

SCHEDULE 31

Reliability Coordination Service Cost Recovery Adder

Definitions:

Maximum Energy Transfer for Reliability Coordination Service – the result of multiplying the Reliability Coordination Customer Monthly Peak for the month by the number of hours in the month.

Reliability Coordination Customer Monthly Peak—the non-coincident monthly peak load of the Reliability Coordination Customer. The non-coincident monthly peak load of the Reliability Coordination Customer shall include: (1) all wholesale and retail load within the Balancing Authority Area of the Reliability Coordination Customer or, if the Reliability Coordination Customer is not a Balancing Authority, (2) all load that is interconnected with and taking service over the transmission facilities of the Reliability Coordination Customer. The non-coincident monthly peak load of the Reliability Coordination Customer shall not include load within the Balancing Authority Area of the Reliability Coordination Customer, or load that is interconnected with and taking service over the transmission facilities of the Reliability Coordination Customer, to the extent that such load: (1) is included in the non-coincident monthly peak load of another Reliability Coordination Customer, (2) is used to calculate the billing determinants of the Reliability Coordination Customer for the purpose of paying the Transmission Provider's full Schedule 10 under this Tariff, or (3) is used to calculate the billing determinants of a Balancing Authority or Transmission Operator that pays for reliability coordination service from another Reliability Coordinator other than the Transmission Provider.

I. GENERAL

The Transmission Provider will recover its costs to provide Reliability Coordination Service pursuant to the terms of this Schedule 31 from Reliability Coordination Customers that execute the applicable Service Agreement as set forth in Section 74 and Attachment KK-1 to the Tariff. The costs recovered pursuant to the terms of this Schedule 31 are exclusive of those costs recovered pursuant to Schedules 1, 10, 10-D, 10-G, 16, 16-B, 16-C, 17, 17-B or 17-C of this Tariff. Part II of this Schedule 31 presents the cost recovery formula and charges applicable to all Reliability Coordination Customers.

The cost recovery formula and charges in Part II of this Schedule applicable to the Maximum Energy Transfer for Reliability Coordination Service shall be billed to and recovered from Reliability Coordination Customers based on the physical location of the Reliability Coordination Customer's load as described in Part II, Section B of this Schedule 31.

II. RELIABILITY COORDINATION SERVICE COST RECOVERY ADDER

The charges applicable to each Reliability Coordination Customer shall be the product of the monthly rate for service under this Schedule 31 and the Maximum Energy Transfer for Reliability Coordination Service.

Each monthly charge shall be calculated based on budgeted or forecasted costs and forecasted Maximum Energy Transfer for Reliability Coordination Service and will be trued up in the following month's calculation to reflect actual costs and actual Maximum Energy Transfer for Reliability Coordination Service.

Determination of the Monthly Charge

The monthly charge for Reliability Coordination Service shall be based on a subset of the costs recovered under Schedule 10 of the Tariff. The subset of costs shall be those associated with the performance of the Reliability Coordination Service as set forth in Part I of Module F. For budgeting and cost recovery purposes the Transmission Provider shall allocate a portion of its Schedule 10-related operating costs to the reliability coordination functions based on an analysis of the functions performed by each department and by each employee. Allocation of capital-related costs, including depreciation expense, interest expense and amortization of deferred regulatory assets, shall be based on the purpose and use of each asset. The end result of the cost allocation process shall be a set of financial records for each cost recovery category maintained in accordance with the FERC Uniform System of Accounts.

The recording of salaries and benefits to the financial accounting books and records of the Transmission Provider is based on time sheet entries. All other operating expenses are then either directly recorded to the appropriate set of financial records or allocated to the appropriate set of financial records using salary-based labor allocation factors other appropriate allocation factors. All capital-related costs are either directly recorded to the appropriate set of financial records or allocated to the appropriate set of financial records using salary-based labor allocation factors or other appropriate allocation factors.

The cost allocation process described above shall be used by the Transmission Provider to first allocate costs to Schedule 10 and then to the Reliability Coordination Service functions that are a subset of its Schedule 10-related services. The categories of services provided under Schedule 10 of the Tariff are:

1. Reliability Coordination – ensuring the reliable operation of the bulk power system in accordance with NERC Standards and other requirements, including:
 - a. Operations Planning – development of operational plans to respond to system conditions and potential contingency situations
 - b. Maintenance Coordination – reviewing and approving or denying requests for scheduled transmission line outages, and coordinating generating unit outages
2. Tariff Administration – reviewing and approving or denying requests for Transmission Service.
3. Scheduling – reviewing and approving or denying schedules for use of confirmed transmission reservations.
4. Billing & Settlements – computation of charges, invoicing, and revenue distribution
5. Transmission Planning – including all studies associated with requests for long term firm transmission service, requests for generation interconnection service, and development of the MISO Transmission Expansion Plan (“MTEP”) document approved by the board of directors.

