

CONVERSION CONVENTION FOR AN INTO CINERGY PRODUCT

INTRODUCTION TO GUIDING PRINCIPLES

The Federal Energy Regulatory Commission (FERC) in Electricity Market Design and Structure; Docket No. RM01-12-000; 97 FERC ¶ 61, 146; issued an “Order Providing Guidance On Continued Processing Of RTO Filings” (Issued November 7, 2001) providing that FERC has “endeavored for several years to create regional transmission organizations (RTOs) to capture the benefits and efficiencies of a competitive power marketplace for the nation's electricity customers.” The precise start-up date for such RTOs is uncertain and the resulting governing rules and regulations are uncertain. Nonetheless, the below signatories desire to bring about some common understanding as to guiding principles that will assist in the interpretation of the existing products under a regional transmission organization. Specifically, with the formation of the Midwest Independent System Operation (MISO), many market participants that have existing transactions for an “Into Cinergy, Seller’s Daily Choice” product as defined in the EEI/NEMA Power Purchase And Sale Master Agreement, version 2.1 (modified 4/25/00) (“Master Agreement”) and that have existing transactions under other agreements that reference an “Into Cinergy” delivery obligation have met to discuss the effect of the MISO on rights, duties and commercial risks of these existing transactions. As a result of these discussions, certain general principles have been conceptually advanced to ensure a smooth transition into MISO and promote continued liquidity of the Cinergy trading hub.

In addressing the transition to the regional transmission markets, the following “Guiding Principles” are recommended by the EEI Drafting Committee to assist all market participants:

1. The formation of RTOs does not affect the legality, enforceability or binding nature of the existing Into Product transaction.
2. The formation of RTOs affects only the transmission-related obligations of the parties.
3. The rights, responsibilities and risk allocation as between Buyers and Sellers of the Into Product should be maintained to the extent feasible within the RTO structure.
4. The interpretation of the existing product under the RTO should result in the same market function as the existing product in such a manner as to maintain and promote liquidity, fungibility, simplicity and an unambiguous physically traded location.

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MISO-EAST CONVERSION OF INTO CINERGY PRODUCT

Definitions

“MISO East” means the MISO area defined as Cinergy Services (including IMPA & WVPA) [Zone 4], Hoosier Energy [Zone 6], Indianapolis Power & Light [Zone 8], Louisville G & E/Kentucky Utilities [Zone 9], Vectren Energy [Zone 18] and all subsequent MISO transmission owning entities where MISO (or its successors or assigns) transmission service is sufficient for delivery into MISO's Zone 4 without the need for non-MISO transmission service.

“Into Cinergy, Seller’s Daily Choice” means that, in accordance with the provisions set forth below, upon formation of the Midwest Independent System Operator (MISO) (1) the Product shall be scheduled and delivered by Seller (a) if from a Generation Source in MISO East, then to Zone 4 of the MISO on firm or non-firm transmission such that the Buyer could sink the energy in Zone 4 without purchasing incremental transmission or (b) if from a Generation Source outside MISO East, then to a Designated Interface existing between the Cinergy System and adjoining utility systems at which Available Transmission Capacity exists for Buyer to receive the Product on firm transmission, or to zone 4 of the MISO, or (c) at a generation bus-bar within Zone 4 (“Bus-bar”) of MISO if the Product is from a source of generation in Zone 4 at which Available Transmission Capacity exists for Buyer to sink the Product on firm transmission in Zone 4; (2) Seller has the right on a daily prescheduled basis to designate the Generating Source from which the Product shall be delivered; and (3) if Buyer obtains non-firm transmission, (a) from Zone 4 to the ultimate sink, or (b) from either a (i) Bus-bar in Zone 4 or (ii) a Designated Interface existing between the Cinergy System and the transmission system of a non-MISO Transmission Provider to which MISO is interconnected, to (iii) a Delivery Point at another Designated Interface existing between the Cinergy system and a non-MISO Transmission Provider to which MISO is interconnected or (iv) a Delivery Point on or in the system of a non-MISO Transmission Provider to which MISO is interconnected, and the subject Transaction is curtailed by a Transmission Provider as a result, then Seller shall be deemed to have satisfied its delivery obligations, Buyer shall be deemed to have failed to receive the Product, and Buyer shall be liable to Seller for damages pursuant to Article Four. The following table contains a comparison of the obligations, rights, and Transaction curtailment risks associated with an “Into Cinergy” Product before the commencement of operations of the MISO with the corresponding obligations, rights, and Transaction curtailment risks under the consensus Conversion Convention for such Product as of the date of commencement of MISO’s operations:

Comparison of Former Into Cinergy Product and MISO Day One Into Cinergy Product				
Former Into Cinergy Product Obligations, Rights and Transaction Curtailment Risk Allocation			MISO Day One Into Cinergy Product Obligations, Rights and Transaction Curtailment Risk Allocation	
Activity	Seller	Buyer	Seller	Buyer
Delivery Obligation	To Designated Interface (DI) or from Control Area Generation	Receive at DI or Control Area Generation Bus bar	From GS in MISO East to MISO Zone 4 (Cinergy Services, Inc., Indiana Municipal Power Agency and Wabash Valley Power Association) or from GS outside MISO East to a Designated Interface existing between the Cinergy System and adjoining utility systems (Non-MISO Interface) or from a GS in Zone 4	Receive at MISO in Zone 4 if from GS in MISO East, or the Designated Interface existing between the Cinergy System and adjoining utility systems (Non-MISO Interface), or at bus bar from a GS in Zone 4
Scheduling	Day ahead by 11 AM CPT	None	MISO requirements	MISO requirements
Generation Source	Seller's choice from anywhere or within Cinergy	No choice as to source of supply	No change	No change

