

II. COMMENTS ON MISO’S DEFICIENCY LETTER RESPONSES

A. Background and Summary

On March 9, 2022, the Commission issued a Deficiency Letter requesting additional information from MISO concerning MISO’s November 30, 2021 Minimum Capacity Obligation filing (“MCO filing”).

The MCO filing sought to establish Tariff requirements for Load Serving Entities (LSEs) to procure, either through ownership or power purchase, a minimum portion of their planning requirements in advance of MISO’s Planning Resource Auction (PRA). On January 14, 2021, we filed Comments opposing the Tariff changes, explaining that creation of the MCO will move significant volumes of capacity transactions from a transparent market platform with comprehensive monitoring and oversight (the PRA) into a bilateral contracts market with less transparency and no market power mitigation.

In these present comments we address two specific areas where MISO responded to the Commission Deficiency Letter:

- MISO’s response to request of data on liquidity in MISO’s bilateral capacity market (Item 7 in Deficiency Letter); and
- MISO’s response to how an electronic bulletin board may be used to increase transparency in bilateral transactions.

B. Liquidity of Bilateral Capacity Market

Question 7 of the Commission’s Deficiency Letter asks MISO to:

provide additional data regarding liquidity in MISO’s bilateral markets, and whether it is just and reasonable to assume that resource owners will be able or willing to contract for short-term bilateral sales. In your answer, please explain what tools and data MISO uses to monitor market developments in the bilateral market.

MISO points to two factors as indicators of liquidity. One is that participants currently have adequate recourse to bilateral contracts to satisfy their planning requirements. The second is the MISO generation queue, which MISO claims shows the potential for a large increase in new capacity that could be secured under a bilateral contract.

Current Transactions as an Indicator of Liquidity

MISO claims participants rely on tens of thousands of megawatts of bilateral purchases to secure planning resources in MISO. MISO points out that additional bilateral contracting of between 700 MW and 1500 MW would be needed support the MCO. In other words, those who rely on the PRA for more than 50 percent of their requirement and who would have to bring it down to 50 percent under MCO, would require additional forward purchases of only up to 1500 MW.

We believe this quantity is substantially understated. Based on the most recent PRA, roughly 2400 MW would need to be procured bilaterally and this amount will predictably rise in the coming years. As we discussed in our initial comments, expiring contracts will increase the quantity of load that will be compelled to procure capacity bilaterally. This will happen while the overall excess capacity in MISO is falling, which will likely reduce liquidity in the bilateral market.

It is also important to recognize that excess capacity is controlled by a small number of suppliers, particularly in MISO South, which may create incentives to withhold capacity from the bilateral market under a mandatory MCO to restrict liquidity and limit competition. Hence, we find MISO's sweeping assertions regarding liquidity in the bilateral market to be unreliable as a basis for determining the MCO may be just and reasonable

Generation Queue as an Indicator of Liquidity

MISO also points to 151 GW of generation in the MISO queue as an indicator of bilateral contract market liquidity. Certainly, if all of this capacity were to enter the market in the near term and retirements and load were stable, this would support an increase in liquidity because of the resulting excess capacity. However, it is important to keep in mind:

- Much of the queue is dominated by renewable resources that are accredited at levels far below their queue capacity. With improvements in the ELCC methodology, this level is likely to fall below 10 percent.
- Much of the new capacity will be used to replace retired capacity;
- Much of this capacity will not be built in time to be available until long after the MCO is imposed.

Finally, if this new entry leads to a substantial capacity surplus, then the MCO will serve no purpose because the system will be more than resource adequate. The key concern related to the MCO is how it will affect the market when surplus capacity is limited. Under these conditions, we find it unlikely that the bilateral market will exhibit sufficient liquidity to ensure that participants can satisfy their MCO at a reasonable price.

C. Mandatory Bulletin Board for MCO

Item 9 in the Commission Deficiency Letter states:

Section 69A.6.3 describes an electronic bulletin board platform that may be used by Market Participants to facilitate voluntary bilateral Zonal Resource Credit (ZRC) transactions.

The Commission asks, among other things relating to the bulletin board:

- c. Whether, given that the MCO will incent certain LSEs to use bilateral markets rather than the Auction to procure capacity, MISO considered making the bulletin board use mandatory to increase transparency.

MISO states simply that they have not considered mandatory use.

We originally suggested the implementation of a bulletin board as a means to increase transparency and allow for an effective monitoring and mitigation framework to ensure that the bilateral contracting compelled by the MCO is competitive. A mandatory bulletin board would allow monitoring of withholding by the suppliers that have the large amount of excess capacity and who will dominate the market. The rules for mandatory use of the bulletin board would include prohibitions against physical and economic withholding for suppliers that may have market power. We would establish competitive benchmarks for physical and economic parameters to facilitate effective monitoring and mitigation as needed. This would allow monitoring of the bilateral contracts market created by the MCO to be comparable to the monitoring and mitigation in MISO's other electricity markets. Without potential mandatory use of the bulletin board, the market activity compelled by the MCO will be opaque and potentially subject to market abuses that will be difficult to monitor. Ultimately, this calls into question whether the MCO is just and reasonable, along with the myriad of issues we discussed in our prior protest in this docket

Respectfully submitted,

/s/ David B. Patton

David Patton
President
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April 29, 2022

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 29th day of April 2022 in Fairfax, VA.

/s/ David B. Patton
