

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Coalition of MISO Transmission Customers,)	
)	
Complaint,)	
)	Docket No. EL16-112-000
v.)	
)	
Midcontinent Independent System Operator, Inc.)	

**MOTION TO INTERVENE AND COMMENTS
OF THE
MIDCONTINENT ISO'S INDEPENDENT MARKET MONITOR**

Potomac Economics, LTD (“Potomac Economics”) submits¹ this Motion to Intervene and Comments to the Complaint² submitted in the above-captioned proceeding by the Coalition of MISO Transmission Customers (“CMTC”). The Complaint addresses three issues.

First, the Complaint alleges that Midcontinent Independent System Operator, Inc. (“MISO”) misapplied provisions of the MISO Open Access Transmission, Energy and Operating Reserves Market Tariff (“MISO Tariff” or “Tariff”). The provisions that were allegedly misapplied are associated with the Sub-Regional Export Constraint (“SREC”) used in the 2016-2017 Planning Resource Auction (“PRA”). The Complaint maintains that the SREC should had

¹ Pursuant to Rules 212 and 214 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“FERC” or “Commission”), 18 C.F.R. §§ 385.212 and 214 (2016),

² See, e.g., *Coalition of MISO Transmission Customers*, Complaint and Request for Fast-Track Processing, Docket No. EL16-112-000, September 8, 2016 (“Complaint”).

been calculated differently, and that MISO should be directed to provide refunds of alleged excess capacity payments collected from customers as a result of this different calculation.

Second, the Complaint requests the Commission to order MISO to modify its Tariff regarding SREC to account for expected flows in the calculation of SREC, or a probabilistic assessment of such flows.

Third, the Complaint requests the Commission to undertake its own audit of the MISO Independent Market Monitor's ("IMM") approval of the 2016-2017 PRA offers including, but not limited to, any facility-specific reference prices.

I. NOTICE AND COMMUNICATIONS

All correspondence and communications in this matter should be addressed to:

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II. BACKGROUND AND MOTION TO INTERVENE

The Complainants in these proceedings raise a concern regarding the results of the MISO 2016-2017 PRA for Local Resource Zones ("LRZS" or "Zones") 2 to 7 related to an alleged misapplication of the MISO Tariff. The PRA is a market-based mechanism used by MISO to facilitate procurement of capacity requirements for MISO load-serving entities. The PRA is part of the MISO Tariff. As the Independent Market Monitor, Potomac Economics is responsible for monitoring the PRA and implementing market power mitigation measures. The main arguments advanced by the Complainants involve the calculation of SREC, and its impact on the PRA clearing price for Zones 2-7. The Complainants also request an audit related to the application of

the market power mitigation measures. The purpose of our Motion to Intervene and Comments is to respond to these various arguments.

Intervention is appropriate where the movant may be directly affected by the outcome of the proceeding and has a direct interest in the same that cannot adequately be represented by any other party. Potomac Economics' intervention and participation is in the public interest. Good cause furthermore exists because Potomac Economics is the Independent Market Monitor to MISO and therefore has a significant interest in the outcome of this proceeding. Potomac Economics is required under the provisions of the Tariff to monitor and evaluate the market outcomes and market rules to promote the efficiency and competitiveness of all MISO markets.

For these reasons, Potomac Economics respectfully requests that it be permitted to intervene in this proceeding with full rights as a party hereto.

III. COMMENTS

A. MISO Established and Utilized the SREC Consistent With the Tariff.

CMTC argues that MISO misapplied its Tariff when conducting the 2016-17 PRA by failing to properly calculate the transfer capacity between MISO South and MISO Midwest. However, CMTC fails to identify a single provision of the Tariff that MISO failed to abide by when MISO calculated the SREC.³ The Tariff establishes that the SREC is what can be cleared (in relevant part) "...in accordance with applicable seams agreements, coordination agreements, or transmission service agreements."⁴ The Tariff addresses SREC again in Section 68A.3.1:

³ Complaint at P 24.

