

November 19, 2010

Howard Schneider
Chair, Board of Managers
The PJM Board of Managers
PJM Interconnection, L.L.C.
955 Jefferson Avenue
Norristown, Pennsylvania 19403-2497

Re: Consumer Advocate Organization Funding

Dear Mr. Schneider and Members of the Board:

As the Board is aware, the consumer advocates in the PJM service territory have been actively working with PJM management and stakeholders on a proposal that we believe would be beneficial both to PJM and to the retail consumers of electricity in the PJM regions. It is these consumers who ultimately pay substantial costs for electric transmission and generation. We propose to establish and provide funding for an organization of state-designated consumer advocates in PJM to support the consumer advocates' participation in the PJM stakeholder process. If implemented, our proposal will help to better inform the Board of Managers and PJM management concerning the impacts of PJM's various rules and proposals on end-use consumers, to improve the credibility of the PJM stakeholder process, and to further PJM's efforts to advance the goals of FERC Order No. 719.

We request that the PJM Board use its discretion as the administrator of the PJM tariff to file our proposal with the Federal Energy Regulatory Commission (FERC) per your authority under Section 205 of the Federal Power Act. This will affirm PJM's commitment to active participation and representation of the 51 million ultimate consumers of electricity in your stakeholder processes and ensure that you, the PJM Board, are more informed about critical issues of concern to the 51 million consumers within the PJM region.

Each of our offices is designated by state law to advocate on behalf of certain retail consumers in our jurisdiction with respect to utility issues. State consumer advocate offices have been participating in the PJM stakeholder process for more than ten years and have seen the scope of the PJM stakeholder process steadily grow more complex. The PJM stakeholder process now consists of over 45 groups of various designation, including committees, subcommittees, working groups, and task forces, holding hundreds of meetings per year. We, of course, still have responsibility to represent consumers in all relevant proceedings before our local state commissions. Because of these responsibilities, it is unrealistic to expect our organizations to meaningfully participate in processes of this scope without a structure to provide support and assistance.

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Consumer Advocates of PJM, Inc., or CAPS, would be a non-profit entity that will provide assistance to organizations designated by the laws of their respective jurisdictions to address the interests of utility consumers, *i.e.*, the state consumer advocate offices (including the District of Columbia consumer advocate office) within the PJM region. The purpose of CAPS would be to provide a consistent presence and participation in the PJM stakeholder process to assist in representing the interests of the consumer advocate offices, accomplished by providing funds to engage a full-time executive director and to offer assistance or make assistance available to consumer advocate offices with travel expenses. The executive director would be tasked with attending major PJM committee meetings as well as lower level committee and working groups pertinent to consumers' interests. The executive director would be a point of contact for on-going information on the PJM stakeholder process to the advocate offices, providing input into the PJM process as directed by the consumer advocate offices. The initial proposed annual budget would be approximately \$350,000.

The CAPS proposal would be funded through a new PJM Tariff schedule that would impose a small charge on all customers within the PJM service territory. No changes to the PJM Operating Agreement, or any other PJM agreement, are required as a result of this proposal. Funding the CAPS organization in this manner assures equitable support by customers throughout the region for efforts of the consumer advocate offices on these regional issues. During the stakeholder process, we amended the proposed tariff language to ensure that only load within PJM pays the charge for CAPS. Since all the charges for this organization would be paid by load within PJM, there would be no charge to generators or other entities outside of PJM using the PJM transmission system. The proposed tariff language ensures that only load within PJM will pay for CAPS. All the charges for this organization would ultimately be paid by retail customers.

The required Tariff amendments for this proposal were presented to the Members Committee meeting on September 23, 2010, for an advisory vote. While the proposal received majority support on a sector-weighted basis (2.6 sector votes in favor), it did not receive the two-thirds majority sector vote necessary to be officially recommended by the Members Committee.

There was a 100% percent vote in support of this organization by the End-Use Customer sector. Thus, the entities that would actually pay the cost of CAPS supported the proposal unanimously. Also, our proposal was also supported by our state commissions in a letter to PJM Members from the Organization of PJM States, Inc. (OPSI) dated September 16, 2010.

