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Hon. Bill Beagle
Senate Building
1 Capitol Square
Columbus, OH 43215

Dear Chairman Beagle:

PJM appreciates the opportunity to submit these comments as you consider Senate Bill 155. Senate Bill 155 would enable Ohio's investor-owned utilities with ownership shares in the Ohio Valley Electric Corporation (OVEC) assets to offer bids into the PJM wholesale markets that are below their actual costs. Such bidding practices would likely have an adverse impact on PJM's markets and on the ability for the markets to effectively attract new generation investment in Ohio. PJM does not take a position on whether the subsidization of the OVEC assets is an appropriate policy for the State of Ohio; however, PJM is working with its stakeholders to ensure that subsidies do not adversely affect the competitive nature of PJM's wholesale electric markets which provide much value to Ohio, its consumers, and the region.

PJM is pleased to share what PJM is doing to accommodate the Ohio public policy objectives as reflected in Senate Bill 155, while still assuring the delivery of the lowest cost power and maintaining system reliability.

Role and Benefits of PJM

As a regional power grid operator, PJM manages the reliability of the electric transmission system for 13 states, including all of Ohio, and the District of Columbia. PJM ensures electric reliability across the region we serve through coordinated real-time operations, regional transmission planning, and competitive electricity markets.

PJM is the sole Regional Transmission Operator in Ohio. Its day-to-day operations, market structure, and transmission system planning provide a foundation at the wholesale level for the generation component of retail electricity. As you consider energy policy for the state of Ohio, it's important to understand the critical role that PJM continues to play in assuring an adequate supply of electricity to Ohio's consumers and well-functioning markets that incentivize investment in generation resources and support system reliability at the lowest reasonable cost. For additional background on the roles and benefits of PJM, please see the attached addendum.

Harmonizing State Public Policies with Efficient PJM Market Price Outcomes

The objective of wholesale electricity markets is '*reliability at least cost*'. The performance of the market is aligned with this objective, delivering high levels of power supply resources at competitive prices. Admittedly, however, the market does not explicitly consider other interests, such as the benefits of allowing recovery by Ohio's investor-owned utilities of costs associated with their partial ownership of OVEC assets, the objective of Senate Bill 155.

The recovery of OVEC-related costs that Senate Bill 155 authorizes would enable the Ohio investor-owned utilities with OVEC ownership shares to offer bids into the wholesale market at prices that do not reflect their actual costs. Generation resources that do not need to rely on the wholesale market to recover all of their costs are incentivized to submit lower-than-cost offers. Such offers depress wholesale market prices for other competitive generation owners in Ohio and throughout the PJM region, potentially crowding out merchant competition that relies on its market revenues alone to support investment. In the longer term, this price suppression threatens system reliability. This also results in higher power costs for retail consumers in Ohio and the PJM region by displacing more efficient, lower cost generation resources. For this reason, PJM is taking steps to address these impacts to ensure that the wholesale markets can continue to assure reliability in Ohio and the rest of the PJM region.

The most efficient way to accomplish state policy objectives while retaining the reliability and market benefits PJM provides to Ohio is to incorporate such policies directly into the wholesale market. It is PJM's desire to find pragmatic, workable solutions with policymakers and market stakeholders that preserve the benefits of the markets. To begin a dialogue with stakeholders and with PJM states exploring the implementation of public policy objectives with detrimental impact on efficient market outcomes, PJM has undertaken an initiative to address the impacts of individual state actions on Capacity Market outcomes. PJM issued an initial conceptual paper regarding Capacity Market repricing in June 2017 that has become the genesis of an ongoing conversation among stakeholders in PJM's Capacity Construct/Public Policy Senior Task Force. A variety of stakeholders have offered proposals aimed at accommodating state public policies by ensuring, through Capacity Market rule changes, that state public policy initiatives like those reflected in Senate Bill 155 and efficient Capacity Market price outcomes are not at odds with each other.

We thank the Committee for their consideration of these comments, and look forward to continued engagement with members of the General Assembly to discuss the approach outlined herein.

