134 FERC ¶ 61,264
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Marc Spitzer, Philip D. Moeller,
John R. Norris, and Cheryl A. LaFleur.

Midwest Independent Transmission System Operator, Inc. — Docket Nos. ER11-2275-000, ER11-2275-001

ORDER CONDITIONALLY ACCEPTING PROPOSED TARIFF REVISIONS

(Issued March 31, 2011)

1. On December 1, 2010, as amended on February 15, 2011, Midwest Independent Transmission System Operator, Inc. (Midwest ISO) filed proposed revisions to its Open Access Transmission, Energy and Operating Reserve Markets Tariff (Tariff) pertaining to the allocation of costs associated with the Revenue Sufficiency Guarantee charge to market participants. This order conditionally accepts the Midwest ISO's proposal, as amended.

I. Background

2. On August 21, 2008, the Commission issued an order[1] commencing a paper hearing to address complaints filed by three groups of utilities under section 206(b) of the Federal Power Act (FPA).[2] The complainants' position was that the Revenue Sufficiency

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[1] *Ameren Servs. Co. v. Midwest Indep. Transmission Sys. Operator, Inc.*, 124 FERC ¶ 61,173 (2008) (Order Commencing Paper Hearing), *reh'g denied*, 131 FERC ¶ 61,214 (2010).

[2] 16 U.S.C. § 824e (2010). The Complainants were Ameren Services Company and Northern Indiana Public Service Company (Ameren/Northern Indiana); Great Lakes Utilities, Indiana Municipal Power Agency, Missouri Joint Municipal Electric Utility Commission, Missouri River Energy Services, Prairie Power, Inc., Southern Minnesota Municipal Power Agency, and Wisconsin Public Power Inc.; and Wabash Valley Power Association, Inc.

Guarantee charge[3] was unjust and unreasonable. The Commission noted that under section 206(b) of the FPA, Complainants carry the burden of proof and therefore must demonstrate, on the basis of substantial evidence, both that the rate in effect is unjust and unreasonable and that their proposed alternative rate is just and reasonable.[4]

3. Earlier in the proceeding, the Midwest ISO had filed what it referred to as "indicative" tariff revisions that reflect an alternative mechanism for allocating Revenue Sufficiency Guarantee charges and costs (Indicative Rate). The Midwest ISO explained that these provisions represent a new real-time Revenue Sufficiency Guarantee cost allocation methodology that was developed based on the principles agreed upon in stakeholder discussions, but that has not yet been conformed to incorporate the Midwest ISO's new Ancillary Services Markets market design elements. The Midwest ISO asked the Commission to determine whether the language in the indicative revisions represented a just and reasonable basis for a subsequent FPA section 205[5] filing that would replace the Revenue Sufficiency Guarantee cost allocation methodology for the Ancillary Services Markets. The Midwest ISO stated that if the Commission determined that the proposed indicative tariff language is a just and reasonable basis for further developing provisions that would adapt the new Revenue Sufficiency Guarantee cost allocation methodology to the Ancillary Services Markets context, it would agree to file Ancillary Services Markets-specific tariff provisions reflecting this suggested new allocation methodology. The Commission explained that it is not the Midwest ISO's responsibility to propose and justify a new cost allocation because the Midwest ISO is not the complainant but rather the party to which the complaints are directed.[6] The Commission acknowledged, however, that "[t]he only party with data that can illuminate the issue of what the rate can properly be, the Midwest ISO, has provided additional data

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[3] Under section 40.2.19 of the Midwest ISO tariff, a generation or demand response resource receives a real-time Revenue Sufficiency Guarantee credit if the Midwest ISO commits it through the Reliability Assessment Commitment process after the close of the day-ahead energy and operating reserve markets and if the resource then receives insufficient real-time energy and operating reserve revenues to cover its as-offered production costs. To fund the Revenue Sufficiency Guarantee credits, pursuant to section 40.3.3 of the tariff, market participants are charged a real-time Revenue Sufficiency Guarantee charge based on their virtual supply offers and real-time load, injection, export, and import deviations from day-ahead schedules.

[4] Order Commencing Paper Hearing, 124 FERC ¶ 61,173 at P 9.

[5] 16 U.S.C. § 824d (2006).

[6] Order Commencing Paper Hearing, 124 FERC ¶ 61,173 at P 9.

and analysis in its March 3, 2008 filing and has made that information available to all parties."[7] The parties raised arguments about the indicative tariff revisions in their written briefs.

4. On November 10, 2008, the Commission issued an order on the paper hearing, in which it found that the Midwest ISO's indicative tariff sheets provide a just and reasonable basis for future Revenue Sufficiency Guarantee cost allocations.[8] The Commission recognized that the Midwest ISO could not implement the Indicative Rate before the start of the Ancillary Services Markets, and that further adjustments would be necessary to conform the indicative allocation to the Ancillary Services Markets. The Commission therefore allowed the Midwest ISO to file its indicative allocation when it had a complete and final proposal. The Midwest ISO did so on February 23, 2009 (Redesign Proposal), framing its filing as a compliance filing that responded to the directives of the Order on Paper Hearing.

5. In an order issued on August 30, 2010,[9] the Commission accepted in part and rejected in part the Redesign Proposal, subject to a further compliance filing. The Compliance Order rejected several provisions in the Redesign Proposal because they were revisions to the indicative cost allocation accepted by the Commission in the Order on Paper Hearing, and were beyond the scope of the compliance proceeding. The Commission recommended that the Midwest ISO file a revised proposal under section 205 of the FPA in the event it decides to seek Commission acceptance for its revised proposal.[10]

II. Midwest ISO's Filing

6. On December 1, 2010, the Midwest ISO submitted proposed tariff amendments (December Proposal) that would incorporate into the tariff elements of the Redesign Proposal that were rejected in the Compliance Order. These include the following tariff revisions: (1) a proposal to combine the indicative allocation's and the Redesign

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[7] *Id.* P 10.

[8] *Ameren Servs. Co. v. Midwest Indep. Transmission Sys. Operator, Inc.*, 125 FERC ¶ 61,161 (2008) (Order on Paper Hearing), *order on reh'g*, 127 FERC ¶ 61,121 (2009).

[9] *Ameren Servs. Co. v. Midwest Indep. Transmission Sys. Operator, Inc.*, 132 FERC ¶ 61,186 (2010) (Compliance Order).

[10] *Id.* P 34, 40, 45, 48.

Proposal's Revenue Sufficiency Guarantee intra-hour demand change charge and the Revenue Sufficiency Guarantee day-ahead schedule deviation charge into a single charge, or allocation "bucket," called the Headroom and Day-Ahead Schedule Deviations charge, for purposes of rate calculation; (2) a revised definition of headroom; (3) inclusion of self-schedules in the constraint management charge; and (4) revised definitions for economic maximum dispatch and economic minimum dispatch. The Midwest ISO also proposes to allocate Revenue Sufficiency Guarantee costs to Intermittent Resources. This proposal is being made in response to the Commission's rejection of an exemption of these resources from an allocation of Revenue Sufficiency Guarantee costs.[11] Finally, the December Proposal includes several new provisions such as an allocation of Revenue Sufficiency Guarantee costs based on operating reserve deviations.

7. On February 15, 2011, the Midwest ISO amended its proposal to move the effective date for its revised tariff sheets from March 1, 2011 to April 1, 2011. The Midwest ISO explains that its credit and settlement mechanisms required to implement the proposed revisions will not be in place by March 1, 2011 and instead these systems will be in place on April 1, 2011. According to the Midwest ISO, without the new effective date, it would have to resettle Revenue Sufficiency Guarantee charges, causing undue uncertainty, and it would be exposed to credit risks.

III. Notice of Filing and Responsive Pleadings

8. Notice of the Midwest ISO's proposed Tariff revisions was published in the *Federal Register*, 75 Fed. Reg. 76,715 (2010), with interventions and protests due on or before December 22, 2010. Notice of extension of time was published with interventions and protests due on or before January 5, 2011. Notice of the Midwest ISO's amendment was published in the *Federal Register*, 76 Fed. Reg. 10,345 (2011), with interventions and protests due on or before February 22, 2011. The parties listed in Appendix A filed interventions, comments, and protests. NIPSCO filed comments out of time on January 20, 2011.

9. The Midwest ISO submitted an answer to the comments and protests. Midwest TDUs and NIPSCO each submitted a reply to the Midwest ISO's answer. MidAmerican, NextEra and Iberdrola submitted comments on the Midwest ISO amendment. The Midwest ISO submitted an answer to these comments.

[11] *Id.* P 40-41.

IV. Procedural Matters

10. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2010), the notices of intervention and the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

11. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2010), prohibits an answer to a protest or an answer unless otherwise ordered by the decisional authority. We accept the answers of Midwest ISO, Midwest TDUs, and NIPSCO, because they have provided information that assisted us in our decision-making process.

V. Substantive Matters

A. Definition of Headroom and Headroom Allocation To Load

1. Midwest ISO Proposal

12. The Midwest ISO has identified headroom as one of the factors that cause resources to be committed, and therefore one of the causes for the incurrence of real-time Revenue Sufficiency Guarantee costs. The Midwest ISO proposes to define headroom as the difference between the real-time economic maximum dispatch and real-time dispatch targets for energy and reserves for all committed resources, whether committed in the day-ahead market, in Reliability Assessment Commitment processes after the day-ahead market closes, or committed must run by market participants. The Midwest ISO explains that the proposal expands the definition of headroom, which is currently limited to resources committed in the Reliability Assessment Commitment process, in recognition of the fact that other resources also provide headroom.

13. The basis for allocating Revenue Sufficiency Guarantee costs are the megawatts associated with headroom, deviations from day-ahead schedules, and cleared virtual supply offers. By expanding the definition of headroom and increasing the number of megawatts associated with headroom, the Midwest ISO proposal would increase the allocation of Revenue Sufficiency Guarantee charges to headroom.

14. In the event the amount of headroom on all resources committed through the Reliability Assessment Commitment or other processes exceeds the Reliability Assessment Commitment-committed capacity, the Midwest ISO proposes to cap headroom at the Reliability Assessment Commitment-committed capacity. This, the Midwest ISO says, will avoid overstating headroom capacity.

