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June 24, 2016

Via Electronic Filing

Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

RE: *Southern Company Services, Inc.*, Docket No. ER09-88-000
Seventh Annual Informational Report of the Independent Auction Monitor

Dear Ms. Bose:

The Brattle Group (“*Brattle*”), as the Independent Auction Monitor (“IAM”) for the Southern Companies’ Day-Ahead and Hour-Ahead Energy Auctions in the Southern Balancing Authority Area (“Auction”), hereby submits its seventh annual informational report (the “Annual Informational Report”).

Consistent with prior annual reports, the Annual Informational Report, attached as Exhibit A, addresses the following: (1) the clearing price for each Auction; (2) the amount of energy offered and sold by each seller (identified by name) in each Auction; (3) the amount of energy bid on and purchased by each buyer in each Auction; (4) any instances where the IAM was unable to verify Southern Companies’ available capacity calculations or inputs; and (5) any instances where issues arose involving availability of or the terms for transmission service needed to accommodate an Auction purchase. It also reports on the Southern Companies’ compliance with the auction enhancements implemented in 2014, including the voluntary discounting of all the energy it offers into the Auction. The Annual Informational Report is submitted with our best efforts, as economists, to serve the purpose of the IAM as articulated in the Federal Energy Regulatory Commission’s orders.¹

Brattle is submitting a non-public and a public version of the Annual Informational Report. *Brattle* requests confidential and privileged treatment for the non-public version of the Annual Informational Report in accordance with 18 C.F.R. §§ 388.107 and 388.112. *Brattle* is authorized to represent that

¹ *Southern Company Services, Inc.*, 125 FERC ¶ 61,316 (2008); *Southern Company Services, Inc.*, 134 FERC ¶ 61,226 (2011).

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Southern Companies join in this request for confidential and privileged treatment. A justification for the redactions in the public version of the Annual Informational Report has been developed by Southern Companies, and is attached as Exhibit B.

Pursuant to 18 C.F.R. § 388.112(d) and (e), the following individuals should be notified of any request or decision to release the non-public version of the Annual Informational Report or any part thereof and should be given opportunity to comment on any request for release:

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Thank you for your attention to this matter. Please direct any questions concerning this submission to the undersigned.

Respectfully submitted,

/s/Dean M. Murphy
Dean Murphy

Attachments

cc: All Parties (with public version of Exhibit A)

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Exhibit A

Independent Auction Monitor's Annual Informational Report

(Public Version—Redacted)

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**Informational Report for
The Southern Companies'
Energy Auction**

April 24, 2015 to April 23, 2016

PREPARED FOR



THE FEDERAL ENERGY
REGULATORY COMMISSION

SUBMITTED BY

The Brattle Group
Independent Auction Monitor

JUNE 24, 2016

THE **Brattle** GROUP

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Informational Report
for
The Southern Companies' Energy Auction
April 24, 2015 to April 23, 2016

Docket No. ER09-88-000

June 24, 2016

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The views expressed in this report are those of the authors and do not necessarily reflect the views of The Brattle Group, Inc. or Van Ness Feldman, LLP.

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I. Introduction and Overview

This is the seventh annual report reviewing the Southern Companies¹ Day-Ahead Energy (“DAE”) and Hour-Ahead Energy (“HAE”) auctions (collectively the “Energy Auctions” or “Auctions”), as administered by their agent Southern Company Services Inc. (“SCS”). It has been prepared by The Brattle Group (“Brattle”), which serves as the Independent Auction Monitor (“IAM”), and is being provided to the Federal Energy Regulatory Commission (“FERC” or “Commission”) in order to provide the Commission with information regarding our ongoing monitoring of the Energy Auction. This Report includes:

- a. the clearing price for each Auction that cleared;
- b. the amount of energy offered and sold by each seller in each Auction;
- c. the amount of energy bid on and purchased by each buyer in each Auction;
- d. instances where the IAM was unable to verify SCS’s Available Capacity calculations or inputs used in those calculations;
- e. instances where issues arose involving the availability or the terms of transmission service needed to accommodate an Energy Auction purchase;
- f. changes in the IAM’s protocols;
- g. any instances in which the IAM has reported complaints regarding the Energy Auction or other serious matters to FERC;
- h. any instances of suspected Energy Auction manipulation or other questionable behavior related to the Energy Auction by any Auction Participant;
- i. confirmation as to whether SCS complied with the Energy Auction Tariff² as relating to the handling of Auction Participant confidential information; and
- j. confirmation as to whether, in the judgment of the IAM, the Energy Auction is being properly administered in accordance with the Energy Auction Tariff, with due regard for its nature and complexity.

The review period for this informational report is April 24, 2015 through April 23, 2016.³ The rest of the report consists of Sections II through VIII, organized as follows. Section II summarizes the clearing price of each cleared Firm-LD and Recallable DAE auction, and each cleared HAE

¹ Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company and Southern Power Company are referred to collectively as “Southern Companies.”

² Southern Companies’ market-based rate tariff includes several relevant segments: General Tariff Provisions; Rules of the Energy Auction (“Auction Rules”); Rules on Southern Companies’ Energy Auction Participation (“Participation Rules”); and Appendices DA-1, DA-2, HA-1, and HA-2 to the Participation Rules. Alabama Power Company Market Based Rate Tariff, Southern’s Tariff Volume No. 4 (last amended effective April 26, 2011). We refer to these documents collectively as “the Tariff.”

³ Throughout this report, we may refer to the current review period as “Year 7,” and to the previous review period, covering April 24, 2014 through April 23, 2015, as “Year 6.”