Respectfully,

Kerry Stroup

ADDENDUM

The Federal Energy Regulatory Commission (FERC) authorized PJM's RTO status in 2002 to independently operate the electric transmission system and administer wholesale electricity markets. Since then PJM has grown to over 1000 members, including each of Ohio's investor-owned utilities, which in joining PJM agreed to abide by PJM's operational and market rules, becoming part of a regional system that achieves approximately \$3 billion in savings across the PJM region annually. These savings result from ensuring reliability through regional planning efficiencies and the management of transmission limits; integrating more efficient supply resources and maintaining a lower reserve margin than would be required absent PJM's geographical scope; dispatching energy resources over a broad footprint and thereby lowering energy production costs; and procuring and operating grid stability resources more efficiently than would be feasible absent PJM's scope. PJM's Value Proposition is presented at <http://www.pjm.com/about-pjm/value-proposition.aspx>.

In restructuring Ohio's retail electricity market in 1999, state policymakers transferred decisions on the entry and exit of power supply resources from a regulated integrated resource plan process driven by the utility to the competitive market. Doing so transferred from captive ratepayers to generation owners those risks associated with decisions to retain or invest in resources. To facilitate market-based entry and exit decisions, Ohio directed the state's investor-owned electric utilities to join Regional Transmission Organizations such as PJM.

PJM is responsible for ensuring in real time, the operational reliability of the high voltage, interstate transmission system and the interconnected generation and load across the region. Also, over a longer planning horizon, PJM is responsible for ensuring infrastructure – both transmission and generation – is sufficient to meet, reliably and cost-effectively, the needs of consumers in our region.

The PJM regional transmission planning process identifies needed transmission infrastructure in the future given ever evolving system conditions to ensure reliable delivery of generation today and into the future. PJM's footprint spans state boundaries, allowing regional solutions to come together in a single, cohesive, optimized plan. Since 1999, the PJM Board has approved transmission system enhancements totaling \$29.3 billion to ensure compliance with the North American Electric Reliability Corporation, regional or local transmission owner planning criteria which has maintained PJM transmission system performance at or above established reliability standards.

PJM's markets are designed to work together to ensure real time operational reliability and long term resource adequacy at the most efficient cost. A forward capacity auction, combined with energy and ancillary service markets, provide the wholesale market signals generation owners and developers use to determine entry and exit decisions to ensure reliability. PJM's markets are agnostic as to resource and fuel types, so do not discriminate or favor one technology, or one specific resource, over another. A

recent PJM analysis has confirmed that the markets are providing appropriate resource entry and exit decisions as well as encouraging technology innovation¹.

To ensure enough power supply resources exist to meet future demand, each May PJM holds an auction to procure resources for a one-year term, three years into the future. These forward auctions serve as one of several electric market signals generation owners use to determine entry and exit decisions. The forward auction has procured sufficient capacity to meet future demand, plus a reserve margin, through May 31, 2021.

In fact, as a result of robust competition, PJM has committed enough resources on an economic basis to result in reserve margins of 23.3 percent above expected demand through May 31, 2021. This reflects a 6.7 percent margin above PJM's own conservative target reserve margin of nearly 16.6 percent. What's more, these robust reserve margins are achieved at highly competitive pricing outcomes. The May 2017 auction saw clearing prices between 23 to 65 percent of the net cost to build a new facility, depending upon the location in PJM, while attracting 2,350 megawatts of new combined cycle gas resources.

Of particular significance to Ohio is the over 11,000 megawatts of new, highly efficient natural gas-fired generation under development in response to wholesale market price signals. Powered by Utica shale gas, these plants represent approximately \$10 billion of investment, according to project developers, in Butler, Carroll, Columbiana, Guernsey, Harrison, Lucas, Pickaway, and Trumbull counties.

Additionally, to address questions regarding fuel diversity given the growing dependency on gas resources, PJM evaluated the reliability of potential future resource mix portfolios². The analysis identified no limit to the amount of natural gas-fired generation that could be added to the system before it affected reliability; but at the same highlighted the potential increased dependency on fuel infrastructure and the need for PJM to further explore grid resilience.

¹ *Resource Investment in Competitive Markets*; PJM Interconnection; May 5, 2016; <http://www.pjm.com/~media/768E4AC9442A428AA83776AFDBF48929.ashx>

² *PJM's Evolving Resource Mix and System Reliability*; PJM Interconnection; March 30, 2017; <http://www.pjm.com/~media/library/reports-notice/special-reports/20170330-pjms-evolving-resource-mix-and-system-reliability.ashx>