The costs to be recovered from Reliability Coordination Customers under this Schedule 31 are those associated with the performance of the Reliability Coordination Service as set forth in Part I of Module F.

The allocation of costs into subcategories of Schedule 10-related service is performed separately for: (1) Operating Expenses, and (2) Fixed Cost Recovery. Operating Expenses

include all costs shown on the Schedule 10 income statement of the Transmission Provider except the following: (a) FERC Fees, (b) depreciation, (c) amortization, and (d) other income/(expense). Fixed Cost Recovery includes the costs shown on the Schedule 10 income statement of the Transmission Provider that are associated with: (a) depreciation, (b) amortization, and (c) other income/(expense). The fixed costs recovered under this Schedule 31 exclude certain depreciation and amortization expenses as described in more detail below.

Operating Expense Recovery

The Transmission Provider shall allocate Operating Expenses to the appropriate subcategories of Schedule 10-related services based on a department-by-department review of the costs incurred by each department. All indirect costs are allocated based on the ratio of direct labor costs allocated to Reliability Coordination Service functions divided by the total of all direct labor costs to be recovered under Schedule 10 of the Tariff.

The cost of the Schedule 10-related Reliability Coordination functions as a percent of the total actual Schedule 10 operating costs for the most recently completed calendar year is summarized in Table 1 below. The cost allocation percentages for Operating Expenses to be recovered under Schedule 31 shall remain in effect until April 1 of the subsequent year. During March of each year, the Transmission Provider shall update the cost of service study based on actual costs incurred during the previous year and budgeted costs for the current year. The updated cost allocation percentages effective April 1 of the current year shall remain in effect until April 1 of the following year. The process of updating the Schedule 10 Operating Expense Allocation Factor shall be repeated annually.

Table 1

Reliability Coordination Service – Schedule 10 Operating Expense Allocation Factor

Schedule 10 Service Category	Percent of Schedule 10 Operating Costs
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Reliability Coordination	48.0%
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Operations Planning	7.8%
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Maintenance Coordination	1.0%
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Total – Reliability Coordination Service	56.8%
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Fixed Cost Recovery

Fixed Cost Recovery for the purposes of Schedule 31 shall include: (a) certain depreciation as set forth in this Schedule 31; (b) certain amortization expenses as set forth in this Schedule 31; and (c) certain interest expense recorded as other income/(expense) as set forth in this Schedule 31.

The cost allocation percentages for Fixed Cost Recovery shown in Table 2 shall remain in effect until April 1 of the subsequent year. During March of each year, the Transmission Provider shall update the forecast of current year depreciation expense to reflect (a) the actual capital expenditures for the previous year, and (b) the forecast of capital expenditures scheduled

to occur in the current year. The process of updating the Schedule 10 Fixed Cost Allocation Factor shall be repeated annually.

Table 2

Reliability Coordination Service – Schedule 10 Fixed Cost Allocation Factor

Service Category	Percent of Forecasted Current Year Schedule 10 Depreciation
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Reliability Coordination	53.7%
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Operations Planning	9.1%
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Maintenance Coordination	1.4%
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Total – Reliability Coordination Service	64.2%
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Interest expense and interest income allocated to Schedule 10 shall be allocated to the appropriate subcategories in Table 2 based on the depreciation allocation factor for each subcategory in Table 2. For the purposes of this Schedule 31, interest expense shall be that associated with existing debt, including the senior, unsecured notes issued by the Transmission Provider, that is allocated to Schedule 10 for cost recovery purposes as delineated in the Tariff. Interest expenses shall also include that expense associated with the issuance of any new debt to finance incremental capital improvements that are to be recovered under Schedule 10.

Payments Applicable to Withdrawing Reliability Coordination Customers

In the event that a Reliability Coordination Customer withdraws its transmission facilities from the reliability coordination authority of the Transmission Provider pursuant to a termination notice under Part I, Module F of the Tariff and the Applicable Service Agreement, the withdrawing Reliability Coordination Customer shall pay its share of all incremental Schedule 31-related financial obligations incurred and payments applicable to time periods prior to the effective date of such withdrawal as set forth in, and subject to the terms and conditions of, Section 77.3, Part I of Module F.