⁴ Tariff Section 1.S provides the full definition of Sub-Regional Export Constraint: **Sub-Regional Export Constraint (SREC):** The amount of Planning Resources in megawatts modeled in the PRA within an applicable Sub-Regional Resource Zone (SRRZ) that can be cleared in excess of the total individual LRZ's PRMR comprising the SRRZ in accordance with applicable seams agreements, coordination agreements, or transmission service agreements.

“Establishment of SRRZs, SRECs and SRICs. The Transmission Provider will establish and publish, on the Transmission Provider’s public website, SRRZs, SRECs and SRICs as soon as practical but no later than the first business day of March for the following Planning Year.”

MISO met this Tariff requirement in advance of the deadline and presented their calculation of SREC on February 4, 2016 to the Resource Adequacy Subcommittee (“RASC”).⁵

Further, CMTC cites the Settlement Agreement, but fails to identify any provision that was violated by MISO. The Settlement Agreement, accepted by FERC in Docket No. EL14-21-000, *et. al*, addresses real-time flows between MISO South and the MISO Midwest Region, but it does not address how MISO is to conduct capacity auctions or calculate SREC for the PRA. Thus, when MISO calculated the SREC using the Settlement Agreement as a starting point, MISO was adhering to its Tariff. MISO subjected the clearing of the PRA to the SREC as specified in Section 69A.7.1 of the MISO Tariff:

Objective Function: The objective of the multi-zone optimization methodology shall be to minimize the as-offered overall costs of capacity procurement over the time horizon, subject to network constraints and SRICs and SRECs, if applicable.

Although CMTC disputes the SREC value itself, they do not dispute that SREC was implemented properly in clearing the PRA and setting capacity prices. In addition, the IMM independently verified that the auction clearing process was properly subject to the SREC value that MISO provided.

B. Modifications to the SREC Calculation Should Only Be Done Prospectively

CMTC follows their assertion that MISO misapplied the Tariff with a further claim that MISO should be directed to provide refunds of alleged excess capacity payments collected from customers.

⁵ Complaint at P 27. *See also* Supply Adequacy Working Group, 20160203 LOLEWG-SAWG Joint Meeting Item 13 SRPBC Discussion (February 4, 2016 meeting), available at <https://www.misoenergy.org/Events/Pages/LOLEWG20160203.aspx>, at p. 6.

Market participants were presented with MISO’s calculation of SREC well in advance of the 2016-17 PRA and had the opportunity to provide feedback through the stakeholder process. CMTC did not claim in their Complaint to have had taken advantage of that opportunity to voice their concerns. This process exists for a very important reason – to provide all participants with full information about the inputs and assumptions to be used in conducting the PRA. If the market is to perform well, participants must have the ability to rely on the information provided by MISO in making its short and long-term decisions. Changing the SREC and PRA results retrospectively would undermine the integrity of the market and erode market participant confidence in the PRA process. Therefore, regardless of whether the CMTC’s complaint has merit, we would strongly oppose retroactively revising market outcomes as CMTC requests in the Complaint.⁶ To be clear, however, we do not find that the CMTC’s complaint has merit even though we have proposed prospective improvements to MISO’s calculation of the SREC.

As described in the 2015 State of the Markets report, Potomac Economics proposed an alternative approach to calculating SREC that would more accurately establish the amount of transfer capability MISO can expect to have available in real-time operations. We believe this approach would simply be an improvement to MISO’s current methodology, but we still have no concern regarding whether MISO complied with its Tariff when it conducted the last PRA.

C. Counter-Flow Should Not Be Included in SREC Calculations.

CMTC stated in their Complaint that if firm transmission service reservations are deducted from the MISO South to MISO Midwest limit, that it would be necessary to take into account the firm transmission reservations in the other direction, alleging that they provide “counter-flow”. They failed to establish why it would be reasonable to assume this counter-flow

⁶ Complaint at P 35 and P 43.

in the calculation in the SREC. As we explain in this section, this would clearly be an unreasonable methodological change.

