MOTION TO FILE COMMENTS OUT OF TIME AND
COMMENTS OF THE ILLINOIS COMMERCE COMMISSION

Pursuant to Rules 211 and 212 of the Federal Energy Regulatory Commission’s
("Commission") Rules of Practice and Procedure,\(^1\) and the Notice of Filing issued on August 31,
2018, establishing September 21, 2018, as the deadline for comments and protests in the above-
captioned docket, the Illinois Commerce Commission (“ICC”) respectfully submits the following
motion to file comments out of time and comments regarding the August 31, 2018, filing of the
Midcontinent Independent System Operator (“MISO”) in the above-captioned docket (“August
31 Filing”). The ICC filed a Notice of Intervention in this docket on September 5, 2018, and
therefore, is a party to this proceeding.

I. MOTION TO FILE COMMENTS OUT OF TIME

Pursuant to Rule 212 of the Commission’s Rules of Practice and Procedure,\(^2\) the ICC
hereby submits this motion to file comments out of time regarding the August 31 Filing. Given
the ICC’s administrative process, and state rules and regulations, it was unable to meet the
September 21, 2018 deadline for comments and protests.

\(^1\) 18 C.F.R. §§ 385.211 and 385.212.
\(^2\) 18 C.F.R. § 385.212.
The Commission may allow an untimely response where there is no showing of any undue prejudice or delay. With these comments, the ICC does not wish to disrupt or delay the proceedings. Rather, the ICC wishes to clarify the record and provide context that may be useful to the Commission in its decision making process. The ICC is commenting on the limited issue of MISO’s proposed Historic Unit Considerations (“HUCs”) and the resulting harm to customers across the region, especially in retail access states. Because MISO’s proposed revisions could have significant negative impacts in Illinois, the ICC believes that its comments will help the Commission in its deliberations and are in the public interest. Therefore, and particularly in light of the significance to Illinois of the Commission’s potential outcome in this proceeding, good cause exists to grant this motion and leave to comment. The ICC does hereby so move.

II. BACKGROUND

On March 26, 2018, MISO filed proposed revisions to its Open Access Transmission, Energy and Operating Reserve Markets Tariff (“Tariff”) to enhance the locational aspects of its resource adequacy construct (“March 26 Filing”). Specifically, the March 26 Filing proposed to: (1) create new external resource zones (“ERZs”); (2) allocate excess auction revenues to certain load-serving entities through the provision of HUCs; and (3) align parameters used to calculate auction inputs such as capacity import limit, capacity export limit and local clearing requirement parameters with the use of those limits in the planning resource auction. MISO

4 See Trans Alaska Pipeline System, et al., 104 FERC ¶ 61,201, at 61,706 (2003); Natural Gas Pipeline Company of America, 66 FERC ¶ 61,310 (1994) (motions granted for good cause shown).
6 March 26 Filing, at 2.
stated that it intended its proposal to be an “integrated set of elements” and asked that the Commission not view each element in isolation."

On August 2, 2018, the Commission issued its order and rejected MISO’s March 26 Filing in its entirety finding that two of the integrated elements, the capacity credits and evergreen contract extensions, were unjust and unreasonable (“August 2 Order”). With respect to the issue of capacity credits, the Commission found that MISO’s proposal to allow market participants with capacity resources, including external resources that border multiple local zones, to choose the zone in which they will receive capacity credit, was unjust and unreasonable and could result in uneconomic behavior. As to the second integrated element, the Commission held that applying HUCs to evergreen contract extensions “would embed inefficiencies into MISO’s resource adequacy construct for an indefinite period of time.” The Commission was “not convinced that there is a need for future extensions of evergreen contracts to qualify for HUCs.” The Commission expressly limited its finding that MISO’s March 26 Filing was unjust and unreasonable based on its findings that the capacity credits and the evergreen contract extensions were unjust and unreasonable. The Commission emphasized that it was “not addressing the protested and other elements of MISO’s proposal.”

