

The Brattle Group

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June 28, 2013

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LONDON

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

MADRID

ROME

RE: *Southern Company Services, Inc.*, Docket No. ER09-88-000
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 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. The Annual Informational Report is submitted with our best efforts, as economists, to serve the purpose of the IAM as articulated in the 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 Southern Companies join in this request for confidential and privileged treatment. A justification for the redactions in the public version of the 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:

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

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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/Peter S. Fox-Penner
Peter Fox-Penner

Attachments

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

Exhibit A

Independent Auction Monitor's Annual Informational Report

(Public Version—Redacted)

The Brattle Group

Informational Report for The Southern Companies' Energy Auction April 24, 2012 to April 23, 2013

Submitted by
The Brattle Group
Independent Auction Monitor

June 28, 2013

Prepared for
The Federal Energy Regulatory Commission

**Informational Report
for
The Southern Companies' Energy Auction
April 24, 2012 to April 23, 2013**

Docket No. ER09-88-000

June 28, 2013

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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.*

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I. INTRODUCTION AND OVERVIEW

This is the fourth annual report reviewing the Southern Companies’¹ 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,” “SOCO,” or “the Company”). It has been prepared by *The Brattle Group (Brattle)*, which serves as the Independent Auction Monitor (IAM). SCS is voluntarily providing this annual informational report to the Federal Energy Regulatory Commission (“FERC” or “Commission”). 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 auction monitor 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 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, 2012 through April 23, 2013.³ The rest of the report consists of Sections II through VIII, and is organized as follows. Section II summarizes the clearing price of each cleared Firm LD and Recallable DAE auction, and each cleared HAE 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 since the third Annual Report, including the protocols we follow in monitoring the auctions. Section VI summarizes the instances in which SCS did not

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 4,” and to the previous review period, covering the period from February 16, 2011 through April 23, 2012, as “Year 3.”

fully comply with the Tariff. Section VII contains the summary report of the IAM’s legal advisor, Van Ness Feldman, LLP, 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. We also 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. Based on its review, Van Ness Feldman found that the SCS Auction Administrator has continued to be diligent in his efforts to comply with the requirements related to confidential bid and offer information contained in the Tariff, and further found no evidence that SCS marketing function employees had any improper access to confidential bid or offer information. 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, one DAE auction cleared (*i.e.*, matched at least one buyer’s bid with at least one seller’s offer), for Firm LD Energy, as described in Table 1. A total of 1.6 GWh cleared through the DAE auction (compared to 11.2 GWh in Year 3), transacting [REDACTED] at a clearing price of \$30.00/MWh. There [REDACTED] in this cleared DAE auction.

Table 1
DAE Cleared Auctions: Clearing Price and Quantity

<i>Delivery Date</i>	<i>Product</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>
1/8/2013	Firm LD	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	30.00	[REDACTED]	[REDACTED]	[REDACTED]

No Recallable or HAE auctions cleared during the current review period.

III. ENERGY AUCTION OFFERORS

Table 2 lists the 23 registered Auction participants (unchanged from Year 3) and the number of auctions in which each participant submitted an offer during the review period, for both the HAE and the DAE auctions.

Only SCS offered hour-ahead energy in the HAE auction, compared with three participants in Year 3. As in Year 3, two participants, including SCS, offered Firm LD Energy in at least one

DAE auction. Only SCS offered Recallable Energy during the review period, the same as in Year 3.

Table 2
Registered Auction Participants

<i>Company Acronym</i>	<i>Company Name</i>
AECI	Associated Electric Cooperative, Inc.
AEM	ArcLight Energy Marketing, LLC
CALPINE	Calpine Energy Services, L.P.
CARGILL	Cargill Power Markets, LLC
CONOCO	ConocoPhillips Company
CONSTELL	Constellation Energy Commodities Group
CPL	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
MERRILL	Merrill Lynch Commodities Inc.
OPC	Oglethorpe Power Corporation
PPLE	PPL EnergyPlus, LLC
REMC	Rainbow Energy Marketing Corporation
SCEG	South Carolina Electric & Gas Company
SOCO	Southern Company Services, Inc.
TEA	The Energy Authority
TENASKA	Tenaska Power Services Co.
TVA	Tennessee Valley Authority
UPP	Union Power Partners, LP
WRI	Westar Energy, Inc.

Table 3 shows the corresponding amounts of energy offered into the HAE and DAE auctions by each participant. Across all the auctions, approximately 49.3 TWh of energy was offered, which is less than half the amount of energy (106.2 TWh) offered in Year 3. The total amount of offered energy decreased from prior years primarily as the result of SCS introducing a new system ramping limit in the DAE auction, and lowering the existing ramping limit in the HAE auction in May 2012.⁴ Since the implementation of the new system ramping limit, total capacity offered in each HAE and DAE auction has been limited to [REDACTED].

SCS accounted for the vast majority of offered energy in each of the auctions — over 99.9% of both the DAE and HAE offered energy. The average amount offered into the DAE auctions was [REDACTED] of Firm LD, and [REDACTED] of Recallable Energy. In Year 3, SCS offered on average [REDACTED] of Firm LD and [REDACTED] of Recallable Energy. For the HAE auction, an average of [REDACTED] was offered. In comparison, the average offered in Year 3 was [REDACTED]; the decrease from last year’s average is directly influenced by the [REDACTED] system ramping limit that was enforced since May 2012.