In principle, an RTO should only rely on counter-flow to the extent that it is confident it will actually occur. In other words, if an RTO's forward flow assumptions will only be physically feasible if the counter-flow actually occurs, then the system will only be reliable if the counter-flow transactions are actually scheduled. Normally, this would mean that the participant must have an obligation to schedule the counter-flow transaction, which is inconsistent with the firm transmission reservations at issue in CMTC's complaint. The holder of the firm transmission reservation has the *option* of scheduling a transaction using its reservation, but not an obligation to do so. In fact, such transmission reservation are frequently not used or redirected to other locations. Therefore, MISO cannot have a legitimate expectation that the counter-flow transactions CMTC is referring to in its complaint will ultimately be scheduled.

Further, it would be economically irrational to schedule such transactions in real-time operations. When the transfer constraint binds in real-time, prices north of the constraint will be higher than prices in the south. Thus, it generally would be uneconomic during these periods to schedule an external import in the north to sink in the south and provide counter-flow on the transfer constraint. Hence, the Commission should reject CMTC's request to incorporate counter-flow in the calculation of SREC.

D. There is no Information Indicating that an Audit by the Commission is Warranted

CMTC claims that “the 2016-2017 PRA results and subsequent release of offer data for the 2016-2017 PRA for Zones 2-7 raise substantial concerns and sufficient questions among consumers to warrant an audit by FERC staff.”⁷ CMTC cites IMM discretion, a lack of customer

⁷ Complaint at P 41.

access to the confidential data used by the IMM, and the shape of the offer curve, “. . .with offers on the end of the supply curve at levels that were higher than reasonably anticipated under a ‘going-forward costs’ approach.”⁸ However, CMTC provided no evidence to support an expectation of any particular supply curve shape.

While it is up to the Commission’s discretion to audit what it chooses, Potomac Economics sees no legitimate grounds to suggest that an audit of the offers and facility-specific reference levels is warranted in this instance as asserted by CMTC.

While much of the data is confidential, the IMM did not proceed without transparency or oversight. The IMM shared and discussed facility-specific reference level data and calculations with MISO and Commission staff on multiple occasions prior to the close of the auction. Lists of categorized exclusions and the details of the facility-specific reference level calculations were provided to both MISO and staff in the Commission’s Office of Enforcement. The information provided included the following for each applicable resource:

- Market Participant
- Resource Name
- Zone
- Historic Revenues
- Historic Costs
- Net Revenues
- Going-Forward Costs
- ZRC (MW)
- Facility Specific Reference Level

This information provided both the outcomes and the inputs to the facility-specific reference level calculations. Both MISO and FERC staff had the opportunity to ask questions

⁸ Complaint at P 40.

and scrutinize any of the facility-specific reference levels, which undermines the CMTC's argument that an audit is warranted.

Further, there is no basis to the CMTC's assertion that some of the offers or facility-specific reference levels were "higher than reasonably anticipated". Within the MISO generation fleet, a portion of the resources are older and have higher production costs. Therefore, they rarely run and must cover most of their going-forward costs from the capacity. These units tend to have the highest going-forward costs as well, and sometimes require substantial capital expenditures to continue operations. Hence, these units tend to have a much higher facility-specific reference level than most other units, which creates the shape of the offer curve that was observed by CMTC. Hence, this shape should be anticipated and does not, in isolation, raise concerns that would warrant an audit of the facility-specific reference levels.

IV. CONCLUSION

Potomac Economics respectfully requests that the Commission dismiss CMTC's Complaint and the relief it requests from the Commission.

Respectfully submitted,

/s/ David B. Patton

David Patton
President
Potomac Economics, Ltd.

September 28, 2016

CERTIFICATE OF SERVICE

I hereby certify that I have this day e-served a copy of this document upon all parties listed on the official service list compiled by the Secretary in the above-captioned proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated this 28th day of September, 2016, in Fairfax, VA.

/s/ David B. Patton
