

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

Alabama Power Company	)	Docket Nos.	ER10-2881-014
Southern Power Company	)		ER10-2882-014
Mississippi Power Company	)		ER10-2883-014
Georgia Power Company	)		ER10-2884-014
Gulf Power Company	)		ER10-2885-014
Oleander Power Project, Limited Partnership	)		ER10-2641-014
Southern Company - Florida LLC	)		ER10-2663-014
Southern Turner Cimarron I, LLC	)		ER10-2886-014
Spectrum Nevada Solar, LLC	)		ER13-1101-009
Campo Verde Solar, LLC	)		ER13-1541-008
Macho Springs Solar, LLC	)		ER14-787-002
	)		EL15-39-000

COMMENTS OF EXELON CORPORATION

In accordance with the Federal Energy Regulatory Commission’s (“Commission”) May 4, 2016 Notice of Technical Conference,¹ Exelon Corporation (“Exelon”)² submits these comments on the issues raised in the Notice and at the May 23, 2016 Technical Conference related to the market-based rate authorization of Alabama Power Company, Southern Power Company, Mississippi Power Company, Georgia Power Company, Gulf Power Company, Oleander Power Project, LP, Southern Company - Florida LLC, Southern Turner Cimarron I, LLC, Spectrum Nevada Solar, LLC, Campo Verde Solar, LLC, and Macho Springs Solar, LLC (“Southern Companies”). The energy auction, as it is currently formulated, is not as robust as it could be to mitigate the potential to exercise market power in the Southern Companies’ balancing authority area (the “Southern BAA”) and its first tier markets. Therefore, Exelon

¹ *Alabama Power Company, et al.*, Notice of Technical Conference, Docket No. ER10-2881-014, et al. (May 4, 2016).

² Exelon filed a motion to intervene on May 7, 2015 in Docket No. EL15-39-000.

urges the Commission to direct the Southern Companies pursuant to section 206 of the Federal Power Act (“FPA”)³ to modify the auction as discussed herein.

I. Background

On April 27, 2015, the Commission instituted a proceeding pursuant to section 206 of the FPA to determine whether the Southern Companies’ market-based rate authority is just and reasonable and directed the Southern Companies to: (1) show cause as to why the Commission should not revoke the Southern Companies’ market-based rate authority; (2) file a mitigation proposal tailored to their particular circumstances that would eliminate their ability to exercise market power; or (3) inform the Commission that they will adopt the default mitigation set forth in the Commission’s regulations or propose other cost-based rates and submit cost support for such rates.⁴ On May 27, 2015, the Southern Companies requested rehearing of the Section 206 Order, arguing that the energy auction prevents the Southern Companies from engaging in withholding or otherwise attempting to charge excessive prices.⁵ On May 4, 2016, the Commission initiated a technical conference to discuss issues related to the Southern Companies’ market-based rate authorization, including potential improvements to the energy auction.

The energy auction was conditionally accepted by the Commission in 2008 as a means to mitigate the potential for the Southern Companies to exercise market power.⁶ The energy auction consists of a day-ahead and hour-ahead auction through which the Southern Companies are required to offer to sell all available energy subject to cost-based caps. The day-ahead auction offers a 50 MW block of firm liquidated damages (“LD”) energy and recallable energy for a 16 hour period from 6 a.m-10 p.m. The hour-ahead auction consists of a non-firm 1 MW

³ 16 U.S.C. § 824e (2012).

⁴ *Alabama Power*, 151 FERC ¶ 61,071, at P 2 (2015) (“Section 206 Order”).

⁵ Southern Companies, Request for Rehearing, Docket Nos. ER10-2881-014, et al. at p. 3 (filed May 27, 2015).

