



PJM Annual Meeting

Public Interest Environmental
Organization Users Group (PIEOUG)

May 5, 2021

Consumer Advocates of the
PJM States (CAPS) Presentation

The 16 Member Offices of CAPS

Delaware	Division of the Public Advocate
District of Columbia	Office of the People's Counsel
Illinois	(1)Citizens Utility Board (2)Office of the IL AG (Public Utilities Bureau)
Indiana	Office of Utility Consumer Counselor
Kentucky	Office of Rate Intervention
Maryland	Office of People's Counsel
Michigan	Michigan Department of Attorney General
New Jersey	Division of Rate Counsel
North Carolina	(1)Office of Attorney General, Utilities Section (2)Public Staff – North Carolina Utilities Comm.
Ohio	Office of the Ohio Consumers' Counsel
Pennsylvania	Office of the Consumer Advocate
Tennessee	Office of the Tennessee Attorney General – Consumer Advocate & Protection Division
Virginia	Office of the Attorney General – Division of Consumer Counsel
West Virginia	Consumer Advocate Division

Goals

- ▶ 1. Use our resources to provide awareness and improve our contributions to the stakeholder process
- ▶ 2. Continue to expand dialogue with both demand and supply interests to seek consensus
- ▶ 3. Establishing reliability throughout the region at the most cost-effective prices.
 - The situation in ERCOT demonstrated that this is not only a focus but an expectation from consumers and regulators.

Thank You!

We thank the Board and PJM Staff for:

- Helping 65 million retail customers have a voice in the PJM stakeholder process;
- Maintaining well-functioning operations during the unprecedented pandemic
 - Over seeing constructs that created some of the lowest energy prices on record for most of the PJM region in the past few years.

Reasonable Prices – Our Perennial Concern

- ▶ Consumers have benefitted
 - The system has provided a high level of reliability
 - Lower energy prices as more efficient, lower cost resources come to dominate
 - Uncertainty about capacity prices
- ▶ Transmission cost increases counter those benefits with potential to undo price stability
- ▶ Competitive model needs to produce prices consumers can afford to pay

Capacity Construct

CAPS engaged a consultant to evaluate resource adequacy constructs that would best ensure reliability and fair prices for consumers.

Design of the construct, rather than construct itself, is biggest driver in cost and reliability

- ▶ Product definition and market objective clarity is critical to performance of construct
- ▶ Design decisions around key areas can result in any resource adequacy construct performing poorly or well
- ▶ Areas specifically identified for PJM capacity market are:
 - Expectations of load (load forecast)
 - Application of planning reliability standards
 - Resource performance assumptions/incentives
 - Cost of new entry (CONE) and net CONE and variable resource requirement (VRR) curve

Report identified five interrelated areas in any resource adequacy construct

- ▶ **Reliability Requirements**
 - Reliability requirement determination (MOPR)
 - Load forecasting performance (Phase 2)
- ▶ **Reliability Valuation**
 - Net CONE and VRR curves (Phase 2)
 - Energy price formation (FERC)
- ▶ **Resource Performance**
 - Effective load carrying capability (FERC)
- ▶ **Competition**
 - Capacity market offer caps (FERC)
 - Capacity interconnection rules (PJM Planning)
- ▶ **Cost Allocation**

Unclear what is driving the design of a MOPR replacement

- ▶ Many proposals suggest workarounds for the MOPR, but do not address long-term resource adequacy challenges and push the real work down the road
 - Even if the MOPR is retained many proposals to accommodate state policy would produce similar results to the MOPR being eliminated with no replacement
- ▶ Focus of the MOPR replacement is unclear
 - Maintain merchant investment signal?
 - Integrate state policy into the market design?
 - Accommodate greater ability for states/customers to reflect their preferences?

Unclear if MOPR is eliminated that any immediate action is required

- ▶ Potential that many items (e.g., load forecast performance, net CONE technology) may be promoting overinvestment
- ▶ MOPR replacements need to be durable, developed in the context of well-defined objectives and products. How will the solution factor in other changes being considered to the market design and consider the future power system?

