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BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

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PJM TECHNICAL CONFERENCE :  
WITH STATES AND MARKET PARTICIPANTS:  
- - - - -x

Wyndham Hotel  
Grand Ballroom  
Wilmington, Delaware

Thursday, August 28, 2003

The technical conference commenced at 1:10 p.m.,  
Pat Wood, III, Chairman, Federal Energy Regulatory  
Commission, presiding.

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P R O C E E D I N G S

(1:10 p.m.)

CHAIRMAN WOOD (Presiding): If everyone could take a seat, please, we'll go ahead and get started. All right. Good afternoon. I'm Pat Wood, Chairman of the Federal Energy Regulatory Commission. I'd like to welcome all of you to our Fifth Regional hearing on the state of the Wholesale Power Market here in the PJM region.

As you know, one of the things in our standard market design rulemaking amendments that we made in the white paper of April of this year, was a commitment that we would, in each region of the country where RTOs are either functioning or are being formed, that the Commission would have a hearing to visit with the state regulators, and I'm pleased to see such a nice number here today, and to the market participants in each region, as well as the professional staff of the RTO or ISO.

What is the state of the power market? We've laid out eight criteria in the wholesale power market platform that were distilled from our experiences in the post-order number 2000 world and the post-California world, a number of attributes that we deemed to be critical to successful wholesale power markets. And more importantly, we want to build on that framework today to talk about what needs to be done to make sure that this market works even

1 better than it does today.

2 I had the pleasure of sitting in the back of the  
3 room earlier today during the market participants' meeting  
4 and got a good sense for the type of interaction that goes  
5 on at the market participant level that feeds into the  
6 ultimate decisions of the RTO here. And based on a three-  
7 hour meeting, I was impressed with what I saw, the level of  
8 interaction, the level of detail. I think the lack of  
9 reservation of people to say that they don't agree with  
10 something, that's always the sign of a good, health  
11 organization, and I'm pleased to see that working as it does  
12 here in PJM.

13 I want to encourage you folks, the state  
14 commissioner colleagues and market participants here in the  
15 PJM interconnection today to be open and frank. We will  
16 have a transcript here, and David, from Ace Federal  
17 Reporters, is here. Please, when you talk from your seat  
18 today, please state your name and if you'd care to state an  
19 affiliation, a company, or another interest, please do so as  
20 well. That will facilitate making a good transcript for  
21 this. But we have a transcript that will be in our  
22 rulemaking record. But our more informal format today with  
23 panelists and the nice U-shapes here that worked so well  
24 here this morning are intended to make it more of a give-  
25 and-take, more of an exchange, and more of a learning

1 experience for Nora and me.

2 And our colleague, Bill Massey, could not be here  
3 today. He's represented by Bud Earley from his staff. We  
4 have a number of other FERC staff here today whom I'll  
5 introduce later in the afternoon. But what's really a  
6 learning experience for us -- I'm sorry we don't get out  
7 here more often than we do, but I do want to understand,  
8 from you all who live and work here, just how PJM is doing.

9 I will say, from our perspective, PJM is viewed  
10 and likely I think to be a market model for wholesale power  
11 trading, for regional planning, for coordinated real time  
12 dispatch, for economic congestion management, for  
13 independent grid operation and importantly, as we saw a  
14 couple of weeks ago, for reliability. It has set a template  
15 also for strong inclusion of market participants and state  
16 regulators in the decisionmaking process but again, like any  
17 good enterprise, PJM should and does continue to improve its  
18 market.

19 That is our goal today, to identify what issues  
20 need to be moved forward, either through any action we can  
21 do at FERC, or through something the states can collaborate  
22 with, or something that can originate here from the PJM  
23 organization and market participants directly.

24 Again, we view this as we always have. The  
25 wholesale power markets are a collaborative effort of many

1 good, publicly minded people.

2 With that kickoff today, I would like to ask a  
3 daughter of the PJM to speak as well.

4 COMMISSIONER BROWNELL: Thank you. Hard to add  
5 to your eloquence except to say that I'm thrilled to be back  
6 home again. It's amazing when I look at the evolution of  
7 PJM from my early days as a state commissioner. I'm  
8 thrilled to note we're all aging with style and grace.

9 So, Phil, good job. I really appreciate  
10 particularly the leadership that the state commissioners in  
11 the PJM region now, the expanded PJM region, have shown in  
12 developing issues, in being an active part of the energy  
13 debate, and in being willing to step out in front and  
14 identify issues and solutions. This is a real solution-  
15 driven group. I believe that to be true of all the  
16 stakeholders within PJM, and I'm really pleased to see the  
17 evolution into a larger organization, and the inclusion and  
18 leadership of my friend, David Hadley, and his colleagues in  
19 the midwest.

20 So I look forward to this afternoon. This is an  
21 exciting time because it's good to have leaders and it's  
22 good to be recognized as PJM, I think, was recently during  
23 the blackout. But we can always get better, and I also  
24 appreciate your willingness to do that. So thank you.

25 CHAIRMAN WOOD: We'd also like to invite some

1        comments from our colleagues on the state commissions.

2        First we have Gail McDonald from Maryland.

3                    COMMISSIONER McDONALD: Thank you, Pat. I am  
4        here joined by my four colleagues. They're kind of handsome  
5        men wearing glasses. We had hearings this week so they have  
6        red eyes. You'll see them. Let's see the hands.

7                    (Show of hands.)

8                    COMMISSIONER McDONALD: We're also pleased to  
9        have, representing Governor Robert Ehrlich, Michael Richard,  
10       head of the Maryland Energy Administration. Needless to say,  
11       I'm also here as president of the Mid-Atlantic Conference of  
12       Regulatory Commissioners or MACRUC.

13                   I'd like to thank, on behalf of MACRUC, you,  
14       Chairman Wood, and Commissioner Brownell. We are delighted  
15       to have this opportunity to talk with you today. And I  
16       would be remiss if I didn't recognize your staff, who  
17       valiantly put this together -- Sara McKinley, Ed Myers, and  
18       Kevin Cadden, among others.

19                   I'd also like to thank PJM and Phil Harris, who  
20       have included us in an important meeting of theirs and have  
21       given us the opportunity to meet more PJM colleagues.  
22       Certainly our staff members at PJM, Denise Foster and Craig  
23       Glazer, put up with numerous queries from the states, and we  
24       are grateful to them for their efforts.

25                   This afternoon, before Phil Harris makes his

1        comments, you'll hear from four outstanding Commissioners in  
2        the following order: Chair Arnetta McRae of Delaware will  
3        talk about the PJM market. After that, you'll hear about  
4        the PJM process from Commissioner Fred Butler of New Jersey.  
5        He will be followed by Commissioner Kevin Wright of  
6        Illinois, who will have a new member state's perspective.  
7        Finally, Glen Thomas of Pennsylvania will discuss future  
8        challenges and give us some of his recent insights based on  
9        the important work he's been doing on Capitol Hill.

10                Let me make a few brief comments about PJM and  
11        the SMD white paper, the reason we are all here today. The  
12        states in the PJM footprint have enjoyed years of benefits  
13        from an integrated power pool. Ever since becoming an  
14        independent system operator, and subsequently a regional  
15        transmission operator, PJM has kept up with massive changes  
16        in the wholesale sector and complied with the attendant  
17        federal regulations. They've also made significant efforts  
18        to understand our retail sector and the state regulations  
19        which we deal with. Still, there are some areas where we  
20        think there needs to be some improvement. You will hear  
21        about these in detail from the regulators later.

22                Several MACRUC member states have been active  
23        participants in the SMD debate since you released the notice  
24        last summer. While it was only a year ago, it seems like  
25        there have been many years spent on writing and talking

1 about it. I believe, and so do many of my colleagues, that  
2 we have really spent too much effort reacting to the  
3 original proposals. And I would like to see us fashion a  
4 revised proposal in a collegial manner. We want to go  
5 forward. The meetings are certainly helpful in this regard.  
6 But we need to ensure that there are follow up actions which  
7 will ensure that we have a vibrant wholesale electricity  
8 market, thereby resulting in helping retail electricity  
9 programs in each state.

10 We understand the obstacles caused by diversity  
11 even in a tight knit region such as ours, but with an open  
12 dialogue like you have undertaken today, I believe that  
13 there will be much progress.

14 This brings me to another important issue. FERC  
15 needs to resolve the AEP matter as soon as possible. I  
16 believe an early resolution will resolve some of the  
17 uncertainty among market participants. For example, one  
18 cannot say, with complete confidence, what the current  
19 configuration of PJM is. Do we work with nine commissions  
20 or fourteen.

21 Finally, we are all going to be busy in our  
22 jurisdictions reacting to the recent outage. I would like  
23 to take this opportunity to encourage the public and the  
24 media to give the technical experts time to analyze the data  
25 involved. Once a report is released, is important to all of

1 us -- FERC, state colleagues, PJM and market participants --  
2 to work towards solutions, and we know we can do that.

3 I look forward to your comments today and to  
4 participating in the discussion further this afternoon.

5 CHAIRMAN WOOD: Thank you, Gail. We also have,  
6 from one of the newer PJM states or states-to-be from David  
7 Hadley in Indiana, also a leader of the MISO hearing that we  
8 had about two months ago. We're glad to have you here at  
9 PJM as well, David. The mike is yours.

10 COMMISSIONER HADLEY: Thank you very much,  
11 Chairman Wood, Commissioner Brownell, Mr. Harris, and for  
12 all the colleagues here that are joining us today. It's a  
13 privilege to be able to be part of this discussion and to  
14 hear the ideas that have been exchanged already this morning  
15 in the PJM members' meeting.

