

Commonwealth of Pennsylvania
Before the Pennsylvania Public Utility Commission

***En Banc* Hearings** : **Docket No. M-2008-2066901**
on Current and Future Wholesale Electricity Markets :
:
:

Reply Comments
of the PJM Power Providers Group

The PJM Power Provider Group (“P3”)ⁱ respectfully submits these comments on the third hearing on Current and Future Wholesale Electricity Markets held on December 18, 2008.¹ P3 reiterates its appreciation for the Commission’s examination of wholesale market issues and its willingness to invite a variety of viewpoints to discuss the critical issues impacting our regional wholesale markets.

As Chairman Cawley appropriately observed on several occasions throughout the en banc hearings, wholesale energy markets are regulated by the Federal Energy Regulatory Commission under authority granted to them by the Federal Power Act. While the Commission does not have direct regulatory authority over wholesale markets, it certainly enjoys a unique ability to work with federal regulators and to develop state level retail policies that maximize the benefits of competitive wholesale markets for Pennsylvania consumers.

¹ P3 is a non-profit organization dedicated to advancing federal, state and regional policies that promote properly designed and well-functioning electricity markets in the PJM region. Combined, P3’s eleven member companies own over 75,000 megawatts of power and over 51,000 miles of transmission lines in the PJM region, serve nearly 12.2 million customers and employ over 55,000 people in the 13-state and District of Columbia PJM region. The views expressed in this testimony do not necessarily reflect the views of individual P3 members. For more information on P3, visit www.p3powergroup.com.

Looking back on the three en banc hearings, there are several overall conclusions that can be drawn from the numerous opinions that were presented:

1. **The Commission has a role.** The amount of interest created by these en banc hearings was remarkable and the level of conversation was outstanding. Clearly, many stakeholders recognize the importance of the wholesale markets and understand the connection between wholesale market policies and the prices paid by consumers. Moreover, the Commission can play an enormous role in shaping the impact and policies of the wholesale market.
2. **Competitive wholesale markets have met the reliability needs of the region of Pennsylvania.** Not a single testifier suggested that Pennsylvania is facing an imminent threat of a generation shortage. In fact, RPM has reversed a troubling trend of declining reserve margins in PJM and there is reason to believe that the Pennsylvania will continue to enjoy the benefits of an adequate supply of generation moving forward. Unlike other places, Pennsylvania does not need to consider extraordinary measures to keep the lights on.
3. **The PJM market is producing prices that are competitive.** While many testifiers took issue with PJM's energy and capacity markets, not a single testifier qualitatively rebutted the conclusion of PJM's Market Monitor, Dr. Joe Bowring, that PJM's markets are producing outcomes that are consistent with competition. Every bid and every transaction that occurs in PJM is subject to the scrutiny of the Market Monitor and Dr. Bowring has consistently concluded that the results of PJM's capacity and energy markets are competitive. No evidence was produced in any of the hearings to challenge his conclusion.
4. **Wholesale markets can be improved.** While the Commission heard a variety of opinions on the current state of the PJM market place, not a single testifier suggested that our wholesale markets could not be improved. Indeed, there are opportunities to make wholesale markets better despite the fact that the PJM market place is working well. Fortunately, the PJM stakeholder process provides a logical forum for these conversations to occur.

These overall conclusions are important and should not be overlooked. The PJM market is not broken – if it were reliability would be compromised and Dr. Bowring would be reaching different conclusions. However, the PJM market is not perfect and can be improved.

Despite these overall conclusions which, fairly stated, would draw broad based support from most all presenters, there are material differences of opinion that should not be dismissed. P3 takes great issue with the suggestions from some that RPM is leading to an overcompensation of existing generating units or that somehow a pay as bid market could lead to lower prices over time for consumers. Both of these assertions are false and have already been substantially rebutted by P3 and others in this proceeding.

Moreover, the Commission should be equally suspicious of “quick fixes” or “complete overhauls” of PJM's market policies. PJM policies are the product of broad stakeholder discussions

followed by a FERC approval process. Ideas that did not garner stakeholder or FERC support are most likely insufficient and will likely lead to higher prices or compromised reliability. Regulatory stability is important in a market such as PJM's and while incremental improvements are always appropriate, broad based policy shifts will likely lead to unintended and unacceptable consequences.