15. Mr. Kevin Vannoy testifies that the Midwest ISO is proposing the broader definition of headroom only in conjunction with the combination of the second and third cost allocation buckets (described in detail below).[12] He states that the narrow definition of headroom included in the Indicative Rate would, if applied to the proposed combination of the second and third buckets, result in an under-allocation of costs to headroom since it fails to account for the headroom provided by non-Reliability Assessment Commitment-committed units. Conversely, the proposed, broader definition of headroom would over-allocate Revenue Sufficiency Guarantee costs to headroom, and under-allocate them to day-ahead schedule deviations, if it was applied to the separate second and third buckets in the indicative cost allocation. However, according to Mr. Vannoy, the revised definition of headroom, in combination with the proposal to combine the headroom and deviation cost allocation buckets, yields cost allocation results consistent with the Independent Market Monitor's the RSG Cost Attribution Study.[13]

16. The Midwest ISO proposes that the new charge on headroom continue to be collected as part of the allocation based on market load ratio share. Mr. Vannoy testifies that the proposal was supported by a majority of stakeholders.[14]

2. **<u>Comments</u>**

17. Westar argues that the Midwest ISO has not defined its headroom requirement, and therefore there is no way to know how much headroom is being used at any point in time or what units are being used to supply headroom. Westar asserts that it appears that the Midwest ISO is including regulating and spinning reserves as part of the headroom requirement, rather than requiring these reserves to be purchased through the real-time market. As a result, Westar claims that the cost of reserves needed for reliability will be

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[12] In the indicative allocation and the Redesign Proposal, the first allocation bucket is the constraint management charge, the second allocation bucket is the intra-hour demand change charge and the third allocation bucket is the day-ahead schedule deviation charge.

[13] Vannoy Test. at 6-7. The Independent Market Monitor Revenue Sufficiency Guarantee Cost Attribution Study was undertaken in response to a Commission request to analyze how deviations associated with exemptions proposed by Midwest ISO in Docket No. ER09-411 may cause Revenue Sufficiency Guarantee costs. In this study the Market Monitor analyzed all the factors that could cause Revenue Sufficiency Guarantee costs including headroom. *See* Midwest ISO Filing, Docket No. ER09-411-004, December 7, 2009, Tab C.

[14] *Id.* at 4.

recovered through the day-ahead deviation and headroom charge solely from market participants with non-exempt deviations.

18. Midwest TDUs recommend rejection of the proposed headroom definition. Midwest TDUs assert that the proposed cap will not protect load and exports from bearing a share of Revenue Sufficiency Guarantee costs that is out of proportion to any costs incurred for headroom purposes. Midwest TDUs note that the proposed cap counts the entire capacity of units, not just their unloaded, or headroom, capacity; as such, it is unlikely that unloaded headroom capacity will ever reach the cap.

19. Midwest TDUs note that the revised tariff provisions refer to resources committed in any Reliability Assessment Commitment process, not just those committed in the real-time Reliability Assessment Commitment process, and that the proposed definition encompasses resources that are not eligible for make-whole payments, such as self-scheduled and must-run resources. In view of these factors, Midwest TDUs assert that the proposal improperly assumes that all headroom capacity contributes to real-time Revenue Sufficiency Guarantee costs, and thereby leads to the overstatement and over-recovery of Revenue Sufficiency Guarantee costs.

20. Financial Marketers assert that the Midwest ISO has neither justified its proposed change to the definition of headroom nor provided any evidence as to whether, and to what extent, resources other than units committed in the Reliability Assessment Commitment process provide headroom.

21. DC Energy supports the proposed definition of headroom, and considers it appropriate for the cost allocation accepted in the Compliance Order.

22. Xcel recommends that the word “aggregate” be added before “difference” in the revised definition of headroom to ensure that the definition refers to the aggregate difference between committed megawatts and the total capacity value summed over all resources in the footprint.

23. Wisconsin Electric asserts that it is inconsistent for the Midwest ISO to only allocate headroom costs to a subset of the factors that cause these costs. It notes that the Midwest ISO has identified a number of causes for headroom costs, such as deviations from day-ahead schedules, intra-hour demand changes, imports and exports. Wisconsin Electric considers the proposed methodology to be an inequitable burden on load-serving entities. Wisconsin Electric contends that any costs that cannot be assigned to specific deviations should be allocated based on the market activity of all market participants.

3. Answers

24. With regard to the Midwest TDUs’ argument about disproportionate allocation of headroom costs to load and exports, the Midwest ISO contends that Midwest TDUs’

arguments are really criticisms of the allocation of headroom costs based on market load ratio share. The Midwest ISO concludes that this argument is an impermissible collateral attack on prior orders that accepted that allocation basis. The Midwest ISO notes that the Compliance Order rejected a similar argument from Wisconsin Electric.[15]

25. The Midwest ISO answers Midwest TDUs' arguments that the revised definition of headroom refers to resources committed in any Reliability Assessment Commitment process, not just the real-time Reliability Assessment Commitment process. It explains that the phrase "committed in any [Reliability Assessment Commitment] process" is consistent with the tariff language describing the Revenue Sufficiency Guarantee cap in the rate accepted in the Compliance Order; as such, the phrase refers to real-time Reliability Assessment Commitment.

26. As for Midwest TDUs' argument that the cap would never come into play because it counts a unit's entire capacity, not just unloaded capacity, the Midwest ISO asserts that this claim is at odds with the Midwest ISO's Headroom Allocation Analysis.[16] The Midwest ISO contends that the data show that the proposed cap, if it had been applied to headroom in 2008 through October 2010, would have significantly limited volumes associated with headroom. Since the Midwest TDUs did not raise arguments about the accuracy of the data or the findings, the Midwest ISO considers Midwest TDUs' arguments against the effectiveness of the proposed headroom cap to be unsubstantiated.

27. The Midwest ISO states that the Financial Marketers fail to recognize potential shortcomings in the cost allocation accepted in the Redesign Proposal, in particular the fact that the definition of headroom is currently limited to unloaded capacity on Reliability Assessment Commitment-committed units. The Midwest ISO argues that this could result in a significant under-allocation of Revenue Sufficiency Guarantee costs to headroom if block-loaded peaking units were the majority of resources committed in the Reliability Assessment Commitment. According to the Midwest ISO, such units contribute little headroom individually, but the resulting redispatch of non-Reliability Assessment Commitment resources would produce headroom by lowering dispatch targets on resources already online from the day-ahead market, or must-run resources

28. The Midwest ISO notes that the proposed definition of headroom includes all available headroom up to the capacity committed in Reliability Assessment Commitment processes, in recognition of the fact that these resources could be providing headroom, as

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[15] Midwest ISO Jan. 25, 2011 Answer at 10 (quoting Compliance Order, 132 FERC ¶ 61,186 at P 87).

[16] *Id.* at 12 (citing Vannoy Test. At Tab A).

well as providing capacity for deviations and load. The Midwest ISO also reiterates that its headroom analysis shows that the proposed allocation is consistent with the Market Monitor study.

29. The Midwest ISO further disagrees with Midwest TDUs' arguments that the Redesign Filing assumed that all headroom capacity contributes to Revenue Sufficiency Guarantee costs, and therefore includes even Reliability Assessment Commitment-committed resources that are not entitled to make-whole payments. The Midwest ISO explains that the formulation of the combined Headroom and Day-Ahead Schedule Deviations Revenue Sufficiency Guarantee charge seeks to assign Revenue Sufficiency Guarantee costs proportionally to both categories. According to the Midwest ISO, the revised headroom definition recognizes that, in any hour of their commitment period, units committed in the Reliability Assessment Commitment processes may provide: (1) additional capacity to serve deviations, (2) additional headroom, (3) capacity to serve load, thereby making capacity available on other day-ahead, self-scheduled, or must run resources to provide additional headroom, or (4) all of the above. In addition, the Midwest ISO finds no conceivable scenarios – and the Midwest TDUs cite none – where the proposed formula rate would result in an over-recovery of total Revenue Sufficiency Guarantee costs.

30. The Midwest ISO indicates that it is amenable to adding the word "aggregate" to the headroom definition as suggested by Xcel.

31. The Midwest ISO responds to Westar that it does not use headroom to reduce its regulating reserve requirements.

32. With regard to the market load ratio share allocation, the Midwest ISO claims that the Compliance Order rejected Wisconsin Electric's collateral attack on the Order on Paper Hearing. It requests that Wisconsin Electric be barred from reiterating its collateral attack in this proceeding.[17]

33. Midwest TDUs respond to the Midwest ISO that their concerns are not collateral attacks on the market load ratio share calculation. Midwest TDUs clarify that their concerns are that the new headroom definition allocates too large a portion of Revenue Sufficiency Guarantee costs to the headroom category. They assert that since they are challenging a new definition, these challenges do not constitute a collateral attack on previous orders.

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[17] Midwest ISO Jan. 25, 2011 Answer at 18 (citing Compliance Order, 132 FERC ¶ 61,186 at P 87, 93).

34. Midwest TDUs also claim that capacity committed in Reliability Assessment Commitment processes is greater than headroom in most hours of the day; therefore, the proposed Reliability Assessment Commitment cap would seldom apply other than in off-peak hours. Midwest TDUs assert that the Midwest ISO has not provided any evidence to show that its proposed cap will in all hours provide effective protection against assignment of excessive Revenue Sufficiency Guarantee costs to the headroom category.

35. With respect to the RSG Cost Attribution Study, Midwest TDUs note that Mr. Vannoy's analysis does not cite to any data in that study to support its assertion that 22 to 28 percent is the correct allocation for headroom. Midwest TDUs also note that the headroom category referenced by the Midwest ISO in that study includes other amounts, such as topology changes and loop flows. Midwest TDUs assert that when these errors are corrected, the resulting headroom allocation should be less than 11.6 percent to 13.9 percent. Midwest TDUs contend that this allocation portion is in line with the headroom that would result from retaining the existing definition of headroom.

36. Regarding their concern with the references to the phrase "Resources committed in any RAC process," Midwest TDUs explain that the Midwest ISO tariff section on the Reliability Assessment Commitment processes include day-ahead and real-time Reliability Assessment Commitments. Midwest TDUs assert that it is not possible to assume that all these processes refer to real-time Reliability Assessment Commitment, as the Midwest ISO claims in its answer.

4. **<u>Commission Determination</u>**

37. We disagree with Westar's contention that the Midwest ISO has not defined its headroom requirement. The Midwest ISO has provided a definition of headroom and outlined a process by which it commits units to provide headroom.[18] We agree with Westar that the units committed are based on the assessments of Midwest ISO operators, but we do not consider such a process to lack definition or to lack an explanation of the factors that will be considered in determining required headroom. We consider the Midwest ISO's response that it does not use headroom to reduce its regulating reserve requirements to be responsive to Westar's concerns.