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auction. Sections III and IV provide information about the participation of Energy Auction offerors and bidders, respectively. Section V summarizes significant changes in our monitoring and verification processes during the current review period, including the protocols we follow in monitoring the auctions. Section VI summarizes the results of our monitoring, including those instances in which SCS did not fully comply with the Tariff, as well as our monitoring of compliance with the voluntary Auction Enhancements that SCS undertook in Year 6, including discounting the energy it offers into the Auction. Section VII contains the summary report of the IAM’s legal advisor, Van Ness Feldman, LLP (“Van Ness Feldman”), which assisted in monitoring compliance with the data restrictions contained in the Tariff. Lastly, Section VIII provides our conclusions and a summary of our observations.

A. SUMMARY OF CONCLUSIONS

To the best of our ability to ascertain, and with the specific exceptions identified in this report, we have found that SCS has complied with the requirements of the Tariff throughout the review period. We have found no evidence that SCS has attempted to evade the Tariff requirements or compromise the Auction’s performance, either intentionally or through negligence, and we found that SCS has complied with the voluntary discounting policy it implemented in Year 6. We found no evidence of attempts to manipulate the Auction or other questionable behavior by any Auction Participant, nor did we receive any complaints regarding the availability or the terms of transmission service needed to accommodate an Energy Auction purchase. Van Ness Feldman’s review of compliance with the Tariff’s data restrictions found that SCS has been diligent in its efforts to comply with the Tariff requirements related to safeguarding confidential bid and offer information, and further found no evidence that SCS marketing function employees had any improper access to confidential bid or offer information during the review period. Lastly, we did not receive any complaints relating to the Energy Auctions or discover other serious matters that would have prompted an interim report to the Commission.

II. Clearing Price for Each Energy Auction

During the review period, no DAE auctions cleared for either Firm-LD or Recallable energy (*i.e.*, none matched a buyer’s bid with a seller’s offer), as shown in Table 1. This signifies no change relative to the previous year, Year 6, which also had no cleared DAE auctions.

Table 1

DAE Cleared Auctions: Clearing Price and Quantity

Delivery Date	Product	Offer MW	Bid MW	Lowest Offer (\$/MWh)	Highest Bid (\$/MWh)	Cleared MW	Clearing Price (\$/MWh)	Winning Bidders	Total Number of Bidders	Winning Offerors
NO DAE AUCTIONS CLEARED DURING THE REVIEW PERIOD										

Table 2 shows that 39 HAE auctions cleared during the current review period (compared with 62 in Year 6); [REDACTED] was the seller in [REDACTED] of these, [REDACTED]. A total of 2.8 GWh cleared through the HAE auction, with transaction size ranging from [REDACTED] and a weighted-average clearing price of [REDACTED]. There was only one matched bid and offer in each

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of the cleared HAE auctions, though some of the auctions had additional bids for which there was no match. There was one instance in which even though the bid price was higher than the lowest offer price, the bidder and offeror had not established credit with one another, which necessarily meant that this bid and offer could not be matched, and no transaction took place.

Table 2
HAE Cleared Auctions: Clearing Price and Quantity

<i>Delivery Date</i>	<i>Hour Ending (CPT)</i>	<i>Offer MW</i>	<i>Bid MW</i>	<i>Lowest Offer (\$/MWh)</i>	<i>Highest Bid (\$/MWh)</i>	<i>Cleared MW</i>	<i>Clearing Price (\$/MWh)</i>	<i>Winning Bidders</i>	<i>Total Number of Bidders</i>	<i>Winning Offerors</i>
5/12/2015	7						31.94			
5/13/2015	19						41.59			
5/13/2015	20						41.85			
5/13/2015	21						41.93			
5/22/2015	22						25.44			
5/24/2015	23						18.70			
5/24/2015	24						19.82			
6/16/2015	3						20.84			
6/17/2015	7						29.52			
6/18/2015	7						28.69			
6/18/2015	23						22.00			
6/28/2015	4						10.00			
6/30/2015	7						26.47			
7/10/2015	16						50.00			
7/10/2015	17						26.61			
7/10/2015	18						38.63			
8/7/2015	16						32.00			
9/11/2015	15						37.00			
9/11/2015	17						35.24			
9/29/2015	2						22.78			
9/29/2015	4						22.36			
10/18/2015	8						28.57			
11/1/2015	7						19.82			
11/6/2015	12						38.00			
11/16/2015	5						20.34			
2/11/2016	8						40.18			
2/23/2016	14						18.96			
2/23/2016	15						18.75			
2/23/2016	17						19.38			
2/24/2016	9						18.57			
2/24/2016	10						19.03			
2/24/2016	11						19.13			
3/2/2016	15						18.56			
3/2/2016	16						18.62			
3/4/2016	16						18.22			
4/14/2016	13						20.96			
4/14/2016	15						28.00			
4/14/2016	18						30.39			
4/14/2016	22						32.07			

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III. Energy Auction Offerors

Table 3 lists the 26 registered Auction Participants for both the HAE and the DAE auctions. In Year 7, three new Auction Participants were added: PowerSouth Energy Cooperative, Brookfield Energy Marketing LP, and Cooperative Energy, Inc.⁴

Table 3
Registered Auction Participants during the Review Period

<i>Company Acronym</i>	<i>Company Name</i>
SOCO	Southern Company Services, Inc.
AEC	PowerSouth Energy Cooperative
AECI	Associated Electric Cooperative, Inc.
AEM	ArLight Energy Marketing, LLC
BMLP	Brookfield Energy Marketing LP
CALPINE	Calpine Energy Services, LP
CARGILL	Cargill Power Markets, LLC
CONOCO	ConocoPhillips Company
CCG	Constellation Energy Commodities Group
COEI	Cooperative Energy, Inc.
CPLC	Progress Energy Carolinas, Inc.
DUK	Duke Energy Carolinas, LLC
EDF	EDF Trading North America, LLC
FEMT	BNP Paribas Energy Trading GP
FPC	Progress Energy Florida, Inc.
JPMVEC	JP Morgan Ventures Energy Corporation
MLCI	Merrill Lynch Commodities, Inc.
OPC	Oglethorpe Power Corporation
PPL	PPL EnergyPlus, LLC
REMC	Rainbow Energy Marketing Corporation
SCEG	South Carolina Electric & Gas Company
TEA	The Energy Authority
TNSK	Tenaska Power Services Co.
TVA	Tennessee Valley Authority
UPP	Union Power Partners, LP
WRGS	Westar Energy, Inc.