16 One of the things that has occurred in my life  
17 since the outage occurred that I'd like to share with you is  
18 that now, on the front screen of my computer, is a picture  
19 of the North American continent at night with all of the  
20 lights that showed. Many of you have seen that.

21 In that map now is this large, vast, dark hole  
22 where the blackout was. It's very prominent, very easy to  
23 see. At the same time, Mars is as close as it's been in  
24 60,000 years to the planet earth. After extensive analysis  
25 of all of the events, it's pretty clear, to me and to other

1 stargazers that I represent, that, thanks to SMD, we have  
2 now had a blackout and because of the blackout, we now have  
3 a large, black hole that sucked Mars closer to earth so that  
4 we can all see it.

5 (Laughter.)

6 COMMISSIONER HADLEY: Many years of analysis to  
7 go into that and a lot of statements have been made about  
8 that event already. I would echo Commissioner McDonald's  
9 thoughts that the reams and reams of factual data that will  
10 be released shortly will give us plenty of opportunity to  
11 make the analysis and the policy recommendations that will  
12 flow from that. That's where the real debate should begin.

13 With these few welcoming comments today, I  
14 thought I would reference Christopher Reeve, the actor  
15 superman with the tragic horse accident that left him  
16 paralyzed. In a new book that he has out, Nothing Is  
17 Impossible -- think of that what you might in this context  
18 -- he lists several goals that he has derived from his  
19 experience. And I'll just pick out a few select ones.

20 The first one was "let the first shock pass."  
21 That might be wise counsel for us after August 14th. Now is  
22 not the time to create more market uncertainty by delaying  
23 for three years the implementation of SMD and the benefits  
24 that it can derive for certain regions that choose to move  
25 forward in this country.

1           The blackout in Indiana at least is not pushing  
2           our state to cut all of our interconnection ties with all of  
3           the other states surrounding us and becoming an island,  
4           totally independent of the rest of the country. That won't  
5           work in our location from a midwest perspective and  
6           certainly from PJM's perspective, I would believe.

7           A second lesson learned from Christopher Reeve is  
8           find solutions, not limitations. Today our grid is  
9           interconnected. Our oversight of that grid is not  
10          connected. Our rules, even our definitions of key terms,  
11          are not connected as they should be. Even our transparency  
12          that we've talked about so much in these types of meetings  
13          is still not connected as it needs to be.

14          Clearly, individual utilities, during the event  
15          of the 14th, could not see past their footprint. Even RTOs  
16          such as PJM, New York ISO, New England and Midwest ISO were  
17          limited by their footprints as well. Those are our  
18          limitations and we need to recognize them. So let's find  
19          solutions. Simple examples, such as data collection points  
20          being spread out as necessary to monitor voltage flows, is  
21          the type of early beginning transparent openness of the  
22          systems that would allow our RTOs to more effectively  
23          monitor our interconnected grid.

24          Market formation must be as transparent and as  
25          timely as possible. That's a broad goal that's been talked

1 about consistently. We need to find solutions to implement  
2 that. We do need a joint and common market to resolve the  
3 very limitations that are so obvious and define the  
4 solutions we all expect, and our consumers deserve.

5 A third lesson learned is get busy. There've  
6 been numerous cries to FERC to make a decision about issue  
7 after issue so that we can have market certainty. Certainly  
8 you recognize some of those and have been making those types  
9 of decisions. A clear example for me is that individual  
10 parties made voluntary decisions on RTO formation that they  
11 wished to pursue.

12 Those voluntary choices not made by FERC but made  
13 by parties clearly resulted in many concerns. You acted by  
14 placing conditions upon those configurations and the choices  
15 voluntarily made. July 31st, 2002, that order came out.  
16 Those decisions were made by FERC. June 4th, 2003, once  
17 more you had to say we really meant what we said July 31st.  
18 There are issues that were concerns that need to be resolved  
19 prior to any systems being transferred.

20 Once again, July 23rd, you had to reiterate again  
21 so FERC had made some choices and made voluntary  
22 participation possible. Three times to say what you really  
23 meant was pretty clear to me, and I would urge the business,  
24 that so many parties have been part of to try to integrate,  
25 has recognized that clearly the components listed in the

1 orders also need to be dealt with by the parties.

2 Then in the blackout and the apparent lack of  
3 effective communication that we've read so much about, in  
4 spite of the very effective communication that did take  
5 place, and to try to resolve the differences, it would seem  
6 that those conditions are the bare minimums that should be  
7 expected.

8 When parties cannot even agree to a definition of  
9 hold harmless and what that means, the confidence of the  
10 regulator is really shaken. But more serious solutions to  
11 these real issues you raised in you order, have not been  
12 addressed in a way that has resulted in final solutions to  
13 those. We need the transparent market, a common market,  
14 standard enforceable rules that all parties understand,  
15 recognize, and can play with.

16 Much work has been done but there's much to get  
17 busy to conclude. Congress moved us down this path with a  
18 vision in 1992 in the Energy Policy Act. That vision was  
19 about regional development of the grid. Just as the  
20 blackout spanned our borders that we're so proud of as  
21 individual states, in a matter of mere seconds, it even  
22 better highlights for me the need for cooperation between  
23 federal and state regulatory bodies in a way that we can  
24 improve regional planning and oversight, which you outlined  
25 so well in the white paper.

1           States asked for more than an advisory role. You  
2 gave us more than that. It's our obligation now to find  
3 creative ways to fulfill that. We look forward to moving  
4 each of these issues along and many more from our colleagues  
5 and other participants today.

6           Thank you for this format, for your willingness  
7 to try to come to the country and listen and learn and  
8 apply. Thank you.

9           CHAIRMAN WOOD: Thank you, David.

10           As we have with the other road shows here, we'd  
11 like to start with a good framing of all the developments in  
12 the given RTO by talking to the leader of that. Today, we  
13 have Phil Harris, the well-regarded CEO of the PJM  
14 Interconnection, to lay out some overview issues that I  
15 think will frame our discussions for the rest of the day, as  
16 well as point out some issues from the CEO's perspective of  
17 where PJM is in compliance with FERC's white paper that we  
18 put out in April.

19           We'll go sit down and let Phil have the stage so  
20 we can look at his slides there, and we'll go on from there.

21           (Slide.)

22           MR. HARRIS: Thank you, Mr. Chairman,  
23 Commissioner Brownell, Commissioner Hadley and Gail, thank  
24 you very much. First of all, I did want to make a few  
25 comments about the August 14th events.

1 (Slide.)

2 It was certainly the largest blackout to ever hit  
3 the grid in our history. And it is unbelievably significant  
4 event. I think there's a few things we want to look at as  
5 we look at that.

6 (Slide.)

7 First of all, you know, there were some things  
8 that worked. Certainly in New England, PJM, and other  
9 areas, there are some things that worked but what I want to  
10 assure you, Mr. Chairman and the other Commissioners, is  
11 that we recognize that every time there's a system  
12 disturbance, there's things to learn, and we take this quite  
13 seriously. We are going to learn, we're going to look at  
14 this in the detail that's necessary, give it the diligence  
15 it desires, and apply those to our rules, practices, and  
16 procedures as soon as practicable.

17 It was for that reason that we basically put a  
18 standstill to the ComEd integration, doing all that we need  
19 to professionally and engineering-wise to look at these  
20 events and make sure they're incorporated so that when we do  
21 move forward to the next stage of development, you can have  
22 the assurance that the reliability of the grid will be  
23 enhanced as a result of that. We take that quite seriously  
24 and reliability is job number one.

25 The other thing, Commission Hadley, basically

1       what you're saying, the Eastern Interconnection is a  
2       synchronized motor. It's the largest interconnection in the  
3       world at over 600,000 megawatts. One thing we learned from  
4       the blackout, it is a single synchronized motor. Things can  
5       happen in seconds. We found that regional planning, when we  
6       look at what PJM does, how we do our work, that regional  
7       planning is the key. And I think back to our development in  
8       the early nineties, and I want to say thank you to each of  
9       the state commissioners.

10                You may recall it was in early 1995 when the  
11       state commissioners in the mid-Atlantic stood up and said,  
12       we can't allow you to go forward with competitive markets  
13       till you have a reasonable planning protocol in PJM. It  
14       took us two years to develop that protocol. But as a result  
15       of that, we've been able to have transmission enhancements,  
16       generation upgrades, interconnection and being able to  
17       slowly and incrementally upgrade the grid over time. And I  
18       think regional planning through this huge, interconnected,  
19       synchronous motor is absolutely a key reason for what's  
20       necessary to move forward.

21                We have to be wise about investment. There's a  
22       lot of discussion this morning on local market power  
23       mitigation and how that can impact or not impact an  
24       investment, and we need to deal with that. We find that  
25       price transparency is absolutely essential in some areas of

1 the country. I know when I talk to them, they'll mention  
2 that we have bilateral markets but they don't have price  
3 transparency. There's no way to judge all those markets are  
4 working or not working, and LMP does that. It sends the  
5 right signals to the right locations.

6 Incentive based structures complement the  
7 planning process. We need distributed generation. We need  
8 demand side. We need to incentivize ways for transmission  
9 owners to get fair returns on investments and ways the  
10 generators can locate appropriately and get the returns they  
11 should.

12 All of those things are complementary and work  
13 well together if you're going to have a robust, regional  
14 market. We're seeing things in that that worked very well  
15 during this outage, and we're going to learn from what we  
16 need to and be able to move forward in a much more proactive  
17 way, Mr. Chairman.

