

Senate Energy & Public Utilities Committee
PJM Capacity Market and Minimum Price Offer Rule (MOPR)
March 22, 2022

Chair McColley, Vice Chair Schuring, Ranking Member Williams, and members of the Senate Energy & Public Utilities Committee, my name is Lori Sternisha and I am the Federal Energy Advocate for the Public Utilities Commission of Ohio. The Federal Energy Advocate role was established pursuant to the guidance and oversight of the Ohio General Assembly in ORC 4928.24. The primary duty assigned to the Federal Energy Advocate is “to monitor the activities of the federal energy regulatory commission and other federal agencies and to advocate on behalf of interests of retail electric service customers in this state.” This includes both business/industrial and residential retail electric service customers.

Thank you for the opportunity to highlight the recent work of the Federal Energy Advocate team and the PUCO to advocate before FERC for three main policy objectives. The objectives include fair and competitive wholesale markets; ensuring that Ohio ratepayers are not burdened by the public policy initiatives of other states in our region; and to advocate for control of increasing transmission costs. I will speak to each of these in turn.

Fair and Competitive Wholesale Markets

As you know, Ohio is just one of 14 jurisdictions within the PJM region but represents a significant portion of demand and is home to diverse supply within the region. Ohio is a restructured state for the provision of electric supply to retail customers, so we rely on properly

functioning wholesale markets to provide reliable electric service at reasonable prices consistent with state policy.¹

PJM's two most critical markets are capacity (ensuring that enough electricity is available to meet peak demand) and energy (providing power to meet demand in real time). The capacity market is similar to an insurance policy where electric generators are guaranteed an auction clearing price with a requirement to provide electricity when dispatched by PJM in the energy market. Through the capacity market, PJM procures enough electricity to meet demand plus a reserve margin. There has been much debate at PJM and FERC as to whether the capacity construct appropriately recognizes the reliability value that generators in PJM contribute to the reliability of the PJM market.

Recent actions by FERC with regard to the Minimum Offer Price Rule (MOPR) among other rule changes, and the continual revision of the wholesale auction dates over the comments and objections of the PUCO and others is concerning. A wholesale capacity market without appropriate guardrails and clear expectations does not provide reasonable price signals or compensation to all generating resources, hinders investment, competition, and raises concerns as to the long-term reliability that the PJM capacity market was designed to achieve.

For example, MOPR has been through so many iterations at FERC that it has now been watered down to the point that it provides little screen for subsidized uneconomic resources entering the PJM capacity market. One major requirement in the current MOPR is for the resources self-certify that they do not intend to exercise market power. This weaker MOPR ultimately drives down the price of capacity to a point where it may not be sustainable for

¹ ORC 4928.02. The PUCO is tasked by state law to “[e]nsure the availability to consumers of adequate, reliable, safe, efficient, nondiscriminatory, and reasonably priced retail electric service.”

competitive economic generators to continue to operate in PJM. This is why the PUCO has joined with the Pennsylvania Public Utility Commission to challenge MOPR at FERC and now in the 3rd Circuit Court of Appeals.

Impact to Ohio customers of FERC’s Capacity Market Changes

FERC’s actions have directly impacted electricity rates in Ohio. As a result of the MOPR docket, beginning in 2018, FERC has canceled or delayed what was once a firm date for PJM’s wholesale capacity auctions. A “catch up” auction scheduled for December of 2021 has been rescheduled two times and will now occur in June of this year. The PUCO’s standard service offer (SSO) auctions for non-shopping electric customers must occur after PJM’s wholesale capacity price is known.

The three-year forward nature of the wholesale auction allowed the PUCO to approve a structure for the SSO auctions such that the products could be “staggered” and “laddered.” Specifically, the SSO product is intended to blend auctions of one-, two-, and three-year durations and to be procured at regular intervals to minimize the impact of highly volatile capacity and energy prices on customers, as proven by many years of stable default electricity prices in Ohio. Unfortunately, over our objections in comments² (supported by FERC Commissioner Danly), FERC approved further auction delay. As a result, the auction prices this spring to serve SSO customers are higher than previous auctions due to increasing wholesale market prices.

