



**Public Utilities
Commission**

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Commissioners

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November 9, 2011

Mr. Howard Schneider
Chair, Board of Managers
PJM Interconnection, LLC
955 Jefferson Avenue
Norristown, Pennsylvania 19403

Subject: Brattle Group's Performance Assessment of PJM's Reliability Pricing Model

Dear Mr. Schneider:

I write on behalf of the Public Utilities Commission of Ohio ("Commission") to express our views regarding significant deficiencies in the Second Performance Assessment of PJM's Reliability Pricing Model ("Performance Assessment") conducted by the Brattle Group with a report issued on August 26, 2011. According to the report, the scope of the Performance Assessment was to include, among other things, "key areas of concern," as identified by stakeholders, and "an evaluation of individual RPM design elements."¹ It is the opinion of this Commission that the Performance Assessment failed to adequately satisfy its scope in two ways: the failure of the Performance Assessment to 1) determine whether RPM accomplishes its intended purpose; and 2) address the concerns of PJM's Independent Market Monitor ("IMM").

In the first place, the RPM is an administrative mechanism for establishing capacity subsidies to incent necessary investment. A key concern of this Commission is whether the RPM accomplishes its intended purpose. The Performance Assessment does not answer the fundamental question of whether such a mechanism can actually facilitate the development of liquid long-term forward markets. Consequently, the recommendations in the Performance Assessment could increase RPM costs without greater assurance that RPM will produce results that reflect consumer preferences. We welcome the opportunity to discuss these concerns with you and PJM staff.

Secondly, the Performance Assessment failed to identify, analyze and respond to the concerns of PJM's Independent Market Monitor ("IMM"). Specifically, the IMM recommended in

¹ Second Performance Assessment of PJM's Reliability Pricing Model, Market Results 2007/08 through 2014/15, the Brattle Group, August 26, 2011, pg. i.

its 2010 State of the Market Report that “the obligations of capacity resources be more clearly defined in the market rules.”² The IMM suggested that:

- 1) there be an explicit requirement that capacity unit offers into the day-ahead energy market be competitive, *i.e.* the short run marginal cost of the units;
- 2) a unit that is not capable of supplying energy consistent with its day-ahead offer should reflect an appropriate outage rather than indicating its availability to supply energy on an emergency basis;
- 3) PJM review all requests for Out of Management Control (“OMC”) carefully, develop a transparent set of rules governing the designation of outages as OMC, and post those guidelines along with a recommendation that the lack of fuel be eliminated as an acceptable basis for an OMC outage; and
- 4) “that capacity resources be paid on the basis of whether they produce energy when called upon during any of the hours defined as critical.”³

The Performance Assessment is deficient in addressing the aforementioned concerns of the IMM, and in the opinion of this Commission, therefore fails to include “key areas of concern” and “an evaluation of individual RPM design elements.”⁴

Of note is the Brattle Group’s failure to address the rationale for continuing to pay generators when they fail to produce energy during critical periods as per suggestion 4, above. This omission is particularly problematic in the opinion of this Commission because Ohio relies upon PJM to conduct competitive and transparent markets. These features of PJM markets require that participating generators be held to high standards. In a state such as Ohio—where customers pay electricity rates that include reliability pricing model derived capacity costs, and where competitive markets continue to be relied upon—the failure of the Performance Assessment in addressing these concerns is especially troubling.

This Commission and the State of Ohio are not alone in our consternation at the Performance Assessment. In a November 3, 2011, letter, the states of Delaware, Maryland, New Jersey, and the District of Columbia indicated, among other matters, stated their concerns about the aforementioned deficiencies. To the extent that their concerns align with those of this Commission, we join them and the opinions they expressed in their November, 3, 2011, letter. To echo those states and the District of Columbia, this Commission believes that the Performance Assessment is “the opportunity for consumers to evaluate whether they are getting value for the billions of dollars

² State of the Market Report for PJM, Monitoring Analytics, p. 363.

³ *Id.*

⁴ Second Performance Assessment of PJM’s Reliability Pricing Model, Market Results 2007/08 through 2014/15, the Brattle Group, August 26, 2011, pg. i.

a year they pay for capacity,” and “the failure of the RPM Performance Assessment to address the IMM’s concerns results in a fatal flaw in this vital review.”⁵

Accordingly, the Ohio Commission respectfully requests that the concerns I have identified and those highlighted by the IMM be seriously considered for inclusion in any formal RPM-related filings at FERC.

Respectfully,



Todd A. Snitchler
Chairman, Public Utilities Commission of Ohio

TAS/ATP/glw

- cc: Raj Barua, Executive Director, OPSI
Douglas R. M. Nazarian, Chairman, Maryland Public Service Commission
Lee A. Solomon, President, New Jersey Board of Public Utilities
William O’Brien, Executive Director, Delaware Public Service Commission
Betty Ann Kane, Chairwoman, District of Columbia Public Service Commission

⁵ November 3, 2011, letter from the States of Delaware, Maryland and New Jersey, and the District of Columbia, p. 3-4.