18 (Slide.)

19 I think the best thing on the white paper is the  
20 old saying that the main thing is to keep the main thing the  
21 main thing. In 1992, there was a law of the land and that  
22 law said that generation competition at the wholesale level  
23 is the law of the land. And we're still eleven years into  
24 it and we haven't put it into effect throughout the land  
25 yet.

1           You can't make generation be competitive in a  
2           commercial way without solving the transmission issues. We  
3           need these standardized attributes. The fact of the matter  
4           is the 600,000 megawatt synchronous motor has served over  
5           two countries, 33 different entities, seven Canadian  
6           provinces, 38 states, 22 security coordinators, 120 control  
7           areas, eight regional councils, two RTOs, three maybe RTOS  
8           and two wannabe RTOs.

9           (Laughter.)

10          MR. HARRIS: So if you do the combinations and  
11          permutations to the number of ideas and services and what a  
12          single attribute can be, it's an unsolvable problem. We  
13          need leadership. We need a way to standardize and yet  
14          recognize the need for regional differences to go forward,  
15          and we can't do it without that kind of leadership taking  
16          place.

17          I feel a little bit like I did in the first grade  
18          where a teacher came to me once and said, here's your test;  
19          we'd like for you to self-grade it and turn it back in. So  
20          you've asked us to comment on what we think about how we  
21          complied with the paper, and I went back and looked at our  
22          history.

23          (Slide.)

24          I guess, teacher, if you asked us if we passed,  
25          we'd say we passed. We do think we're compliant with the

1 elements as we understand them. But in saying that --

2 (Slide.)

3 -- one of the things that we have learned in operating PJM  
4 is the old proverb. As iron sharpens iron, so one person  
5 sharpens another. And it takes that meaningful stakeholder  
6 process where people engage, where they put their ideas on  
7 the table, where we can debate them, understand them, engage  
8 in them, make the decisions appropriately in the right way.  
9 We've been doing this for a little over six years, and we're  
10 not through.

11 I dare say if you had this technical conference  
12 15 years from now, and you said "did we comply" you're still  
13 going to get differences of opinion. We've made over 200  
14 changes to our rules, processes, and procedures since we  
15 started in 1997, and we'll be making hundreds of changes as  
16 we move to the future. It is a continuous improvement  
17 effort. If you ask, at a point in time, based upon the way  
18 we understand your white paper, we would say, at this point  
19 in time we comply.

20 If you asked us, are we through yet; are there  
21 things that we can't improve, we say absolutely not. It's  
22 continuous improvement. There are things we need to sharpen  
23 our pencils on and move together more closely. Are we  
24 compliant with being independent? We have received RTO  
25 status. We think we are the sole provider of the

1 transmission service and administrator of the tariff. I  
2 think certain court cases have brought up some issues on 203  
3 rights, and we think we provide the clarity of that. With  
4 the white paper as it's stated, we do think we meet that  
5 particular role. We are the sole authority for the  
6 interconnection request.

7 As a result of that, we have a number of  
8 generation units that have been able to come onto PJM and  
9 add to our reliability. And we certainly do interregional  
10 coordination.

11 (Slide.)

12 On the planning process, again, this was  
13 something that the states insisted on, and we're so thankful  
14 they did back in '95. We do have a region-wide planning  
15 process that has continued to improve. When we do the  
16 technical assessments, we work very closely with state  
17 authorities and provide the independent assessments that are  
18 necessary to ensure that you have reliability to be  
19 delivered. One of the key things that we use -- and I want  
20 everybody to say this together -- simultaneous feasibility  
21 deliverability test.

22 (Laughter.)

23 MR. HARRIS: Basically what we say is, as a new  
24 generator comes onto the system, we look at it to make sure  
25 it can be reliably delivered anywhere on the system. What

1 that means is, every time you have a generator, your system  
2 is more reliable. Because of participant funding, they've  
3 been able to add the upgrades necessary to the system.  
4 We've been doing that for the past six years. Do we need to  
5 continue to improve? Absolutely.

6 You told us in July 2001 to consider economics.  
7 We've been working to get closure on that and to be able to  
8 determine how we take economics into consideration through  
9 our planning process. We're finalizing those processes and  
10 to try to understand how we do that, and what thresholds  
11 we're looking at through our stakeholder process. And we do  
12 have recovery mechanisms for regional transmission  
13 expansion.

14 (Slide.)

15 You ask about the fair cost allocation for  
16 existing and new transmission. Again, the rate issue is one  
17 that basically FERC has but we have the postage-stamp  
18 concept that's been out there and talked about. We found  
19 that over the six years, the license plates have worked. We  
20 have a workable model that allows you to deliver power into  
21 a zone and to pay the one rate for it at the zone you  
22 receive.

23 We have ways that can be looked at. You required  
24 us to eliminate some of the multiple border rates and we're  
25 looking at that, and the pricing policy for the cost of new

1 transmission expansions which you just approved for us  
2 recently in a compliance we made on economic upgrades.

3 So we have those essential elements that allow  
4 for the transmission to be brought into and ultimately  
5 priced as we move forward essentially.

6 (Slide.)

7 Market monitoring and market power mitigation.  
8 Do we have an independent market monitor? We believe we do.  
9 Do we have market power mitigation measures? There are some  
10 may feel that we have more, there some who feel we may have  
11 less. The bottom line is you look at the past six-and-a-  
12 half years with our markets and the way they've worked. I  
13 think the market power issues have been solved. They have  
14 been worked through in the various levels.

15 The critical test of that is the test of use. Do  
16 we have tariff limitations on the bidding flexibility? Yes.  
17 We've been able to adjust those where necessary and we are  
18 working on our local market power mitigation rules you'll  
19 certainly be seeing and I'm sure welcoming on September the  
20 30th, when those filings are made. Then a clear market rule  
21 designed to prevent market manipulation strategies.

22 Probably one of the keys to this is data and  
23 information. We have a tremendous data base that our market  
24 monitor is able to look at, evaluate, work closely with the  
25 states to have an understanding of our market. Certainly

1 the issues we've seen in other parts of the country happened  
2 and occurred because all of the information was available,  
3 transparent and implemented in right and appropriate ways.  
4 We have that element taking place in PJM.

5 (Slide.)

6 You ask if our spot market meets the customers'  
7 real time energy needs, and we think this is one of the  
8 strengths. It is transparent. You look at E data, and many  
9 of you do, and you'll see that the prices come across there;  
10 the real time market does work. Basically you have -- last  
11 year we had about \$4.7 billion of billings and about 87  
12 percent or so of that was the energy market. The energy  
13 market is the market in which most of the things take place.  
14 And we have detailed market rules in various FERC approved  
15 documents, and of course the day-ahead market integrated  
16 with congestion management with our in-storage services  
17 allows this to happen. I think the important thing here is  
18 the way this was incremented.

19 When PJM first got started, if you'll recall, we  
20 started bidding our costs for one year. Many people look at  
21 us today, six-and-a-half years, and say, we want a market  
22 like this. They don't realize we got into that  
23 incrementally. We bid costs for a year. Once we learned  
24 that, we started bidding at market-based rates, then we went  
25 into LMP and the energy market. Then we added ancillaries

1 later.

2                   It was this little step approach with little feet  
3 that has allowed us to get this robust, competitive market  
4 today, transparent efficiency and congestion management.  
5 This is of course one of the things locational pricing does  
6 for you. I assures with that transparency, you can be  
7 protected against manipulation because you're the one that  
8 can see the data. By seeing the data and being able to  
9 respond commercially, you can utilize the grid more  
10 efficiently and more effectively, and also promote the use  
11 of least-cost generation, and of course the transparent  
12 market mechanisms do send the appropriate price signals.

13                   (Slide.)

14                   Do we have the firm transmission rights? We  
15 think we are compliant with that. Do we think they are  
16 available? They've been added to, they've been learned.  
17 We've seen what did not work well and what can work well.  
18 We've gone to the point of adding the auctions, and the  
19 options products for that. That seems to be working quite  
20 well throughout the region.

21                   If you look at that also with the other things  
22 that have been value-added to the PJM market, such as the  
23 NYMEX futures contracts that at first of course failed. Now  
24 they seem to be getting a certain degree of liquidity all  
25 based upon the PJM risk. It's when you get the third party

1 reference from the financial community having trust in your  
2 markets, saying your markets really are working well.

3 (Slide.)

4 Resource adequacy. Because of the regional  
5 planning requirements, we think that we do meet that. We've  
6 been able to adjust and move that as the market has expanded  
7 with APS and other entities. The states review those  
8 approaches. And I think the generation mix that we have,  
9 the way that we understand the issues, the way we know how  
10 to look at the issues moving forward so that that is working  
11 out quite well.

12 We also operate various capacity markets. The  
13 capacity markets, I think, are forever improving.

14 (Slide.)

15 So what are our next steps? Although, in that  
16 quick overview, we think, if we stop and look at it and look  
17 at the elements, we could say, sure, we think we do meet  
18 those. We think our experiences show that we are compliant.

19 Do we have a perfect model? Not by a long shot.  
20 Do we need ways to improve? Yes, we can improve today, we  
21 can improve tomorrow, we will improve next year as we move  
22 forward. It's the continuous improvement that we looked at  
23 changing our committee procedures. The members looked at  
24 how we can do things like how you provide advice to your  
25 independent board in the right way. How do you debate the

1 issues amongst ourselves as we're doing with 200 and 300  
2 members at a meeting.