In his most recent report the Independent Market Monitor notes the uptick in wholesale prices in 2021:

² <https://dis.puc.state.oh.us/ViewImage.aspx?CMID=A1001001A22A31B30557G00075>, January 31, 2022.

Table 8 shows that energy, capacity and transmission charges are the three largest components of the total price per MWh of wholesale power, comprising 97.5 percent of the total price per MWh in 2021. The total price per MWh of wholesale power increased from \$44.59 in 2020 to \$65.14 in 2021, an increase of 46.1 percent.³

Public Policy Objectives of Other States in PJM

As other states in the PJM region actively pursue renewable portfolio standards and carbon reductions through public policy objectives, the Federal Energy Advocate has consistently argued to FERC that PJM's wholesale markets and transmission planning cannot be used to meet those objectives without regard to cost allocation. While every state is free to pursue its own generation resource goals, those goals must not result in cost shifts to other states that do not share those same objectives. For example, the Federal Energy Advocate submitted comments last month regarding PJM's filing for New Jersey's off-shore wind project. The costs of this project must be borne by the ratepayers in New Jersey and not cost socialized through PJM tariffs to Ohio ratepayers. Ohio will recognize no reliability benefit from New Jersey's project and our ratepayers should not subsidize the costs of the project.

The Federal Energy Advocate comments recognize the importance of the State Agreement Approach (SAA), a decade old consensus reached by all of the PJM states. Pursuant to the SAA, the sponsoring state or states agrees to pay for all cost of a public policy project proposed by the sponsoring state(s). While complying with the SAA appears to be the intent of

³ https://www.monitoringanalytics.com/reports/PJM_State_of_the_Market/2021/2021-som-pjm-vol1.pdf, March 10, 2022 at p 18.

the New Jersey off-shore wind project, we remain concerned and vigilant against any reclassification of costs with the intent to socialize those to Ohio ratepayers.

Transmission Costs

Before I conclude, I must note the effect of increasing interstate transmission costs in PJM. Transmission has exceeded capacity costs as a portion of a wholesale customer's total bill since 2019.⁴ This is due to several reasons including the proliferation of what is commonly referred to as supplemental transmission projects of interstate transmission utilities.⁵ We continue to press FERC to resolve the determination of need for supplemental transmission projects; a review we believe should be done by PJM or FERC.

We remain committed to our involvement in FERC's recent initiatives to re-examine interstate transmission cost allocation through several initiatives with the potential to further assign transmission costs to Ohio customers. I direct your attention to our comments to FERC in its Advance Notice of Proposed Rulemaking where FERC proposes an "overhaul" of transmission interconnection, planning and cost allocation principles. While there is always room for improvement, cost allocation for transmission has been a settled matter at FERC for many years. Ohio and PJM are fortunate to have transmission and generation close to population centers as reflected by the following quote:

Looking ahead, PJM presented [data](#) showing most (1,560) of the 1,826 proposed generation resources in PJM's interconnection queue lie within 100 miles of

⁴ *Id.*

⁵ <https://dis.puc.state.oh.us/ViewImage.aspx?CMID=A1001001A20G01B25056I00369>, July 1, 2020, at p. 6.

metropolitan load centers. “The takeaway is that 85% of all future resources are within 100 miles of a load center,” David Souder, Executive Director – Planning, PJM.⁶

Thus, we must be cognizant and cautious of the need to build and pay for transmission just for the sake of more transmission.

Conclusion

Through competitive wholesale markets, Ohio retail customers have achieved much – reliable electric service at reasonable cost for both shopping and non-shopping customers. Ohio is fortunate that generation resources of many types are seeking to site facilities in our state and as a result economic development is enhanced for all. At the same time, Ohio’s carbon reduction rates are among the best in the PJM region.⁷ We must be vigilant to continue this progress while continuing to advocate for strong competitive wholesale markets and reasonable costs for Ohio’s electricity consumers. Pursuant to the laws and guidance of the Ohio General Assembly, the PUCO and its Federal Energy Advocate team is dedicated to continuing this important work on behalf of all of the citizens of Ohio.

⁶[Potential Reforms for Transmission Planning, Cost Allocation and Generator Interconnection Discussed | PJM Inside Lines](#)

⁷ [2020-ohio-state-infrastructure-report.ashx \(pjm.com\)](#) at pp. 41-42.