38. But we cannot approve the definition as the Midwest ISO proposes to revise it. The real-time Revenue Sufficiency Guarantee charge is intended to recover costs for resources committed in the real-time markets; as such, real-time Revenue Sufficiency Guarantee credits recovered in the real-time Revenue Sufficiency Guarantee charge include only costs associated with resources committed in the real-time market. For this

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[18] *See* section C, *infra*, for a description of the unit commitment process.

reason, the definition of headroom that applies to the allocation of Revenue Sufficiency Guarantee costs should encompass only these resources. We agree with Midwest TDUs that the reference to "any RAC processes" in the proposed definition could be interpreted to include day-ahead Reliability Assessment Commitment processes,[19] and as further detailed below, it appears that the Midwest ISO's proposal would encompass at least some headroom committed through the day-ahead market.

39. We recognize that the proposal caps the headroom allocation to all available capacity committed in the real-time Reliability Assessment Commitment, and therefore the proposal recognizes the connection between the costs incurred in real time and the costs recovered in the Real-Time Revenue Sufficiency Guarantee charge. Nonetheless, the proposal would allocate real-time Revenue Sufficiency Guarantee costs based on day-ahead headroom megawatts. As indicated in Tab A of Mr. Vannoy's testimony, the Midwest ISO's proposed definition, which incorporates day-ahead and real-time headroom, results in headroom being equal to 85-87 percent of capacity committed in real-time Reliability Assessment Commitment processes in the 2008-2010 period. In effect, the Midwest ISO proposal assumes that headroom is by far the predominant cause of the capacity committed in real-time Reliability Assessment Commitments. However, that assumption is based on a definition of headroom that includes significant amounts of day-ahead headroom that is not reflected in the capacity associated with real-time Reliability Assessment Commitment processes. The Midwest ISO's proposal to include day-ahead headroom megawatts in the allocation of real-time Revenue Sufficiency Guarantee charges does not reflect cost causation, because day-ahead headroom commitments do not cause the incurrence of real-time Revenue Sufficiency Guarantee costs, and therefore it is not reasonable. We therefore conditionally accept the proposed definition of Headroom, subject to the requirement that the definition be revised so that headroom is restricted to headroom committed in the real-time market. For this reason, we will not address Xcel's request for changes in the definition. We require that the Midwest ISO submit a compliance filing with a headroom definition based on real-time headroom commitments within 30 days of the date of this order.

[19] The Reliability Assessment Commitment is a process conducted prior to the day-ahead energy and operating reserve market, following the posting of results for the day-ahead energy and operating reserve market but prior to the operating day, and during the real-time energy and operating reserve market by which the transmission provider ensures that sufficient resources will be available and on-line to meet load, operating reserve, and other demand requirements in the operating day. Midwest ISO FERC Electric Tariff, Fourth Revised Volume No. 1, Original Sheet No. 262.

40. While we are accepting the combining of the headroom and deviation charges, as discussed in the next section, we are not persuaded by Mr. Vannoy that the combining of the charges and a more restrictive headroom definition than the definition he proposes will result in an under-allocation to headroom. Specifically, we do not consider the evidence he relies on for determining whether headroom is over or under-allocated, the Independent Market Monitor's study, to be conclusive with regard to the correct allocation to headroom. As noted by Midwest TDUs, Mr. Vannoy's reference to a 22 percent to 28 percent headroom allocation cannot be found in the study. Also, the headroom categories referenced by the Midwest ISO in the study – Need Unknown and Not Deviation Related – would include other factors besides headroom, such as topology changes and loop flow.

41. The Midwest ISO proposal does not revise the allocation of headroom based on market load ratio share in the indicative cost allocation and the Redesign Proposal and accepted in the Compliance Order. Accordingly, Wisconsin Electric's arguments lie outside the scope of this proceeding.

B. Combination of Deviation and Headroom Charges

1. Midwest ISO Proposal

42. The Midwest ISO proposes to combine the headroom and day-ahead schedule deviation allocation categories into one allocation bucket for purposes of calculating rates. The Midwest ISO explains that its proposal reflects the practice of its system operators to commit resources for headroom and deviations at the same time as part of their Reliability Assessment Commitment evaluation. Under the proposal, both the headroom and deviation allocation categories would be based on the product of headroom and deviation megawatts, respectively, multiplied by a common rate, the Real-Time Revenue Sufficiency Guarantee Day-Ahead Schedule Deviation and Headroom Charge Rate. This rate is the quotient of:

> (1) Revenue Sufficiency Guarantee costs not recovered in the constraint management charge (or otherwise attributable to topology adjustments and transmission de-rates); and
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> (2) the greater of:
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>> (a) the sum of: (i) aggregate net positive sum, by asset owner, for market-wide deviations and (ii) the lesser of: (1) headroom and (2) the aggregate of the hourly economic maximum dispatch amounts of all resources committed in any Reliability Assessment Commitment processes and
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>> (b) the difference between: (i) the aggregate of the hourly economic maximum dispatch amounts of all resources committed in any Reliability

Assessment Commitment processes and (ii) the aggregate of the hourly economic dispatch amounts of all resources committed in any Reliability Assessment Commitment processes adjusted for the applicable constraint contribution factor.

2. Comments

43. DC Energy asserts that putting the headroom cost allocation category ahead of the deviation cost allocation category is more appropriate from a cost causation standpoint and that the consolidation of these categories would erroneously allocate Revenue Sufficiency Guarantee costs attributable to headroom to day-ahead deviations. DC Energy contends that the Midwest ISO proposal allocates Revenue Sufficiency Guarantee costs attributable to headroom to both the headroom and deviation allocation categories.

44. DC Energy argues that headroom would exist in the absence of day-ahead virtual supplies and therefore headroom is appropriately allocated to physical load and not day-ahead financial deviations. DC Energy cites to statements made by the Midwest ISO in previous proceedings that the allocation of Revenue Sufficiency Guarantee costs should be in separate headroom bucket to reflect cost causation. While it understands that the Midwest ISO does not distinguish which units in the Reliability Assessment Commitment are allocated to each bucket, DC Energy contends that none of the statements made by the Midwest ISO in its proposal invalidates its previous conclusion that costs associated with the share of Reliability Assessment Commitments attributable to headroom should be allocated to load. DC Energy asserts that the proposed consolidation of cost buckets does not appropriately allocate a share of headroom costs to load, particularly in light of the Market Monitor's finding that the single greatest pair-wise correlation with Revenue Sufficiency Guarantee costs is load.[20]

45. DC Energy provides a simplified illustration demonstrating how consolidation of the cost buckets shifts Revenue Sufficiency Guarantee costs to deviations. The illustration assumes that headroom costs are no longer allocated only to load, but rather combines headroom and deviations and allocates costs attributable to headroom to both, resulting in a lower allocation of costs to headroom.

46. Similarly, Westar argues that the proposed revision results in an inappropriate and significant rate increase for market participants with deviations by including Revenue Sufficiency Guarantee costs associated with headroom in the category of costs that are

[20] *See* Market Monitor Report at 9; Reply Brief of DC Energy Midwest, LLC and Integrys Energy Services, Inc., Affidavit of Brian D. Tang at 5 – 8, filed October 8, 2008, Docket No. EL07-86, *et al.*

charged to market participants with deviations. Westar considers the proposed allocation to be inappropriate because Revenue Sufficiency Guarantee costs associated with headroom are caused by intra-hour load and export changes.

47. Financial Marketers argue that the combination of the second and third allocation buckets improperly shifts intra-hour deviation costs to virtual transactions and other non-exempt deviations despite the fact that headroom is not used to serve actual deviations, and it is neither caused by, nor does it benefit, virtual transactions.

48. MidAmerican recommends adding the words "and Headroom" to the reference to the "Real-Time Revenue Sufficiency Guarantee Day-Ahead Schedule Deviation Charge" in the tariff provision pertaining to the Real-Time Revenue Sufficiency Guarantee Day-Ahead Schedule Deviation and Headroom Charge. MidAmerican also recommends deleting the tariff section on the Real-Time Revenue Sufficiency Guarantee Headroom Charge and revisions to the definitions of Revenue Sufficiency Guarantee charges.

49. DC Energy recommends that the Day-Ahead Deviation and Headroom Charges be modified to refer only to the Day-Ahead Schedule Deviations Charge.

50. Xcel also proposes restructuring the Day-Ahead Deviation and Headroom Charge tariff provisions by designating a new subsection for the first paragraph, thereby clarifying the distinction between the headroom and deviation allocations, and to only combine the headroom and deviation terms when it is appropriate.

3. <u>Answer</u>

51. In its answer, the Midwest ISO reiterates that the proposal to combine the two buckets is based on the fact that during the Reliability Assessment Commitment process it does not distinguish between unit commitments for deviations and those for headroom. Accordingly, the Midwest ISO considers it is reasonable to combine the two categories for purposes of calculating the applicable rate, while retaining the separate allocation of Revenue Sufficiency Guarantee costs pertaining to such deviations, and to Headroom. The Midwest ISO also notes that the Independent Market Monitor study did not conclude that headroom or deviations should be allocated Revenue Sufficiency Guarantee costs at a higher or lower rate.

52. The Midwest ISO states that none of the parties have refuted the findings of the headroom analysis described in Mr. Vannoy's testimony, which showed that combining the two allocation buckets would best optimize the proposed broadening of the headroom definition. The Midwest ISO also asserts that headroom costs will continue to be allocated based on market load ratio share, and this will not result in the redirection of headroom costs to entities with non-exempt deviations.

53. The Midwest ISO contends that combining the two categories will not reduce the headroom costs allocated to load – contrary to DC Energy's illustration -- because the proposed rate will continue to allocate Revenue Sufficiency Guarantee costs associated with headroom via market load ratio share. The Midwest ISO asserts that this proposed allocation will ensure that headroom is calculated consistent with real-time market conditions, and therefore Revenue Sufficiency Guarantee costs are appropriately assigned. The proposed rate retains the use of relative volumes between calculated headroom and deviations to establish the cost allocation proportion, according to the Midwest ISO.

54. The Midwest ISO considers load and deviations to be equivalent causes of Revenue Sufficiency Guarantee costs and for this reason it considers its proposed cost allocation to be a just and reasonable attribution of headroom-related Revenue Sufficiency Guarantee costs that results in a superior rate that better accounts for the physical, market design, and economic realities of the real-time market.

55. The Midwest ISO indicates that it is amenable to the re-structuring suggestions by DC Energy and Xcel, to add more clarity to the proposed tariff revisions.