Four participants (SCS, [REDACTED], [REDACTED], [REDACTED]) offered hour-ahead energy in the HAE auction. This is the same number as in Year 6, though not all the same participants. Third-party participants offered energy into a total of [REDACTED] HAE auctions (about [REDACTED] of the 8,784 HAE auctions), which is

⁴ Note also that the acronyms have changed for several of the registered Auction Participants: Constellation was previously CONSTELL; Progress Energy Carolinas was CPL; Merrill Lynch was MERRILL; and Westar was WRI.

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double the number of auctions with third-party bids observed in Year 6. Three participants, including SCS, offered Firm-LD Energy in at least one DAE auction, and SCS and one other participant offered Recallable Energy; both these numbers are unchanged from Year 6. Third-party participants submitted offers into a total of [REDACTED] out of 256 Firm-LD DAE auctions ([REDACTED]) and [REDACTED] out of 256 Recallable DAE auctions ([REDACTED]). SCS offered energy into all of the HAE and DAE auctions, as it is required to do, with the exception of three HAE auctions; these are discussed further in Section VI.

Table 4 shows the corresponding amounts of energy offered into the HAE and DAE auctions by each participant. Across all the auctions, 50.4 TWh of energy were offered, virtually the same amount of energy as offered in Year 6.

SCS accounted for the vast majority of offered energy in each of the auctions—over 99.8%, across both the DAE and HAE auctions. As in Year 6, there were three third-party offerors in the DAE auction and three in the HAE auction. The average amount of energy offered into the DAE auctions was [REDACTED] of Firm-LD, and [REDACTED] of Recallable Energy; in Year 6, the averages were similar at [REDACTED] and [REDACTED], respectively. For the HAE auction, an average of [REDACTED] was offered, also similar to the Year 6 average ([REDACTED]).

Table 4
Cumulative Quantity of Energy Offered in DAE and HAE Auctions (MWh)

Participant	HAE		DAE			
			Firm LD	Recallable		
SOCO	33,999,223	(100.0%)	11,033,600	(99.5%)	5,328,000	(99.6%)
[REDACTED]						

* Figures in parentheses show percent of total energy offered

IV. Energy Auction Bidders

Table 5 shows the MWh quantities of energy bids by each participant in the HAE and DAE auctions. SCS and four others bid into the HAE auction. Third-party participants bid into HAE auctions (about [redacted] of all HAE auctions), a 50% increase relative to Year 6. Participation by SCS as a bidder increased with SCS placing bids in almost [redacted] of HAE auctions (up from [redacted] in Year 6). In the DAE auctions, four participants (including SCS) bid into at least one Firm-LD auction, and no participants placed bids for Recallable Energy. The total number of DAE auctions with third-party bids decreased to [redacted] in Year 7, from [redacted] in Year 6.

Across all the auctions, approximately 3.8 TWh of energy bids were submitted, with [redacted] of this volume submitted through the HAE auctions. SCS accounted for [redacted] of bid volume in the DAE auctions, and over [redacted] of all bids in the HAE auctions. The average amount of energy bid into the Firm-LD DAE auctions was [redacted], slightly more than the [redacted] in Year 6. For the HAE auction, the average amount of bids was [redacted], up from [redacted] in Year 6—this is a [redacted], and increased third-party participation.

Table 5
Cumulative Quantity of Energy Bids in DAE and HAE Auctions (MWh)

Participant	HAE	DAE	
		Firm LD	Recallable
Total	3,191,492	635,200	0

* Figures in parentheses show percent of total energy bid

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V. Changes in Auction Verification Processes and Protocols

Our processes and accompanying “tools” that make the needed calculations to validate Available Capacity, Seller Offer Prices, and the clearing price for each Auction are set forth in our protocols. These protocols were created and tested during the initialization phase of our monitoring assignment, prior to the start of the Auction, and have been updated as needed to reflect new information, changes, and improvements. The current versions of our 10 protocols are shown in Appendix A. They include:

Protocol I — Monitoring of SCS’s daily load forecasts

Protocol II — Monitoring of SCS’s daily load forecast uncertainty (“LFU”) calculations

Protocol III — Monitoring SCS’s bilateral transactions into Southern during the Energy Auction bid periods

Protocol IV — Monitoring of SCS’s unit outage data

Protocol V — Verifying DAE Available Capacity calculations and the associated Seller Offer Prices (“SOP”), as well as the final SOP curve submitted to OATI

Protocol VI — Verifying the HAE Residual Supply Curve (“RSC”) calculations and the associated SOPs, as well as verification of the final SOP curve submitted to OATI

Protocol VII — Verifying SCS’s compliance with the Tariff regarding the treatment of cleared Recallable Energy, when applicable

Protocol VIII — Verifying Energy Auction clearing, when applicable

Protocol IX — Assessing availability of transmission services for energy sold in the Energy Auction

Protocol X — Monitoring of third-party Energy Auction Participants

Our protocols are living documents that are modified as needed. In Year 7, there was one change to our protocols, as summarized in Table 6. Only this single change to our protocols during the current review period is discussed here.