⁴ See discussion in Section V.

Table 3
Cumulative Quantity of Energy Offered in DAE and HAE Auctions (MWh)

<i>Participant</i>	<i>HAE</i>	<i>DAE</i>	
		<i>Firm LD</i>	<i>Recallable</i>
SOCO	32,580,610 (100.00%)	11,476,800 (99.67%)	5,244,800 (100.00%)
CARGILL	0 (0.00%)		0 (0.00%)
AEM	0 (0.00%)		0 (0.00%)
AECI	0 (0.00%)		0 (0.00%)
CALPINE	0 (0.00%)		0 (0.00%)
CONOCO	0 (0.00%)		0 (0.00%)
CONSTELL	0 (0.00%)		0 (0.00%)
DUK	0 (0.00%)		0 (0.00%)
EDF	0 (0.00%)		0 (0.00%)
FEMT	0 (0.00%)		0 (0.00%)
JPMVEC	0 (0.00%)		0 (0.00%)
MERRILL	0 (0.00%)		0 (0.00%)
OPC	0 (0.00%)		0 (0.00%)
PPLE	0 (0.00%)		0 (0.00%)
CPL	0 (0.00%)		0 (0.00%)
FPC	0 (0.00%)		0 (0.00%)
REMC	0 (0.00%)		0 (0.00%)
SCEG	0 (0.00%)		0 (0.00%)
TENASKA	0 (0.00%)		0 (0.00%)
TVA	0 (0.00%)		0 (0.00%)
TEA	0 (0.00%)		0 (0.00%)
UPP	0 (0.00%)		0 (0.00%)
WRI	0 (0.00%)		0 (0.00%)
Total	32,580,610	11,514,400	5,244,800

* Figures in parentheses show percent of total energy offered

IV. ENERGY AUCTION BIDDERS

Table 4 shows the MWh quantities of energy bids by participant in the HAE and DAE auctions. Two participants, including SCS, bid in at least one HAE auction. In the DAE auctions, two participants bid in at least one Firm LD auction, and no participant bid for Recallable Energy. (For comparison, in Year 3 three participants submitted bids in at least one HAE auction, two for Firm LD, and one for Recallable Energy.)

Across all the auctions, approximately 1.5 TWh of energy bids were submitted, with 83% of this volume submitted through the HAE auctions. SCS accounted for over 97% of bid volume overall in the auctions. The average amount of bids into the Firm LD DAE auctions was [REDACTED], compared to [REDACTED] in Year 3. For the HAE auction, the average amount of bids was [REDACTED] versus [REDACTED] in Year 3.

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

<i>Participant</i>	<i>HAE</i>	<i>DAE</i>	
		<i>Firm LD</i>	<i>Recallable</i>
<i>Total</i>	1,286,165	213,600	0

* Figures in parentheses show percent of total energy bid

V. CHANGES IN AUCTION VERIFICATION PROCESS 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 and improvements. The current versions of our ten 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. Table 5 summarizes the main changes to each of the protocols in Year 4, and the remainder of this section explains these changes in further detail. In the interest of brevity, only the changes to our protocols since our third Annual Report are discussed here.

Table 5
Summary of Changes to IAM Protocols in Year 4

<i>Protocol</i>	<i>Changes in Year 4</i>
I. Load Forecasting	Status quo
II. Load Forecasting Uncertainty	Updated LFU percentages, Update tools to flag all DA1 adjustments
III. Purchases and Sales	Status quo
IV. Outages	New quarterly report to visualize outage patterns
V. DAE Available Capacity and SOP Verification	Implemented a new [REDACTED] system ramping limit
VI. HAE Available Capacity and SOP Verification	Implemented a new [REDACTED] system ramping limit
VII. Recallable Energy Verification	Status quo (not activated in Year 4)
VIII. Auction Clearing Price Verification	Status quo
IX. Assessment of Transmission Services for Energy Auction Purchases	Status quo (not activated in Year 4)
X. Monitoring of Third Party Participants	Status quo

Protocol II — Load Forecast Uncertainty (LFU) Protocol

As in previous years, SCS performed an annual revision of LFU percentage values for use in the DAE auction, taking effect on September 1, 2012. We independently verified these values, which are summarized in Appendix C, and have incorporated them into our daily monitoring.

In addition, we discovered that under some infrequent circumstances, the DA1⁵ adjustments to the DAE offer curve (for changes in SCS’s net obligations and available capacity since the initial curve was developed in DA2) may not be fully accounted for in the normal updating process. Because our monitoring tools were structured according to the same principles used to update the offer curve, they did not necessarily alert us to such circumstances. We have updated our tools to alert us to such situations and flag any instances when the adjustments to the offer curve may not fully reflect the net DA1 adjustments.

Protocol IV — Outages

We complemented our monitoring of unit outage data with a new quarterly report that summarizes the pattern of unit outages by outage type. This new report was created to better monitor outages that occur for special reasons (e.g., to limit a unit’s availability to account for annual runtime limitations).