4. <u>Commission Determination</u>

56. We accept the proposal to combine the deviation and headroom charges since it is consistent with the commitment process for resources that cause Revenue Sufficiency Guarantee costs. As the Midwest ISO explains, system operators commit resources in the Reliability Assessment Commitment processes for deviations and headroom at the same time. Any real-time Revenue Sufficiency Guarantee costs associated with these market activities therefore are incurred at the same time, and so we agree with the Midwest ISO that a combined cost allocation for these charges is appropriate.

57. We disagree with DC Energy, Financial Marketers, and Westar that the proposal allocates headroom costs to deviations. The proposal allocates costs to headroom and deviations by multiplying the megawatts associated with each of these categories by a common rate. The common rate divides costs among market participants according to market activities, including – separately – headroom and deviations. Therefore, the resulting rate allocates Revenue Sufficiency Guarantee costs to headroom based on the megawatts of headroom for resources committed in the real-time Reliability Assessment Commitment process, and ensures that these costs are not allocated to deviations.

58. We do not consider the issue of a rate increase vis-à-vis the indicative cost allocation to be pertinent to the reasonableness of the proposal. The indicative cost allocation was based on the assumption that headroom commitments were determined separately from deviation commitments, which the Midwest ISO has indicated is not accurate. The proposed allocation is based on how the Midwest ISO actually commits

units in real-time and therefore accurately reflects the basis for the commitment of resources that cause Revenue Sufficiency Guarantee costs.

59. We accept the proposed revisions of DC Energy and Xcel, and agreed to by the Midwest ISO, to specify a separate section for the headroom charge and to delete references to headroom in the sections pertaining to the calculation of the deviation charge. We require that the revisions be submitted in a compliance filing within 30 days of the date of this order. Since we are accepting a reorganization of the Real-Time Revenue Sufficiency Guarantee Day-Ahead Schedule Deviation and Headroom Charge tariff section, we will not require a revision in the deviation charge reference cited by MidAmerican. We will also not require deletion of the headroom provision, as MidAmerican recommends, since we have accepted the formulation of the combined Revenue Sufficiency Guarantee Day-Ahead Schedule Deviation and Headroom Charge that includes a calculation for the headroom charge. Responding to MidAmerican's issues with the definitions of the Revenue Sufficiency Guarantee charges, we require that the Midwest ISO conform its definitions to the new organization of the charges in the compliance filing.

C. Allocation of Revenue Sufficiency Guarantee Charges to Intermittent Resources

1. Midwest ISO Proposal

60. The Midwest ISO proposes to allocate Revenue Sufficiency Guarantee charges to Intermittent Resources[21] based on two deviation calculations. For deviations occurring prior to the notification deadline,[22] the Midwest ISO proposes that the deviation calculation be based on difference between day-ahead schedules and the real-time forecast in effect at the notification deadline. For deviations occurring after the notification deadline, the Midwest ISO proposes that the deviation calculation be based on the difference between the real-time forecast in effect at the notification deadline and actual injections. The Midwest ISO considers this calculation to be reasonable since

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[21] Intermittent Resources are resources that are not capable of being committed or decommitted by, or following set-point instructions of, the transmission provider in the real-time energy and operating reserve market. *See* Midwest ISO FERC Electric Tariff, Fourth Revised Volume No. 1, Section 1.329.

[22] The notification deadline is the cut-off time, four hours prior to the operating hour, by which schedule changes must be reported to the Midwest ISO to enable it to reflect such changes in the Reliability Assessment Commitment process. *See* Midwest ISO FERC Electric Tariff, Fourth Revised Volume No. 1, Section 1.467a.

Intermittent Resources have difficulty controlling their energy sources and they are unable to follow set-point instructions.

2. **Comments**

61. Financial Marketers assert that the proposed tariff revisions that allow an Intermittent Resource to submit a real-time forecast up to the notification deadline would allow Intermittent Resources to reduce or eliminate the amount of their deviations, and thereby reduce or eliminate an allocation of Revenue Sufficiency Guarantee charges. Financial Marketers argue that there is no cost causation basis for this treatment because the Commission, based on the RSG Cost Attribution Study conducted by the Market Monitor, found that Intermittent Resources cause the incurrence of Revenue Sufficiency Guarantee costs. Financial Marketers also contend that such treatment is unduly discriminatory because it does not grant virtual supply offers similar treatment – even though virtual supply offers put the Midwest ISO in a better position to minimize Revenue Sufficiency Guarantee costs than real-time forecasts for Intermittent Resources – and shifts costs to virtual supply offers. Financial Marketers assert that the Midwest ISO must provide equal opportunity for all market participants to reduce their allocation of Revenue Sufficiency Guarantee costs by providing similar information updates.

62. AWEA/WOW recommend an exemption from Revenue Sufficiency Guarantee charges for manual curtailments of intermittent resources. AWEA/WOW note that they have asserted that manual curtailments are the equivalent of manual redispatch in other proceedings, and the Midwest ISO has responded that manual redispatch in the current tariff is limited to resources other than intermittent resources.[23] AWEA/WOW contend that manual curtailment has the same characteristics as manual redispatch in that both procedures change the generator's output in a way that is beyond the effective control of the generator. Therefore, AWEA/WOW conclude that imposing Revenue Sufficiency Guarantee charges on wind facilities under manual curtailment provides no useful incentive for the wind generator to change its actions and results in a cost being imposed for a decision that is beyond its control. AWEA/WOW also note that applying Revenue Sufficiency Guarantee costs to manual curtailments will cause financial harm to Intermittent Resources and they assert that not providing an exemption would be unduly discriminatory. Iberdrola supports these comments.

63. Xcel states that the real-time forecast for Intermittent Resources should be called "Intra-Day Intermittent Forecast" to avoid confusion with real-time forecasts of

[23] AWEA/WOW at 6-8.

Dispatchable Intermittent Resources,[24] and to be consistent with the term “Intra-Day RAC.” Xcel also recommends that the phrase “Intra-Day” be added to the term “Real-Time Load Zone Demand Forecast.”

64. DC Energy supports the proposal to allow Intermittent Resources to update their forecasts, regardless of whether the second and third allocation buckets are combined.

3. <u>Answer</u>

65. The Midwest ISO responds in its answer that allowing Intermittent Resources to update their forecasts will not enable them to avoid an allocation of Revenue Sufficiency Guarantee charges to deviations that are not netted. The Midwest ISO states that updated forecasts merely afford Intermittent Resources the same ability, available to other market transactions, to notify the Midwest ISO of expected schedule changes. The updated information may help the Midwest ISO to avoid Revenue Sufficiency Guarantee costs that would otherwise be incurred if resources were to be committed based on earlier Intermittent Resource forecasts, explains the Midwest ISO.

66. The Midwest ISO asserts that to the extent that Intermittent Resources deviate from day-ahead schedules, the forecast allows for netting calculations, but does not eliminate deviations that are not netted. The provisions in no way constitute an exemption, discount or other preferential treatment, according to the Midwest ISO.

67. The Midwest ISO contends that the Financial Marketers misunderstand how the accepted and proposed Revenue Sufficiency Guarantee rate formulations treat virtual transactions for netting purposes. The Midwest ISO states that its proposal does not change this netting feature of virtual transactions, and the proposed Real-Time Intermittent Resource Forecast merely establishes a comparable netting opportunity for Intermittent Resources.

68. The Midwest ISO indicates that it is amenable to adding the phrase “Intra-Day” to the proposed term “Intermittent Forecast” for clarity, if so ordered on compliance. The Midwest ISO notes that forecasted economic maximum applicable to Dispatchable Intermittent Resources is a different term.

69. Responding to the comments of AWEA/WOW regarding an exemption for manual curtailments, the Midwest ISO considers their proposed exemption to be beyond the

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[24] Dispatchable Intermittent Resources is a new designation for wind resources that are capable of reducing output in response to dispatch instructions. *Midwest Indep. Transmission Sys. Operator, Inc.*, 134 FERC ¶ 61,141 (2011).

scope of this proceeding. The Midwest ISO asserts that any proposed exemption for curtailed Intermittent Resources can only be submitted through a separate tariff filing under section 205 of the Federal Power Act.

4. Commission Determination

70. We accept the Midwest ISO's proposal to allocate real-time Revenue Sufficiency Guarantee cost to Intermittent Resources, subject to further compliance. We agree with the Midwest ISO that an allocation of Revenue Sufficiency Guarantee costs to Intermittent Resources is consistent with previous Commission rulings.[25] Those orders found that, because intermittent resources cause Revenue Sufficiency Guarantee costs, they should receive an allocation of Revenue Sufficiency Guarantee charges.[26]

71. We also consider it reasonable to allocate Revenue Sufficiency Guarantee charges based on the updated forecasts that are timely provided in the Reliability Assessment Commitment process. Such an allocation method bases the costs allocated to Intermittent Resources on the costs that they cause in the commitment of units.

72. We do not consider the proposed method of allocating costs to Intermittent Resources to amount to an exemption, as Financial Marketers claim. The proposal continues to account for the differences between day-ahead schedules and real-time forecasts, and differences between the real-time forecast in effect at the notification deadline, which occurs four hours before the operating hour, and actual injections. As such, it allocates Revenue Sufficiency Guarantee costs to Intermittent Resources.

73. Nor do we consider the treatment of Intermittent Resources to be unduly discriminatory, as Financial Marketers claim. As the Midwest ISO explains, allowing Intermittent Resources to update their forecasts is consistent with the treatment of other market transactions. For example, load can adjust their real-time forecasts prior to the notification deadline, and thereby reduce their exposure to Revenue Sufficiency Guarantee charges. Also, generation resources are allowed to revise their self-schedules, real-time economic maximum and real-time economic minimum dispatch amounts prior to the notification deadline and these revised amounts are the basis for their Revenue Sufficiency Guarantee charge allocation. By contrast, virtual offers are not similarly situated because virtual supply offers are made and accepted in financially binding

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[25] *Midwest Indep. Transmission Sys. Operator, Inc.*, 128 FERC ¶ 61,142 (2009), *order on reh'g*, 132 FERC ¶ 61,184 (2010).

[26] *Midwest Indep. Transmission Sys. Operator, Inc.*, 132 FERC ¶ 61,184 at P 88-89.

transactions in the day-ahead market. Therefore, application of the notification deadline to virtual supply offers is not possible, and there are no real-time market adjustments to these offers. We agree with the Midwest ISO answer that the proposed notification deadline adjustment (which is characterized by the Midwest ISO as netting) is generally comparable to the netting of virtual supply and virtual demand, in that both adjustments provide the basis for a more refined cost allocation that reflects the basis for committing units in the Reliability Assessment Commitment processes that incur Revenue Sufficiency Guarantee credits.

