

**Comments of Southern Company Services, Inc.,
Regarding the November 2, 2018 Draft White Paper
Prepared for the Regional State Committees of the MISO and SPP Regions
Entitled “Seams White Paper for Organization of MISO States (OMS) and SPP Regional
State Committee (RSC) Liaison Committee”**

January 10, 2019

To the Members of the Liaison Committee of the MISO and SPP Regional State Committees:

Background and Introduction

Southern Company Services, Inc., (“SCS”) is the centralized service company for the public utility operating company of Southern Company. In that capacity, SCS is privileged to support the integration, commitment and economic dispatch of designated network resources of the Southern Company Operating Companies under the Southern Company Intercompany Interchange Contract. This activity includes the management of deliveries of long-term purchased power arrangements (“PPAs”) that are designated for native load service in the Southern Company region, which includes parts of Mississippi, Alabama and Georgia. Among these arrangements are two long-term PPAs for the output of two large wind generation projects located in SPP. These PPA arrangements are supported by 404 megawatts (“MWs”) of long-term firm point-to-point transmission service out of SPP and through and out of MISO.

With the adoption of nodal markets and congestion-based transmission pricing in SPP and the migration of the Entergy Electric System into MISO, the cost of base/physical transmission service under both the SPP and MISO open-access transmission tariffs and the net cost of congestion (i.e., congestion costs that are not capable of a reasonable hedge under present SPP and MISO administration of financial transmission rights programs) has skyrocketed. This skyrocketing cost of transmission service through and/or out of the SPP and MISO systems is severely undermining the value of firm long-term transmission service and creating economic disincentives to the acquisition of remote generation capacity in the SPP and MISO regions and the export of that capacity to load centers in the Southeast region served by the Southern Operating Companies.

As significant long-term firm point-to-point transmission customers of both SPP and MISO, SCS has substantial experience with inefficiencies and barriers that have arisen at the SPP/MISO seam, particularly with respect to power flows from wind-rich areas in the SPP footprint, across MISO South and into the Southern region. SCS appreciates greatly the effort of the Regional State Committees of the MISO and SPP regions (the OMS and SPP RSC, respectively) to establish a collaborative framework to analyze and discuss issues along the RTO seams and to identify potential solutions. SCS appreciates also the invitation to review and comment on the above-referenced Seams White Paper and submits these comments for the Liaison Committee's consideration. As both consumers of transmission and related services under both the SPP and MISO tariffs, and as the operator of an integrated bulk transmission system that borders MISO to the west and is south of Tennessee Valley Authority, SCS is uniquely situated to provide limited comments that reflect its perspective from a neighboring region that depends on efficient and effective seams operations as between SPP and MISO.

Responses to Questions Posed by the Liaison Committee

The Liaison Committee's solicitation of comments to provide reactions and responses in the context of five specific questions. In accordance with this request, SCS offers the following responses to the Committee's questions:

1. What do you believe to be the single most important/impactful seams issue and what barriers are preventing resolution? If applicable, include two to four additional priority items the regulators should focus on.

As a significant long-term firm point-to-point customer on both the SPP and MISO systems, the primary seams concern identified by SCS involves the skyrocketing cost of net congestion. The high cost of congestion that is incapable of being reasonably hedged by long-term firm point-to-point customers appears to have several drivers. These drivers include the utilization of Congestion Management Process ("CMP"), established as an attachment to the SPP-MISO Joint Operating Agreement ("JOA") for the purpose of conducting simultaneous feasibility evaluation of nominated candidate Auction Revenue Rights, which (when granted) SCS converts to Transmission Congestion Rights or Financial Transmission Rights in order to mitigate the cost of congestion through and out of SPP/MISO. There is, therefore, a direct link between

the JOA and efficient seams administration and the very substantial cost of congestion incurred to wheel power across the MISO-SPP seam.

The specific market design problems identified by SCS in this regard include, but are not limited to, “congestion overlap” or “double counting congestion” at the SPP-MISO seam, which has not been prioritized by either RTO (although MISO and PJM have pursued improvements to address the problem at the MISO-PJM seam). In addition, SCS observes that the CMP does not provide for “curtailment” of firm flows under long-term point-to-point reservations granted on both the “through” and “out” segments of a three system wheel – and (in our situation) are destined to the Southern region. On information and belief, both SPP and MISO appear to treat firm point-to-point flows of power out of SPP and across MISO as equivalent to “market” and/or “loop flows,” when such firm point-to-point flows are neither market flow nor loop flow of their participating RTO. This treatment does not appear to be sanctioned or otherwise required by the CMP document, but is contributing to substantial “curtailment” in the simultaneous feasibility models used by MISO and (perhaps) SPP to allocate nominated candidate ARRs. The financial impact of these practices are quite substantial and contribute materially to undermining the “value” of firm point-to-point transmission reservations and undermine the economics of potential renewable power exports from SPP and/or MISO and to the Southern region.

