PIEOUG – Consumer View

PJM Annual Meeting
May 13, 2014
Utility Consumer Advocates were created out of frustration with high prices.

Regulators are not positioned to aggressively question the details of utility proposals that increase prices.

Throughout the decades, our offices have found, time and again, that utility claims about the necessity of high costs cannot be relied on.

We have won billions of dollars in state-level rate reductions yet service has remained safe and adequate.
FERC gives substantial deference to PJM so our involvement in the PJM stakeholder process is key to ensuring just and reasonable prices.

Our involvement in and commitment to PJM’s process goes back almost 15 years.

We seek to bring the consumer perspective to the multiple facets of PJM’s business.

We will continue to support reliability but will always ask whether proposals are reasonably priced.
Generator revenue adequacy is frequently mentioned but is almost never directly discussed in stakeholder deliberations. We believe that concerns about revenues are a motivation behind some changes to the capacity market. Possible energy market changes seem to also point to higher costs. We hope for a direct discussion of the costs of safe, reliable service.
Issues of Concern

- The impact of major capacity market rules on electricity costs.
- Transmission plans and cost allocation to reflect all Order 1000 drivers.
- Reliability issues, including the sea change in generation types.
- The evolution of the PJM energy market, which accounts for the largest portion of consumer electricity costs.
The series of changes proposed over the past year has been exhaustively discussed.

Is the sum total impact of 5 proposed changes within 12 months well understood?

What is the reliability impact of an over-correction in LDR volumes?

We will watch optimistically but with trepidation for the results of the current BRA and beyond.
Planning and Transmission

- Transmission has been the standard, large-scale reliability solution.
  - It is a topic that sometimes divides the states.
    - Upgrades can shift energy and capacity market outcomes.
    - Cost allocation continues to be a source of discomfort.
  - Cost recovery, particularly where incentives are sought, is a source of concern when we consider the very low risk that transmission owners face.
For Consumer Advocates, reliability is a fundamental value. Reliable service is an important delineation between modern society and the past.

Individual consumers bear the brunt of direct impacts when service is not reliable and we underline our support for reliability.

Our focus on reliability leads us to participate actively
- in the development of effective planning and transmission expansion policy in PJM,
- As well as ensuring effective black start service.
Reliability

- The shifting landscape of rules and physical changes in generation are creating unpredictable risks to reliability.
  - The ongoing evolution in the regional generation portfolio can lead to geographic disparities that will force extensive, contentious transmission solutions.
  - Uncertainty about capacity market rules tends to undermine interest in resource investments.
The Stakeholder Process

- PJM’s recent inflexibility regarding some rule change packages makes stakeholders wonder about the future of consensus-building.
- The key topic of what is needed to keep the lights on underlies much of the capacity markets discussion but is never directly discussed.
- We are concerned about the handling of the recent FirstEnergy Petition to change the RPM energy offset. We were concerned by the filing and only discovered PJM’s support for FE when we read the filing.
Many consumers, in every sector, are vulnerable to increases in the price of energy. Consumers should not have to pay unnecessary costs. Many stakeholders and PJM seem to approach market change assuming that the costs of all changes will be paid.
Customer Impacts

- Apparently small increases in costs have significant impacts.
  - For example, an increase in the average energy price of $1/MWh imposes an additional $832 million on consumers.
  - This has a meaningful impact on the region’s economy.
Stable wholesale market prices have protected consumers particularly in restructured states where prices are tied to PJM’s markets.

We are watching closely as the generation fuel mix continues to shift the cost of resources in PJM.

We encourage PJM to continue providing substantial information about the direction and timing of this evolution.

We are concerned that the market uplift process may lead to consumers paying more without an increase in value.
The Role of Consumer Advocates

- Unnecessarily high prices harm consumers.
- 40 States and the District created utility consumer advocates to ensure that the voice of consumers is heard when costs are set for consumers.
- Our role is to ensure that when “safe and adequate” service is discussed that the third leg of the stool, “at a just and reasonable price” is also carefully considered.