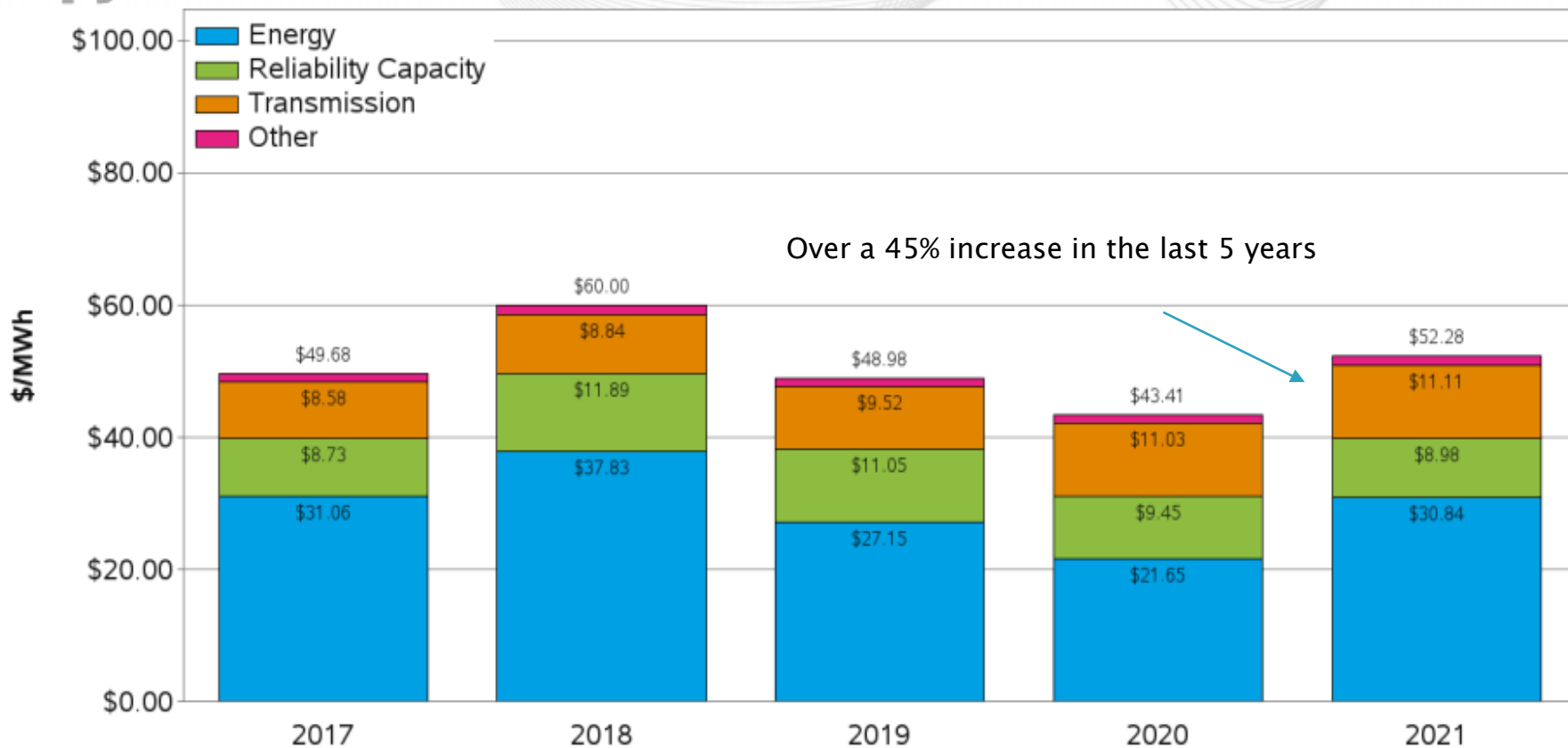
Transmission

Consumers have concerns about the level of oversight and rising costs

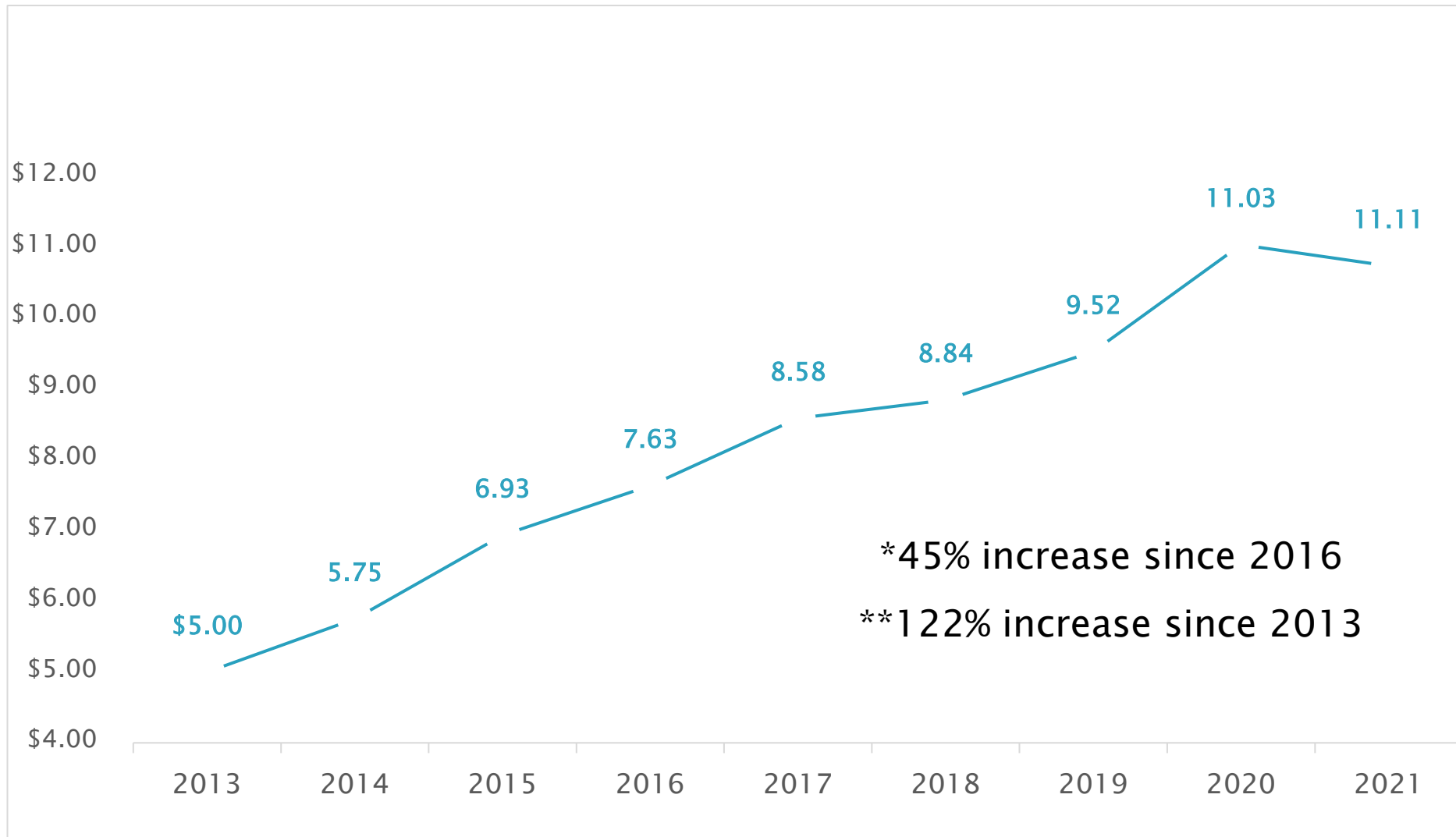
A Snapshot of Wholesale Transmission Costs



PJM Wholesale Cost



The Rise of Wholesale Transmission Costs over the years



Is there oversight of supplemental project planning in the PJM region?