⁶ *Southern Company Services, Inc.*, 125 FERC ¶ 61,316 (2008).

energy product. All products sold in the energy auction are deliverable “into Southern.” If there is a match between an offer and a bid, the auction will clear and the transaction may be consummated through a bilateral contract. Since the introduction of the energy auction, participation has been scarce in both the day-ahead and hour-ahead auction,⁷ with 16 transactions matching since the beginning of 2016.⁸

II. Exelon’s Interest

Through its subsidiary companies, Exelon sells and buys power in the Southern BAA and first tier markets. Exelon owns Hillabee Energy Center, a 740 MW combined cycle power plant located in the Southern BAA. Exelon is also developing a 50 MW steam/biomass facility in Albany, Georgia, which has an anticipated commercial operation date of June 1, 2017. Exelon also serves wholesale load within the Southern BAA. In 2015, Exelon had almost 15 million MWh of bilateral sales in the Southern BAA. In 2015, Exelon served over 12 million MWh of wholesale load in the Southern BAA, with the vast majority of this load located inside the Georgia Transmission Corporation (“GTC”) transmission system. Through its subsidiaries, Exelon also has participated in both the day-ahead and hour-ahead energy auctions as a buyer and a seller. Exelon’s experience buying and selling power in the Southern BAA and via the auction inform the recommendations we make below.

III. Comments

With over seven years of experience with the energy auction, Exelon believes that the structure of the auction could be materially enhanced by a number of reforms discussed herein,

⁷ “Southern Companies report that in its first year, the auction had one day-ahead match and nine hour-ahead cleared transactions. In the second through fifth years, the cleared transactions were as follows: eight day-ahead/five hour-ahead; six day-ahead/no hour-ahead; one day-ahead/no hour ahead; eight day-ahead/no hour-ahead.” Section 206 Order, 151 FERC ¶ 61,071 at P 7 (citation omitted).

⁸ *Southern Companies’ Market-Based Rate Authorization and Mitigation*, Technical Conference Transcript Docket Nos. ER10-2881-014, *et al.* 44:14-15 (May 23, 2016) (“Technical Conference Transcript”).

which will enable the auction to attract more participation and serve the purpose for which it was intended. This package of reforms includes changes to address: (1) product delivery; (2) product availability; (3) clearing mechanism; (4) pricing; and (5) auction timing.

As noted at the technical conference, Southern Company has provided several opportunities for stakeholders to provide input on the energy auction construct. Exelon appreciates the opportunities to provide feedback that Southern Company has provided at the Fall Forum and other venues.⁹ We have provided concrete recommendations to Southern Company that include several of the reforms that Southern Company proposes to consider after additional meetings with market participants.¹⁰ While we are encouraged by Southern Company's willingness to consider some of our proposals, now is the time to take action. Therefore, we oppose the Southern Companies' proposal to only memorialize the modest changes that it has already implemented and to consider additional enhancements to the auction only after the Commission has dismissed the section 206 proceeding.¹¹ Rather, Exelon urges the Commission to direct Southern Company to make tariff filings reflecting the changes discussed below within 60 days as a condition of dismissing the section 206 proceeding. The Commission should reject any requests of the Southern Companies to continue to delay the implementation of additional auction enhancements.

a. The Current Energy Auction is not Robust as it Could be to Mitigate the Potential To Exercise Market Power

⁹ *Southern Companies*, Technical Conference Presentation of Southern Companies, Docket No. ER10-2881-014, et al. at 38 (May 23, 2016) ("Technical Conference Presentation").

¹⁰ *Id.* at 39.

¹¹ *Id.* at 39-40.

Southern Company acknowledges that the energy auction is “not robust,” and Exelon agrees.¹² The data demonstrates that the auction has remarkably low levels of participation and lower levels of matching. Despite offering over 4,800 MW into the day-ahead energy auction and bidding over 1,700 MW in the day-ahead energy auction, Exelon never matched in all of 2015. In the same year, Exelon bid in 288 hours in the hour-ahead auction, matching bids 27 percent of the time for 23 percent of the volume that we bid to buy. All told, we bought in less than 1 percent of all hours that the hourly auction ran in 2015. Exelon matched sell offers in even fewer hours and for fewer MWh in 2015. Each time that Exelon matched, the counter-party was Southern Company. In Exelon’s experience, the level of participation does not allow the auction to serve its intended purpose as currently structured.¹³ However, with a number of reforms, the auction’s functionality can be significantly improved.

b. Southern Company Should be Required to Incorporate an “into GTC” Delivery Point in the Auction