3 We just sent to you for approval some new  
4 protocols that we're implementing and I think these will be  
5 very healthy to enable us to engage in the sophisticated  
6 debates that we have to engage in as we make continuous  
7 improvements to the market and to the market design. It is  
8 people working together to try to reach a common good, and  
9 we need to do that better.

10 We have to look at capacity market reform.  
11 Again, I think this is a forever thing. We have to improve  
12 but we have a resource adequacy model process that's being  
13 looked at, so we can take that to new levels from where we  
14 are today.

15 I mentioned the state PJM board process.  
16 Certainly with the other states coming in, leadership, like  
17 Chair Hadley here, looking at these things so we can figure  
18 out the best way the states can work with the membership and  
19 with the board. Particularly as we move forward, we think  
20 we have a model, we think a bunch of that is working, but it  
21 will be improved along the pace as we grow. And certainly  
22 on the demand side response elements in our economic  
23 planning protocol encouraging the demand side to distribute  
24 generation and the other side to be a functional and equal  
25 part of the market as we move ahead are important steps for

1 us as we move to the future.

2 (Slide.)

3 The bottom line, looking at it, did we pass?

4 Well, reliability has improved, new power has been there, --

5 (Slide.)

6 -- prices have been stable and demand side response has

7 worked within PJM.

8 That concludes my remarks, Mr. Chairman.

9 CHAIRMAN WOOD: Thank you, Phil.

10 We will engage in questions and comments about  
11 this in the last segment of the program, which is a large  
12 hour-and-a-half or so. At this point, they were already  
13 introduced by Gail, so I will turn it over to, I believe,  
14 Arnetta, you're first, and let you all go through the state  
15 regulator perspective on PJM.

16 CHAIRPERSON McRAE: Good afternoon. I'm  
17 delighted to be here today to participate in this gathering  
18 relating to the technical activities in our region. I want  
19 to thank Chairman Wood and Commissioner Brownell for  
20 allowing us this opportunity. It also affords me the  
21 opportunity to showcase the fact that, despite popular  
22 rumor, I am not the single issue poster child for congestion  
23 issues.

24 That there are a number of things that I would  
25 like to discuss today, so I do appreciate this moment. I

1 would say, in general, that we are very much in agreement  
2 with much of what you've heard from Phil Harris. We do  
3 believe that the energy markets in PJM are working well.  
4 That has to do with the real time, day-ahead, the FTR  
5 market, ancillary services market and the capacity credit  
6 market.

7           There are some concerns we have about specific  
8 markets on which I will elaborate a little later, but I do  
9 want to confirm that the states in general, and I also  
10 should point out at this juncture, that I'm not speaking on  
11 the basis of the opinions of the collective, so I say the  
12 states in general and there may be variant views from place  
13 to place. But by and large, I think the states in MACRUC  
14 are quite satisfied with the experience we've had with PJM.  
15 There was some discussion about the market monitoring unit.

16           I would say that we have every confidence in Joe  
17 Bowring. I in fact spoke with him very recently about some  
18 of the plans that the unit has, moving ahead to involve the  
19 states. We're encouraged to see that there is an objective  
20 to be inclusive. At the same time, however, I think it's  
21 necessary to point out that there are existing now barriers  
22 that don't allow us to work fully in a cooperative  
23 relationship, one of which is the fact that PJM is subject  
24 to certain operating agreements that do not allow it to  
25 disclose certain data to states, even if we were willing to

1 buy into a confidentiality arrangement.

2 I do believe that that, to some extent, poses  
3 some barrier to the free exchange of information that states  
4 need in order to carry out their responsibilities at the  
5 local level. I'm told that that's something that maybe  
6 we'll get a chance to discuss at a future time, but I do  
7 want to make note of that point.

8 Also the states would very much appreciate being  
9 kept in the loop as to what is going on within the market  
10 monitoring unit. We certainly know that it's been formed,  
11 and I'm sure that it's quite active. But thus far there has  
12 not been as much dialogue back and forth with the states as  
13 to what precisely is occurring. So that's an area we also  
14 ask for PJM to take a further look at. And I also have  
15 gotten confirmation from Joe that that will be occurring.

16 Now on locational, marginal pricing, let me say,  
17 and make it very, very clear, that Delaware and many other  
18 states in MACRUC support the notion that locational,  
19 marginal pricing is the way to go. The difficulty we have  
20 is that in some areas that are physically constrained by  
21 geography or whatever, it may not be the best approach to  
22 pricing. I think I heard Phil Harris say something to the  
23 effect that if you signal, they will come -- not quite those  
24 words but I do believe that that's the prevailing view about  
25 how helpful locational, marginal pricing is. That by

1 sending out these signals that you're going to attract the  
2 kind of investment that's needed in certain areas.

3 My question and concern is, what if it doesn't?  
4 We have spent a number of months and years and certainly  
5 considerable time in meeting with representatives of FERC,  
6 as well as PJM and others, discussing this subject. I  
7 assume that's how I came to be known as the poster child for  
8 congestion.

9 But I would love to be the poster child for the  
10 success story and I ask the cooperation of PJM, FERC, and  
11 others, in helping me resolve me and the other states on the  
12 Delmarva Peninsula helping me resolve that issue so that I  
13 can go to the south and the west and wherever else I'm  
14 needed to tell a great success story. So on LMP, we're  
15 silently on board but we need help when nobody responds to  
16 the signal.

17 As far as FTRs, which is a part of the firm  
18 transmission rights, I was encouraged, in looking in the  
19 white paper, to see that FERC is suggesting that the states  
20 get together and work with PJM on talking about how you  
21 allocate those FTRs. I've been a commissioner for several  
22 years. I must say that one of the most elusive subjects for  
23 me has been FTR allocation. I don't believe that I'm a  
24 unintelligent woman but I have struggled very mightily to  
25 understand exactly how FTR allocation works. On a going

1 forward basis, it is my hope and expectation that we will  
2 come up with a way to manage FTRs that we can all understand  
3 regardless of our level of sophistication in financial  
4 matters and investment protocol.

5 The other thing I want to just briefly comment  
6 on, and then I'll give others and opportunity to speak, is  
7 transmission rate issues. I know that there has been a good  
8 bit of discussion about transmission surcharges and  
9 incentives. One of the questions I think that we want to  
10 put out to those who are promoting this idea is that there  
11 has not been, to my knowledge, any recent rate cases to  
12 determine whether we are already dealing with just and  
13 reasonable rates. When we begin to add surcharges and  
14 incentives without having had that kind of examination,  
15 there certainly is the potential for over-compensation.

16 On another matter, the discussion of elimination  
17 of rate pancaking, there has been talk about removal of  
18 through-and-out rates that may well be a doable course of  
19 action. But, again, I would mention that there are costs  
20 associated with having power flow through regions, and there  
21 has to be a means to adequately address the fact that that  
22 has some impact on the participating groups within that  
23 region. So whatever pricing methodology is ultimately  
24 agreed upon, it must take into account the fact of  
25 fundamental fairness that the cost causer also assumes that

1 cost obligation.

2 I think with these brief remarks, I have just  
3 shared with you what I think are easily surmountable  
4 problems when we're working together as a team. I have, as  
5 a commissioner for eight years, historically enjoyed quite a  
6 good relationship with PJM and my fellow colleagues in the  
7 states and MACRUC, as well as the representatives from FERC,  
8 the two specifically here today, Chairman Wood and  
9 Commissioner Brownell, have kept a real open door to  
10 Delaware.

11 So I want to personally, publicly thank them for  
12 being willing to indulge Delaware and also encourage PJM and  
13 others that we're working with, let's look jointly for  
14 solutions that we all benefit from.

15 Thank you so much.

16 COMMISSIONER BUTLER: Thank you. Good afternoon.  
17 I want to echo Chair McRae's comments about open doors and  
18 thanking the organizers of this, Chairman Wood and  
19 Commissioner Brownell. I think this is a very valuable  
20 opportunity for a lot of people to voice their opinions and  
21 their observations about the processes that are at work in  
22 PJM and the MACRUC states and some ideas on maybe some of  
23 the ways that we can improve some of those.

24 I also want to echo Arnetta's caveat about the  
25 fact that I'm speaking as a commissioner from New Jersey

1 where observations that have been shared with a number of my  
2 colleagues from other states in MACRUC but that may not be  
3 universally agreed to be some of them. As we get further  
4 into this, you may be able to identify one or two of those.

5 Let me start out by saying that my comments are  
6 going to be focused on the stakeholder process and the role  
7 of the PUCs in the region in that process. The MACRUC  
8 states firmly support the concept that RTO boards must be  
9 independent of all market participants, as well as having no  
10 financial interest in any of the market participants'  
11 activities.

12 The independent board's primary responsibility,  
13 after all, is to ensure that markets operated by that RTO  
14 are operated in a fair, efficient, and non-discriminatory  
15 manner. MACRUC believes that the current composition,  
16 operation, and structure of the PJM Board of Managers is  
17 consistent with the principles set out by FERC in its Order  
18 2000 and the SMD white paper.

19 The MACRUC states further support the concept  
20 that market participants should play an important role in  
21 any RTO where market participants have the ability, through  
22 a stakeholder process, to help define the RTO rules, as well  
23 as assist the RTO in solving market problems. And that  
24 stakeholder committees should be used when market  
25 participants advise the board, rather than function as

1 decisionmaking bodies.