Need Number: NEET-2021-01

Process Stage: Solutions Meeting 03/09/2021

Previously Presented: Needs Meeting 02/09/2021

Project Driver:

Equipment Material Condition, Performance and Risk

Specific Assumption Reference:

[NEET MA IN 2021 Annual Assumption](#) and
[Asset Management Strategy](#)

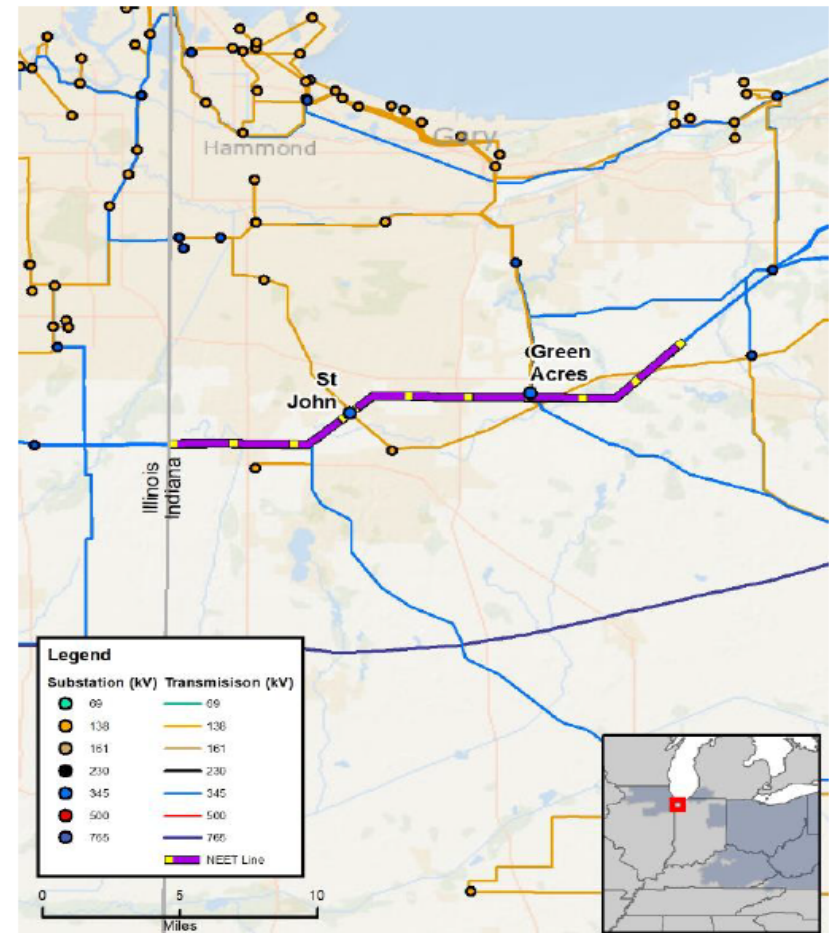
EOL/Condition/Obsolescence

Problem Statement:

NEET MidAtlantic IN 345kV (double-circuit) transmission line assets are ~20 miles representing four segments. Asset represents 115 galvanized steel lattice structures:

- Transmission lines were built in 1958 and are over 60 years old. Reliability concerns with increased failure probability is expected as components have exceeded the industry recommended service life
- The existing 1414 kCMIL (62/19) paper expanded conductor is obsolete and no longer manufactured
- Structural components are exhibiting significant deterioration
 - Structural corrosion, insulator EOL, foundation wear, lack of cathodic protection, missing structural components and section loss, etc.

NEET MA IN Transmission Zone M-3 Process Indiana



Who has oversight of the supplemental planning process?