In its August 31 Filing, MISO admits that the only changes to its March 26 Filing relate to capacity credits and the application of HUCs to evergreen contracts. For the reasons set forth in the ICC’s comments filed in response to the March 26 Filing, additional aspects of

7 March 26 Filing, at 2.
8 Midcontinent Independent System Operator, Inc., 164 FERC ¶ 61,081 (2018) at n.46 (“we reject MISO’s proposed Tariff revisions based on our findings with respect to these two elements, . . .”)
9 August 2 Order, at P 29-30.
10 August 2 Order, at P 33.
11 August 2 Order, at P 34.
12 August 2 Order, at P 28.
13 August 2 Order, at n.46.
14 August 31 Filing, at 1.
MISO’s proposed HUCs result in unjust and unreasonable results and the ICC adopts and incorporates those additional arguments as if set forth herein.\textsuperscript{15}

\section*{III. COMMENTS}

MISO states that the creation of external resource zones requires a new methodology for allocating excess auction revenue to avoid imposing unforeseeable costs on entities that formed contracts relying on MISO’s existing price treatment of external resources.\textsuperscript{16} MISO’s proposed HUC concept replaces the existing Grandmother Agreement provisions and modifies the allocation of excess capacity auction revenue to first recognize historic capacity transactions, whether external or internal.\textsuperscript{17} If prices in the MISO capacity auction separate, load serving entities ("LSEs") with historic arrangements (Grandfather Agreements, pre-zonal capacity contracts, or pre-external resource zone contracts) would be eligible to receive excess auction revenue.\textsuperscript{18} If there is any excess auction revenue remaining after this allocation, it would be allocated by the existing Zonal Deliverability Benefit ("ZDB") mechanism.\textsuperscript{19}

In response to the Commission’s concern about evergreen contracts being eligible for HUCs in perpetuity, MISO amended its HUC proposal to allow current arrangements to be eligible for HUCs until the end of the original term of the agreement (not including any evergreen extension) or for two years – whichever is longer.\textsuperscript{20} To the extent an arrangement is

\textsuperscript{15} Motion to File Comments Out Of Time and Comments of the Illinois Commerce Commission, filed April 19, 2018, \textit{Midcontinent Independent System Operator, Inc.}, Docket No. ER18-1173-000.
\textsuperscript{16} August 31 Filing, at 6.
\textsuperscript{17} August 31 Filing, Rauch Testimony, at 29-37.
\textsuperscript{18} August 31 Filing, Tab B, Sections 69A.7.7, 69A.7.7(a), 69A.7.7(b), and 69A.11.11.
\textsuperscript{19} August 31 Filing, Tab B, Sections 69A.7.7(c) and 69A.11.12.
\textsuperscript{20} August 31 Filing, at 7.
already in the evergreen period of the agreement, the arrangement would be HUC eligible for two planning years.\footnote{August 31 Filing, at 7.}


MISO’s HUC proposal provides undue preference to preferred LSEs and unduly discriminates against others, and their customers, in violation of the Federal Power Act’s (“FPA”) requirement that rates be just and reasonable and not unduly preferential or discriminatory.\footnote{FPA, 16 U.S.C.S. § 824d(a) and (b).} Rather than giving preferential treatment to those LSEs with historic supply arrangements, excess capacity auction revenue should be allocated as is currently done, first to LSEs that fund transmission upgrades that increase zonal import capability into a constrained zone and second, to all LSEs pro-rata to their load in the zone. In other words, MISO should retain the status quo.

It is reasonable for MISO to provide hedge rights against zonal capacity price separation costs to LSEs that fund network transmission upgrades, as the upgrades increase the capability to import capacity into a zone and provide an incentive for investment in the transmission system. With respect to transmission import capability not linked with specific participant-funded transmission facilities, it is important to recognize that:

(1) All load in a zone has borne an equivalent burden of paying for the transmission infrastructure that enables such zonal import capability, either through network transmission service or firm point-to-point service; and

(2) All load in the zone will equally bear the residual responsibility for the costs of sunk transmission infrastructure going forward.
MISO’s HUC proposal would effectively give a select minority of LSEs priority access to valuable constrained transmission import capability into the zone in the form of a hedge, or financial offset against zonal constraint cost. While MISO characterizes this as an “improved allocation of excess auction revenues,”23 granting such unearned preference mutes the intended locational price signal and is unduly discriminatory and inequitable to all other network load in the zone.

