthWestern's load, generation, and transmission rights under the Agreements Nos. 311/273 and 320/274. The load and/or generation of Minnkota and NorthWestern also shall not be used in the determination of any such charges to be paid by Otter Tail and/or MDU.

4. Settlement Agreement among the Transmission Provider, Minnesota Power, and Minnkota Power Cooperative, Inc., regarding Agreement Nos. 284, 316 and 450

Neither Minnesota Power nor Minnkota shall be assessed any Schedule 10 charges with regard to Minnkota's generation, load, and transmission rights under such Agreement Nos. 284, 316 and 450.

[1] The charges in this Schedule 10 are subject to the exceptions in the Settlement Agreements approved by the Order of the Commission dated June 27, 2005 in *Midwest Independent Transmission System Operator, Inc.*, 111 FERC ¶ 61,491 (2005).

[2] Other deferred costs include, but are not limited to, costs associated with the integration of the Entergy Operating Companies, Cleco Power LLC, South Mississippi Electric Power Association, Lafayette Utilities Systems and East Texas Electric Cooperative that will be recovered over a five-year period beginning on the date of the integration of the first Entergy Operating Company.

[3] *Midwest Independent Transmission System Operator, Inc.*, 111 FERC ¶ 61,491 (2005).