Mr. Davis testified that the Commission declining to exercise certain parts of its jurisdiction would be consistent with the public interest because NEET MidAtlantic IN will be regulated by FERC, NERC and PJM. He noted that the Transmission Assets will continue to be functionally controlled by PJM, and PJM will remain responsible for the safe and reliable operation and planning of the electric transmission systems under their functional control, which includes the Transmission Assets. He testified that further regulation of these matters by the Commission would be unnecessary, wasteful of the Commission's resources, and burdensome for NEET MidAtlantic IN. He testified that

6

*Verified Joint Petition of NextEra Energy Transmission (NEET) MidAtlantic Indiana, Inc. and ComEd IN for approval of the sale of transmission assets, Indiana Utility Regulatory Commission, Cause No. 45335, Order, May 20, 2021.

Upward Pressure on Transmission Rates

Drastic increases in transmission investment going into rate base in the last 10 years.

- No regulatory authority has plenary upfront oversight for need and prudence review

Expansion of bonus profits applicable to transmission investment.

- In RM20-10 the FERC recently issued an order addressing profit adders that are applicable to electric transmission rates. Commissioner Christie – *adding* basis points to the ROE makes the regulator not the *guardian against* market power, but the *facilitator of* it. For by definition, an ROE adder raises the cost of capital *above* the market cost, inflicting on consumers exactly the harm that utility regulation is supposed to prevent. In sum, an ROE adder is a subsidy.

Governance

Consumer participation in the PJM stakeholder process and concerns regarding governance and transparency

Governance Principles

PJM's success depends on our individual commitment to these Core Values, to our fellow employees and to our member companies.



Source: PJM, 2020 Impact Report, Powering a Culture of Caring and an Inclusive Future for All, p. 6, [2020-impact-report.ashx \(pjm.com\)](https://www.pjm.com/2020-impact-report.ashx)

Understanding the Influence of Consumers in PJM voting matters:

- ▶ Sr. level (“voting members” or “sector weighted voting”)
 - Five Sectors: Transmission Owners, Electric Distributors, Generation Owners, Other Suppliers and End-Use

Overall Voting Influence by Level	Senior Level	Standing Committee Level
Consumer Advocates	11–12%	1.3%
EUC Sector (Industrial customers + Consumer Advocates)	20%	4.06%
Load (EUC+Public Power)	~40%	8.3%

- ▶ Standing Committee level:
 - 1008 overall voting, affiliate and ex officio votes
 - Consumer influence drops precipitously and drops more every month at the lower levels as membership grows.

The Planning Committee

- ▶ Transmission owners likely have sector power in the Planning Committee:
 - Thus, to gain consensus on almost any item in the planning committee – it is believed that PJM must get Transmission Owner buy-in to achieve consensus.
 - The core transmission owners that have signed the CTOA collectively have just over 100 affiliate and member votes to use on Planning Committee voting items.

Stakeholder alignment

- ▶ Over the past few years – the stakeholder body as a whole has supported PJM positions on approximately 92% of items.

Transparency

- ▶ Consumers fund PJM and its activities
- ▶ Integrity, communication, accountability, respect, and excellence mean that PJM must be transparent about its activities, especially those that could have rate and service impacts
- ▶ Examples of consumer concerns
 - Confidentiality and common interest agreements
 - Board and Executive Level compensation and incentive structures and transparency

Contact Information

Greg Poulos,
Executive Director, CAPS

Phone: 614-507-7377

E-mail: poulos@pjm-advocates.org

Appendix

What is CAPS?

Who We Are

Established in 2013, Consumer Advocates of the PJM States, Inc., (CAPS) is a nonprofit organization whose members represent over 61-million consumers in the 13 PJM states and the District of Columbia. Regulatory rules vary greatly across our jurisdictions, but in each the electricity costs paid by consumers is at least partly determined by the tariff and rules under which PJM operates. PJM and its stakeholders set those rules and CAPS' engagement is necessary to ensure that consumers' voices are heard.

Mission

Our mission is to actively engage in the PJM stakeholder process and at the Federal Energy Regulatory Commission to ensure that the prices we pay for reliable, wholesale electric service are reasonable.