2           We believe the PJM RTOs currently implies that  
3 kind of collaborative, stakeholder-driven participation  
4 process. That encourages creative solutions for market  
5 participants to create reliability and the continue  
6 operation of an electric market to meet the needs for  
7 electricity use within the very complex PJM region. The  
8 historic role of the state PUCs within the PJM RTO structure  
9 has evolved over the last six or seven years and actually  
10 pre-dates my tenure on the board, although there are a few  
11 commissioners who were around during that process, and we  
12 have discussions as to how that all played out.

13           The current role of the state PUCs within the PJM  
14 structure was established by a memorandum of understanding,  
15 agreed to by the states and PJM in 1998. At that time, the  
16 PUC Commission members chose not to be full-fledged members,  
17 per se, of PJM since many of PJM's members, the actual  
18 industry participants, were involved in state proceedings  
19 and that this could involve a legal conflict, a conflict of  
20 interest at the time.

21           The state PUCs were unlike market participants,  
22 i.e., states, had no financial interest in the market.  
23 States PUCs were charged with ensuring that their ratepayers  
24 received safe, reliable and adequate electric service at  
25 reasonable rates. But they were interested in having a

1 meaningful ability and a mechanism to be able to monitor and  
2 have input into PJM policies concerning reliability and the  
3 development of, at that point, the new competitive electric  
4 market.

5 The MOU, signed in 1998, established a formal  
6 mechanism that allowed the PJM state PUCs to have the  
7 ability to provide input to and to have discussions with the  
8 PJM Board of Managers on issues central to the states'  
9 current and future responsibilities regarding the electric  
10 power industry. These issues, of course, include  
11 reliability, market monitoring, siting, transmission  
12 planning, and the development of a competitive market.

13 The current MOU, the MOU from 1998, includes  
14 provisions that establish a state PUC liaison committee  
15 comprised of the PUC Commissioners to interact with the PJM  
16 Board of Managers. There's a provision that establishes  
17 that staff of the state PUCs will meet with PJM's staff on a  
18 frequent basis to discuss issues, and that the liaison  
19 committee will monitor PJM events and proposals related to  
20 operations and functions of the PJM.

21 It requires the PJM Board of Managers to meet  
22 with the state liaison committee not less than once a year,  
23 or as needed. The MOU further requires that communications  
24 among parties comply with all applicable codes of conduct  
25 and that the goal of the meeting between the state PUCs and

1 the PJM Board of Managers will be to increase communications  
2 and facilitate a working relationship.

3 Furthermore, the MOU states that if state PUCs  
4 develop joint proposals by some or all of the states, the  
5 PJM Board of Managers will consider such proposals and that  
6 the MOU does not preclude an individual state PUC from  
7 acting independently to communicate the proposals to or take  
8 other actions within PJM.

9 The staff, of course, of the PJM PUCs frequently  
10 participate in the various PJM committees and working groups  
11 as non-voting participants. This allows our PUC staff to be  
12 involved in the formation of policies and the resolution of  
13 issues by market participants. It also allows our PUC staff  
14 to get a better understanding of all of the various market  
15 participants' positions, and of course report back to the  
16 commissioners.

17 Market participants and the ISO staff often  
18 encourage state PUC participation in order to help develop  
19 policies that are consistent with state retail access  
20 programs and reliability concerns. It comes now upon us to  
21 decide what the future role of the state PUCs would be in  
22 the expanded PJM RTO.

23 David, I really want to agree with some of the  
24 points you made. Our grids are interconnected. We found  
25 that out all too well earlier in the month, but we want to

1 make sure that our governing principles and our control  
2 principles are as well interconnected as our grids are.  
3 That really is the goal of all of us in this. It's one  
4 thing to say that we're going to have an expanded PJM but  
5 it's another thing that the whole thing is going to operate  
6 as well as PJM does today, and that's really the goal that  
7 we, as commissioners, both in the current PJM states and new  
8 PJM states, have.

9           There are certain questions that need to be  
10 addressed in this process, questions such as, as PJM expands  
11 its boundaries, i.e., once already into PJM West and now  
12 into PJM Farther West and PJM South, this formation of a  
13 larger common energy market, how will the various state PUCs  
14 in this expanded region have input. Do the other state PUCs  
15 within this region join the state PUC MOU as it exists or do  
16 they establish their own relationship?

17           The focus of state PUCs has indeed changed since  
18 the mid-90s in a whole host of ways, including our approach  
19 to and our responsibility for wholesale electric power  
20 markets in light of events like Enron and other situations  
21 where prices for electricity have been manipulated.

22           The states of the MACRUC region, including those  
23 states comprising the expanded PJM regions, are now  
24 discussing the role of states within PJM. This role could  
25 include implementation of the existing MOU between the

1 classic PJM states, "classic" in quotes; that's not a term  
2 that many of us like but it's a term that's being used, or  
3 revising the existing MOU to include the states comprising  
4 the expanded region, modify the existing MOU to include the  
5 states, as well as improving the MOU to account for changes  
6 that have taken place in the industry since 1998, or  
7 developing a new structure that would redefine the  
8 relationship between the states within PJM and the new  
9 states joining.

10 We're looking, with interest, at the organization  
11 of MISO states that Commissioner Hadley and Commissioner  
12 Wright have been very active in. We're looking at their by-  
13 laws and their construction to see if that has some added  
14 interest to us. There is some uncertainty that I must point  
15 out in defining the participants in this discussion.

16 There are eight states, including the District of  
17 Columbia, in PJM. You all know what they are. But, later  
18 this year, Illinois will be added in to the PJM with the  
19 entrance of ComEd into the system, with the hopeful future  
20 AEP integration to PJM. There would then be a total of 14  
21 states. This would add North Carolina, Tennessee, Indiana,  
22 Michigan and Kentucky fully into, or if not fully, a large  
23 majority of those states into the PJM.

24 The fact that the situation regarding AEP's  
25 participation in PJM has not been resolved has impacted the

1 ability of those commissioners within the states to move  
2 forward with discussions with all of the states in the  
3 expanded PJM region regarding the state role in PJM. Almost  
4 all of the PJM Commission states are hopeful that FERC will  
5 use its powers to quickly resolve the status of AEP within  
6 PJM.

7 In the meantime, we, the state commissioners, are  
8 meeting to establish our mutual overlapping interests and  
9 our mutual preferences regarding the future relationship  
10 between the PUCs and the PJM. There's been an informal  
11 committee established between the states of the midwest,  
12 represented by Commissioner Kevin Wright from Illinois and  
13 Commissioner Dave Hadley from Indiana, and representing the  
14 PJM would be Commissioners McRae and myself. We have been  
15 meeting and will continue to meet and we will be able to  
16 open those negotiations with PJM very soon.

17 In closing, I just want to mention one other  
18 aspect of operations that I think needs to be addressed, and  
19 that is the access to market data. Currently, state PUCs do  
20 not have access to confidential information in data as real  
21 time outage information and real time generator bidding  
22 information. Some of us, including myself and some of my  
23 colleagues, believe this information should be shared with  
24 the states, subject to appropriate proprietary and  
25 confidentiality agreements, in order for the states to be

1       able to take corrective action for market manipulation  
2       purposes and practices that impair the efficiency of  
3       electric markets.

4               That concludes my remarks and I thank you very  
5       much for the opportunity.

6               COMMISSIONER WRIGHT: I'd like to thank Chairman  
7       Wood, Commissioner McDonald and my colleagues from the mid-  
8       Atlantic states for inviting me to join them today at this  
9       important and timely FERC technical conference. It is  
10       indeed a privilege and a treat for the newest kid on the PJM  
11       block, as an incoming PJM state member, and as a freshman  
12       regulatory commissioner, to speak to the Commission about  
13       the wholesale power market platform.

14              The Commission's technical conference in Omaha at  
15       the Mid-American Regulatory Utility Commissioners'  
16       Conference, where states are largely Midwest ISO members,  
17       was very productive. As the lead state regulatory  
18       Commission member of the Midwest ISO Advisory Committee and  
19       the Vice President of the Organization of MISO States, and I  
20       might add the first regional state committee to be formed,  
21       as envisioned by the FERC white paper, and as Commissioner  
22       of the Illinois Commerce Commission, I commend Chairman  
23       Wood, Commissioner Brownell, and Commissioner Massey, for  
24       their open dialogue approach and unflappable resolve in  
25       advancing the Commission's wholesale power market platform.

1           Your willingness to listen and to hear, some  
2 times kind words and some times very harsh ones, from state  
3 regulators and stakeholders across the nation about  
4 wholesale power market issues, is refreshing.

5           At the Omaha conference, I expressed then and  
6 reiterate today Illinois' support for the Commission's  
7 wholesale power market platform and the development of RTO-  
8 managed wholesale power markets.

9           In Illinois, we like to think that we are a good  
10 example of the benefits that a competitive wholesale market  
11 provides. As an open access state, Illinois sees the  
12 development of efficient, regional wholesale markets as  
13 vital to the continued development of our retail markets and  
14 to our state's economy. Recently, Ten Futures: 50 States  
15 Report on Electricity Competition, analyzing state  
16 restructuring experiences and their effect on consumers,  
17 listed Illinois, and I quote, "as by far and away the best  
18 state for electric consumers, given the rate reductions in  
19 residential, commercial and industrial, a truly remarkable  
20 performance" close quotes.

21           But the continued success of our retail market  
22 hinges upon the development of competitive wholesale  
23 markets. Therefore we have a keen interest in furthering  
24 the development-efficient, wholesale energy markets with  
25 transparent prices that reflect transmission congestion.