Transmission infrastructure and the corresponding ability to import capacity into the zone is a valuable product/service that provides value rightfully shared equally among all LSEs that bear the cost burden associated with the transmission system. MISO’s current practice of pro-rata distribution of the ZDB reflects this fairness principle and MISO’s proposal to provide free hedges to certain preferred LSEs, and their customers, does not. Rather, MISO’s proposed use of HUCs and method for ZDB allocation unduly discriminate by permitting one subset of load within the zone to expropriate the value of the transmission capability to import into the zone which should accrue to all load within that same zone.

MISO’s HUC proposal is unduly discriminatory in all cases, but more so in constrained zones with retail competition. In those zones, MISO’s HUC proposal will inappropriately skew competition for customers because alternative retail suppliers are less likely to rely on historical, long-term, out-of-zone supply contracts than traditional utility LSEs. Consequently, alternative retail suppliers are less likely to be eligible for the hedges under MISO’s HUC proposal, additionally raising costs for those LSEs in the form of greater exposure to elevated capacity costs arising from zonal transmission constraints.24 Consequently, MISO’s HUC proposal results

23 August 31 Filing, Rauch Testimony, at 29.
24 Some customers will have to bear the zonal price separation costs that the HUC holders will avoid, in addition to bearing their pro rata share of those costs. Under MISO’s HUC proposal, that burden naturally falls on the remaining customers in the constrained zone.
in undue discrimination and prejudice in violation of the Federal Power Act,25 particularly in states with retail competition. For this reasons, the Commission should reject the HUC element of MISO’s August 31 Filing.


Despite MISO’s efforts to distinguish the two, the proposed HUC hedge in its August 31 Filing is not meaningfully different from MISO’s Grandmother Agreement hedge proposal filed in 201126 which the Commission rejected in 2012.27 Now, MISO again proposes to provide LSEs with historic long-term ownership and contractual arrangements a hedge against costs of zonal price separation, which MISO characterizes as an “unforeseen risk.”28 MISO states that HUC hedge eligibility will be given to LSEs with ownership or contractual arrangements, specifically: (a) Grandfathered Agreements; (b) arrangements that predate July 20th, 2011; or (c) arrangements that predate March 26, 2018, and pertain to External Resources represented in External Resource Zones which meet four criteria.29

MISO’s 2011 Grandmother Agreement hedge proposal applied to Grandfathered Agreements and arrangements that predate July 20th, 2011, which are two of the three categories

25 16 U.S.C.S. §§ 824d(a) and (b).
26 Proposed Section 69A.7.7(a), Midwest Independent Transmission System Operator, Inc. Filing to Enhance RAR by Incorporating Locational Capacity Market Mechanisms; FERC Docket Nos. ER08-394-004; ER08-394-005; ER08-394-021; ER08-394-022; ER08-394-028; ER08-394-029; and ER11-4081-000 (July 20, 2011).
28 August 31 Filing, Rauch Testimony, at 9.
29 See August 31 Filing, Tab B, Section, 69A.7.7(a). The proposed four criteria are: (1) An LSE must have PRMR that is in an LRZ distinct from the ERZ or LRZ where the Planning Resource is located; (2) HUCs can only be granted in amounts less than or equal to the PRMR being served by the LSE; (3) The arrangement must have either long-term firm transmission service from the Planning Resource to the LRZ containing the LSE’s demand and associated PRMR, Network Resource Interconnection Service, or some combination of the two; and (4) The arrangement must be on-going.
to which MISO now proposes to grant free HUC hedges. In 2012, the Commission rejected MISO’s Grandmother Agreement hedge proposal, finding that proposal would have allowed LSEs to avoid using deliverability as part of their resource planning analysis, negating the purpose and reliability benefits of the locational market mechanisms, which the Commission had directed. The Commission did provide LSEs that historically relied on remote generation a two-year transition period to adjust their resource portfolio. That adjustment period ended in 2015.