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Table 6
Summary of Changes to IAM Protocols in Year 7

<i>Protocol</i>	<i>Changes in Year 7</i>
I. Load Forecasting	No changes
II. Load Forecasting Uncertainty	Updated LFU percentages
III. Purchases and Sales	No changes
IV. Outages	No changes
V. DAE Available Capacity and SOP Verification	No changes
VI. HAE Available Capacity and SOP Verification	No changes
VII. Recallable Energy Verification	No changes
VIII. Auction Clearing Price Verification	No changes
IX. Assessment of Transmission Services for Energy Auction Purchases	No changes
X. Monitoring of Third Party Participants	No changes

Protocol II— Load Forecast Uncertainty Protocol

As in previous years, SCS performed an annual revision of LFU percentage values for use in the DAE auction, taking effect on October 1, 2015. We independently verified these values, which are summarized in Appendix C, and have incorporated them into our daily monitoring.

VI. Results of Monitoring

During the current review period, our daily and periodic monitoring activities revealed four instances of non-compliance. These are summarized in Table 7 below, grouped into three types: one prohibited bilateral sale, two events that resulted in the failure to offer energy in three HAE auctions, and one event related to the use of outdated contingency curve data to prepare the submission of offers into the HAE auction when more recent data was available. SCS offered energy into all but three HAE auctions (included in the table and discussion below), and offered into all DAE auctions.

In this review period, we observed a similar number of non-compliant events relative to Year 6—four in this review period, versus three in the previous period. The continued low frequency of non-compliant events may reflect learning and improvements made by SCS over time to the processes used in the determination of Available Capacity and submission of offers into the Auction.

In an effort to promote participation in the Energy Auction, on November 5, 2015 Southern Companies held the Energy Auction Fall Forum in Atlanta, GA. In addition to providing an overview of the Energy Auction, Southern Companies solicited input regarding additional features, products, and enhancements to increase participation in the Auction.

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Table 7
Instances of Non-Compliance in Year 7

<i>Type of Issue</i>	<i>Period Affected</i>
Prohibited bilateral sale into Southern in June 2015	HAE auction for [REDACTED]
Failed HA Offer Curve submissions in November 2015 (two events affecting three auctions)	HAE auctions for 11/3/2015 HE3 and HE4, and 11/10/2015 HE12
Use of outdated contingency curve information for submission of offers into OATI in December 2015, when more recent information was available	HAE auction for 12/15/2015 HE21

In the next section we briefly describe each non-compliant event. For more detail on these issues, see the issue tracking forms included in Appendix B. We note that for two of these issues, SCS did not agree that they constituted instances of non-compliance with the Tariff and as a result, did not post Auction Compliance Disclosures for these issues. This is discussed in more detail in the following section. None of the instances described below affected the outcome of the auction(s) involved.

A. NON-COMPLIANT EVENTS

The first non-compliant event involved a bilateral sale into the Southern Balancing Authority Area (“BAA”) that was conducted outside of the Energy Auction. On June 17, 2015, SCS entered into a bilateral transaction to sell power for delivery into the Southern BAA beginning at [REDACTED] on that day. The deal took place at [REDACTED], during the prohibited auction window for the delivery hour in question. This deal was part of a transaction that involved power delivery for two consecutive hours, with the same MWh quantity but different prices for each hour. In the course of the investigation, Brattle reviewed the trade recording and concluded that although the transactions for [REDACTED] were negotiated on the same telephone call, their prices were negotiated separately. SCS maintained that the sale in question did not constitute a prohibited transaction, viewing it as a single multi-hour deal, which is not prohibited by the Tariff. However, Brattle interprets a multi-hour deal to be a transaction in which both the MWh amount and the price are negotiated together and are the same for each hour. Because the prices for each of the hours differed and were negotiated separately in this instance, Brattle considers these to be two different deals rather than a single multi-hour deal. Because SCS did not consider this event to be a violation of the Tariff, SCS did not post an Auction Compliance Disclosure on its website for this event.

The next two non-compliant events in Year 7 involved two separate events on different flow dates in November 2015, in which SCS failed to submit offer curves for a total of three HAE auctions. In the first event, on November 3, 2015, SCS failed to submit offers in the HAE auction for HE3 and HE4 of that day. This resulted from an administrative oversight whereby the password used in the automated process of offer submission was allowed to expire. Immediately upon recognizing that this had occurred, SCS re-set the relevant password and was able to submit offers beginning on HE5. The outcomes of these two auctions were unaffected, because there

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were no third-party buy bids in either of them. In a separate event, on November 10, 2015, SCS experienced an unplanned network outage related to a failed firewall that prevented the submission of offers for HE12 of the HAE auction on that day. While there was one third-party bid in this hour's auction, Brattle confirmed that this bid was lower in price than the SOP cap of the lowest-priced MW that would have been made available in the hour in question. It was also below what the offer would have been with SCS's voluntary discount of \$21.43/MWh, and so Brattle concludes that the outcome of the auction was unaffected by this failure to submit an offer curve.