74. We require the Midwest ISO to submit proposed tariff provisions within 30 days of the date of this order to exempt Intermittent Resources from the allocation of Revenue Sufficiency Guarantee charges when they are responding to Midwest ISO instructions to manually curtail their facilities. Such an exemption is consistent with Commission precedent approving exemptions for resources that are responding to Midwest ISO directives during emergencies or contingency reserve deployments[27] and will ensure that these resources do not have a disincentive to respond to Midwest ISO instructions and thereby harm system reliability.

75. We will not require the Midwest ISO to delete "Real-time" and replace it with "Intra-Day" in the Real-Time Intermittent Resource Forecast definition and Real-Time Load Zone Demand Forecast. The current definition makes clear that the forecast applies to the real-time market and is therefore an accurate description. The term "intra-day" is not a defined term in the Midwest ISO Tariff and therefore the term could be misconstrued to mean that it applies to the day-ahead market as well.

D. Economic Maximum Dispatch and Economic Minimum Dispatch Definitions

1. Midwest ISO Proposal

76. The Midwest ISO proposes to supplement the definitions of Economic Maximum Dispatch and Economic Minimum Dispatch with definitions specific to Intermittent Resources and other resources not capable of following set-point instructions. For these resources, the Economic Maximum Dispatch and Economic Minimum Dispatch values are proposed to be equal to actual energy injections. The Midwest ISO explains that the revisions are consistent with a Commission ruling that rejected an exemption from Revenue Sufficiency Guarantee costs for must-run volumes of Intermittent Resources.[28]

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[27] *Midwest Indep. Transmission Sys. Operator, Inc.*, 132 FERC ¶ 61,184 at P 110.

[28] *Id.* P 88.

(continued…)

2. Comments

77. NIPSCO states that the Midwest ISO should explain and justify the new definitions of Economic Minimum Dispatch and Economic Maximum Dispatch. NIPSCO requests clarification that the changes do not result in an exemption from Revenue Sufficiency Guarantee charges for Intermittent Resources. NIPSCO is concerned that the proposed changes may result in Intermittent Resources not having any schedule deviations because the forecasts are made by the Midwest ISO rather than by the Intermittent Resources.

78. Xcel asserts that the Economic Minimum Dispatch should be set to zero for manually curtailed Intermittent Resources, because the Midwest ISO manually redispatches them as if their Economic Minimum is zero.

79. DC Energy supports the proposed definitions.

3. Answer

80. The Midwest ISO disagrees with NIPSCO's position that the proposed definitions would create or result in any exemption from Revenue Sufficiency Guarantee charges. The Midwest ISO explains that the proposed language, which was implemented effective August 31, 2010, eliminates any Intermittent Resource exemption from Revenue Sufficiency Guarantee charges. The Midwest ISO clarifies for NIPSCO that its proposal sets the Economic Minimum Dispatch equal to Actual Energy Injections, not to zero.

81. The Midwest ISO responds to Xcel that its proposed tariff language on economic minimum dispatch conforms to the definition submitted in Docket No. ER09-411 in order to comply with the Commission's requirement to eliminate the exemption from Revenue Sufficiency Guarantee charge for Intermittent Resources.

4. Commission Determination

82. We find that it is reasonable to set the Economic Maximum and Economic Minimum Dispatch equal to actual injections in recognition of the fact that the real-time capabilities of Intermittent Resources are a function of their resource availability in real time. Actual injections are the best measure of resource availability for Intermittent Resources, and therefore are also the best indicator of the capability of the Intermittent Resource in the real-time market. Setting the Economic Maximum and Economic Minimum Dispatch amounts equal to actual injections ensures that Intermittent Resources are not constrained from providing the full capability of their facility. Therefore, these

definitions do not reduce the cost allocation to Intermittent Resources. We agree with the Midwest ISO that the proposed definition does not provide an exemption for these resources from an allocation of Revenue Sufficiency Guarantee costs. For these reasons, we accept the proposed tariff revision.

83. Responding to Xcel, the proposed definition of Economic Minimum Dispatch ensures that the Economic Minimum Dispatch will equal zero when the Midwest ISO manually curtails an Intermittent Resource since the actual injection will be zero.

E. Allocation of Costs Associated with Exempted Deviations

1. Midwest ISO Proposal

84. The Midwest ISO proposes to exempt market participants from Revenue Sufficiency Guarantee charges for resource deviations: (1) caused or occurring when a resource is deployed for contingency reserves; (2) caused by or occurring as a result of Midwest ISO directives during an emergency; and (3) caused or occurring during abnormal operating conditions caused directly and exclusively by the failures or malfunctions of the Midwest ISO software or hardware systems.[29]

2. Comments

85. DC Energy argues that exemptions previously accepted by the Commission should be uplifted to load. DC Energy asserts that reliability is a benefit to all market participants and therefore Revenue Sufficiency Guarantee charge associated with these reliability-driven deviations should be socialized to load.

86. Westar objects to the allocation to non-exempt deviations of Revenue Sufficiency Guarantee costs that are caused by exempted deviations, such as Option B grandfathered agreements (GFA) and deviations caused by reliability directives of the Midwest ISO.

87. NIPSCO recommends that the Commission reject the arguments of DC Energy and Westar. Since the Midwest ISO does not propose in its December Proposal to allocate exempted Revenue Sufficiency Guarantee costs in any manner other than the currently-approved rate under the Midwest ISO for exempted transactions, NIPSCO asserts that DC Energy and Westar have the burden under section 206 of the Federal Power Act to demonstrate that the application of the Midwest ISO’s current allocation methodology for Revenue Sufficiency Guarantee costs associated with exempt deviations is unduly discriminatory and not just and reasonable and that their proposed allocation methodology is just and reasonable.

[29] Proposed First Revised Sheet No. 1105A.

88. MidAmerican notes that that the December Proposal provides an exemption only for resource deviations caused or occurring during abnormal operating conditions caused directly and exclusively by the failures or malfunctions of the transmission provider software or hardware systems, whereas an earlier compliance filing submitted by the Midwest ISO also included "or the unavailability thereof during maintenance activities" in the exemption description. MidAmerican requests clarification on whether this additional phrase was inadvertently omitted in the December Proposal.

3. Answer

89. The Midwest ISO notes that when the Revenue Sufficiency Guarantee charge exemptions were accepted in Docket No. ER09-411, the Commission did not require any modifications to the Revenue Sufficiency Guarantee rate formula to account for such exemptions, other than to recognize the exemption of the individual types of transactions. The Midwest ISO contends that to the extent that the Midwest ISO has not proposed any such allocation changes, DC Energy's suggestions on that subject are outside the scope of this proceeding.

90. The Midwest ISO states that Westar is wrong in asserting that all GFAs in general, and Option B GFAs in particular, are exempt from Revenue Sufficiency Guarantee charges. Only carved-out GFAs are exempt, according to the Midwest ISO.

91. The Midwest ISO considers Westar's argument regarding the allocation of Revenue Sufficiency Guarantee charges associated with reliability directives to be an impermissible collateral attack on prior Commission rulings. The Midwest ISO asserts that the Compliance Order ruled that Westar's similar contentions with regard to the allocation of Revenue Sufficiency Guarantee costs associated with reliability directives and topology changes are foreclosed by the Order on Paper Hearing's acceptance of the indicative cost allocation, which allocated these costs based on market load ratio share.[30]

92. The Midwest ISO clarifies for MidAmerican that the phrase "or the unavailability thereof during maintenance activities" submitted in an earlier compliance filing in Docket No. ER09-411 should be included in the tariff section pertaining to exemptions in the December Proposal.

4. Commission Determination

93. The Commission rejected the exemptions proposed in the Redesign Proposal in the Compliance Order, finding that there was insufficient evidence in the record to

[30] Compliance Order, 132 FERC ¶ 61186 at P 93-95.

support them.[31] Therefore, we are addressing the merits of the proposed exemption provision for the first time in this order, and our review includes the allocation of exempted deviations.

94. We find that it is reasonable to allocate costs associated with these exempted deviations – which are caused by reliability directives of the Midwest ISO or by system failures – to market participants that cause the incurrence of Revenue Sufficiency Guarantee costs and load. That is, Revenue Sufficiency Guarantee costs caused by the exempted deviations are included in the total Revenue Sufficiency Guarantee costs that are allocated via the various charges, such as the constraint management charge and headroom and deviation charges, based on their allocation formulas that include deviations and load. We find the proposed allocation to be reasonable since it broadly allocates these costs to market participants and thereby ensures these costs are paid by the wide range of market participants benefitting from the Reliability Assessment Commitment processes conducted by the Midwest ISO.

95. Westar misapprehends the GFA exemption from Revenue Sufficiency Guarantee charges. The Midwest ISO correctly states that only carved-out GFAs are exempt from Revenue Sufficiency Guarantee charges.[32] We agree with the Midwest ISO that Westar's concern with the cost allocation for deviations caused by reliability directives is an issue it should have raised upon the Commission's acceptance of this allocation in the Order on Paper Hearing, as the Commission explained to Westar in the Compliance Order.[33]

96. The tariff provision of concern to MidAmerican, which the Midwest ISO filed in Docket No. ER09-411-006, is beyond the scope of this proceeding. The Midwest ISO has not proposed to add this language in this proceeding; accordingly, we will not require that this provision be added to the tariff.

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[31] *Id.* P 40.

[32] *See Midwest Indep. Transmission Sys. Operator, Inc.*, 111 FERC ¶ 61,042 at P 372 (2005) (finding that if the terms and conditions of a carved-out GFA allow for schedule changes up to real time, then the Midwest ISO may not charge the GFA for deviations from its non-binding day-ahead schedule, directly or through uplift); *Southern Illinois Power Cooperative v. Midwest Indep. Transmission Sys. Operator, Inc.*, 114 FERC ¶ 61,234, at P 5 (2006) (same).

[33] *Id.* P 93-95.

F. Allocation of Revenue Sufficiency Guarantee Charges To Self-Schedules

1. Midwest ISO Proposal

97. The Midwest ISO proposes to allocate Revenue Sufficiency Guarantee costs to self-schedules. The Midwest ISO explains that it is appropriate that self-schedules be allocated Revenue Sufficiency Guarantee charges because a self-scheduled quantity of energy represents a minimum limit value and therefore it can necessitate the commitment of additional resources. A self-schedule is reduced when that is the more economic alternative, according to the Midwest ISO. Therefore, in the event that it costs less to commit additional generation instead of incurring the economic cost of reducing the self-schedule, the Midwest ISO would commit additional generation. The Midwest ISO states that since the existence of a self-schedule for energy can cause such commitment of additional generation, self-schedules should be included in the calculation of Revenue Sufficiency Guarantee charge calculations.