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Activity	Seller	Buyer	Seller	Buyer
Purchase of Transmission	Seller buys transmission from Source to DI; No transmission if use Cinergy generation source	Buyer buys transmission from DI to ultimate sink or from Cinergy generation source to ultimate sink	Seller buys transmission from GS to Zone 4 if GS within MISO East or to a Non-MISO Interface. No transmission if GS is in Zone 4.	Buyer buys transmission (a) to ultimate sink if ultimate sink other than Zone 4 (i.e., Buyer buys the take away wheel.) and (b) from the Non-MISO Interface, and (c) from GS in Zone 4
Use of Firm Transmission	Optional to Seller; If Seller's firm transmission curtailed from GS to Cinergy, Seller re-supplies to Alternative Designated Interface (ADI) & each of Seller and Buyer pays for its transmission	Must be available to Buyer. If Buyer's firm transmission curtailed within Cinergy, Buyer receives at ADI & each of Buyer and Seller pays for its transmission.	Optional to Seller from GS in MISO East to Zone 4 or a Non-MISO Interface. If curtailed Seller re-supplies from alternative GS and pays for its transmission. .	Must be available to Buyer. Buyer pays for its transmission. Buyer's use of firm Transmission out of Zone 4 is at Buyer's option and risk.

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Former Into Cinergy Product Obligations, Rights and Transaction Curtailment Risk Allocation			MISO Day One Into Cinergy Product Obligations, Rights and Transaction Curtailment Risk Allocation	
Activity	Seller	Buyer	Seller	Buyer Rationale
Use of Non-firm Transmission	Seller option. If transmission curtailed, Seller re-supplies to ADI and pays its and Buyer's transmission.	Seller can require Buyer to take non-firm @ Seller's risk. Buyer can elect non-firm @ Buyer's risk and in such case Seller has no re-supply obligation if transmission curtailed.	Non-firm from GS in MISO East to Zone 4 and to a Non-MISO Interface at Seller's option and risk. If curtailed, Seller re-supplies to and pays transmission to Zone 4.	If from GS in Zone 4 or at the Non-MISO Interface, Seller can require Buyer to take non-firm @ Seller's risk. Buyer's use of non-firm transmission out of Zone 4 at Buyer's Option and risk.
Transmission – Hourly Firm or Non Firm to/from DI or ADI if day ahead firm transmission schedule sinking in Cinergy is curtailed	Seller may require Buyer to buy hourly transmission	If both Seller and Buyer bought firm transmission, then each pays for its own replacement transmission.]	Seller designates alternate GS, and pays for its transmission	Buyer provides and pays for its transmission.

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Activity	Seller	Buyer	Seller	Buyer Rationale
Non-delivery to DI due to loss of GS.	Move to ADI or control area generation. Seller pays for its and Buyer's transmission.	Receive at ADI or control area generation.	Seller resupplies to Zone 4 and pays for transmission to Zone 4 if from a GS in MISO East or at the Non-MISO Interface and pays for its and Buyer's transmission. Seller pays losses from alternative GS to Zone 4 less Zone 4 losses.	Buyer pays any transmission out of Zone 4.
Seller & Buyer Firm Transmission Curtailed To or within Cinergy	Seller re-supplies to ADI & pays for its transmission	Buyer receives at ADI & pays for its transmission	Seller re-supplies to and pays for its transmission.	Buyer pays for its transmission.

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Activity	Seller	Buyer	Seller	Buyer
Buyer elected non-firm transmission which was curtailed	Seller deemed to have met its delivery obligations and not obligated to re-supply	Buyer assumes risk of transmission curtailment & pays LDs	Seller deemed to have met its delivery obligations and not obligated to re-supply	Buyer assumes risk of transmission curtailment and pays LDs.
Seller elected non-firm transmission to Cinergy, which is curtailed	Seller re-supplies to ADI & pays for all transmission	Buyer arranges transmission from ADI at Seller's expense	If Seller's non-firm transmission from GS in MISO East to Zone 4 or to the Non-MISO Interface is curtailed, Seller re-supplies and pays for Buyer's transmission to Zone 4.	Buyer pays for transmission from Zone 4.
Transmission out of Cinergy curtailed	Seller deemed to have met its delivery obligation; no obligation to re-supply	Buyer deemed to have failed to receive; liable for LDs	Seller deemed to have met its delivery obligation; no obligation to re-supply.	Buyer deemed to have failed to receive; liable for LDs

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Activity	Seller	Buyer	Seller	Buyer
Force Majeure	Seller excused only if "prevented," i.e., only if no ADI & no control area generation.	Buyer excused only if no transmission from ADI or bus bar in control area.	No Force majeure unless no transmission at any MISO interface, no GS in MISO, no transmission into Zone 4, and no GS in Zone 4. (i.e., "prevented")	
Ancillary Services	Seller supplies to ADI or at control area bus bar	Buyer supplies from ADI or from bus bar to ultimate sink	Seller pays from GS in MISO East to Zone 4 or to the Non-MISO Interface.	Buyer pays from Zone 4 to ultimate sink if GS in MISO East or from the Non-MISO Interface.
Supply of Transmission Energy Losses	Seller supplies to ADI or at control area bus bar	Buyer supplies from ADI or from bus bar to ultimate sink	Seller provides losses from GS to Zone 4, less Zone 4 losses.	Buyer provides Zone 4 losses and losses to ultimate sink.