2. How should the RTOs weigh the benefits of more efficient seams operation against focusing on maximizing intra-RTO efficiencies and operation?

The RTOs should be intentional to consider the impacts of seams operations on the economics of firm point-to-point transmission service. The value of firm point-to-point transmission service is important for, among other reasons, the long-term subscription to such service contributes substantially to underwriting the cost of transmission system upgrades and expansion. Similarly, the more valuable firm point-to-point transmission is to transmission customers that rely on such transmission to export renewable output from generation pockets, the RTOs (and native load customers served in the RTOs) benefit from reduced ancillary service requirements associated with the concentrated pockets of renewable generation.

3. What areas of the whitepaper do you agree or disagree with? Why?

On page 12 of the white paper, the issue of over-lapping congestion is identified as a seams issue that needs to be addressed by SPP and MISO. We strongly agree because, as otherwise discussed herein, congestion overlap and other issues that undermine the value of firm point-to-point transmission raise important issues that need to be addressed. We agree further with the white paper's acknowledgement that this issue has not been given priority.¹ We respectfully submit that the problem has been investigated and confirmed to exist, that the problem is causing rates, terms and conditions for point-to-point service to be unjust and unreasonable and not unduly discriminatory. We believe further that joint SPP and MISO action to address the over-lapping congestion issue could contribute to identification of related seams inefficiencies that are creating unreasonably high net congestion for firm point-to-point exports that wheel-through to Southern and other non-RTO, non-CMP regions.

4. Are there seams issues that you believe were left out?

As referenced in response to Question 1, the white paper does not appear to consider efficiency in support of wheeling flows through and out of the SPP and MISO systems as a primary concern. It is submitted that the efficiency of "capacity portability" across the seam, including when that capacity is destined for more remote delivery to regions beyond SPP or MISO, should be a primary concern to assure quality and comparability of services. Also as noted above, without an effective design to assure that long-term firm transmission requests granted as simultaneously feasible from being rendered infeasible because of assumptions built into the financial transmission rights regime and associated modeling practices, the value of firm point-to-point transmission is substantially undermined. This deprives both RTOs of the benefits associated with a robust market for firm point-to-point transmission. It should be noted that revenues from firm point-to-point transmission service reduce the revenue requirements for Network Integration Transmission Service for load-serving entities in the SPP and

¹ See White Paper at page 12 ("resource constraints and higher priority market improvement initiatives have delayed work on the analysis necessary to resolve this issue"). In addition, although pending complaints at FERC, and much of the efforts involving MISO and PJM, with respect to this issue have involved pseudo-tied resources, we note that the same issue presents with dynamically scheduled interchange (*i.e.*, the issue is not limited to pseudo-ties).

MISO footprints. Under-performance in the sale of long-term firm point-to-point transmission, due to problems with skyrocketing congestion costs and inability to reasonably hedge those costs, creates sub-optimal outcomes for overall RTO economics.

5. What seams issue(s) require additional analysis and study prior to solution identification? What should the goal of an analysis/study be and what metrics or other measurable information should it include?

We have observed that the SPP Seams Steering Committee has established an action Item (082) as of December 5, 2018 under which “SPP staff to review the proposal of a joint SSC-MWG meeting to identify issues relating to the Seams Strategic Plan item to evaluate transactional incentives and scheduling inefficiencies.” SCS believes this effort should include consideration of how the CMP is being applied and how other issues governed by the JOA can be improved to more equitably treat firm flows on long-term point-to-point transmission reservations on both the SPP and MISO systems. In this respect, SCS has initiated and is engaged in positive discussions with SPP and MISO staffs with respect to ways to enhance value of firm point-to-point transmission across the SPP-MISO seam, with a focus on improving modeling to mitigate double counting of congestion and questionable curtailment of firm point-to-point through flows on the same basis as unscheduled loop flow. SCS encourages the Liaison Committee and the OMS and SPP RSC to support continued staff efforts in this respect.

In addition, SCS believes that the option to self-supply losses would be a powerful incentive for export customers and would help the SPP and MISO markets in general by decreasing flows on congested paths. SCS encourages OMPS and the SPP RSC to require SPP and MISO to evaluate the potential benefits of permitting self-supply of losses under long-term firm point-to-point export transmission arrangements. Such a development would marginally improve the value of firm point-to-point transmission on both RTOs.