1       Transparent prices are the backbone of retail competition  
2       and along with that, Illinois's is interested in working  
3       collaboratively with other state regulators, with PJM  
4       interconnection and Midwest ISO, and with the FERC to find  
5       regional solutions for regional problems.

6               My main purpose today is to offer a new member's  
7       perspective regarding the expansion issues with the PJM  
8       interconnection RTO and the integration experiences with the  
9       Midwest ISO RTO. And I'd like to illustrate this  
10      perspective in three ways.

11             Issues surrounding ComEd's integration into PJM,  
12      PJM governance issues, and maybe the third time is the  
13      charm, the state regulator access to market data. Finally,  
14      I'll conclude my remarks with the white paper's call for  
15      regional state committees which I believe is one of the most  
16      overlooked strengths in the standard market design dialogue.

17             I cannot imagine another issue in furthering RTO-  
18      managed competitive wholesale markets that has required  
19      enormous ingenuity and innovative engineering capability,  
20      has resulted in numerous filings, dockets, interventions,  
21      conditions, and stakeholder meetings, or has caused more  
22      passionate debate among parties than ComEd's integration  
23      into the PJM RTO.

24             Wearing my Illinois Commission hat, I support, as  
25      do my fellow Illinois Commissioners, ComEd's joinder into

1 PJM. The Illinois Electric Customer Choice and Rate Relief  
2 Act of 1997 requires ComEd, and other public utilities in  
3 Illinois, to join an RTO. Since 1997, it's been the  
4 Illinois Commission's policy goal to see that our public  
5 utilities join an RTO in order to bring efficient access to  
6 trading partners and less costly links for power to all  
7 market participants in Illinois.

8 We believe the ComEd joinder with PJM, which is  
9 held out as a model RTO, fits that policy. Wherein my MISO  
10 advisory committee and organizational MISO states' hat, I  
11 recognize the challenges that this integration brings;  
12 knotty issues such as market to non-market and market to  
13 market issues, ComEd's PJM's reliability plan, effective  
14 congestion management and seams resolution. The  
15 Wisconsin/Michigan Hold Harmless provision, market power and  
16 gaming opportunities have been the most difficult obstacles  
17 to overcome. But because of PJM's diligence and MISO's  
18 collaboration, much progress has been made on these issues,  
19 as evidenced by the PJM/MISO Congestion Management Proposal  
20 and the proposed PJM/MISO Joint Operating Agreement.

21 I might add that the PJM staff and executives  
22 have been extremely helpful and willing to reach out to  
23 Illinois regulators and our market participants. Only last  
24 week, I was invited to sit in on discussions between  
25 Illinois retail suppliers and PJM, about the impacts of

1 PJM's market model on the Illinois retail market structure.  
2 However, just as progress has been made on these issues,  
3 questions abound about how utilities will recover lost  
4 revenue. As the result of FERC's recent through-and-out  
5 rates decision, a decision, in my opinion, I think is a  
6 positive step, and on whose shoulders will these costs fall.

7 Other fundamental questions surrounding  
8 congestion management, loop flow, market power mitigation,  
9 and cross RTO boundary gaming pose serious concerns. And  
10 perhaps, for the third time, the largest issue, which has  
11 made ComEd's integration more difficult and made its  
12 configuration so contentious, still looms unresolved, and  
13 that is when, if and how, AEP will join the PJM  
14 interconnection.

15 The respective RTOs' comment and stakeholders  
16 continue to negotiation and to work to resolve these thorny  
17 issues brought about by this proposed integration at current  
18 configuration. In the end, we looked to FERC for guidance,  
19 certainty, and closure to the AEP dilemma and to the  
20 conditions outlined in the previous orders. Until that  
21 occurs, a fully integrated market between PJM and the  
22 Midwest ISO and its planned joint and common market would be  
23 very difficult to achieve.

24 As a state commissioner from an incoming PJM  
25 state, I have some trepidation about PJM's governance model

1 and the relationship state regulators have in that model.  
2 While PJM and MISO have a similar, two-tier governance  
3 structure, the major difference the two have is that under  
4 the PJM model, in my opinion, there is no seat at the table  
5 for state regulators on the PJM Members' Committee. The  
6 MISO Advisory Committee, which will be the PJM Members'  
7 Committee counterpart, provides three seats for regulatory  
8 commission representatives on its 27-member board.  
9 State regulatory commissions have an effective voice in and  
10 vote on RTO operations and policymaking.

11 And I believe it's this arrangement that provides  
12 regulatory commissions an opportunity to shape the debate  
13 and directly influence RTO decisions, to understand and be  
14 sensitive to other stakeholders' perspective and to build  
15 consensus. These opportunities contribute to better  
16 decisionmaking and understanding the development of regional  
17 wholesale power markets.

18 I understand that my colleagues from the classic  
19 PJM states elected not to have a state regulatory sector  
20 presence when the PJM Membership Committee was formed.  
21 Instead, commissioners interact with the PJM Board of  
22 Managers through the State PUC Liaison Committee. While I  
23 respect the rationale that drove that decision then, I  
24 suggest that my MACRUC colleagues revisit that decision,  
25 particularly in light of the FERC white paper's discussion

1 of strengthen states' roles and responsibilities in certain,  
2 important decisional areas and, as the PJM footprint expands  
3 to include other partners.

4 I look forward to that dialogues with the PJM  
5 states and what role state regulators want to have in the  
6 future and what role incoming PJM state members will have.  
7 The ability of state commissions to fully satisfy their  
8 statutory obligations regarding the monitoring of  
9 competitiveness of electric markets and protecting retail  
10 customers from the exercise of market power, hinges on  
11 access to market participant transaction data and  
12 information in the regional energy markets administered by  
13 the RTO.

14 The Midwest ISO, urged on by the state regulatory  
15 commission members, has included language in its energy  
16 markets tariff, which was recently filed with FERC, that  
17 provides state regulators increased access to data and  
18 information. Like Chair Arnetta McRae, I believe that  
19 access to this information is essential to ensuring that  
20 public utilities' rates and charges for retail services  
21 within our states are just, reasonable, and non-  
22 discriminatory. However, we cannot fulfill that statutory  
23 responsibility when we cannot conduct our own thorough,  
24 independent market monitoring.

25 In the past, the FERC has denied such a request

1 to gain access to such information, one from the Illinois  
2 Commission, as I recall, and if the issue is one of  
3 confidentiality, let's get through that by using protective  
4 orders or ensuring other procedures for protecting  
5 confidential information. Perhaps one of the most  
6 underrated features of the white paper is the strengthened  
7 role that states and state commissions have in addressing  
8 significant market design features for their regions and  
9 actively participating in RTO decisionmaking processes.

10 FERC envisions the formation of regional state  
11 committees as partners in working out details of certain  
12 core design features to be implemented in their regions,  
13 which reflect regional differences and diversity. The white  
14 paper gives regional state committees primary responsibility  
15 for cost allocation and certain processes dealing with  
16 transmission enhancements, rates, FTRs, and a locational  
17 marginal pricing scenario.

18 Moreover it gives regional state committees  
19 coordinating responsibilities for certain transmission  
20 planning issues and responsibility for determining resource  
21 adequacy approaches across the entire region. It is this  
22 strengthened state role and responsibility that led to the  
23 formation of the organization of MISO states. I think the  
24 organization of MISO states is one of the success stories  
25 that can be told of FERC's regional approach to the

1 wholesale power market's platform. It is the product of  
2 many efforts of commissioners across the midwest that  
3 reflects a great deal of diversity geographically from each  
4 side of the Mississippi, and diversity of restructured and  
5 non-restructured states.

6 We've established work groups that tie into the  
7 activities of MISO and we use those work groups, and the  
8 organization of MISO states, to give recommendations and  
9 resource to the Midwest ISO. As the new kid on the block,  
10 I've taken the liberty to express certain positions and  
11 ideas and I've hinted about others. And at the risk of  
12 wearing out my gracious MACRUC welcome -- we can always talk  
13 about these later -- I'd like to close by thanking you all  
14 for the opportunity to participate in this technical  
15 conference and I look forward, as do other soon-to-be-PJM  
16 states, to work with you in the future. Thank you.

17 COMMISSIONER THOMAS: Good afternoon. My name is  
18 Glen Thomas, Commissioner from the Pennsylvania Public  
19 Utility Commission, Pennsylvania being Wilmington's  
20 northern-most suburb.

21 (Laughter.)

22 COMMISSIONER THOMAS: I really appreciate the  
23 chance to be here and also echo thanks to Chairman Wood and  
24 Commissioner Brownell and all the FERC staff that helped put  
25 this together, as well as PJM. But I would also like to

1 extend two very specific thank yous. That's to my colleague  
2 to my right, Kevin Wright, as well as David Hadley, for  
3 coming in and joining us here today in this very important  
4 discussion. Most of us probably got here by either train or  
5 car; these folks had to come in from out of town. I really  
6 appreciate them making not only that effort, but then taking  
7 the interest in our issues before us in PJM MACRUC and what-  
8 have-you.

9 Certainly I think we all know, understand, and  
10 appreciate the evolution we are currently in the middle of.  
11 I look out in this room and I see so many familiar faces,  
12 faces that we've been dealing with for several years, faces  
13 that we know, respect, and have come to understand, and I  
14 guess to my colleagues in the room, I would suggest that you  
15 get to know these two gentlemen, Kevin Wright and David  
16 Hadley. I think you've already heard from them this  
17 morning. I understand that they get these issues, they  
18 understand these issues, and they appreciate the importance  
19 of these issues. But they are also two great people I think  
20 you'll really enjoy getting to know.