Protocol V – Day-Ahead Available Capacity Verification

In January 2012, SCS informed us that it was beginning to study the possibility of introducing a system ramping limit into its Available Capacity calculations for the DAE auction. (This limit also applies to the HAE auction, as discussed below regarding *Protocol VI*.) Prior to this, SCS had not implemented a ramping limit for the DAE auction. A system ramping limit refers to the amount by which the entire SCS power system can increase its power output within a given interval. In this respect, a power sale resulting from an Auction match is like any other transaction. It must be “ramped in” (i.e., SCS’s system would need to increase its energy output by the amount of the sale) during the 10-minute period beginning 5 minutes prior to the start of the delivery period and “ramped down” during the 10-minute period beginning 5 minutes prior to the end of the delivery period. If the Auction were to clear a volume of energy larger than the system’s 10-minute ramping capability, SCS would be unable to actually deliver that energy on the required schedule without potentially compromising system reliability. As such, a system ramping limit is a form of operational constraint, and Appendices DA-1 and HA-1 of the Tariff state that capacity unavailable due to operational constraints is properly excluded from Available Capacity. Thus it is consistent with the Tariff to use a realistic estimate of the system ramping capability to limit the total amount of capacity that is offered into the Auctions. As discussed below, we found SCS’s ramp limit to be reasonable.

In March 2012, SCS reviewed with *Brattle* its proposed revised ramping limit. While the actual ramping capability of the system is a dynamic value that changes with system conditions, for the sake of ensuring system reliability under a variety of system operating conditions, SCS has chosen to implement a conservative static limit of [REDACTED]

⁵ DA1, DA2, etc. refer to one-day-ahead, two-days-ahead, etc.

██████████, effective May 1, 2012.⁶ This ██████████ limit was chosen on the basis of analysis performed by SCS using 31 months of historical data on the 10-minute regulation up- and down- capability within the 30-minute period starting 15 minutes before the top of the hour. SCS found that the maximum observed system ramping capability over this time frame was approximately ██████████ for both upward and downward ramping (in fact in most hours it was significantly below this amount). SCS has a system operational requirement (based on NERC and SERC obligations as a balancing authority) to maintain a minimum of ██████████ regulating capability at all times, which leaves ██████████ of ramping capability as a generous estimate of what would be available for delivering potential Auction sales. At our request, SCS provided a sample of the underlying data, which we reviewed and found to be reasonable.

Prior to the implementation of the new system ramping limit, we flagged any discrepancies in SOP or Available Capacity calculations for the entire offer curve. We modified our protocol and tools, so that starting on May 1, 2012 we only flag discrepancies for the ██████████. We also verify that SCS offers its lowest-cost available capacity into each DAE Auction whenever the new system ramping limit is binding.

Protocol VI – Hour-Ahead Available Capacity Verification

As in Protocol V, we modified our protocol and hour-ahead tools to flag discrepancies only for the ██████████ of offered capacity following the implementation of the system ramping limit. In addition, we created a new report (“Ramping Report”) to flag instances when capacity not offered due to the ramping limit is lower-cost than any capacity included in the offer curve. We also modified the Status Report to exclude discrepancies for a unit that is theoretically available but whose capacity is more expensive than the most expensive block included in the ██████████ of offered capacity.

VI. RESULTS OF MONITORING

During the current review period, our daily and periodic monitoring activities revealed 10 instances of noncompliance, summarized by type of issue in Table 6 below. Of these 10 instances, we were unable to fully verify SCS’s Available Capacity calculations or the inputs used in those calculations in eight cases. Two additional events occurred that were noncompliant with the Tariff concerning a delay in the opening of the DAE bid period and a delay in the posting of historical bid and offer data. We briefly describe each of these 10 noncompliant events below. In addition, there was one instance in which the Auction Administrator inadvertently accessed third-party information. It is ambiguous whether this was technically noncompliant, though we found no evidence that the data was used or communicated improperly. For more detail on these issues, see the issue tracking forms included in Appendix B. In no instance did these events affect the auction outcome.

⁶ It is our understanding that SCS has informed Commission Staff of the implementation of the revised ramping limit.

⁷ A “default” ramping limit of ██████████ had been in effect for the HAE auction since the inception of the Energy Auction; however that limit was rarely binding.

Table 6
Instances of Noncompliance in Year 4

<i>Type of Issue</i>	<i>Period Affected</i>
Load Forecasting & Fixed Purchases and Sales	
Improperly recorded DA1 and DA2 peak load forecasts and incorrect adjustments for changes in fixed schedules resulted in the exclusion of 127 MW of Available Capacity from the DAE auction	9/20/2012
Day-Ahead Capacity Calculation Discrepancies	
██████████ ratings discrepancies	9/5/2012; 9/7/2012
██████████ start-up cost discrepancies	3/15/2013; 3/18/2013 - 3/22/2013; 3/25/2013 - 3/29/2013
Hour-Ahead Capacity Calculation Discrepancies	
██████████ operating status discrepancies	9/21/2012 HB 11-15; 10/3/2012 HB 4 - 10/9/2012 HB ⁸ 12
Exclusion of certain CTs from HAE auction due to SCS data setup error	3/7/2012 - 1/13/2013
Instances of Failed SOP Submissions	
Failed DAE offer submission due to slow network response/server traffic	5/18/2012
Failed HAE offer submission due to human error and associated network malfunction	5/31/2012 HE ⁹ 15
Failed DAE offer submission due to slow network response/server traffic	6/21/2012
Failed DAE offer submission due to slow network response/server traffic	6/22/2012
Other Noncompliant Events	
Bid period opened 4 hours late on 6/1/2012	6/5/2012 DAE delivery
Late posting of June 2012 historical bid/offer data	Data posting deadline: 12/31/2012
Potentially Noncompliant Events	
Auction Administrator's inadvertent access to third-party information	Occurred September 2012

⁸ "HB" refers to hour beginning.