FERC recently accepted PJM's Compliance Filing under Order No. 719 without requiring the type of consumer advocate funding that we are seeking in this letter. Notably, however, FERC Chairman Wellinghoff issued a brief Concurring Statement stating that he "would like to highlight that *funding to facilitate participation in the RTO process by*

*consumer advocates is among the proposals that I would encourage stakeholders to consider further in the future.*¹ Significantly, the issue of consumer advocate funding was the only proposal that was explicitly mentioned by Chairman Wellinghoff in his Concurring Statement despite many other proposals to improve stakeholder responsiveness that were identified in Order 719. Thus, submitting the proposed tariff revisions for CAPS to FERC would be in line with the FERC Chairman's suggestion.

The goal of establishing competitive wholesale electricity markets on a regional basis, and PJM's role in those efforts, *is to benefit retail consumers*. The outcomes of the PJM stakeholder process have direct effects on the costs borne by consumers in rates they pay for generation and transmission as well as providing consumers opportunities to participate in retail and wholesale demand response and energy efficiency programs. For most retail customers in PJM, particularly those in the restructured states, retail rates are tightly linked to the wholesale prices set by PJM energy and capacity markets. Even in traditionally regulated states, retail consumers are directly impacted by the prices their local utility pays or receives for wholesale purchase power transactions, as well as by capacity requirements. Additionally, retail consumers ultimately pay the bill for all transmission approved by PJM through the RTEP process.

Even though PJM is administering the "wholesale" market and operating and planning the transmission system, each retail consumer, including the smallest residential customer, has a very strong interest in the outcome of many issues in the PJM stakeholder process. Therefore, it is in everyone's interest, especially members of the PJM Board, to ensure that you and PJM management are completely informed regarding the concerns of retail customers as early in the stakeholder process as possible. This, however, does not occur at PJM presently.² Such end-use consumer participation, accomplished through the participation of the consumer advocates, gives the stakeholder process the greatest chance to benefit the customers that PJM ultimately serves.

PJM has been a thought-leader in many respects including demand response, energy efficiency, working with state commissions regarding the same, and establishing stakeholder process improvements such as the Liaison Committee, to name a few. The tariff funding mechanism we propose for CAPS would not only provide more effective representation of retail consumers we represent, but it would also benefit the PJM Board, PJM management, and the PJM stakeholder process. The charge resulting from the

¹ *P.J.M. Interconnection, L.L.C.*, Order Accepting Compliance Filing, 133 FERC ¶ 61,071 (2010).

² The PJM consumer advocates appreciate measures such as phone and web participation in meetings, more transparency in the process, and additional access to PJM personnel and the Board (including the Liaison Committee). However, those measures are not adequate substitutes for personnel dedicated to the stakeholder process and participating on a regular basis and in person. If PJM consumer advocates are afforded a reasonable funding source to enable a consistent participation in the PJM stakeholder process, we could adequately represent and explain the interests of consumers.

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implementation of our proposal would be a just and reasonable one, as evidenced by the support of the End-Use Customer sector, which represents the consumers who would be paying the charge. Further, Chairman Wellinghoff supports efforts like the CAPS proposal and has identified the inadequate participation of consumer advocates in RTOs and at FERC as a serious issue worth specifically mentioning.³ Therefore, we ask that the Board exercise its discretion and instruct PJM management to make a filing of the tariff revisions we propose under section 205 of the Federal Power Act.

Thank you for considering this matter and working with us to improve and design PJM processes to create the greatest benefit to all stakeholders. As always, we welcome any opportunity to further discuss this matter with you.

Very truly yours,

/s/ Sonny Popowsky

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³ *Inside FERC*, October 4, 2010 (www.platts.com), quoting Chairman Wellinghoff, "I still support the idea. I think it is an appropriate thing, for RTOs in general, to consider supporting the participation of consumer advocates in their stakeholder proceedings. Since state commissions' interests are now funded, I don't see any reason why consumer advocates' interests shouldn't also be funded."

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