Inside the Southern BAA, power is bought and sold directly by the counterparties who either sink that power to load using network transmission service or move it to another region using point-to-point transmission service. To move power out of the transmission system, buyers must purchase point-to-point transmission service from the transmission provider.¹⁴ The most commonly transacted product in the Southern BAA is the “Into [transmission system]” product which is traded by brokers and on electronic exchanges.¹⁵ On a daily basis, the seller

¹² Technical Conference Transcript at 44 (“MR. RODGERS: Okay. And would you describe the volume of transactions that occur under the Southern auction as robust? MR. MOORE: No. The number itself is indicative, it's a smaller number of transactions.”).

¹³ Technical Conference Presentation at 23-25.

¹⁴ Transmission can be purchased in varying priorities; it can be Firm Point-to-Point, Non-Firm Network, Non-Firm Point-to-Point and Non-Firm Secondary Transmission. Firm Point-to-Point transmission carries the highest priority and can only be curtailed in the event of a system emergency. Firm transmission is available daily, weekly, monthly or yearly with discrete timelines.

¹⁵ In addition to the “Into_” Product, counter-parties can directly agree on other products to transact which, for instance, include: (a) unit firm where a generator sells long power but has the right to curtail if the plant goes on a

sells a product which shall be delivered either: (a) at a single point of interconnection with the transmission system; or (b) at an interface with the transmission system. If the buyer cannot procure firm transmission from the seller's point of interconnection or interface to the buyer's delivery point, the seller has the option to either (i) designate an alternative interface to deliver to (from which point the buyer will try to get transmission) or (ii) take on the risk of curtailments if the buyer procures non-firm transmission from the original delivery point/interface. This form of contract is typically called a "Seller's Choice" contract and is commonly used in bilateral transactions in the Southern BAA.

Under the current auction structure, all products sold must be deliverable "into Southern." Load serving entities ("LSEs") procure network transmission service on behalf of the customers that they serve within the Southern BAA. Southern Company serves approximately 90 percent of the load using the "into Southern" product, so it controls a significant portion of the network transmission service on the Southern Companies' transmission system.

To sell to buyers not served by the "into Southern" product, sellers must purchase additional transmission to wheel power from the Southern Companies' transmission system to serve load, usually "into GTC." "Into GTC" is one of the most popular locations for sales due to the availability of load for merchant generators to serve.¹⁶ For example, if Exelon sells power from its Hillabee Energy Center to serve load in GTC, we must procure firm point-to-point transmission to deliver the output into GTC. Similar to Exelon, a third party market participant that buys the "into Southern" product in the auction must also purchase transmission in order to deliver its energy to GTC load.

forced outage; (b) transmission contingent where one of the counter-parties needs to get transmission on their side of the transaction and is unsure if they will be able to procure that transmission without curtailment; and (c) non-firm transactions in]the hourly market because firm transmission is no longer available.

¹⁶ Technical Conference Transcript at 82.

In Exelon's experience transacting in the bilateral markets, Southern is already familiar with the "into GTC" product and the differences between "into GTC" and "into Southern." In 2015, over 90 percent of Exelon's purchases from the Southern Companies in the bilateral market were made "into GTC," while only 48 percent of Exelon's sales to Southern Company were made "into GTC."

The limitations of the "into Southern" product increase the costs and risks of participating in the energy auction and result in lower levels of participation from buyers and sellers. One of the auction modifications that Southern Company identified that it is willing to consider is the addition of an "into GTC" delivery point for both the day-ahead and hour-ahead auctions.¹⁷ Based on Exelon's experience in the bilateral market, Southern Company should be able to incorporate it into the energy auction. Exelon proposed this modification to Southern Company on several occasions and asks the Commission to direct Southern Company to make a tariff filing reflecting this change within 60 days of an order in the section 206 proceeding.

c. The Southern Companies Should be Required to Expand the Auction Product Offerings

The day-ahead energy auction only offers two on-peak products. These products are among the most liquid and heavily traded in the bilateral markets, and Exelon supports the continued inclusion of these products in the auction. However, transmission is purchased for a 24 hour period, and by offering only an on-peak product, participating in the energy auction carries a higher risk that that transmission may not be used for the full 24 hour period and therefore, impose a higher cost on the on-peak transaction. In contrast, using traditional bilateral means of transacting, assuming a willing buyer and a willing seller, a diverse array of products that suit participants' needs and the needs of their customers can be obtained. In part due to the

¹⁷ Technical Conference Presentation at 39.

limited products available in the energy auction, auction participation levels have remained low since its inception.