⁹ "HE" refers to hour ending.

A. Load Forecasting & Fixed Purchases and Sales

One of the purposes of our load forecasting protocol is to verify that SCS properly applies its DA2 and DA1 official peak load forecasts in the day-ahead Available Capacity calculations. In Year 4, there was an instance when this was not the case. For DAE delivery on September 20, 2012, SCS used incorrect DA1 and DA2 peak load forecast values in its Available Capacity calculations, causing it to overstate the amount of capacity that should be excluded from Available Capacity to account for an increase in the load forecast between DA2 and DA1. For the same delivery date, SCS also made an incorrect adjustment to fixed schedules to reflect changes in its short-term purchases and sales. The combined effect of these discrepancies was to exclude 127 MW from SCS's day-ahead Available Capacity. No other instances of noncompliance were found under Protocol II in Year 4. In comparison, there were nine similar incidents, involving incorrect adjustments to fixed purchases and sales, in Year 3.

B. Day-Ahead Capacity Calculation Discrepancies

For the vast majority of DAE auctions, we were able to corroborate that SCS's calculation of DAE Available Capacity was in full compliance with the Tariff. In Year 4, we observed two noncompliant events related to the calculation of day-ahead Available Capacity. The first issue resulted from the incorrect use of maximum ratings for [REDACTED]. SCS did not accurately model [REDACTED], which ultimately resulted in DAE offer curves where the offer prices exceeded the SOP on two delivery days in September 2012.

The second noncompliant event concerning day-ahead capacity calculations affected [REDACTED] in 11 DAE auctions during March 2013. [REDACTED] Due to a misunderstanding amongst SCS's Unit Commitment personnel regarding [REDACTED] As a result, [REDACTED] were offered at a price that exceeded the SOP.

The number of noncompliant events involving day-ahead available capacity calculations remained the same in Year 4 as in Year 3.

C. Hour-Ahead Capacity Calculation Discrepancies

As was the case for the DAE auctions, we were able to replicate the vast majority of SCS's HAE offers in Year 4, except for the two instances of noncompliance discussed below. In the first instance, SCS failed to offer the capacity of [REDACTED] on September 9, 2012 HB 11 through HB 15 and from October 3, 2012 HB4 through October 9, 2012 HB 12. [REDACTED]

[REDACTED]

The second issue affected 2,949 HAE auctions held between March 7, 2012 and January 13, 2013, in which SCS failed to offer the available capacity of one or more of the following [REDACTED]. All four of these units are relatively small (40 MW), high-cost units. A data setup error in SCS's auction software resulted in incorrect unit status information, thus making one or more of [REDACTED] units unavailable for the HAE auction. This issue was not discovered until October 2012 when, while investigating another issue, *Brattle* realized that its tools relied on an outdated hour-ahead "constraint list" (*i.e.*, a list of contractual, scheduling, and other limitations that make certain units unavailable for the HAE auction). Once an up-to-date constraint list was provided by SCS, *Brattle* conducted a comprehensive analysis of past auctions to investigate any potential instances of noncompliance. SCS claimed that this was an instance of *force majeure*.

The number of noncompliant events involving hour-ahead available capacity calculations was one fewer in Year 4 than in Year 3.

D. Instances of Failed SOP Submissions

On a daily basis, we check that both SCS submits an offer curve into each Energy Auction, and that the submitted curves are accurate. In Year 4, there were four instances in which SCS's SOP curves were not uploaded to OATI's webMarket, a significant decrease from the 23 failed SOP submissions seen in Year 3. In all four instances this year, SCS developed the required offer curve, but technical problems prevented their successful upload to the webMarket site. Three of these four instances occurred in the day-ahead auction and were attributed to slow network response. SCS routinely deletes existing (older) offers and replaces them with more updated and accurate offer curves shortly before the close of the bid period. This process is automated and timed systematically for each day. Slow network response on the affected days undermined this process; after SCS deleted the older curve, the network delays prevented the prompt uploading of the updated offer curve, and the auction closed before the curve could be successfully uploaded. To remedy the problem, SCS changed the timing of this submission process.

The fourth failed submission occurred in the HAE auction, and was the result of a human error that caused a network malfunction, preventing the ability of SCS to upload offers. All four failed SOP submissions were instances of noncompliance, and SCS claimed *force majeure* in each of these instances.

E. Other Noncompliant Events

Two other noncompliant events occurred during Year 4. One issue affected DAE delivery on June 5, 2012 in which the auction for this delivery date opened 4 hours late due to an administrative oversight by the Independent Auction Administrator. The other noncompliant issue in Year 4 was a failure to post historical bid and offer data for June 2012 by the end of December 2012. According to Section 4.2.4 of the Auction Rules, “By the end of each calendar month, the Auction Administrator will post all Bid Information and Offer Information for such Energy Auctions that occurred during the sixth months prior to that calendar month...” Given the restrictions of Section 2.1B, SCS relies on the Independent Auction Administrator to provide this information for posting. This delay in posting data occurred because the Independent Auction Administrator did not provide the correct posting data in time to meet the deadline established in the Tariff.