The challenge ahead for wholesale markets is significant. As was mentioned several times during the course of the hearings, the introduction of carbon regulation into the PJM market will have a profound impact. There is little doubt that carbon regulation will lead to increased costs and could, depending on the regulatory scheme imposed, lead to compromised reliability. State and federal regulators will need to work together to minimize the impacts of carbon regulation on the consumers that depend on electricity.

Moreover, achieving state alternative energy goals will also require enormous coordination with the wholesale market. Most states in the PJM region have embraced very aggressive alternative energy goals that will require significant investments in new and existing infrastructure. Properly designed and well functioning wholesale markets will facilitate these investments and increase the likelihood that states will achieve their alternative energy goals.

Given the current state of the PJM market and the enormous challenges that lie ahead, the Commission will need to rely on certain bedrock principles to serve as a basis for policy. P3 would respectfully suggest the following five point approach to any strategy regarding the wholesale market:

1. **Continue the Commission's "Reliability First" policy.** The PA PUC has a long tradition of making the decisions necessary to support reliability. The Commission has a duty to Pennsylvania to keep the lights on and should not compromise that duty at the state or federal level. Reliability must always be the first priority of any wholesale market policy and the Pennsylvania Commission should support all necessary and appropriate steps to maintain reliability.
2. **Support policies that empower consumers.** Competitive markets give consumers new found opportunities to modify behavior into an economic advantage. In recent years, demand response has sky-rocketed in PJM², but there is still more work that can be done. Overall, the Commission should seek to identify and support those policies that will allow consumers to continue to be active participants in the PJM. If given the appropriate tools and the knowledge to use the tools effectively, consumers have the ability to drive the market place and realize enormous economic benefit.
3. **Separate the price from the policies.** Although at times competitive markets may produce prices that cause political discomfort, that does not mean the markets are broken. Indeed, the first half of 2008 was marked by dramatic and pronounced increases in the global costs of fuel. Likewise the second half of 2008 was marked by an even more dramatic and pronounced fall in the global costs

² According to PJM data, payments for demand response have increased over six-fold since 2006.

of fuel. The costs of fuel directly (and immediately) impacts the price of electricity in PJM. Prices will fluctuate, both up and down, in a competitive market. Despite the fluctuations, however, consumers over time benefit from competitive markets, which incent producers to generate energy as efficiently as possible to help ensure a market for their products. Although difficult at times, the Commission should look past the prices of the moment and remain focused on the underlying market fundamentals and wholesale market design policies to determine if the wholesale market is indeed delivering value to consumers.

4. **Take a long term view.** If wholesale markets are going to continue to deliver value to Pennsylvania's consumers, market policies must be designed to be sustainable over a number of years. It is very difficult and unwise to draw judgments on markets at a single moment in time. Instead, the year to year trends viewed over the course of several years will yield the most instructive perspective. Over time, wholesale markets should produce a sustainable and reliable supply of power sufficient to meet the demands of consumers at prices that are consistent with competitive markets. A certain degree of regulatory stability will be required in order to meet this goal.
5. **Stay informed and engaged.** The PJM market is admittedly, but understandably given the unique characteristics of electricity, a difficult market to understand. Given the numerous demands on the time of the Commission and staff, it is challenging to invest the time necessary to truly understand the various nuances of the PJM market. However, given that over 70% of the average Pennsylvanian's electric bill is derived from the wholesale market, the Commission has a responsibility to understand and appreciate these markets. These en banc hearings were a fruitful start, but the Commission should consider instituting regular discussions among wholesale market stakeholders in order to stay engaged and informed.

Moving forward, P3 looks forward to working closely with the Commission on issues associated with the PJM market. P3 members have made significant investments in the PJM market and are committed to its overall success. As stated in our prior comments, the fundamental structure in Pennsylvania and PJM is sound and is maintaining reliability at competitive prices. Working together, P3 believes that this success can continue as greater opportunities for consumers are realized.