The fourth non-compliant event consisted of the use of data from an outdated contingency curve as the basis for SCS's offer submission into the Auction, when more recent data, generated approximately one hour later, was available. SCS explained that the Hour-Ahead curve it used for its offer for December 15, 2015 HE21 was based on an out-of-date model run due to loss of network connectivity on the computer that was used to make offer submissions. Brattle interprets that the Tariff requires SCS to base its submissions to OATI on the most recent information available, consistent with the views expressed in past annual reports.⁵ Brattle recognizes the importance of contingency curves to the Energy Auction and of course, submissions based on a contingency curve are appropriate when more recent data is unavailable. However, we believe that basing the OATI offer curve on contingency curve data when more recent data is available is non-compliant, even when, as appears to be the case here, it is inadvertent. We note that SCS did not believe this to constitute a non-compliant event, and thus did not post an Auction Compliance Disclosure for this event on its website.

B. MONITORING OF DISCOUNTING

In Year 7 we have continued to monitor SCS's compliance with its policy of offering a voluntary discount of \$21.43/MWh (the demand charge) for all the energy it offers into the Auction. During the entire seventh annual review period, SCS has complied with this voluntary discounting policy, discounting all the energy it offered into the DAE and HAE auctions by at least \$21.43 (in some cases by a few cents more, up to \$21.47). This is consistent with the discounting that occurred for the part of the previous review period that followed the September 4, 2014 implementation of the voluntary discounting policy. Since its implementation, [REDACTED]

C. MONITORING OF AUCTION SPREAD POSTING

We have continued to monitor SCS' voluntary Auction Spread posting policy in Year 7. Our analysis indicates that none of the HAE or DAE auctions have had both the 3 unique bidders and

⁵ See Second Annual Report of the Independent Auction Monitor at 60-61, Docket No. ER09-88-000 (filed Apr. 25, 2011) (Privileged Version).

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3 unique offerors that are required for the spread to actually be posted. Since the circumstance never arose in which the spread should have been posted (and in fact the spread never was posted), SCS is in compliance with this voluntary posting policy.

VII. Legal Advisor's Report on Compliance with Data Restrictions

The law firm of Van Ness Feldman, LLP reviewed compliance with the Tariff's data restrictions related to confidential bid and offer information, and reports on its review in this Section.

The Tariff's data restrictions related to the Energy Auction are contained in the Auction Rules and the Participation Rules. The current versions of these rules became effective on April 26, 2011,⁶ and covered the entire review period of April 24, 2015 through April 23, 2016.

A. TARIFF REQUIREMENTS ON HANDLING OF BID AND OFFER INFORMATION

The Tariff contains express requirements on the handling of third-party bid and offer information. Bid Information is defined as “[t]he prices, terms, and conditions under which a Bidder offers to purchase Energy through the DAE Auction or HAE Auction.”⁷ Offer Information is defined as “[t]he prices, terms, and conditions under which an Offeror offers to sell Energy through the DAE Auction or HAE Auction.”⁸

The Tariff provides that the Southern Companies' Auction Administrator (“Southern Auction Administrator”) may only access confidential third-party bid or offer information under prescribed circumstances, and may only use such information for auction administration or audit purposes.⁹ Only employees in one of the positions specified in the Tariff may serve as Southern Auction Administrator.¹⁰

The Southern Auction Administrator may access confidential third-party bid or offer information as follows:

- (b) Southern Companies, through the Auction Administrator, shall retain the right to access Bid Information, Offer Information, and other transaction-related information of Energy Auction Participants other than Southern Companies to the extent such access is necessary to respond to questions or complaints about a

⁶ Letter Order at 2, Docket No. ER11-3429-000 (issued Apr. 2, 2012).

⁷ Auction Rules § 2.4.

⁸ *Id.* § 2.41.

⁹ *Id.* § 3.5 (“All Bid Information and Offer Information submitted to the Auction Administrator shall be used by the Auction Administrator only for auction administration and audit purposes.”).

¹⁰ Participation Rules § 2.1.

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particular Auction or to comply with the posting requirements of Section 4.2.4¹¹ of the Auction Rules.¹²

Section 2.1B of the Participation Rules further requires that:

(d) Any information accessed by Southern Companies' Auction Administrator personnel pursuant to Section 2.1B(b) will be stored in a secure physical or electronic location. Southern Companies will report any such access: (a) to the Independent Auction Administrator promptly upon its occurrence and (b) to the Independent Auction Monitor within one (1) business day of its occurrence. The Independent Auction Administrator will document any such access and maintain related documentation.¹³

The Participation Rules contain the following additional requirements with respect to access to confidential bid and offer information:

2.2 Those employees of Southern Companies directly engaged in wholesale electricity marketing and trading shall not have access to Bid Information or Offer Information for any purpose (except to the extent such information is made available pursuant to Auction Rules Section 4.2.4).

...

2.3 In order to ensure that Bid Information and Offer Information is maintained in a manner consistent with the foregoing paragraphs, Southern Companies shall impose internal data control restrictions consistent with those used for Standards of Conduct compliance.¹⁴

B. SEVENTH ANNUAL REVIEW

Van Ness Feldman's annual review for this review period was conducted in May and June of 2016. In conducting this review, Van Ness Feldman propounded written inquiries and requests for documents. In addition to reviewing documents and written responses to questions produced by SCS, Van Ness Feldman conducted telephone interviews with the two SCS employees who served in the role of Southern Auction Administrator during the review period. Van Ness Feldman also conducted a phone interview with representatives of TranServ International, Inc. ("TranServ"), the Independent Auction Administrator. The TranServ personnel interviewed were

¹¹ Section 4.2.4 of the Auction Rules provides for the Auction Administrator to post each month all bid and offer information for the month six months prior, subject to protecting confidentiality of the identity of the offerors and bidders. Auction Rules § 4.2.4.

¹² Participation Rules § 2.1B(b).

¹³ *Id.* § 2.1B(d).

¹⁴ *Id.* §§ 2.2-2.3.

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the company's president and one of the two engineers who have responsibility for the independent auction administrator functions.