F. Potentially Noncompliant Events

In addition, there was one instance that was ambiguous with regard to Tariff compliance. In September 2012, the SCS Auction Administrator self-reported inadvertent access to third-party bid/offer data in the process of investigating a prior issue. The Auction Administrator was attempting to download offer data previously submitted by SCS in webMarket, and unintentionally downloaded offer data from other companies as well. The incident was self-reported by the Auction Administrator, who clarified that he immediately deleted the third party data without reviewing its details.

VII. LEGAL ADVISOR’S REPORT ON COMPLIANCE WITH DATA RESTRICTIONS

The law firm of Van Ness Feldman, LLP (“Van Ness Feldman”) reviewed SCS’s compliance with the Tariff’s data restrictions related to confidential bid and offer information. In this section, Van Ness Feldman provides a report of its review.

The Tariff’s data restrictions related to the Energy Auction are contained in the Rules of the Energy Auction and the Rules on Southern Companies’ Energy Auction Participation. The current versions of these rules became effective on April 26, 2011,¹⁰ and covered the entire review period of April 24, 2012 through April 23, 2013.

A. Tariff Requirements on Handling of Bid and Offer Data

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

¹⁰ Alabama Power Company Market Based Rate Tariff, Southern’s Tariff Volume No. 4 at Record D, Rules of the Energy Auction, 1.0.0 (effective Apr. 26, 2011) (“Rules of the Energy Auction”), and at Record E, Rules on Southern Companies’ Energy Auction Participation, 1.0.0 (effective Apr. 26, 2011) (“Rules on Southern Companies’ Energy Auction Participation”). The current version of the Tariff’s data restrictions were accepted by FERC on April 2, 2012. Letter Order, Docket No. ER11-3429-000 (Apr. 2, 2012) (“April 2 Letter Order”).

Bidder offers to purchase Energy through the DAE Auction or HAE Auction.”¹¹ 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.”¹²

The Tariff’s Rules of the Energy Auction provide:

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.¹³

Section 2.1B(b) of the Rules on Southern Companies’ Energy Auction Participation provides that the SCS Auction Administrator¹⁴ 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 particular Auction or to comply with the posting requirements of Section 4.2.4^[15] of the Auction Rules.¹⁶

Section 2.1B of the Rules on Southern Companies’ Energy Auction Participation 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.¹⁷

The Rules on Southern Companies’ Energy Auction Participation 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

¹¹ Rules of the Energy Auction § 2.4.

¹² *Id.* at § 2.41.

¹³ *Id.* at § 3.5.

¹⁴ The Tariff provides that an SCS employee in any of three positions may serve as an SCS Auction Administrator. Rule on Southern Companies’ Energy Auction Participation § 2.1.

¹⁵ Section 4.2.4 of the Rules of the Energy Auction 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. Rules of the Energy Auction § 4.2.4.

¹⁶ Rules on Southern Companies’ Energy Auction Participation § 2.1B(b).

¹⁷ *Id.* at § 2.1B(d).

purpose (except to the extent such information is made available pursuant to Auction Rules Section 4.2.4).¹⁸

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.¹⁹

B. Fourth Annual Review

Van Ness Feldman’s fourth annual review was conducted in May and June of 2013. In conducting this review, Van Ness Feldman issued written inquiries and requests for documents. In addition to reviewing written responses to questions and documents produced by SCS, Van Ness Feldman conducted telephone interviews with the SCS Auction Administrator and with the President of TranServ International, Inc.²⁰

As in prior years, SCS has been very cooperative during the fourth annual review, answering questions and timely providing follow-up information throughout the review process. TranServ has also been cooperative in making its President available for interview.

C. Findings

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

1. Position of Auction Administrator

The Tariff provides that only an SCS employee holding one of three positions specified in Section 2.1 of the Rules on Southern Companies’ Energy Auction Participation may serve as an Auction Administrator. The single SCS employee who served as an Auction Administrator during the review period is a “Project Manager,” as that term is used in Section 2.1.²¹ Consequently, his service as an SCS Auction Administrator is appropriate under Section 2.1.

2. Use of 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.”²² Only one SCS employee served as an Auction Administrator during the review period, and he was the only SCS employee with access to third-party bid or offer

¹⁸ *Id.* at § 2.2.

¹⁹ *Id.* at § 2.3.

²⁰ TranServ International, Inc. (“TranServ”) is SCS’s Independent Auction Administrator. TranServ performs its auction administration functions from Minneapolis, Minnesota.

²¹ Rules on Southern Companies’ Energy Auction Participation § 2.1.

²² Rules of the Energy Auction § 3.5.

information through the webMarket auction software.²³ The review found no evidence that the SCS Auction Administrator used confidential data for any purpose other than auction administration or audit purposes during the review period.

3. Access to Confidential Bid and Offer Information

SCS's reliance on TranServ, the Independent Auction Administrator, to perform most of the auction administration functions has greatly reduced the SCS Auction Administrator's need to access webMarket (and thus to potentially access third-party bid and offer information). The SCS Auction Administrator reports that there has been very little need for him to be involved in the mechanics of the auction during the review period. Of the approximately 5–6 hours per week the SCS Auction Administrator typically spends on auction administration functions, the large majority is spent acting as a liaison with the Independent Auction Monitor, including supplying information and answering questions.