A. RATES AND BILLING UNITS/DETERMINANTS

Each month, the Transmission Provider shall determine the billing rate for application under this section. The formula for determining the Reliability Coordination Service monthly rate is as follows:

$$\text{REL_R}_t = \frac{[(\text{TMRA}_t - \text{DEPR}_{10t} - \text{AMORT}_{10t} - \text{INT_EXP}_{10t} - \text{COST}_{10D_t} - \text{COST}_{10G_t} - \text{CREDIT}_{10D_t} - \text{CREDIT}_{10G_t}) * \text{RSOP_EXP\%}] - \text{MCSG_REV}_t + \text{REL_TRUEUP}_{t-1} + ((\text{DEPR}_{10t} + \text{INT_EXP}_{10t}) * \text{RS_FCR\%})]{/}$$

$[(\text{FMET}_t + \text{REL_MWH}_t + \text{MCSG_MWH}_t)]$, where:

$t =$ the effective month.

$\text{REL_R} =$ the rate per MWh of Maximum Energy Transfer for Reliability Coordination Service to be charged to Reliability Coordination Customers under Schedule 31.

TMRA = the Targeted Monthly Recovery Amount as defined in Part III
of Schedule 10 of the Tariff.

DEPR10 = the portion of the Targeted Monthly Recovery Amount
associated with depreciation expense recovered under Schedule
10 of the Tariff.

AMORT10 = the portion of the Targeted Monthly Recovery Amount
associated with amortization expense recovered under
Schedule 10 of the Tariff.

INT_EXP10 = the portion of the Targeted Monthly Recovery Amount
associated with interest expense recovered under Schedule 10
of the Tariff net of interest income allocated to Schedule 10 of
the Tariff.

COST_10D = the projected costs to be recovered under Schedule 10-D of the
Tariff as defined in Part III of Schedule 10 of the Tariff.

COST_10G = the projected costs to be recovered under Schedule 10-G of the
Tariff as defined in Part III of Schedule 10 of the Tariff.

CREDIT_10D = the monthly amortization amount of the Schedule 10
Withdrawal Obligation paid by ATSI/First Energy as defined
in Part III of Schedule 10 of the Tariff.

CREDIT_10G = the amortization amount of the Schedule 10 Withdrawal
Obligation paid by Duke as defined in Part III of Schedule 10
of the Tariff.

RSOP_EXP% = Reliability Coordination Service Schedule 10 Operating
Expense Allocation Factor from Table 1 in this Part II, Section
A of Schedule 31.

MCSG_REV = projected revenue to be recovered from the MCSG Participants
from the provision of Reliability Coordination Services under a
contract between the Transmission Provider and the MCSG
Participants dated January 22, 2008.

REL_TRUEUP = the sum of: (i) the difference between the actual revenue
collected during the prior month from the provision of
Reliability Coordination Service under this Schedule 31 and
the actual cost of Reliability Coordination Service under this
Schedule 31 during the prior month, and (ii) the difference

between the actual revenue collected during the prior month
under the MCSG Agreement and the actual cost of Reliability
Coordination Service recovered under the MCSG Agreement.

RS_FCR% = the Reliability Coordination Service Fixed Cost Allocation Factor
from Table 2 in this Part II, Section A of Schedule 31.

FMET = the Transmission Provider's forecast of Maximum Energy Transfer
in MWhs as defined in Section II, Part A of Schedule 10.

REL_MWH = the Transmission Provider's forecast of Maximum Energy Transfer
for Reliability Coordination Service provided under Part I of
Module F.

MCSG_MWH = the Transmission Provider's forecast of Maximum Energy
Transfer for Reliability Coordination Service provided under the
MCSG Agreement.

B. CHARGES

The following formula shall be used to calculate the monthly Schedule 31 charges to each
Reliability Coordination Customer:

$REL_FEE_t = (REL_R_t \times RS_MWH_t)$ where:

t = the effective month.

REL_FEE = Schedule 31 charges associated with Reliability Coordination
Service for the Customer for that month.

REL_R = the Reliability Coordination Service rate established by the
Transmission Provider in accordance with Part II, Section A of this
Schedule 31.

RS_MWH = the MWhs of Maximum Energy Transfer of the Reliability
Coordination Customer.