Exelon generally participates as a buyer in the auction only when Exelon has unused transmission remaining from the day-ahead bilateral market. Therefore, Exelon does not rely on the auction as a primary means of buying or selling energy. However, should additional products be incorporated into the energy auction, and the other changes identified in this proceeding are made, Exelon would rely more heavily on the auction to transact. Therefore, Exelon supports the recommendation on the Southern Companies' slide 40 to incorporate day-ahead, off peak products. In particular, Exelon supports the introduction of a 2x16 and a 7x8 product. These two products are among the most highly liquid products traded in the bilateral market. Exelon also supports the addition of an around-the-clock (7x24) product, which Exelon believes would help to alleviate some of the unit commitment constraints that the Southern Companies identified in the Technical Conference. If the auction provides the opportunity to buy and sell during both on and off peak periods, this will also help support transmission procurement. Incorporating additional products will increase participation in the auction and should reduce prices for consumers. We thus request that the Commission direct the Southern Companies to make a tariff filing adding these three products within 60 days of an order in the section 206 proceeding.

d. The Commission Should Direct the Southern Companies to Change Their Offer Prices

The Commission should direct the Southern Companies to reform their methods for calculating offer prices used in the auction.

To date, Southern Company has been the largest participant in the energy auction. As the largest participant in an auction with few participants, Southern Company's cost-based offers

drive pricing outcomes. Southern Companies' day-ahead seller offer price is capped at the sum of: (a) the Average Variable Costs of a unit; (b) 10 percent of the Average Variable Costs of the Unit; and (c) a Commission-approved demand charge of \$21.43/MWh.¹⁸ For day-ahead energy blocks contingent upon one another, the seller offer price would also include Commitment Costs.¹⁹ The Intercompany Interchange Contract provides that Southern Company allocates its lowest cost resources for serving Southern Company customers.²⁰ Therefore, Southern Company offers its remaining, more expensive resources into the auction at their Average Variable Cost.²¹ It is unclear to Exelon how Southern Company develops the Average Variable Costs for these units, for instance, whether Southern Company is utilizing the highest hour during the peak period to set the price. To the extent that Southern is setting the price for an entire strip of on-peak power based on price of the highest hour within the block, the price for Southern Companies sales will continue to diverge from the Southern Companies' system lambda, which is calculated on an hour-by-hour basis. Because Southern Company is the largest seller in the auction, the offer price for the Southern Companies' sales impact the participation in the auction and limit the amount of transactions that match. We support the Commission's efforts to better understand this issue.²² Exelon urges the Commission to require that Southern

¹⁸ Exelon supports Southern Company's proposal to remove the demand charge. Technical Conference Transcript at 86:17 and Technical Conference Presentation at 39.

¹⁹ *Southern Company Services, Inc.*, 125 FERC ¶ 61,316 at P 15 (2008).

²⁰ Southern Company System Intercompany Interchange Contract at Section 3.3 (“[i]t is recognized that the IIC provides for the retention of the lowest cost energy resource by each OPERATING COMPANY for its own customers. Energy in excess of that necessary to meet each OPERATING COMPANY's requirements is delivered to the Pool as Interchange Energy”).

²¹ *Nevada Power Co.*, 153 FERC ¶ 61,206 at P 48 (2015) (in rejecting Nevada Power Company's request for market-based rate authority, the Commission found that the California Independent System Operator's (“CAISO”) local market power mitigation is not sufficient to mitigate the Berkshire Energy Imbalance Market Sellers' potential to exercise market power, because, “outside of the CAISO's balancing authority area, the EIM is a voluntary market, which allows participants to decide which resources they bid into the EIM and which resources they do not. Therefore, a market participant may be able to strategically bid its resources such that the LMP does not reflect the economic unit, but rather reflects a unit the market participant selects to bid with potentially higher cost, to the benefit of its lower cost units”).