21 So although we disagree quite a lot on Big Ten  
22 football politics, and a few other things, you'll find that  
23 they have a great appreciation for markets, so I want to  
24 thank both of you gentlemen for making the effort to get  
25 here today.

1           I have the job here of concluding the regulators  
2 panel and in doing so I will touch on some outstanding  
3 issues that are still facing the PJM marketplace, as well as  
4 touch on some of the Federal Energy policy issues that are  
5 occurring right now.

6           I do want to get into some greater detail on  
7 issues such as the capacity market, local power mitigation,  
8 and probably I guess for the fifth time, the AEP situation  
9 in the context of market expansion. But before I do that, I  
10 just want to offer a couple early observations about MACRUC  
11 and where we've come from as an organization in the past.

12           We have consistently support the call for energy  
13 legislation that would allow our states to move forward with  
14 a standard set of market rules, enforceable by FERC.  
15 Although we've had some discussions about what exactly those  
16 rules should say and robust participants in that debate,  
17 we've always supported the need for these rules, and we've  
18 always supported an important role for FERC in that regard.  
19 We've also been pretty consistent supporters of RTOs. We  
20 know, we understand and appreciate the importance of RTOs  
21 and really know that they are a very critical part of our  
22 situation here and can see the value to that model moving  
23 forward, certainly in light of recent events of the past  
24 month.

25           It was certainly a wonderful experience for me to

1 pick up the National Transmission Grid Study that Secretary  
2 Abraham put out last May. I would encourage folks to really  
3 take another look at that document in light of the recent  
4 events. And many of the ideas that were discussed in that  
5 document in May 2002 remain particularly relevant and  
6 probably even more so in light of the recent events.

7 But I just want to share with you one quote that  
8 Secretary Abraham offered in that report to the president,  
9 where he said, DOE supports the establishment of well-  
10 designed RTOs as an effective way to address many of the  
11 market and reliability coordination problems currently  
12 facing the nation's transmission system.

13 Certainly many of us support that vision and  
14 would like to see the meat put on those bones, so to speak.  
15 But as we move forward, there are a couple of outstanding  
16 issues that we still believe need to be addressed in the PJM  
17 marketplace.

18 Most significantly, or first on the list, I  
19 should say, is the capacity market challenge. We've heard  
20 that alluded to several times throughout the day, but in our  
21 comments on SMD MACRUC urged FERC to permit regional  
22 flexibility with regard to the modification of existing  
23 capacity requirements and markets. We also laid out  
24 principles we believe resource adequacy mechanisms should  
25 follow.

1           The first white paper, for the most part,  
2           recognized and reflected our concerns and comments by  
3           handing over to regions the jobs of setting resource  
4           adequacy requirements. It is critical that the PJM region  
5           develop a resource adequacy model that will best address the  
6           problems commonly seen in PJM's capacity markets. Capacity  
7           markets have generally appeared to provide adequate support  
8           for system reliability in PJM. However, the inherent  
9           problems with the market structures of the existing capacity  
10          models in PJM continually leads to opportunity for market  
11          power and gaming abuse.

12                 Consider the statement that the PJM market  
13          monitoring unit made in this 2002 state of the market  
14          report. In that report, the MMU said, given the basic  
15          features of the capacity market structure, the MMU concludes  
16          that the likelihood of the exercise of market power is high.  
17          Market power is structurally endemic to PJM capacity  
18          markets.

19                 While the flaws in the market structure and the  
20          likelihood for market power are reasonably understood by the  
21          stakeholders and the PJM market monitoring unit, we expect  
22          the model currently being worked on by the Joint Capacity  
23          Adequacy Working Group to address these problems. Certainly  
24          moving forward, we believe the capacity markets and the  
25          ability to exercise market power in these markets must be

1 addressed and resolved for these markets to fully mature and  
2 deliver the benefits to ratepayers we believe they can.

3 Similarly, and I guess there was a large  
4 discussion on this this morning, but we would like to echo  
5 our concerns about local market power mitigation.  
6 Unfortunately local market power mitigation remains a  
7 troublesome issue in the PJM region. Local market power  
8 exists when a single owner or small number of owners control  
9 resources that are pivotal to reliability.

10 The problem lies in that these owners can alone  
11 set the LMP in the absence of price mitigation. Our region  
12 needs to develop a proper local power mitigation method that  
13 will signal scarcity without rewarding market power.  
14 Through administratively determined compensation will  
15 provide incentives for new entry while not permitting the  
16 exercise of market power.

17 Our purpose today, however, is not to advocate a  
18 specific method for local power mitigation but rather to  
19 bring to your attention our growing concern about the  
20 problem and emphasize that it must be addressed  
21 expeditiously by PJM.

22 Similarly, we're very concerned, moving forward,  
23 about market expansion. You heard several great examples  
24 this morning about how market expansion is tied up in the  
25 AEP situation. I would like to focus my discussion, in the

1 next few minutes, on that exact situation.

2 The circumstances surrounding AEP have been the  
3 source of much debate so far, and it seems the most widely  
4 suggested solution has been to order AEP to transfer  
5 operational control of portions of its system to PJM.  
6 Whether the solution lies in this suggestion or another one  
7 remains unclear, but what is clear is that this situation  
8 needs to be resolved for this marketplace to move forward.

9 Indeed, in preparation for this testimony, I was  
10 amazed to actually sit down and see all the different  
11 docketed items, all the different policy issues, all the  
12 different challenges moving forward, that are wrapped up in  
13 this very, very important decision in which clarity is very  
14 much needed.

15 A solution to the situation will spur economic  
16 activity and competitive wholesale market development in all  
17 states, spanning the PJM and MISO regions. Inaction, or the  
18 wrong action, on the other hand, will merely serve to impede  
19 the development and operation of a seamless interstate  
20 transmission network, a prerequisite for the development of  
21 competitive wholesale power markets.

22 The MACRUC state commissions need a well-  
23 functioning, wholesale electricity market to advance the  
24 retail models that have been set up in their various states.  
25 There have been numerous economic analyses on this issue.

1 The numbers speak for themselves. I think what we really  
2 need is some clear decision. In addition, inaction or the  
3 wrong action will contribute to the growing uncertainty in  
4 these regions by altering the market growth implementation  
5 dates, as well as the implementation date of the joint and  
6 common market being planned by PJM and MISO. We've already  
7 seen that happen.

8 PJM's experience indicates that an incremental  
9 approach to incorporating or starting new markets is crucial  
10 to successful market operation. As a result, we are all  
11 left wondering how long our consumers will have to forego  
12 the benefits of a fully integrated market between PJM and  
13 MISO.

14 Finally, I would like to touch on standard market  
15 design and the discussion on AEP leads my talk into a topic  
16 that is most important to our region, standard market  
17 design, and getting finalization of this very important  
18 rulemaking. The AEP situation illustrates nicely one of the  
19 fundamental problems that, from a state regulator's point of  
20 view, in part necessitated the FERC SMD proposal. Namely,  
21 once electricity markets begin spilling over multiple state  
22 boundaries, how does one match state constituencies to the  
23 geographic scope of the market. Individual states cannot go  
24 it alone in governing a multi-state market.

25 Furthermore, as long as each jurisdiction makes

1       its decisions separately, here will be inevitable  
2       differences that will significantly complicate the operation  
3       of a seamlessly integrated market. Underlying this whole  
4       problem is the market implementation has gotten ahead of the  
5       policy. Since the passage of the Energy Policy Act of 1992,  
6       federal regulatory policy has led our states to rely on  
7       wholesale power markets to ensure optimal use of energy  
8       resources and just and reasonable rates for our consumers.

9               Yet our nation's energy industry is caught in the  
10       transition between the old paradigm of vertically-integrated  
11       monopolies and the modern approach of wholesale competition  
12       because we lack a clear and final federal directive. The  
13       uncertainty that inevitably results creates dysfunctional  
14       wholesale power markets, which can only invite an erosion of  
15       system reliability, price volatility, reduced market  
16       transparency, and misplaced or lack of capital investments.

17               As our experience with competitive power markets  
18       develops, however, ways to meet these challenges have become  
19       increasingly apparent. First, you need clear, concise rules  
20       of the road and a referee with the authority to ensure  
21       consistency and a level playing field for market  
22       participants. We have all heard Chairman Wood refer to our  
23       nation's grid as the super highway of transmission service,  
24       and the analogy fits quite well. Just as the health of our  
25       state economies depends upon the flow of interstate commerce

1       governed at the federal level, to ensure consistent, clear,  
2       and fair laws over state lines, vibrant competitive power  
3       markets similarly rely on the free flow of electrons over  
4       multiple state and regional boundaries.

5               To the extent there are a standard set of rules,  
6       states with either competitive retail markets or vertically  
7       integrated utility service will benefit in terms of greater  
8       efficiencies, greater reliability, and reasonably priced  
9       electricity that our homes and businesses need.

10              Second, we need RTOs that work. Reliability,  
11       coordination, and open, non-discriminatory access to  
12       transmission wires are best achieved if a single operator,  
13       independent of market participants is established to control  
14       the operation of grid. Moreover, the FERC should be  
15       permitted to oversee the process of RTO formation and serve  
16       as a regional cop to ensure that consumers across the state  
17       benefit from competition in terms of competitive prices,  
18       increased choices, and improved services and reliability.  
19       Otherwise, markets are liable to be impacted by more  
20       situations resembling AEP.