SCS has been fully cooperative during this annual review, answering questions and providing documents, making its employees available for interview, and timely providing follow-up information. TranServ has also been cooperative in making representatives available for interview.

C. FINDINGS

The review conducted by Van Ness Feldman found that SCS has been diligent in its efforts to comply with the Tariff's requirements related to confidential bid and offer information. Findings on specific Tariff requirements are detailed below.

1. Position of Auction Administrator

The Tariff provides that only employees holding specific positions listed in Section 2.1 of the Participation Rules may serve as Southern Auction Administrator. During the review period, two SCS employees were designated as Southern Auction Administrators. Specifically, one SCS employee served as the primary Southern Auction Administrator and the second served as the back-up Southern Auction Administrator. Each of the Southern Auction Administrators holds a position listed in Section 2.1: one is a Contract Analyst, and the other is a Pool Bill Operations Supervisor.

2. Access to Confidential Bid and Offer Information

The Tariff provides that “[a]ll Bid Information and Offer Information submitted to the Auction Administrator shall be used by the Auction Administrator only for auction administration and audit purposes.”¹⁵ The Participation Rules further provide that Southern Companies, through the Southern Auction Administrator, may access confidential third-party bid or offer information “to respond to questions or complaints about a particular Auction or to comply with the posting requirements of Section 4.2.4 of the Auction Rules,” the provision relating to publicly posting certain bid and offer information after six months.¹⁶ SCS reported that the only handling of confidential third-party bid or offer information during the review period was in connection with the monthly receipt and posting of bid and offer information from the sixth month prior.

Consistent with the revised Procedures for Southern Company Energy Auction Administration dated July 18, 2014, neither Southern Auction Administrator had an Auction Administrator user ID for webMarket during the review period.¹⁷ Instead, under the revised procedures, in the event

¹⁵ Auction Rules § 3.5.

¹⁶ Participation Rules § 2.1B(b).

¹⁷ “webMarket” is the software program through which the Auction is administered. Numerous SCS marketing and trading employees use webMarket in connection with Southern Companies’

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the Southern Auction Administrator needed to access third-party confidential bid and offer information, the Southern Auction Administrator would have to request a temporary Auction Administrator user ID from the Independent Auction Administrator. The Southern Auction Administrators reported that they had made no request for a temporary user ID, and TransServ confirmed that it had not issued a temporary Auction Administrator user ID during the review period. Both of the Southern Auction Administrators have webMarket user status as Buyer Company Administrator/Buyer Security Administrator/Seller Company Administrator/Seller Security Administrator, which permits them to access Southern Companies' confidential bid and offer data, but not the bid and offer data of third parties.

Section 2.1B(d) of the Participation Rules provides that instances in which a Southern Auction Administrator has accessed confidential bid or offer information must be reported “(a) to the Independent Auction Administrator promptly upon its occurrence and (b) to the Independent Auction Monitor within one (1) business day of its occurrence.”¹⁸ There were no such reports made under Section 2.1B(d) during the review period.

While the confidential version of the annual report submitted by the Independent Auction Monitor in June 2015 contained limited third-party bid and offer information, the only portions of the draft of that report reviewed by the Southern Auction Administrator did not include confidential data. SCS's outside counsel did review the entire draft of the confidential version of the report for accuracy and completeness.

The Tariff requires that SCS post, by the end of each month, bid and offer data (without identification of the bidder or offeror) for the sixth month prior.¹⁹ The Independent Auction Administrator assembles this data, and conveys it to the Southern Auction Administrator on or about the 23rd of each month. The information provided is promptly conveyed by the Southern Auction Administrator to the SCS employee who posts the data, and is typically posted on the same day it is received by the Southern Auction Administrator.²⁰ Southern Auction Administrator access to data for this purpose is expressly allowed under the Tariff.²¹

Continued from previous page

participation in the Auction. An SCS user of webMarket would be able to access confidential bid or offer information of a third party only if the user had “Auction Administrator” rights.

¹⁸ Participation Rules § 2.1B(d).

¹⁹ Auction Rules § 4.2.4.

²⁰ Historical bid and offer information is posted on the Southern Company website. Southern Company, Historical Bids and Offers, <http://www.southerncompany.com/about-us/our-business/energy-auction/historical.cshhtml> (last visited June 9, 2016).

²¹ Participation Rules § 2.1B(b). This routine access has not been specifically reported under Section 2.1B(d) of the Participation Rules.

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3. Secure Storage of Confidential Bid and Offer Information

Confidential bid or offer information accessed by the Southern Auction Administrator must be “stored in a secure physical or electronic location.”²² SCS reports that while there is a designated, physically-secure location for the storage of confidential bid and offer information, physical records have not been created.

SCS reports that it currently has no electronic records of confidential third-party bid or offer data.

4. Prohibition on Marketing and Trading Employee Access to Confidential Bid and Offer Information

The Tariff provides that “[t]hose employees of Southern Companies directly engaged in wholesale electricity marketing and trading shall not have access to Bid Information or Offer Information for any purpose (except to the extent such information is made available to Auction Participants pursuant to Section 4.2.4).”²³ Van Ness Feldman interviewed the two Southern Auction Administrators, reviewed emails from the Southern Auction Administrators to SCS marketing employees during two one-month sample periods, and reviewed a listing of the webMarket access rights available to all Southern Companies employees. Van Ness Feldman found no evidence that SCS marketing or trading employees received third-party bid or offer information in violation of the Tariff, or that they had improper access to such information.

