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Thursday, July 30, 2015

## Illinois Attorney General Joins Call for Changes to MISO Auction Rules

July 27, 2015

By Chris O'Malley

Illinois Attorney General Lisa Madigan last week joined industrial consumers in calling for changes to MISO's capacity auction rules, while the RTO defended itself, in filings with federal regulators.

MISO's rules "are no longer just and reasonable and require modification," Madigan said in comments filed July 20 with the Federal Energy Regulatory Commission ([EL15-82](#)). Madigan said last week that she supports [proposals](#) the Illinois Industry Energy Consumers made in a June 30 filing.

In May, the attorney general and Public Citizen filed complaints asking FERC to investigate Dynegy's bidding behavior in April's Planning Resource Auction, which resulted in a nine-fold price increase for Zone 4 (EL15-70).

IIEC said last May's auction — which saw Zone 4 clear at \$150/MW-day compared with just \$16.76 a year earlier — will



Madigan

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cost Illinois industrial companies \$1.6 million each, on average. Madigan said the dramatic swing in auction prices also hurts Illinois’ residential ratepayers.

“While the people did not propose specific Tariff changes in their complaint, the changes recommended by IIEC address some of the issues raised in the people’s complaint and are necessary revisions to ameliorate the effects of market power in the MISO zones, and particularly in Zone 4,” Madigan said.

Industrials and Madigan say the idea that Dynegy’s bids are justified by the opportunity cost of selling power into PJM is specious. IECC said there is little transmission capacity and “very few” bilateral sales between MISO and PJM. That, Madigan said, calls “into question the existence of the opportunity to sell to PJM at the prices reflected in the initial reference level.”

The initial reference level is set “as if there were no limits on the transmission of MISO-generated megawatts in the PJM areas,” Madigan said.

Citing FERC’s Electric Quarterly Reports, consultant Robert McCullough, a witness for the state, said that prices of the few bilateral sales from MISO to PJM were low – with one at only \$1.09/MW-day.

### MISO Response

In a response filed July 20 ([EL15-82](#)), MISO said the IIEC comments “misapprehend” the concept of opportunity costs.

MISO said IIEC suggests that the RTO may only calculate an opportunity cost prior to the PRA based upon “having perfect knowledge” – not only of resources’ bids into MISO’s auction, but also of bids into PJM’s market.

“Then, MISO is somehow expected to create a clearing price for markets in both PJM and MISO based upon such perfect knowledge,” MISO shot back. “Obviously, this standard is impossible to meet and unnecessary to properly estimate a supplier’s opportunity cost.”

MISO also countered that IIEC’s proposal would result in double-counting resources and incentivize suppliers to not make offers into MISO, “which will lead to a less robust market and potentially higher prices.”

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## Confidentiality Needed

IIEC and Madigan said FERC should also reconsider how the initial reference level is communicated to generators. In Illinois' auctions for default electric service, the market administrator determines a benchmark price, but it is kept confidential so that bidders base their offers on their own costs rather than pegging them to a higher level, Madigan said.

"In revising the MISO Tariff, the commission should require that the reference level be maintained as confidential so that bidders cannot structure their bids around the reference level," Madigan said. "While a reference price that is properly established may be a useful tool to address market power, MISO's Tariff perverts the role of the reference price from a meaningful cap to an instrument of market power."

## Counter-Flow Concerns

Finally, the attorney general supports another revision to MISO's Tariff recommended by IIEC: reducing the local clearing requirement (LCR) by the amount of capacity exported into a neighboring market. They say that an LCR that is too high creates more opportunity for a large generator to exercise market power.

Madigan cited the Independent Market Monitor's 2014 State of the Market report, which stated that the binding of the LCR in Zone 4 was impacted by about 1,200 MW exported from Zone 4 to PJM. The Monitor recommended that MISO file Tariff revisions to treat local capacity exports "as creating counter flow over the interface" into the zone.

"This would cause the capacity to be replaced by the lowest-cost capacity from any area in MISO, rather than requiring that additional capacity be procured from within the zone," the Monitor wrote.











IIEC filed testimony claiming that if the 1,200 MW of exported capacity had been excluded from the LCR, the pivotal supplier's opportunity to exercise market power would have been limited to \$8/MW-day, compared to the \$150/MW-day Dynegy received in the April auction.

## 'Simply Incorrect'

MISO countered that IIEC "is simply incorrect" in stating that MISO fails to account for counter flows when it calculates each zone's LCR. MISO said it has properly accounted for resources

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in one zone that are sold into another capacity market when it calculates each zone's capacity import limit, which is used to establish the LCRs.

Subsequently counting zonal resource credits again when calculating the LCR would amount to double-counting a resource, MISO said.

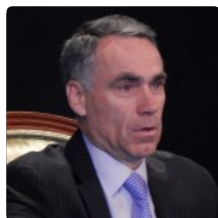
"Artificially lowering the local clearing requirement would threaten resource adequacy in the MISO region and unjustly and unreasonably suppress capacity prices," the RTO said.

### Original Complaint

Meanwhile, the attorney general and Public Citizen have made filings asking FERC not to dismiss the complaints they filed in May, as Dynegy, NRG Energy and the Electric Power Supply Association have requested.

Market Monitor David Patton and MISO have joined Dynegy in denying allegations of improper conduct in last April's auction. (See [Dynegy: No Evidence of Misconduct in Auction.](#))

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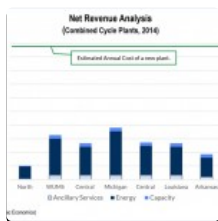
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