2. Comments

98. NIPSCO seeks clarification of the treatment of self-schedules. NIPSCO contends that the Midwest ISO fails to show that the entity submitting self-schedules causes Revenue Sufficiency Guarantee costs. NIPSCO argues that self-schedules are caused by the decision of the Midwest ISO – not of the self-scheduler – to curtail the schedule. NIPSCO wants the Midwest ISO to explain how, when and why the Midwest ISO will reduce self-schedules, and how such decisions affect Revenue Sufficiency Guarantee costs.

99. DC Energy endorses the proposal.

3. Answer

100. Responding to NIPSCO, the Midwest ISO states that its tariff already explains when and why self-schedules may be reduced. The Midwest ISO explains that the existence of a self-schedule for energy can aggravate a transmission constraint, resulting in the need to commit additional resources. The Midwest ISO asserts that since self-schedules for energy can necessitate the commitment of more resources, it is reasonable, and consistent with cost causation, to include self-schedules when calculating Revenue Sufficiency Guarantee deviations.

4. Commission Determination

101. We find that the Midwest ISO proposal to allocate Revenue Sufficiency Guarantee costs to self-schedules is just and reasonable, since self-schedules can cause Revenue Sufficiency Guarantee costs in the same manner as other resources. For example, self-schedule quantities at the notification deadline that are greater than day-ahead schedules

can cause Revenue Sufficiency Guarantee costs because the self-scheduled transaction is providing more energy in real time than the Midwest ISO had planned to serve by a resource it committed in the Reliability Assessment Commitment process. A committed unit that will either not run or provide less energy than anticipated could therefore incur start-up and no-load costs that it will not recover in the real-time LMP, resulting in the incurrence of Revenue Sufficiency Guarantee costs.

G. Allocation of Revenue Sufficiency Guarantee Costs Based on Energy and Operating Reserves Deviations and Must-Run Quantities

102. The Midwest ISO proposes to add operating reserve deviations from day-ahead schedules to energy market deviations when calculating the Revenue Sufficiency Guarantee charges to be paid by market participants. The Midwest ISO explains that operating reserve deviations can cause the commitment of units in the Reliability Assessment Commitment process, and thereby cause Revenue Sufficiency Guarantee costs in the same manner as energy market deviations. The Midwest ISO proposes to calculate deviations in two calculations, as follows: (1) deviations based on the positive difference between the hourly economic minimum limit and the day-ahead schedule for energy minus the day-ahead regulating reserve schedule; and (2) deviations based on the negative difference between the hourly economic maximum limit and the day-ahead schedules for energy and operating reserves. The Midwest ISO also proposes to update the scope of must-run volumes and de-rate volumes to account for regulating reserve and operating reserve deviations.

103. We agree that operating reserve deviations result in unit commitment in real time and can cause Revenue Sufficiency Guarantee costs, and therefore we accept the Midwest ISO proposal. We also find that the proposed incorporation of operating reserves in the calculation of deviations reflects cost causation, and therefore we accept the proposed revisions.

104. The Midwest ISO proposes to allocate Revenue Sufficiency Guarantee charges to resources committed in the Reliability Assessment Commitment process based on the positive difference between the hourly economic minimum dispatch and the hourly economic minimum limit at the time the resource is committed. The Midwest ISO also proposes to allocate Revenue Sufficiency Guarantee charges to deviations submitted after the notification deadline based on the positive difference between the hourly economic minimum dispatch and the hourly economic minimum limit in effect at the notification deadline. The Midwest ISO also proposes to allocate Revenue Sufficiency Guarantee costs based on Excessive Energy as calculated in the Excessive/Deficient Energy Deployment Charge. The Midwest ISO explains that these supply-increasing deviations that occur after the notification deadline, and therefore after the time period in which the

Midwest ISO can adjust its unit commitment, can cause the incurrence of Revenue Sufficiency Guarantee costs, as the Commission has recognized.[34] We accept this proposal since it reflects that these deviations can cause Revenue Sufficiency Guarantee costs.

105. The Midwest ISO proposes to substitute the phrase “the positive value of any” in place of “any positive” in the deviation calculations. Wisconsin Electric asserts that the use of both “any” and “positive” creates ambiguity. With regard to netting prior to the notification deadline, MidAmerican considers it confusing to substitute “positive value of any differences” for “any positive differences.” DC Energy supports the proposed revision. The Midwest ISO replies in its answer that the positive/negative language in the tariff is part of the indicative cost allocation and the Redesign Proposal that was accepted by the Commission. We find that the proposed revision clearly specifies how the calculation of deviations is to be made, and that it does not change the meaning of the Revenue Sufficiency Guarantee charge provisions. For these reasons, we will not require further revisions as proposed by commenters.

H. Interaction Between the December Proposal and the Dispatchable Intermittent Resources Proposal

106. FirstEnergy seeks clarification concerning the interaction between the Real-Time Intermittent Forecast and the Midwest ISO proposal to create a new subset of generation resources to be called Dispatchable Intermittent Resources.[35] FirstEnergy contends that it is unclear how the Real-Time Intermittent Forecast differentiates between intermittent resources and Dispatchable Intermittent Resources.

107. The Midwest ISO indicates that it is amenable to clarifying the proposals, and notes that the Real-Time Intermittent Forecast would not be applicable to Dispatchable Intermittent Resources, but only to resources retaining Intermittent Resource designation after the Dispatchable Intermittent Resource provisions become effective.

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[34] *Midwest Indep. Transmission Sys. Operator, Inc.*, 117 FERC ¶ 61,113, at P 147 (2006).

[35] In Docket No. ER11-1991-000, the Midwest ISO proposed a new category of resources, Dispatchable Intermittent Resources, which would be treated similarly to other generation resources in the Midwest ISO’s real-time energy market. The Commission accepted the proposal in part and rejected it in part, subject to further compliance. *Midwest Indep. Transmission Sys. Operator, Inc.*, 134 FERC ¶ 61,141 (2011).

108. In a comment on the February 15, 2011 amendment, MidAmerican recommends delaying implementation of the proposal to June 1, 2011, the due date that the Midwest ISO intends to implement tariff changes related to Dispatchable Intermittent Resources. MidAmerican notes that Intermittent Resources will have little ability to mitigate the impact of Revenue Sufficiency Guarantee charges before this date.

109. NextEra supports the MidAmerican request. NextEra states that it is assessing its Revenue Sufficiency Guarantee charge exposure and that it needs more time to perform analyses on how to mitigate Revenue Sufficiency Guarantee charges and evaluate the pros and cons of being designated an Intermittent Resource or a Dispatchable Intermittent Resource.

110. Iberdrola supports the MidAmerican and NextEra requests. Iberdrola asserts that it is reasonable to implement the December Proposal at the same time as the implementation of the Dispatchable Intermittent Resources proposal since they provide a combined mechanism for Intermittent Resources to be assessed Revenue Sufficiency Guarantee costs and to mitigate these charges by registering them as Dispatchable Intermittent Resources.

111. The Midwest ISO replies that the effective date should be April 1, 2011. It notes that the Compliance Order required the Midwest ISO to resubmit tariff sheets with a specific effective date once it has completed all necessary system and software measures,[36] and that neither the Compliance Order nor the order accepting the Midwest ISO's Dispatchable Intermittent Resources proposal addressed coordination with the effective date of the Revenue Sufficiency Guarantee redesign. The Midwest ISO reaffirms that the necessary systems will be in place by April 1, 2011. While it is sympathetic to the concerns of commenters, the Midwest ISO notes that the Commission has found the imposition of Revenue Sufficiency Guarantee charges on Intermittent Resources to be just and reasonable.[37] Accordingly, the Midwest ISO asserts that assessing Revenue Sufficiency Guarantee costs on Intermittent Resources on April 1, 2011 should be deemed just and reasonable.

112. The proposed definition of Real-Time Intermittent Forecast states that it is a forecast for Intermittent Resources. We consider this specification to be sufficiently clear as to the resources to which the forecast applies and therefore we will not require additional tariff revisions. In Docket No. ER11-1991, the Commission directed the

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[36] Midwest ISO March 11, 2011 Answer at 4 (citing Compliance Order, 132 FERC ¶ 61,186 at P 140).

[37] *Midwest Indep. Transmission Sys. Operator, Inc.*, 132 FERC ¶ 61,184 at P 88.

Midwest ISO to explain how real-time Revenue Sufficiency Guarantee charges will be assessed to Dispatchable Intermittent Resources and submit corresponding tariff revisions.[38] We will not delay the effective date of the proposed revisions to June 1, 2011, as requested by MidAmerican and NextEra. The Midwest ISO proposal to allocate Revenue Sufficiency Guarantee costs to Intermittent Resources is reasonable, as discussed in section C *infra*, and therefore there is no reason to delay its implementation.

I. Other Proposals For Allocating Revenue Sufficiency Guarantee Charges

1. Comments

113. Midwest TDUs state that the allocation of Revenue Sufficiency Guarantee charges to virtual transactions will not work properly because it assumes that all virtual supply offers contribute to Revenue Sufficiency Guarantee costs, and that all virtual demand bids reduce Revenue Sufficiency Guarantee costs. They assert that these assumptions are only true with regard to the second bucket, but not with respect to the first Revenue Sufficiency Guarantee charge cost bucket. According to the Midwest TDUs, only after application of the Constraint Contribution Factor can it be determined whether a market participant should be allocated Revenue Sufficiency Guarantee costs associated with a virtual demand bid (considered supply-increasing) or relieved of any share of Revenue Sufficiency Guarantee costs associated with a virtual supply offer (considered supply-decreasing). The Midwest TDUs point out, however, that the Constraint Contribution Factor is not applied until after the virtual supply offer has been converted into a virtual transaction, which is always treated as a positive value, and a virtual demand bid has been converted to an automatic negative value.

114. Xcel argues that Headroom/Day-Ahead Schedule deviation charges should not be allocated to supply-increasing deviations, as this is inconsistent with the accepted RSG Redesign rate. Xcel asserts that the associated costs are caused by, and should therefore be allocated to, supply-decreasing deviations.

115. Xcel notes that any Revenue Sufficiency Guarantee costs caused by supply-increasing deviations that aggravate transmission constraints would already be allocated to such deviations under the first allocation bucket. Xcel argues that Revenue Sufficiency Guarantee costs caused by decreased LMP due to supply increasing deviations should not be allocated to such deviations, but rather to load and not to generation.

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[38] *Midwest Indep. Transmission Sys. Operator, Inc.*, 134 FERC ¶ 61,141 at P 95.