5. Other Internal Data Control Restrictions Consistent with Standards of Conduct

The Tariff provides that “[i]n order to ensure that Bid Information and Offer Information is maintained in a manner consistent with the [Tariff], Southern Companies shall impose internal data control restrictions consistent with those used for Standards of Conduct compliance.”²⁴

Access to third-party bid and offer data on the webMarket system is available only to those individuals who are designated on webMarket as Auction Administrators (or Independent Auction Monitors). Neither Southern Auction Administrator was designated as Auction Administrator on the webMarket system during the review period.

As described above, SCS has retained no third-party bid and offer information in physical or electronic form.

The assignment of many auction administration functions to an Independent Auction Administrator operating from access-restricted offices in Minneapolis, Minnesota, has

²² *Id.* § 2.1B(d).

²³ *Id.* § 2.2.

²⁴ *Id.* § 2.3.

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substantially reduced any risk of inadvertent disclosure to SCS marketing or trading employees. The only handling of confidential third-party bid and offer information by the Southern Auction Administrators during the review period was related to receipt of historical bid and offer information from the Independent Auction Administrator and forwarding of that information for posting.

The Southern Auction Administrators' work space is located in a badge-access restricted space to which marketing function personnel do not have access.

The Southern Company Auction Administrator Protocol provides that “[t]he Auction Administrator and all personnel undertaking wholesale electricity marketing and trading activities for Southern Companies shall be familiar with this Auction Administrator Protocol and the data control restrictions set forth in this section.”²⁵ Our interviews with the Southern Auction Administrators indicated that they are well versed in the data control restrictions.

Van Ness Feldman found that the actions outlined above are reasonable steps to ensure that marketing function employees do not have access to third-party bid and offer information, consistent with the requirements of Section 2.3 of the Participation Rules.

6. Summary of Findings

Based on its review, Van Ness Feldman found that SCS has been diligent in its efforts to comply with the Tariff requirements related to safeguarding confidential bid and offer information. Van Ness Feldman further found no evidence that SCS marketing function employees had any improper access to confidential bid or offer information during the review period.

VIII. Conclusion

We have monitored SCS's participation in the Energy Auctions and compliance with the Tariff during the seventh annual review period, April 24, 2015 through April 23, 2016. This report documents each instance during the review period where we have found that SCS's administration of the Energy Auctions and its offers into the Energy Auctions did not occur in full compliance with the Tariff. To the best of our ability to ascertain, and with the specific exceptions identified in this report, we have found that SCS has complied with the requirements of the Tariff throughout the review period. We have found no evidence that SCS has attempted to evade the Tariff requirements or compromise the Energy Auction's performance, either intentionally or through negligence, and we found that SCS has complied with the voluntary discounting policy it implemented in Year 6. The frequency of non-compliant events in Year 7 is comparable to the prior review period, with both of these being lower than in some earlier review periods. This may reflect learning and improvements made by SCS over time that reduce the rate of inadvertent non-compliance. We found no evidence of attempts to manipulate the

²⁵ Southern Company, Energy Auction: Auction Administrator Protocol § 1.3 (undated).

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Auctions or other questionable behavior by any Auction Participant, nor did we receive any complaints regarding the availability or the terms of transmission service needed to accommodate an Energy Auction purchase. Van Ness Feldman's review of compliance with the Tariff's data restrictions found that SCS has been diligent in its efforts to comply with the Tariff requirements related to safeguarding confidential bid and offer information, and further found no evidence that SCS marketing function employees had any improper access to confidential bid or offer information during the review period. Lastly, we did not receive any complaints relating to the Energy Auctions or discover other serious matters that would have prompted an interim report to the Commission.

SCS has provided the data and information necessary for us to adequately monitor its participation in the Energy Auctions, and has given us access to its personnel as we have requested. Those instances identified in this report where SCS did fail to comply fully with specific Tariff provisions appear to be the result of unintentional technical and administrative errors or system failures. It is probably unrealistic to expect that a complex administrative process such as the Energy Auction, which is overlaid on the even more complex process of managing SCS's power system, could be implemented perfectly, without any errors.

At SCS's request, we have continued to monitor compliance with its voluntary policy of offer discounting, and found that SCS has discounted all energy offered into the DAE and HAE auctions by at least \$21.43/MWh, in accordance with the policy. With respect to posting the bid-offer spread, the circumstances did not arise in which the spread should have been posted, and thus we find that SCS is in compliance with this voluntary policy.

Auction participation by third parties, both as bidders and offerors, is generally similar to that observed in recent review periods, though still relatively low. HAE participation is up since the previous year, with third-parties participating in 2–3% of HAE auctions as both bidders and offerors. In the DAE auction, the number of third-party bids decreased relative to Year 6, while the number of third-party offers rose. A total of 39 HAE auctions cleared in Year 7, less than 0.5% of all HAE auctions, and down from 62 in Year 6, though this is still significantly higher than in Years 1 through 5. No DAE Auctions cleared in Year 7, the same as Year 6.

Since the sixth annual report, our basic monitoring philosophy and practices have not changed, though we have continued to update our monitoring process to improve the quality of monitoring and streamline the workflow, and to accommodate changes in SCS's processes and the Commission's guidance. We appreciate the Commission's continued confidence in our role as the IAM, and we look forward to receiving the Commission's feedback and guidance in the coming year.

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APPENDIX A**IAM PROTOCOLS**

This appendix contains our complete set of protocols. IAM protocols are living documents that are updated periodically as we gain experience in our monitoring role. This appendix includes the current version of each protocol, but we keep older versions on file, and will be able to provide them to the Commission, if requested.