²² Technical Conference Transcript at 209.

Company's Offer Price for day-ahead blocks be based on the average price for each hour within the relevant period (be it 8, 16 or 24 hours) and not the price for the peak hour within the period. In this way, the price for the on-peak product that the Southern Companies offer in the auction will come closer to the Southern Companies system lambda.

e. The Timing of the Energy Auction Should be Revised

The day-ahead bid period begins at 12 p.m. Central Prevailing Time two business days prior to the physical delivery and closes at 6:30 a.m. Central Prevailing Time one day prior to the physical delivery. The hour-ahead bid period opens 75 minutes prior to the hour of flow and closes 60 minutes prior to flow. For instance, for the flow hour of 12:00 PM to 1:00 PM (or hour ending 13), the hourly auction begins at 10:45 AM and the auction closes at 11:00 AM. However, the timing of the hour-ahead auction does not align with the bilateral trading times. The bilateral market trades between 70 and 65 minutes (or 10:50 AM to 10:55 AM in the above example) prior to the hour of flow, which is 5-10 minutes before the energy auction clears. The misalignment in timing limits participation in the market. Due to this misalignment, Exelon generally only offers if we are long and do not sell power prior to 10:55 AM. Similarly, if we are short and have leftover Southern transmission at 10:55 AM, then we will bid into the auction. Moving the hour-ahead auction up by ten minutes (to open 85 minutes prior to hour of flow and close 70 minutes prior to flow) will give market participants additional clarity and information regarding their overall market position prior to that final bilateral trading window that occurs 70 to 65 minutes prior to the hour of flow.

Exelon also supports running the hour-ahead auction for balance of the day, allowing participants to pick up multiple hours at one time. A balance of day auction could run at a different time than next hour auction. For instance, during the summer months (May – September), the Southern Companies could run an auction at 8:30 AM CPT that would cover

hours ending 13-19 for that day. This would be valuable to market participants because they are looking at changes to their load and generation from day-ahead at that time and preparing for the peak hours. Running the auction for multiple hours would also help with Southern Company's unit commitment process (i.e., if they needed to turn a unit on for multiple hours that may not be picked up in the current hourly process). Similarly, during the winter months (November-March), the Southern Companies could run an auction at 1:30 AM CPT, for hours ending 5-9 and then again at 1:30 PM CPT for hours ending 19-22. Exelon supports an annual review of the auction timing to ensure that it aligns with the bilateral market and supports active trading.

f. Other Modifications

While the package of structural changes we have described will make the auction more robust, other administrative changes to the auction were raised during the technical conference. For instance, the Southern Companies do not currently post the auction results unless there are three buyers and three sellers and only posts every six months.²³ Exelon supports efforts to increase the frequency with which the Southern Companies posts results to improve transparency in the auction. Exelon also supports incorporating additional transparency in reporting auction results. Based on the information currently posted by Southern Company, market participants cannot see the bids, offers or the quantity thereof. Without transparency into the market transactions, it is difficult for Exelon to glean insight into and identify the best means to resolve energy auction shortcomings. While Exelon's recommendations for changes to the auction are made based on our experiences, additional information would allow for more informed proposals to further improve the auction's effectiveness. Without posting the auction results and pricing outcomes, the market suffers.

²³ Technical Conference Transcript at 319.

IV. Conclusion

Exelon appreciates the Commission's efforts to ensure that the energy auction serves its purpose to effectively mitigate the Southern Companies' potential to exert market power. Exelon urges the Commission to direct Southern Company to make the recommended changes to the energy auction regarding (1) product delivery; (2) product availability; (3) the auction clearing mechanism; (4) pricing; and (5) timing. Based on Exelon's experience in the market, we believe the targeted package of reforms would result in a more robust and transparent auction.

Respectfully submitted,

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Dated: June 20, 2016

Certificate of Service

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C. this 20th day of June 2016.

/s/ Marianne Alvarez

Marianne Alvarez
Exelon Corporation

Document Content(s)

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