MISO argues that the current HUC proposal is different from the 2012 Grandmother Agreement proposal in that HUCs: (1) will not require uplift; (2) will not waive transmission constraints; and (3) apply to a small set of resources. However, MISO’s approach remains discriminatory and is an attempt to circumvent the Commission’s 2012 order to end historic advantages and preferences of the Grandmother Agreements in 2015. As explained below, none of MISO’s arguments or rationales withstand scrutiny.

First, MISO states that HUCs will be settled after the PRA through the allocation of excess auction revenue and it will not rely on uplift to guarantee full compensation for HUC holders if there is insufficient excess auction revenue. Yet, MISO also states that it would be an “unlikely event” that there would be insufficient revenues from the PRA to fully fund the HUCs. Accordingly, MISO’s distinction between the Grandmother Agreements and HUCs is

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30 See, Midwest Independent Transmission System Operator, Inc. Filing to Enhance RAR by Incorporating Locational Capacity Market Mechanisms; FERC Docket Nos. ER08-394-004; ER08-394-005; ER08-394-021; ER08-394-022; ER08-394-028; ER08-394-029; and ER11-4081-000 (July 20, 2011).
31 June 11 Order, at P 113.
32 June 11 Order, at P 113.
33 August 31 Filing, Rauch Testimony, at 31.
34 August 31 Filing, Rauch Testimony, at 31.
35 August 31 Filing, Rauch Testimony, at 21.
without merit and indicates that HUC holders will likely always be fully hedged, at the expense of the other LSEs in the zone.

Second, MISO argues that HUCs are different from Grandmother Agreements because, for Grandmother Agreement hedges, transmission constraints were waived via capacity import limit (“CIL”) and capacity export limit (“CEL”) adjustments, but because MISO proposes to modify the CIL and CEL calculations in its August 31 Filing, the CIL and CEL adjustments previously required for Grandmother Agreement hedges will not be required to implement HUC hedges. The ICC is not herein taking a position on MISO’s proposed CIL and CEL modifications, but the assertion that additional adjustments to CIL and CEL (beyond those proposed by MISO in the August 31 Filing) are not needed to implement HUCs, whereas they were needed to implement Grandmother Agreement hedges, does not constitute a logical reason to support HUCs. HUC hedges are not better than Grandmother Agreement hedges (e.g., less harmful to locational price signals and less discriminatory) because of the CIL and CEL modifications simultaneously filed by MISO. Furthermore, rejection of MISO’s HUC proposal will not impact the reasonableness of the proposed CIL and CEL modifications in MISO’s August 31 Filing, which must stand or fall on their own merits.

Third, MISO estimates that up to five percent of total cleared capacity resources would be eligible for HUCs and claims this amount is de minimis. To the contrary, should five percent of cleared capacity receive the benefits of HUCs, there could be an enormous impact on

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36 August 31 Filing, Rauch Testimony, at 31.
37 August 31 Filing, Rauch Testimony, at 32.
38 For example, MISO cleared over 135,000 MWs of capacity during the 2018-19 PRA. Using MISO’s 5 percent estimate, MISO could potentially award over 6,750 MWs of HUCs. See, 2018/2019 Planning Resource Auction Results, (April 13, 2018), at 9. https://cdn.misoenergy.org/2018-19%20PRA%20Results173180.pdf
the zonal delivery benefit revenue allocation, particularly if it is concentrated in a limited number of constrained zones.

With respect to external resources, MISO asserts that, “The creation of ERZs will introduce price risk that could not have been foreseen” by MISO LSEs and that “unforeseen price separation risk” warrants the granting of HUCs to offset that risk.39

But, MISO provides no evidence for its assertion and provides no reason why LSEs owning or contracting with resources outside of MISO should have had expectations for special transmission delivery rights to their load zone over and above the rights conveyed in their firm transmission contracts. In fact, the Commission has repeatedly made it clear that firm transmission rights do not include deliverability of capacity into constrained zones. For example, in the June 11 Order the Commission stated:

Binding transmission constraints exist when system demand exceeds available transmission capability, which can occur irrespective of the amount of firm transmission service rights issued by the transmission provider.40

Given the attention that transmission constraints and resource deliverability have received in past Commission orders, external resource owners and impacted MISO LSEs knew, or should have known, the risk of zonal price separation for deliverability of external resources. Even if such risk regarding external resources was unforeseen prior to the Commission’s June 11 Order, the Commission’s own words were clear and unmistakable. MISO’s initiative to create external zones which would expose external resources to Planning Resource Auction price separation was not unforeseeable, and should have been foreseen by external resource owners and the MISO LSEs holding contractual or ownership rights to those external resources. Those LSEs should have heeded the Commission’s advice regarding portfolio adjustments, and should not now be

39 August 31 Filing, Rauch Testimony, at 9.
40 June 11 Order, at P 73.
given preference to ZDB revenue which would reward them for disregarding the Commission’s prior warning.