116. For these reasons, Xcel urges the Commission to reject the following proposals: (1) addition of a deviation calculation for changes in economic minimum limit from commitment to dispatch; (2) addition of deviation calculation for must-run volumes after the notification deadline; (3) addition of excessive energy to the Revenue Sufficiency Guarantee calculation; (4) substitution of "positive value of any" for "any positive" in applicable deviation calculations; and (5) any other allocation of the Day- Ahead Schedule deviation rate to supply-increasing or supply-decreasing deviations. Xcel further states that if the Commission allows Revenue Sufficiency Guarantee costs to be allocated to supply-increasing deviation in the decreased LMP context, the Midwest ISO should first be required to: (1) confirm its ability to quantify such costs; and (2) propose a separate allocation bucket and rate for such costs.

117. DC Energy states that the Midwest ISO's filing should be conformed to the Midwest ISO's request for rehearing of the Compliance Order. That is, in Section 40.3.3.a.ii(4) of the Tariff, virtual offers should be deemed a negative factor because they represent a capacity decrease, and virtual bids should be deemed a positive factor because they represent a capacity increase.

118. DC Energy recommends that the Midwest ISO add a separate tariff section specifying how Revenue Sufficiency Guarantee costs should be allocated to resources committed in any Reliability Assessment Commitment processes to ensure these resources are not absolved of a share of Revenue Sufficiency Guarantee costs

119. Financial Marketers argue that it is unjust to allocate to virtual transactions any Revenue Sufficiency Guarantee costs incurred in the intra-day Reliability Assessment Commitment because all unit commitments relating to virtual transactions are made in the forward Reliability Assessment Commitment process, and the Midwest ISO has notice of the exact amount of cleared virtual supply offers at the close of the day-ahead market, before the operating day – five hours before the notification deadline and never needs to commit expensive generation with short ramp times to address virtual supply, as it does with real-time deviations.

2. <u>Answer</u>

120. The Midwest ISO agrees that section 40.3.3.a.ii (4) of the tariff needs to be modified in the manner described by the Midwest ISO's pending request for rehearing of the Compliance Order.

121. The Midwest ISO asserts that while Xcel's argument that supply-increasing deviations may not cause unit commitments in the Reliability Assessment Commitment that could result in Revenue Sufficiency Guarantee costs, it would be inconsistent with the application of cost causation in previous Revenue Sufficiency Guarantee proceedings to exclude such transactions from bearing real-time Revenue Sufficiency Guarantee costs that may be caused by them, especially deviations of which the Midwest ISO is unaware

prior to the notification deadline. The Midwest ISO states that it would reduce the incentive of market participants to schedule transactions in advance of real-time in order to minimize uncertainty. Finally, excluding such supply-increasing transactions, for example imports, from Revenue Sufficiency Guarantee cost allocation would violate cost allocation principles already established by the Commission.

122. The Midwest ISO notes that Reliability Assessment Commitment units are included in the calculation of the Revenue Sufficiency Guarantee charge allocation.

3. Commission Determination

123. We note that the Midwest ISO is not proposing any revisions to the tariff regarding positive/negative tariff language in the Revenue Sufficiency Guarantee charges, and therefore the issues Midwest TDUs, Xcel, and DC Energy raise are beyond the scope of this proceeding. To the extent the Midwest ISO wants to revise the allocation, it needs to make a proposal in a section 205 filing.

124. The Commission accepted the allocations based on economic minimum limits and other supply-increasing transactions of concern to Xcel in the indicative allocation and in the Redesign Proposal, and therefore Xcel should have raised its concerns in those proceedings.

125. We agree with the Midwest ISO that the December Proposal cost allocation includes an allocation to units committed in the Reliability Assessment Commitment process, and therefore DC Energy's concern has been addressed.

126. Financial Marketers' arguments regarding the cost allocation to virtual transactions are the same arguments they raised in the indicative cost allocation and Redesign Proposal proceedings, as they acknowledge. The December Proposal does not modify the allocation of Revenue Sufficiency Guarantee costs to virtual transactions from the allocation in the indicative cost allocation and the Redesign Proposal, and therefore Financial Marketers concerns are beyond the scope of this proceeding.

J. Allocation of Residual Costs to Load

127. Residual costs not recovered through other Revenue Sufficiency Guarantee charges are allocated based on the market load ratio share of market participants. Residual costs represent those Revenue Sufficiency Guarantee costs remaining after an allocation to all the factors that cause these costs and costs associated with topology adjustments and transmission de-rates.

128. Wisconsin Electric objects to the load ratio share allocation of residual costs. Wisconsin Electric asserts that since there is no basis to allocate excess costs to a subset of market participants, these costs should be distributed among all market participants regardless of the type of market activity in which they engage.

129. Westar asserts that Revenue Sufficiency Guarantee costs caused by topology changes should be allocated to the market as a whole. Westar faults the Midwest ISO for not providing clear language to define, calculate and allocate topology deviations in the Revenue Sufficiency Guarantee charge tariff provisions.

130. The Midwest ISO proposal does not revise the allocation of residual costs, including those associated with topology changes, based on load ratio share in the indicative cost allocation and the Redesign Proposal and accepted in the Compliance Order. As the Midwest ISO notes, the Commission rejected similar challenges to this allocation in the Compliance Order[39] and therefore the comments of Wisconsin Electric and Westar are collateral attacks on that order.

131. Responding to Westar's concerns regarding ambiguous tariff language on the allocation of topology change costs, section 40.3.3.iii of the tariff provides the calculation of the allocation to Topology Adjustments[40] and section 40.3.3.ix states that Topology Adjustments will be allocated pro rata to market participants based on their market load ratio share. The sections of concern to Westar, sections 40.3.3.vi and vii, allocate Revenue Sufficiency Guarantee costs in the deviations and headroom charge and rate. Since these sections do not specify the derivation of the topology change, and section 40.3.3.v states that the deviations and headroom charge does not include topology changes, we do not find that the treatment of topology changes is ambiguous. We also do not find that it is possible that market participants paying Revenue Sufficiency Guarantee costs based on their deviations would pay for topology-related costs since these costs are separately calculated and then allocated based on market load ratio share.

K. <u>Tariff Clarifications</u>

132. Mid-American considers the definitions of Revenue Sufficiency Guarantee charges to be confusing. MidAmerican recommends that positive/negative language in the tariff be modified. MidAmerican considers tariff language on netting to be confusing and it proposes several tariff changes. Wisconsin Electric recommends that the tariff be modified by eliminating any "positive"/"negative" language. Wisconsin Electric states that references to deviations "before" or "after" the Notification Deadline are meaningless because deviations occur within an Operating Hour, whereas the

[39] Compliance Order, 132 FERC ¶ 61,186 at P 93.

[40] Topology Adjustments are any positive adjustments due to the combined effect of incremental loop flow and topology changes occurring during the real-time energy and operating reserve market. Midwest ISO FERC Electric Tariff, Fourth Revised Volume No. 1, First Revised Sheet No. 292.

Notification Deadline is four hours before a given Operating Hour. The Midwest ISO replies in its answer to MidAmerican that the proposed combination of the second and third allocation buckets will result in two different charges that share the same Revenue Sufficiency Guarantee charge rate and therefore the charges remain separate. The Midwest ISO also answers that the positive/negative language in the tariff is part of the indicative cost allocation and the Redesign Proposal that was accepted by the Commission.

133. We agree with the Midwest ISO that the December Proposal retains separate charges for deviations and headroom, respectively, as part of the Real-Time Revenue Sufficiency Guarantee Day-Ahead Deviations and Headroom Charge and therefore it is appropriate that the separate definitions for the deviation charge and headroom charge be retained. As the Midwest ISO indicates, the revisions proposed by parties with respect to the positive and negative language are in tariff provisions that were part of the indicative cost allocation and the Redesign Proposal accepted by the Commission and the Midwest ISO is not revising these provisions in this filing. Accordingly, they are beyond the scope of this proceeding. In our review of the tariff provisions of concern to MidAmerican and Wisconsin Electric, we found them to be sufficiently clear for determining how customer bills would be calculated. To clarify for Wisconsin Electric, the deviations occurring before or after the Notification Deadline should be interpreted as the deviations between the day-ahead schedules and the various limits, dispatch amounts and forecasts provided either before or after the Notification Deadline.

134. Wisconsin Electric notes that the term Commercial Pricing Node Constraint Contribution Factor is not defined and therefore a definition is needed. The Midwest ISO submits that such a definition is not required because the Tariff already defines the terms Commercial Pricing Node (Section 1.74) and Constraint Contribution Factor (Section 1.90a). Since the term Commercial Pricing Node is a defined term in the Tariff and the Midwest ISO has proposed a revised definition for Constraint Contribution Factor in Docket Nos. EL07-86-014, we will not require the Midwest ISO to propose a definition in this proceeding.

135. DC Energy asserts that the Midwest ISO must ensure the phrase “excluding Resources Committed in Any RAC processes conducted for the operating day” is used appropriately in the tariff and that the excluded resources are appropriately measured. DC Energy also recommends adding a separate tariff section on how to measure the deviations of Reliability Assessment Committed resources to ensure they are not absolved of Revenue Sufficiency Guarantee costs that they cause. The Midwest ISO agrees that, based on the Compliance Order’s requirements, section 40.3.3.a.iii(2) needs to be amended. In regard to DC Energy’s recommendation for a new section, the Midwest ISO notes that resources committed in the Reliability Assessment Commitment processes are necessarily included in the calculation of deviations for Revenue Sufficiency Guarantee cost allocation, unless otherwise excluded by the plain language of

the tariff. The Midwest ISO states that any details of the procedure for measuring their deviations are implementation matters that are appropriately left to the Business Practices Manuals and/or other operational guidelines.

136. Since the Commission directed the Midwest ISO to revise its tariff regarding the phrase "excluding Resources Committed in Any RAC processes conducted for the operating day" in the Compliance Order,[41] we do not need to repeat the directive here. With respect to DC Energy's concern about an allocation of Revenue Sufficiency Guarantee costs to resources committed in Reliability Assessment Commitment processes, the December Proposal includes an allocation of Revenue Sufficiency Guarantee costs to these resources in section 40.3.3.a.vii.