The logs of the SCS Auction Administrator's access to the webMarket system support this finding. The frequency of access to webMarket by the SCS Auction Administrator has declined throughout the period that TranServ has acted as the Independent Auction Administrator.²⁴ Between March of 2010 and January of 2011, the SCS Auction Administrator logged into webMarket 77 times. Between February of 2011 and April of 2012, the SCS Auction Administrators logged into webMarket 25 times. Records show that from May 2012 through April 23, 2013, the SCS Auction Administrator logged into webMarket 15 times on 8 days.²⁵

The Rules on Southern Companies' Energy Auction Participation provide that SCS, through the SCS 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.²⁶ The Tariff also provides that SCS must report instances where the SCS Auction Administrator accessed confidential bid or offer information "(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."²⁷ The SCS Auction Administrator reported accessing confidential bid or offer information twice during the period under review.

²³ "webMarket" is the software program through which the Auction is administered. Numerous SCS marketing and trading employees use webMarket in connection with SCS's participation in the Auction. Only a user with "Auction Administrator" rights can access confidential bid or offer information of a third party.

²⁴ Logging on to webMarket does not mean that the SCS Auction Administrator viewed confidential bid or offer data, but only that he could have viewed such data. According to the SCS Auction Administrator, there is no mechanism in webMarket to specifically identify whether third-party bid or offer data was viewed.

²⁵ Note that webMarket records of log-ins to webMarket by the SCS Auction Administrator were not available for review for the period of April 24, 2012 through May 1, 2012. webMarket does not retain log-in records beyond one year, and the inquiry was processed on May 2, 2013.

²⁶ Rules on Southern Companies' Energy Auction Participation § 2.1B(b).

²⁷ *Id.* at § 2.1B(d).

The first report was made on June 21, 2012, in connection with reviewing drafts of the 2012 Report of the Independent Auction Monitor (“2012 Report”) for accuracy and completeness. The SCS Auction Administrator reported as follows to the Independent Auction Administrator and Independent Auction Monitor:

In accordance with Section 2.1B(d) of the Rules on Southern Companies’ Energy Auction Participation, Southern is required to report to the IAA for documentation purposes any time Southern personnel are requested to access confidential bid/offer data. This is to notify you that the IAM has requested that Southern review its draft annual report for accuracy, which requires Southern to see certain confidential bid/offer data before it is made public. Please document this event for later reporting as necessary. Thanks.

SCS explained that the impetus for this self-report was the need for the SCS Auction Administrator to access confidential data in webMarket to verify information in the draft 2012 Report. In addition, the draft 2012 Report and the confidential version of the final 2012 Report themselves contain confidential bid and offer information.

The SCS review for accuracy of the draft 2012 Report took place over a period of several weeks.²⁸ SCS indicated that the SCS Auction Administrator and SCS’s Vice President and Operations Compliance Officer (to whom the SCS Auction Administrator reports directly) reviewed drafts of the 2012 Report during this time period. The review of sections of the 2012 Report relating to analysis of the auctions—the sections that contained information about third-party bids and offers—took place over a several-day period. The draft of Section V of the 2012 Report was provided by the Independent Auction Monitor on June 18, 2012. The SCS Auction Administrator used webMarket on June 20. The report to the Independent Auction Administrator and the Independent Auction Monitor was made on June 21.

Section 2.1B(d) of the Rules on Southern Companies’ Energy Auction Participation requires that access to confidential bid or offer information be reported to the Independent Auction Administrator “promptly upon its occurrence,” and to the Independent Auction Monitor within one business day. The report to the Independent Auction Administrator and the Independent Auction Monitor was made the day after the SCS Auction Administrator accessed webMarket, and three days after Section V of the draft 2012 Report was provided by the Independent Auction Monitor. If the “access” to confidential bid and offer information covered by Section 2.1B is limited to access to data through the webMarket system, then the reports were made within one day. If review of the draft report provided by the Independent Auction Monitor also constitutes

²⁸ The Independent Auction Monitor asked the SCS Auction Administrator to review the draft sections of the 2012 Report as follows: “Consistent with Section 4.3.3 of the Rules of the Energy Auction and Section 2.1B(b) of the Rules on Southern Companies’ Energy Auction Participation, *Brattle* would request that the Auction Administrator review the enclosed materials, for purposes of ensuring their completeness and accuracy, and in the course of so doing, afford them all requisite confidentiality and protection consistent with all applicable requirements of the Energy Auction and the associated rules.” Section 4.3.3 of the Rules of the Energy Auction provides: “The Independent Auction Monitor and Auction Administrator may share information related to the Energy Auction on a confidential and reciprocal basis.”

“access” within the terms of Section 2.1B, then the notifications were not technically timely. In any case, given that the Independent Auction Monitor was fully aware of the SCS personnel’s involvement in reviewing the draft, the use of a single report at the end of the short review process appears to accomplish the purposes of the Tariff.