With respect to internal resources, MISO states that the same logic it offered with respect to external resources applies similarly to internal resources. In particular, MISO states that the owners of such resources and the impacted MISO LSEs “could not have foreseen risks associated with a capacity construct that was created after their contracts were negotiated.”

Even if MISO’s logic was correct, the Commission has already addressed and dispensed with the issue of zonal price separation risk for internal resources by rejecting Grandmother Agreement hedges. Specifically, the Commission stated:

Therefore, consistent with the suggestion of Illinois Commission, we will allow the Grandmother Agreement provisions of section 69A.7.7(a), as conditioned below, to be in effect during a two-year transition period, concluding at the end of the 2014/2015 planning year. During this transition, LSEs with Grandmother Agreements will be able to observe the effect of the zonal auctions and the resulting Zonal Deliverability Charges, as well as have the opportunity to adjust their portfolios to account for the anticipated effect of the Zonal Deliverability Charge.

The Commission has ruled and required the termination of such hedges by the end of the 2014/2015 delivery year. MISO provides no reason why the Commission should reverse its previous determination.

For these reasons, MISO’s HUC proposal should be rejected both in its application to internal resources and external resources.

C. HUCs will Effectively Erode the Value of Existing ZDC Hedges

MISO’s August 31 Filing retains the existing tariff provision for Zonal Deliverability Charge (ZDC) Hedges that enable LSEs to reduce or avoid ZDC assessments through investment

41 August 31 Filing, Rauch Testimony, at 9-10.
42 June 11 Order, at P 113.
in transmission system facilities that increase the CIL in the zone the LSE serves. However, MISO now proposes to grant HUC holders equal priority along with ZDC Hedge holders to excess auction revenue distribution in Stage 1.\textsuperscript{43} When Grandmother Hedges were discontinued at the end of the 2014-2015 planning year, ZDC Hedge holders became the only recipients of Stage 1 allocations. Because ZDC Hedge holders would now be combined with HUC holders for Stage 1 revenue distribution under MISO’s proposal, MISO’s proposal effectively diminishes the value of ZDC Hedges.\textsuperscript{44} So, under MISO’s HUC proposal, LSEs that fund increases in transmission capability into the constrained zone would be treated exactly the same as LSEs that have contracts with, or ownership of, resources outside the constrained zone but take no action to increase transmission import capability.

Also, HUCs, as well as ZDC Hedges would be “prioritized ahead of \textit{pro rata} allocation of excess auction revenues by the zonal delivery benefit (ZDB) mechanism.”\textsuperscript{45} MISO refers to this as changing “the prioritization of allocating excess auction revenue.”\textsuperscript{46} While MISO states that this changing of prioritization is needed to, “recognize the impacts”\textsuperscript{47} that MISO’s proposed tariff changes will have to “pre-existing capacity arrangements,”\textsuperscript{48} that rationale only applies, if at all, to LSEs serving load in a MISO zone with external resources which will be included in an External Zone under MISO’s proposal. MISO is not proposing any change to any existing MISO zone that would even remotely merit re-prioritization of excess auction revenue, and MISO’s

\textsuperscript{43} August 31 Filing, Tab B, Section 69A.7.7
\textsuperscript{44} MISO explains that, under its proposal “If there are not sufficient excess revenues to fully fund all Historic Unit Considerations and ZDC Hedges, the revenues will be allocated on a \textit{pro rata} basis to all HUCs and ZDC Hedges.” August 31 Filing, Tab B, Proposed Tariff, Section 69A.7.7
\textsuperscript{45} August 31 Filing, Rauch Testimony, at 34.
\textsuperscript{46} August 31 Filing, Rauch Testimony, at 34.
\textsuperscript{47} August 31 Filing, Rauch Testimony, at 34.
\textsuperscript{48} August 31 Filing, Rauch Testimony, at 35.
proposal to include Grandfathered Agreements and arrangements that predate July 20, 2011 in HUC eligibility has no merit.

