

**Comments of FirstEnergy, American Electric Power Service Corporation, and East
Kentucky Power Cooperative to MISO’s External Network Resource
Interconnection Service Proposal**

FirstEnergy Service Company, on behalf of its affected affiliates, American Electric Power Service Corporation, and East Kentucky Power Cooperative, Inc. (collectively, “The Parties”) submit these comments in response to MISO’s proposal to implement an External Network Resource Interconnection Service. The Parties generally support MISO’s proposal as a step in the right direction towards ensuring that external capacity resources from PJM are deliverable to the MISO region. The Parties however, questions the lack of a requirement for external resources to be pseudo-tied in the MISO proposal. The lack of a pseudo-tie requirement limits MISO’s ability to maintain reliability, and reduces economic efficiency in the MISO region.

MISO’s External Network Resource Interconnection Service proposal is similar to the requirements of PJM to determine the deliverability of external capacity resources. MISO’s proposal will permit “[G]enerating Facilities external to MISO the ability to procure NRIS under the MISO Tariff as long as it meets certain conditions.” Among other conditions, Generating Facilities requesting external NRIS must also procure firm Transmission Service to the MISO border through the host interconnecting Transmission Provider prior to the execution of a Service Agreement. MISO’s proposal, however, would be vastly improved by incorporating the requirement that external resources be pseudo-tied.

I. The Lack of a Pseudo-Tie Requirement will Inhibit MISO’s Ability to Maintain Reliability and Significantly Reduces Economic Efficiency.

A pseudo-tied generation resource is one located physically in one Balancing Authority area but treated electrically as being in another Balancing Authority area.¹ Under a pseudo-tie arrangement, the unit will be dispatchable by the importing region. There are numerous economic and reliability benefits to pseudo-ties. For example, pseudo-tied units, are not tagged as interchange transactions, which excludes pseudo-tied units from TLR-5 curtailments under NERC rules.² In addition, pseudo-ties can provide economic benefits as well to the importing RTO, largely due to the real-time dispatch flexibility a pseudo-tie offers. Energy imports without pseudo-ties either have to be block-loaded or scheduled according to Tariff requirements. In some cases, energy imports can only be once per hour. Pseudo-ties allow the dispatch operator to overcome these limitations by recognizing and adjusting for changing economics in real-time.

MISO’s proposal does not require a pseudo-tie for external resources. Recent comments by the MISO Market Monitor show the skepticism regarding the economic and reliability

¹ The Commission has defined pseudo-ties as “telemetered readings or values that are used as ‘virtual’ tie line flows between balancing authorities where no physical tie line exists.” *18 CFR Chapter I Integration of Variable Energy Resources*, 130 FERC ¶ 61,053, at P 32 n.23 (2010).

² PJM Interconnection, L.L.C., Revisions to the PJM OATT and RAA re Capacity Import Limit, Docket No. ER14-503-000 at 24-25 (filed Nov. 29, 2013).

benefits of pseudo-ties. Specifically, Dr. David Patton of Potomac Economics argues that “[b]ecause the [pseudo-tied] resource likely affects a variety of low-voltage and high-voltage transmission constraints, transferring the dispatch control to a neighboring RTO can substantially and inefficiently raise congestion costs and prices, and degrade reliability.”³ However, The Parties strongly disagree with the MISO IMM and believe that pseudo-ties provide numerous economic and reliability benefits.

The Parties have advocated on behalf of requiring pseudo-ties for external resources in multiple proceedings before the Commission. First, The Parties, as part of a larger Coalition, supported a proposal to implement Capacity Import Limits regarding the amount of external capacity resources that can participate in PJM’s capacity market. External resources could receive an exemption from the import limits by, among other things, becoming pseudo-tied. The Coalition’s comments were supported with expert testimony from Scott Gass of PowerGEM, LLC, who asserted that external resources that are not pseudo-tied are “less reliable for PJM than internal resources” because of “a higher degree of risk of congestion and, as a result, curtailment.”⁴

More recently, The Parties, as part of the Coalition, supported a proposal to implement a more robust capacity product called Capacity Performance into the PJM capacity market. To qualify as a Capacity Performance Resource, an external resource is required to be pseudo-tied. PJM based its requirement on its conclusion that pseudo-ties are necessary for PJM to accurately determine whether an external capacity resource owner meets its commitment to deliver energy to PJM from the specific resource(s) and is critical to PJM’s proposed performance assessment evaluations. The Coalition supported this aspect of the Capacity Performance proposal, and provided expert testimony of Drs. David Hunger and William Hieronymus who argued that “[u]nless external resources are pseudo-tied, they will be subject to transmission-related availability issues and can be subject to emergency procedures (TLR 5) in the home control area.”⁵ The Commission agreed with the Coalition, finding that the pseudo-tie “requirement is necessary to ensure that external resources are accountable for their individual performance when PJM’s system is experiencing Emergency Actions.”⁶

The Parties believe the steps taken by the Commission to require pseudo-ties for resources external to PJM were necessary to maintain reliability, and that, without adopting similar requirements, MISO runs the risk that the external resources it hopes to attract to its region could be subject to curtailment by an external entity.

³ Response of the Midcontinent ISO’s Independent Market Monitor to the Commission’s Request for Additional Information, Docket No. AD14-3-000 at 23 (filed May 12, 2015).

⁴ Comments, Recommendations and Supporting Expert Analyses of the Indicated PJM Utilities Coalition, Docket No. ER14-503-000, Declaration of Scott W. Gass at P 11 (filed Dec. 20, 2013).

⁵ Motion for Leave to Answer and Answer of The PJM Utilities Coalition, Docket No. ER15-623-000, Supplemental Affidavit of Dr. William Hieronymus and Dr. David Hunger at P 14 (filed Feb. 4, 2015).

⁶ *PJM Interconnection, L.L.C.*, 151 FERC ¶ 61,208 at P 96 (2015) (“PJM CP Order”).

II. MISO's Capacity Market Lacks Sufficient Incentives to Attract Generation From PJM

MISO's proposal may eliminate deliverability barriers on capacity transfers from PJM to MISO, but without fundamental changes to the MISO market design, MISO's proposal is not likely to result in a large influx of external capacity resources from PJM to MISO due to the differences in capacity products, as well as differences in market design. Specifically, MISO operates under a traditional, state regulated cost-of-service construct, while PJM operates wholesale markets within a largely deregulated region. Based on these differences in market design, there is a wide divergence in the volume of capacity procured and the clearing prices between the two markets.

Given these fundamental differences in the capacity product and market design between the RTOs, MISO's External Network Resource Interconnection Service proposal is not likely to result in a greater transfer of capacity from PJM to MISO.