As mentioned above, SCS’s Vice President and Operations Compliance Officer was involved in the review of the draft 2012 Report, as he was in past years. Section 2.1B(b) of the Rules on Southern Companies’ Energy Auction Participation, added to the Tariff per FERC’s letter order dated April 2, 2012,²⁹ provides that “Southern Companies, through the Auction Administrator, shall retain the right to access Bid Information [and] Offer Information” for limited purposes. SCS understands the clause “through the Auction Administrator” to be limiting, such that *only* the SCS Auction Administrator may access confidential bid or offer information on behalf of SCS pursuant to Section 2.1B(b). However, SCS interprets the “access” referred to in Section 2.1B(b) to be limited to access to confidential bid or offer information through the webMarket system used to conduct the Energy Auction, and not to include review of drafts of the Independent Auction Monitor’s annual report at the request of the Independent Auction Monitor. In practice, the review of the draft report for accuracy is helpful to the Independent Auction Monitor and does not appear to create any increased risk of problematic use or disclosure of confidential data.³⁰

The second report of access to confidential bid and offer information occurred on September 20, 2012, when the SCS Auction Administrator reported:

In compliance with Section 2.1B(d) of the Southern Company Participation Rules to the Energy Auction, I am notifying you of an inadvertent access to third party confidential bid/offer data on the part of myself, the Southern Company Auction Administrator. This access came as a result of my investigations into the Wansley high limit discrepancies from earlier this month. The access was inadvertent and happened when I was attempting to download Southern Company offer data from webMarket. During that attempt, the query returned data that included not only Southern Company offer data, but offer data from other companies as well. I immediately deleted the data returned by the query and did not view its details. Southern Companies do not feel that this is a violation of Section 2.1B(b) of the Participation Rules, but do believe that Section 2.1B(d) require us to notify both Brattle and the IAA (see notification to TranServ below). If you have any questions, please do not hesitate to ask. Thanks.

The e-mails produced to Van Ness Feldman confirm the timely reporting of this incident to both the Independent Auction Administrator and the Independent Auction Monitor. The SCS Auction

²⁹ April 2 Letter Order at 1.

³⁰ The Rules on Southern Companies’ Energy Auction Participation provide 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,” and that SCS “shall impose internal data control restrictions consistent with those used for Standards of Conduct compliance.” Rules on Southern Companies’ Energy Auction Participation §§ 2.2, 2.3. Review of the draft 2012 Report by the Vice President and Operations Compliance Officer is not inconsistent with these requirements.

Administrator stated that this type of unintended access to confidential information can be avoided in the future with his careful and appropriate use of search filters in webMarket, through which a search can be confined to SCS-specific information.

Section 2.1B(b) of the Rules on Southern Companies' Energy Auction Participation provides that the SCS Auction Administrator may access confidential bid and offer information "to the extent such access is necessary to respond to questions or complaints about a particular Auction."³¹ SCS reported that it did not believe this incident constituted a violation of the Tariff. SCS explained that, because the SCS Auction Administrator was attempting to access webMarket data to address a question posed by the Independent Auction Monitor relating to a particular Auction, the access was permitted notwithstanding the mistake in the computer query. The more natural reading is that while use of webMarket was necessary to address the question, access to third-party data was not necessary, and thus not permitted.³² Whether or not this incident was in literal violation of the Tariff, our review found no evidence suggesting that the request for confidential third-party bid and offer data was intentional, or that the SCS Auction Administrator digested any of the data or communicated it to others.

In addition to the two reported instances of access to confidential bid or offer information described above, the SCS Auction Administrator has continued to receive certain historical confidential bid and offer information from the Independent Auction Administrator for the purpose of posting such data on the Southern Company website.³³ By the end of each month, SCS must post bid and offer data (without identification of the bidder or offeror) for the sixth month prior.³⁴ This data is provided by the Independent Auction Administrator to the SCS Auction Administrator on or about the 23rd of each month. SCS Auction Administrator access to data for this purpose is expressly allowed under the Tariff.³⁵ This access was not reported to the Independent Auction Administrator or the Independent Auction Monitor under Section 2.1B(d) of the Rules on Southern Companies' Energy Auction Participation.

4. Secure Storage of Confidential Bid and Offer Information

Confidential bid or offer information accessed by the Auction Administrator must be "stored in a secure physical or electronic location."³⁶ The SCS Auction Administrator states that while there is a designated, physically-secure location for the storage of confidential bid and offer information, physical records have not been created.

³¹ *Id.* at § 2.1B(b).

³² Moreover, while the September 20 report describes the incident as "inadvertent access to third party confidential bid/offer data," there may also be a question of whether these circumstances, where data was (mistakenly) requested and retrieved to the SCS Auction Administrator's computer, but was deleted before he read or reviewed the substance, constitute "access" within the terms of Section 2.1B(b).

³³ Historical bid and offer information is posted at: <http://www.southerncompany.com/about-us/our-business/energy-auction/historical.cshtml>.

³⁴ Rules of the Energy Auction § 4.2.4.

³⁵ Rules on Southern Companies' Energy Auction Participation § 2.1B(b).

³⁶ *Id.* at § 2.1B(d).

Certain historic bid and offer data reside on the SCS computer system. SCS Auction Administrators used these data in connection with testing during the early development of the Energy Auction,³⁷ and for analysis of the Independent Auction Monitor’s First Annual Report. The historical data are stored on a secure read/write protected directory to which only three employees other than the SCS Auction Administrator have access, none of whom is a marketing function employee. No additional confidential third-party bid or offer data were stored during the review period.

SCS reports that the two SCS employees who reviewed the draft 2012 Report of the Independent Auction Monitor—the SCS Auction Administrator and the Vice President and Operations Compliance Officer—may have electronic copies of the draft 2012 Report or the final confidential 2012 Report. These documents would be in e-mail archives accessible only by each individual and SCS’s IT administrators.