137. Westar expresses concern that self-scheduled units and must-run units would be provided make-whole payments and that their costs would be included in the numerator of the Revenue Sufficiency Guarantee charge. Westar indicates that the Midwest ISO has verbally stated that it did not intend to include these costs and therefore Westar requests clarification. In reference to Westar's concern, the Midwest ISO clarifies that its proposal does not modify any provisions regarding make-whole payments or Revenue Sufficiency Guarantee charge eligibility for self-scheduled and must-run units. As clarified by the Midwest ISO, its proposal does not contain any modifications that would make self-scheduled and must-run units eligible for make-whole payment. We consider the Midwest ISO answer to be responsive to Westar's concerns.

L. Settlement and Reporting Issues

1. Comments

138. Xcel reiterates recommendations it made in Docket No. EL07-86, *et al.* that the Independent Market Monitor submit reports evaluating the justness and reasonableness of the Revenue Sufficiency Guarantee charge and that the Midwest ISO add a Module D provision giving the Independent Market Monitor the responsibility to monitor Revenue Sufficiency Guarantee allocations to the various buckets.

139. AWEA/WOW state that the Midwest ISO has not sufficiently demonstrated that its proposal to combine cost allocation buckets will create a transparent rate structure that would allow market participants to evaluate whether the rates they are being charged are just and reasonable. AWEA/WOW also argue that without the ability to calculate the rate that would result from combining the categories, market participants do not have the ability to shadow the settlement implications. Accordingly, AWEA/WOW request that

[41] Compliance Order, 132 FERC ¶ 61,186 at P 117.

the Midwest ISO provide sufficient information to ensure that market participants have the ability to calculate the resulting Revenue Sufficiency Guarantee rate with a reasonable degree of certainty.

140. In the alternative, AWEA/WOW request that the Midwest ISO provide periodic reports on the performance of the proposed bucket combination to determine whether the rates they are being charged are just and reasonable.

141. FirstEnergy recommends that the Midwest ISO publish information including, but not limited to, the constraint management charge used in settlement calculations sufficient to enable market participants to make transaction decisions that are more efficient and file status reports on a periodic basis. FirstEnergy explains that data transparency must be increased for market participants to take advantage of the benefits of the combined cost allocation buckets. FirstEnergy notes that this feature was part of the indicative cost allocation.

142. FirstEnergy asserts that access to data on the Constraint Contribution Factor will enable market participants to shadow Revenue Sufficiency Guarantee charge invoices and evaluate netting opportunities. If the Midwest ISO cannot provide this level of data transparency by March 1, 2011, then the Commission should evaluate and consider the possibility of a delay in implementation until such time data can be provided.

143. NIPSCO states that market participants should be provided with sufficient data to permit them to verify Revenue Sufficiency Guarantee charge billings. NIPSCO asserts that the confidentiality of any Constraint Contribution Factor data can be addressed through negotiated confidentiality arrangements limiting such data to the customer's accounting personnel or an outside vendor retained to shadow settlements.

144. FirstEnergy asserts that, if the data cannot be provided yet, the proposal's implementation should be delayed until such data is available.

145. Edison Mission supports the December Proposal and the Redesign Proposal as superior alternatives to the cost allocation currently in effect, and for this reason recommends prompt implementation on March 1, 2011. DC Energy requests that the Commission's consideration of the December Proposal not impede implementation.

2. <u>Answers</u>

146. The Midwest ISO responds to Xcel that no new monitoring provisions are needed since the Market Monitor has sufficient authority to monitor such items under the current provisions of Module D.

147. The Midwest ISO states that the Commission did not require the submittal of further compliance filings to provide after-the-fact sample Revenue Sufficiency Guarantee charge calculations in previous proceedings dealing with the allocation of

Revenue Sufficiency Guarantee costs. The Midwest ISO also notes that when commenters raised this issue in those proceedings the Commission encouraged the Midwest ISO to provide market participants with the detail and explanation necessary to understand the impact of the Redesign Proposal on their bills.

148. The Midwest ISO asserts that it has published a draft Business Practices Manuals and commenced training for market participants to help them understand the allocation of Revenue Sufficiency Guarantee costs. The Midwest ISO considers the provision of such implementing guidance to be sufficient and consistent with the Compliance Order's encouragement that the Midwest ISO further explain the impact of the Redesign Proposal to market participants after acceptance by the Commission.

149. In regard to NIPSCO's protest, the Midwest ISO explains that the December Proposal does not propose any change to the definition or other features of the Constraint Contribution Factor. Therefore the Midwest ISO considers the requests to add data provisions or other requirements to the Constraint Contribution Factor's implementation to be beyond the scope of this proceeding.

150. The Midwest ISO believes that details included on settlement statements or data otherwise made available for publication are appropriately included in Business Practices Manuals and Technical Interface Specifications. The Midwest ISO notes that the imposition of any data provision or publication conditions on the Midwest ISO's proposal would impact the Midwest ISO's ability to implement the Revenue Sufficiency Guarantee rate –whether as accepted by the Compliance Order, or as modified pursuant to the Midwest ISO's current proposal – to be effective March 1, 2011.

151. The Midwest ISO agrees with Edison Mission that the December Proposal should be implemented by March 1, 2011. The Midwest ISO asserts that there is no reason to delay such implementation based on FirstEnergy's request for shadow settlement data since its request is beyond the scope of this proceeding.

152. NIPSCO asserts that the Midwest ISO has no practical objection to providing the Constraint Contribution Factor data that it has requested. Accordingly, NIPSCO requests that the Midwest ISO provide this information. NIPSCO does not consider the Business Practices Manuals to be a solution, since they do not have Constraint Contribution Factor data. NIPSCO notes that the Commission has required that other RTOs provide back-up data to market participants to verify the accuracy of their invoices. NIPSCO contends that its request should not impact the March 1, 2011 implementation date.

3. Commission Determination

153. We will not require the filing of reports by the Market Monitor. It is the Commission's responsibility, not the Independent Market Monitor's, to determine whether the proposed tariff revisions are just and reasonable. The Commission would

unfairly prejudice other parties if it provided the Independent Market Monitor with an additional opportunity to comment on this issue. We will also not require the Independent Market Monitor to monitor the allocation of costs. This allocation process is the responsibility of the Midwest ISO as part of its implementation of Commission orders.

154. We agree with commenters that market participants need transparency with respect to how the combined cost allocation buckets and the constraint management charge are calculated in their bills. Accordingly, we require that the Midwest ISO provide sufficient information on the combined Headroom and Deviation Charge cost bucket and the constraint management charge in individual market participant bills and billing information to ensure that market participants have the ability to calculate their Revenue Sufficiency Guarantee charges with a reasonable degree of certainty.

M. <u>Other Issues</u>

155. Westar objects to the netting of positive and negative deviations to determine the allocation of Revenue Sufficiency Guarantee costs since this framework allows large internal market participants to net away their exposure to Revenue Sufficiency Guarantee charges. Westar considers this feature to be an exemption from Revenue Sufficiency Guarantee costs for these entities. Westar asserts that market participants that cannot net away their cost exposure are charged higher rates. As an example, Westar cites to the netting of spinning reserves against physical deviations that can cause Revenue Sufficiency Guarantee costs.

156. The Midwest ISO responds that its proposal does not modify the Redesign Proposal's netting provisions, which the Compliance Order found to be consistent with the indicative cost allocation.[42]

157. The Commission has accepted the netting of deviations in the indicative cost allocation and the Redesign Proposal. Westar should have raised its concerns in those proceedings since they are beyond the scope of this proceeding. We agree with the Midwest ISO that its proposal to add regulating and operating reserves in the calculation of the Revenue Sufficiency Guarantee charge does not change the netting calculations in the indicative cost allocation and Redesign Proposal.

158. Financial Marketers claim that the Midwest ISO failed to support the proposed changes with substantial cost-based evidence, including the complete derivation of allocation factors, as required by 18 C.F.R. § 35.13(a)(2)(B)(2) (2010), and failed to

[42] Compliance Order, 132 FERC ¶ 61,186 at P 63.

provide the cost support required for allocations by section 35.13(a)(2)(B)(4). That section of the Commission's regulations pertains to cost-based rate filings. The December Proposal, in contrast, applies to the allocation of energy market costs that are incurred in a market where rates are market-based rates. That section therefore is not applicable to the December Proposal.

The Commission orders:

(A) Midwest ISO's proposed Tariff revisions are hereby conditionally accepted to become effective April 1, 2011, as discussed in the body of this order.

(B) The Midwest ISO is hereby directed to file a compliance filing within 30 days of the date of this order, as discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

APPENDIX A

Motions to Intervene and Notices of Intervention

Ameren Services Company
American Municipal Power, Inc.
Cargill Power Markets, LLC
Consumers Energy Company
Duke Energy Corporation, on behalf of Duke Energy Kentucky, Inc., Duke Energy Ohio, Inc., Duke Energy Indiana, Inc., and Duke Energy Business Services, LLC
Dynegy Power Marketing, Inc.
Edison Mission Energy and Edison Mission Marketing & Trading, Inc.
E.ON Climate & Renewables North America LLC
Exelon Corporation
Hoosier Energy Rural Electric Cooperative, Inc.
Illinois Municipal Electric Agency
Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company
Macquarie Energy LLC
Michigan Public Power Agency
Michigan South Central Power Agency
NextEra Energy Resources, LLC
Otter Tail Power Company
Tenaska Power Services Co.

Motions to Intervene and Comments or Protests

AWEA/WOW – American Wind Energy Association and Wind on the Wires
DC Energy – DC Energy Midwest, LLC
Edison Mission – Edison Mission Energy
Financial Marketers – Big Bog Energy LP; JPTC, LLC; Jump Power, LLC; SESCO Enterprises LLC; Solios Power LLC; Franklin Power, LLC; and Pure Energy, Inc.
FirstEnergy – FirstEnergy Service Company, on behalf of The Cleveland Electric Illuminating Company, Ohio Edison Company, Pennsylvania Power Company, The Toledo Edison Company, and FirstEnergy Solutions Corp.
Iberdrola – Iberdrola Renewables, Inc. and Invenergy Wind Development LLC
MidAmerican – MidAmerican Energy Company
Midwest TDUs – Great Lakes Utilities, Indiana Municipal Power Agency, Madison Gas & Electric Company, Midwest Municipal Transmission Group, Missouri Joint Municipal Electric Utility Commission, Missouri River Energy Services, Prairie Power, Inc., Southern Minnesota Municipal Power Agency, and WPPI Energy
NIPSCO – Northern Indiana Public Service Company
Westar – Westar Energy, Inc.; Kansas City Power & Light Company; and KCP&L

Greater Missouri Operations Company
Wisconsin Electric – Wisconsin Electric Power Company
Xcel – Xcel Energy Services, Inc., on behalf of Northern States Power Company, a Minnesota corporation, and Northern States Power Company, a Wisconsin corporation