Protocol I – Load Forecasting.....	A-1
Protocol II – Load Forecast Uncertainty	A-8
Protocol III – Purchases and Sales	A-14
Protocol IV – Outages.....	A-23
Protocol V – Day-Ahead Available Capacity and Seller Offer Prices Verification.....	A-27
Protocol VI – Hour-Ahead Available Capacity and Seller Offer Prices Verification	A-37
Protocol VII – Recallable Energy Verification.....	A-43
Protocol VIII – Auction Clearing Price Verification.....	A-50
Protocol IX – Assessment of Transmission Services for Energy Auction Purchases.....	A-58
Protocol X – Monitoring of Third Party Participation in the Southern Company Energy Auction	A-59

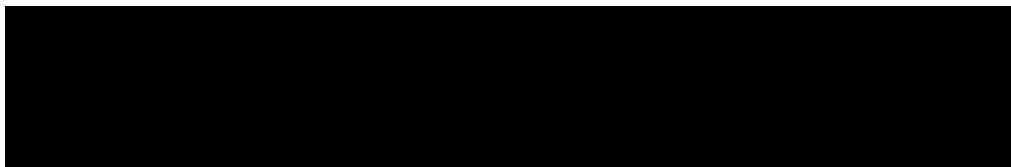
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APPENDIX B

IAM ISSUE TRACKING FORMS

I. NON-COMPLIANT EVENTS

 B-1
 B-2
 B-3
 B-4

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APPENDIX C

LOAD FORECASTING UNCERTAINTY PERCENTAGES

This appendix contains the load forecast uncertainty average and maximum percentages calculated by SCS. These numbers were updated and the new load forecast uncertainty numbers were implemented in [REDACTED] for flow date [REDACTED] onwards.

Original Average LFU Percentages
(Used through DAE delivery day [REDACTED])

	DA0	DA1	DA2	DA3	DA4	DA5	DA6	DA7
Jan								
Feb								
Mar								
Apr								
May								
Jun								
Jul								
Aug								
Sep								
Oct								
Nov								
Dec								

Updated Average LFU Percentages
(Used from DAE delivery day [REDACTED])

	DA0	DA1	DA2	DA3	DA4	DA5	DA6	DA7
Jan								
Feb								
Mar								
Apr								
May								
Jun								
Jul								
Aug								
Sep								
Oct								
Nov								
Dec								

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Original Maximum LFU Percentages
 (Used through DAE delivery day [REDACTED])

	DA0	DA1	DA2	DA3	DA4	DA5	DA6	DA7
Jan								
Feb								
Mar								
Apr								
May								
Jun								
Jul								
Aug								
Sep								
Oct								
Nov								
Dec								

Updated Maximum LFU Percentages
 (Used from DAE delivery day [REDACTED])

	DA0	DA1	DA2	DA3	DA4	DA5	DA6	DA7
Jan								
Feb								
Mar								
Apr								
May								
Jun								
Jul								
Aug								
Sep								
Oct								
Nov								
Dec								

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Exhibit B

Explanation for Redactions in Public Version of the Independent Auction Monitor's Annual Informational Report

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Exhibit B**EXPLANATION FOR REDACTIONS IN PUBLIC VERSION OF THE
INDEPENDENT AUCTION MONITOR'S ANNUAL INFORMATIONAL REPORT**

The table below provides justifications for the redactions of confidential and privileged information that have been made to the public version of the Report. In the first column of the table, Southern Companies have grouped the justifications for confidential and privileged treatment into five categories. In the second column, Southern Companies have listed the Report page numbers that contain such information. Because confidential and privileged information permeates virtually all aspects of the Appendices, Brattle and Southern Companies agreed that those portions of the Report should be redacted in their entirety.

In developing this table, Southern Companies have endeavored to provide the requisite specificity expected by the Commission for assertions of privileged and confidential treatment. Should the Commission have any question regarding the information contained in this table or its application to the public version of the Report, or if the Commission desires further clarification or elaboration as to any of the justifications described, Southern Companies welcome the opportunity to assist.

Justification for privileged treatment under 18 C.F.R. §§ 388.107 and 388.112	Page of Report
Release of data/information could constitute a violation of the Commission's market-based rate affiliate restrictions and the Separation of Functions and Communications Protocol applicable to Southern Power Company and its subsidiaries, as set forth in Southern Companies' market-based rate tariff.	
Data reflects system forecast, planning, generator or other equipment-specific information, which are commercially valuable, necessary to Southern Companies' participation in the marketplace, not yet public, and the release of which could give others in the marketplace a competitive advantage against Southern Companies, to the detriment and harm of their retail customers.	Appendix A, Appendix B, Appendix C
Data reflects Energy Auction bid and/or offer information and related non-public Energy Auction information related to one or more Energy Auction participants (including Southern Companies), which are commercially valuable and not yet public, which could be used to the competitive disadvantage of Energy Auction participants, and which Southern Companies are obligated to keep confidential in accordance with their market-based rate tariff and applicable orders of the Commission regarding the Energy Auction.	2, 3, 4, 5, 6, 9, 10

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Justification for privileged treatment under 18 C.F.R. §§ 388.107 and 388.112	Page of Report
Data/information reflects generator reference prices and generator-specific cost and/or cost inputs, which are commercially valuable, necessary to Southern Companies' participation in the marketplace, not yet public, and the release of which could give others in the marketplace a competitive advantage against Southern Companies, to the detriment and harm of their retail customers.	Appendix B
Data/information reflects Southern Companies' internal, trade secret and proprietary systems and processes and other intellectual property, which are commercially valuable, necessary to Southern Companies' participation in the marketplace, not yet public, and the release of which could give others in the marketplace a competitive advantage against Southern Companies, to the detriment and harm of their retail customers.	Appendix A, Appendix C

Document Content(s)

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