5. 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).”³⁸ Van Ness Feldman interviewed the SCS Auction Administrator, reviewed a sample of e-mails from the SCS Auction Administrator to SCS marketing employees, and reviewed a listing of the webMarket access rights available to all SCS 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.

6. 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 foregoing paragraphs, Southern Companies shall impose internal data control restrictions consistent with those used for Standards of Conduct compliance.”³⁹ Van Ness Feldman found that SCS has taken reasonable steps—in addition to complying with the data storage procedures described above—to ensure that marketing function employees do not have access to restricted bid and offer information.

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). Only one SCS employee is presently designated as an Auction Administrator on the webMarket system, and he is not a marketing or trading function employee. As described above, SCS has retained no third party bid and offer information in physical form,

³⁷ Since TranServ assumed the role of Independent Auction Administrator, it has performed any software testing without the use of actual bid or offer data.

³⁸ Rules on Southern Companies’ Energy Auction Participation § 2.2.

³⁹ *Id.* at § 2.3.

and while there is limited historical bid and offer information residing on the SCS computer system, access to the directories in which this information is located is restricted to a small number of SCS employees who are not marketing function employees.

The SCS 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.”⁴⁰ The interview with the SCS Auction Administrator showed that the SCS Auction Administrator continues to be well-versed in the substantive requirements of the Tariff with respect to restricted data.

SCS is developing a comprehensive training program for marketing and trading employees, which will include regular training for employees on topics including the treatment of confidential bid and offer information. It is expected that this training will be delivered in the coming year. No group training was provided to marketing and trading employees on Energy Auction data restrictions during the review period. According to the SCS Auction Administrator, ongoing, on-the-job mentoring and coaching was provided as appropriate, and training materials covering data restrictions, among other topics, are available resources to the marketing and trading employees.

Although the SCS Auction Administrator continues to be located on SCS’s trading floor, the transfer of most auction administration functions to an Independent Auction Administrator operating from access-restricted offices in Minneapolis, MN, has substantially reduced any risk of inadvertent disclosure to SCS trading or marketing employees. The SCS Auction Administrator’s need to access confidential third-party bid and offer data has been very limited during this review period.

7. Summary of Findings

Based on its review, Van Ness Feldman found that the SCS Auction Administrator has continued to be diligent in his efforts to comply with the requirements related to confidential bid and offer information contained in the Tariff, and further found no evidence that SCS marketing function employees had any improper access to confidential bid or offer information.

VIII. CONCLUSION

We have monitored SCS’s participation in the Energy Auctions and compliance with the Tariff during the fourth annual review period, April 24, 2012 through April 23, 2013. This report documents each instance during the review period where we have found that SCS’s administration of the Auctions and its offers into the 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 Auction’s performance, either intentionally or through

⁴⁰ Energy Auction: Auction Administrator Protocol at § 1.3 (undated).

negligence. We also 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. Based on its review, Van Ness Feldman found that the SCS Auction Administrator has continued to be diligent in his efforts to comply with the requirements related to confidential bid and offer information contained in the Tariff, and further found no evidence that SCS marketing function employees had any improper access to confidential bid or offer information. 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 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 Auction, which is overlaid on the even more complex process of managing SCS's power system, could be implemented perfectly, without any errors.

Auction participation by third parties, both as bidders and offerors, has remained low this review period. The frequency of auction clearing has also declined, with just one auction cleared in Year 4. The frequency of two types of non-compliant events appears to have decreased significantly from the previous review periods. First, instances of noncompliance related to the use of peak load forecasts and adjustments to fixed purchases and sales in Available Capacity calculations fell from nine in Year 3 to just one in Year 4. Second, the number of failed offer curve submissions fell from 23 in Year 3 to four in Year 4. The frequency of other types of non-compliant events does not appear to differ meaningfully from the previous review periods.

Since the third 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 Independent Auction Monitor, and we look forward to receiving the Commission's feedback and guidance in the coming year.

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-22
Protocol V – Day-Ahead Available Capacity and Seller Offer Prices Verification	A-26
Protocol VI – Hour-Ahead Available Capacity and Seller Offer Prices Verification	A-35
Protocol VII – Recallable Energy Verification	A-40
Protocol VIII – Auction Clearing Price Verification	A-46
Protocol IX – Assessment of Transmission Services for Energy Auction Purchases	A-54
Protocol X – Monitoring of Third Party Participation in the Southern Company Energy Auction	A-55

THE REMAINDER OF THIS APPENDIX IS REDACTED

APPENDIX B

IAM ISSUE TRACKING FORMS

I. FIXED PURCHASES AND SALES CALCULATION

[REDACTED]

B-1

II. DAY-AHEAD AND HOUR-AHEAD CAPACITY CALCULATION

[REDACTED]

B-3

B-5

B-7

B-9

III. SELLER OFFER PRICE SUBMISSION TO OATI

[REDACTED]

B-12

B-14

B-15

IV. OTHER NON-COMPLIANT EVENTS

[REDACTED]

B-17

B-18

V. POTENTIALLY NONCOMPLIANT EVENTS

[REDACTED]

B-19

THE REMAINDER OF THIS APPENDIX IS REDACTED

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 UCDAAT 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								

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

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

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

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

Exhibit B

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

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
Data reflect 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.	3, 4, 8, 9, 10, 11, Appendix A, Appendix B, Appendix C
Data reflect 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
Data/information reflect 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 reflect 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.	3, 4, 8, Appendix A, Appendix C