MISO states the HUC concept was initially designed to address unforeseen risks purportedly faced by LSEs having contractual or ownership arrangements with External Resources and was subsequently expanded to cover intra-MISO resources so as to “avoid creating preferential treatment for external resources.” The way to avoid creating preferential treatment of external resources is to reject the HUC proposal in its entirety, not grant HUC hedges to a set of internal resources for which the Commission has already ordered the elimination of auction price separation hedges. As stated above, the HUC proposal creates undue preference for LSEs with HUC-eligible arrangements, discriminates against LSEs without such arrangements, and mutes the locational price signals directed by the Commission.

If the Commission, nevertheless, finds some merit in MISO’s statements regarding ERZ creation and unforeseen risk for LSEs with external resources, the Commission should permit only a short adjustment period for external resources as it did with MISO’s Grandmother Agreements. On the other hand, there is no merit in MISO’s proposal for granting HUCs to LSEs with intra-MISO contractual/ownership arrangements—the Commission previously rejected this concept and there is no reason for the Commission to revisit it.

IV. CONCLUSION

The manner in which MISO’s HUC proposal would provide capacity hedges is unduly discriminatory and mutes the operation of Commission-directed locational price signals. The desire of some LSEs to have free hedges at the expense of other load in the zone is not, in and of

49 August 31 Filing, Rauch Testimony, at 5.
50 June 11 Order, at P 113.
51 June 11 Order, at P 113.
itself, a good reason to give them.\textsuperscript{52} MISO’s current method to allocate excess capacity auction revenue recognizes the value created by parties funding transmission that increases transfer capability into constrained zones and properly allocates the value of all remaining transmission capacity transfer capability pro rata among all network and point-to-point transmission customers. MISO’s August 31 Filing would grant undue preference to HUC holders thereby discriminatorily diminishing the benefit available to ZDC hedge holders and all other Zonal Deliverability Benefit recipients.

The Commission already addressed the issue of hedges for historical contractual/ownership arrangements and provided MISO LSEs with sufficient time and opportunity to adjust their portfolios to address the potential for zonal price separation. While the Commission’s June 11 Order did not specifically extend to resources outside of MISO, LSEs having contractual/ownership arrangements with such resources should have taken heed of the Commission’s locational price signal ruling in the June 11 Order to foresee the potential for future zonal price separation.

The ICC acknowledges that on April 19, 2018, it submitted comments in Docket No. ER18-1173 similar to the instant comments. In submitting the instant comments in this docket, the ICC relies on the Commission’s statements in its August 2, 2018 making clear that its findings therein addressed only the capacity credits and the evergreen contract elements of MISO’s March 26 filing and that MISO’s HUC proposal was not addressed therein. Specifically, the Commission stated that it was “not addressing the protested and other elements

\textsuperscript{52} Illinois Commerce Commission et al. v. FERC, 576 F.3d 470, at 475 (7th Cir. 2009) (“the fact that one group of utilities desires to be subsidized by another is no reason in itself for giving them their way.”).
of MISO’s proposal.” MISO’s HUC proposal is one of those “protested and other” elements,
thus making the ICC’s comments herein properly in order here.

For all the reasons explained above, the ICC urges the Commission to reject the portion
of the August 31 Filing pertaining to MISO’s HUC proposal. The ICC further recommends any
and all other appropriate relief.

Respectfully submitted,

/s/Christine F. Ericson

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ILLINOIS COMMERCE COMMISSION

Dated: September 25, 2018
CERTIFICATE OF SERVICE

I hereby certify that I caused copies of the foregoing document of the Illinois Commerce Commission to be served this day upon each person designated on the official service list compiled by the Secretary in this proceeding, a copy of which is attached, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure.

Dated at Chicago, Illinois, this 25th day of September, 2018.

/s/ Christine F. Ericson

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