21              The FERC's SMD proposal and subsequent white  
22       paper contain the logical solutions need to ensure optimal  
23       use of our energy resources. Members of MACRUC have been  
24       vocal about commending FERC for undertaking an unprecedented  
25       effort to solicit input from all sides of the debate. Its

1 white paper demonstrated that FERC has carefully listened to  
2 state commissions and other stakeholders and is willing to  
3 respond to well-reasoned concerns by altering plans and by  
4 recognizing certain regional differences.

5 We believe the FERC state utility commissions and  
6 industry stakeholders should continue to move forward with  
7 efforts to improve wholesale electric markets and to deliver  
8 the benefits of those markets to our consumers. That said,  
9 the mid-Atlantic states fully recognize that the ball now  
10 lies with Congress.

11 The recent blackout has placed a greater urgency  
12 on Congress to pass an energy bill that will appropriately  
13 address the challenges facing the electricity industry.  
14 Even though we must remain patient until the investigation  
15 reveals the exact engineering causes of the blackout, at  
16 the end of the day Congress can still walk away having  
17 learned a few lessons on good energy policy. Accordingly,  
18 Congress ought to allow the FERC to finalize its standard  
19 market design proposal without delay so that interconnected  
20 regions can coordinate system planning and market  
21 operations.

22 Congress, today, needs to complete the  
23 initiatives of Congress eleven years ago and allow FERC to  
24 move forward with its vision in order to secure the  
25 reliability and economic benefits of RTOs and wholesale

1 power markets for our nation's electricity consumer.

2 I appreciate the time to be allowed to offer  
3 these comments and I sincerely appreciate your dedication to  
4 resolving these issues and your openness to state concerns.

5 Thank you.

6 (Pause.)

7 MS. CAVANAUGH: Good afternoon. My name is Ellen  
8 Cavanaugh with the Exelon Corporation and Vice President of  
9 Transmission at PECO Energy Company. I currently serve as  
10 the Chair of the PJM Members Committee.

11 It's my job and my pleasure today to introduce to  
12 you each of the stakeholders who will be making  
13 presentations on behalf of their sectors. Here at PJM, we  
14 have five sectors: generation, transmission, other supplier,  
15 electric distributor, and end use sector.

16 The gentlemen to my right will be representing  
17 their sectors. Each sector has elected a representative.  
18 In one case, the other supplier selected two representatives  
19 who will share their time and hopefully both speak very  
20 fast, since we'll be sharing time.

21 They are here to represent their sectors. In  
22 many cases, some of the views you will hear will be the  
23 consensus of the sector. In some cases, you may hear that  
24 they will present some differing views from among the sector  
25 members. They are here as representatives on behalf of the

1 entire sector and will be sharing sector members' views.

2 To start with, I would like to welcome Bruce  
3 Bleiweis, representing the generator sector. He's director  
4 of Asset Commercialization at Reliant Energy Services, Inc.

5 MR. BLEIWEIS: Thank you, Ellen. I appreciate  
6 the opportunity to be able to present to you here today, and  
7 also on behalf of the generation owners' sector. The  
8 generation owners' sector is represented. There are 23  
9 members, and we're certainly not a very homogenous type of  
10 companies in the sector; we're a very diverse group of  
11 generation owners.

12 The generation owner sector believes PJM's  
13 continuing market design evolution has, in the past, been  
14 effective in the mid-Atlantic region and can serve as a  
15 model for other regions.

16 There are two important issues here. The word  
17 "evolution," PJM has been very successful in evolving  
18 markets over its history and it can serve as a model for  
19 other regions. We also would like to thank the current  
20 Commission of trying to take what we had in the northeast  
21 and the mid-Atlantic states. We've had three effective  
22 power pools transformed into ISOs and RTOs, and that's  
23 something other parts of the country haven't gotten the  
24 coordinated operation and planning that these organizations  
25 had over decades of history. PJM, as you know, goes back to

1 1927, has been an effective way of growing the reliability  
2 of the system, the planning of the system, the regional  
3 transmission planning in the system.

4 The generation owner sector also believes that  
5 PJM conforms with almost all aspects of the white paper  
6 elements for well-functioning wholesale markets. We're  
7 strong supporters of the use of congestion management, and  
8 one of LMP's strengths is its ability to establish price  
9 signals for continued and new investment in the right  
10 locations.

11 LMP provides an operational tool for management  
12 congestion that is much more efficient and superior than  
13 TLRs, the TLRs that are used in other parts of the country.  
14 Another LMP strength is its flexibility to accommodate a  
15 wide variety of state retail regimes. Competitive retail  
16 access, bundled regulated retail, as well as state  
17 coordinated retail supply auctions, similar to what we have  
18 in New Jersey with the BJS.

19 An important feature of LMP is the appropriate  
20 price signal. That, however, is at some risk in PJM due to  
21 several factors. Exclusive congestion relief by regulated  
22 transmission expansion is one of those. As we've talked  
23 about, having LMPs send implicit price signals from market  
24 participants to make decisions is one of its strengths.  
25 Having exclusive congestion relief managed by regulated

1 transmission puts those appropriate price signals at risk.

2 We believe market expansion is very beneficial;  
3 however, we need to balance the efforts of expansion with  
4 continued evolution of PJM's market design. Lastly, the  
5 continued use of simplistic and what we believe are outmoded  
6 local market power mitigation rules is inappropriate. We  
7 are encouraged, however, recently with FERC actions and how  
8 they formed an internal working group to look at local  
9 constrained mitigation and come back to us with a report on  
10 that.

11 As I said, LMP has some challenges that we're  
12 working through, and I think FERC has a critical role in at  
13 least two areas. One thing I would like to add is, as the  
14 generation owners sector was putting our presentation  
15 together, there are many issues in the white paper that we  
16 could focus on but we've chosen only to focus on just a few  
17 as we had limited time to discuss them this afternoon.

18 Those two critical roles, among others I'm sure,  
19 are establishing local market power mitigation rules. As  
20 was stated in the Wall Street Journal this morning, we need  
21 to focus on markets and we need to make them work well. The  
22 key is markets, that's having local market power mitigation  
23 rules in our markets.

24 The other issue is scarcity. These are critical  
25 areas, not because LMP doesn't work, but because some

1 participants don't trust it to work. On the mitigation  
2 challenge, we believe the rules must work with LMP to  
3 provide the appropriate and fair price signal. No  
4 mitigation rule is going to be perfect, but excessive  
5 mitigation rules will eliminate the locational aspect of  
6 LMP. And sound mitigation rules finally will provide market  
7 efficient, least-cost solutions in the longrun.

8 Scarcity is another challenge that we've begun to  
9 face in PJM and is critical for both long-term resource  
10 adequacy as well as locational pricing. We believe that  
11 demand response should set LMP, the reserves should  
12 participate in setting LMP and locational scarcity should be  
13 reflected in local mitigation pricing.

14 Another area we've heard several people talk  
15 about today is the long term adequacy resource adequacy.  
16 There should be a very -- the next step in market design,  
17 and we should focus on that. We've spent almost a year now  
18 without really focusing on the market design with long-term  
19 adequacy.

20 There was an announcement yesterday at the Energy  
21 Market Committee about refocusing on that. That's the  
22 important area that we need to. Mandatory capacity markets  
23 must be included, it must include a set level of reserves.  
24 We need to couple that with short-term solutions,  
25 entitlements to pay in excess of marginal cost production

1 with scarcity exists.

2 And there are a couple of options that have been  
3 debated. One is a multi-year, central procurement auction  
4 which is debated both in PJM, as well as throughout the  
5 northeast. The other is a demand curve which New York has  
6 recently implemented. Overall, as Phil Harris indicated  
7 earlier, PJM is compliant in all eight white paper elements.  
8 Again, we need the next steps, must move forward and  
9 improvements are required. I think we're all in agreement  
10 on that.

11 PJM's MOU with the states is the model for the  
12 white paper RSEC and should be maintained. That may be too  
13 much of a simplistic statement. As Commissioner Butler said  
14 earlier, further evolution is needed on that as well.

15 Finally, I think PJM's talented and creative  
16 staff should refocus on the issues discussed herein, and  
17 others discussed today. These efforts will result in PJM  
18 becoming fully compliant and maintaining its reputation of  
19 managing the leading, efficient electricity market in North  
20 America.

21 Thank you for the opportunity. I left some of  
22 our outline outside, if there isn't enough. I've sent an e-  
23 mail to both Sarah McKinley and Greg Glazer, who can post it  
24 on the FERC and PJM websites.

25 Thank you.

1                   MS. CAVANAUGH: Thank you. Representing the  
2 transmission sector is Ralph Bourquin, Executive Director of  
3 Transmission for Baltimore Gas & Electric Company.

4                   MR. BOURQUIN: Thank you, Ellen. I speak today  
5 on behalf of the PJM transmission owners. There were eight  
6 market elements that were already defined and described very  
7 well by Phil Harris. I will not restate any of that here.

8                   But I would say that the PJM transmission owners  
9 believe that PJM not only complies with all those elements,  
10 but in conjunction with the stakeholders has been a  
11 forerunner in implementing the design changes that benefit  
12 all market participants. Many of these discussions are on-  
13 going and they indicate a very healthy market and a  
14 supporting government structure.

15                   There are some areas, though, where FERC can do  
16 more and those elements are in the regional planning and  
17 transmission cost allocation areas. Failure to move forward  
18 on those particular areas can affect the third element,  
19 which is the grid operations, specifically, regional scope.

20                   Last March, PJM filed an update to its planning  
21 process and that includes an economic expansion. FERC  
22 approved that in July and PJM filed its compliance filing  
23 last Monday. We now have a planning process which  
24 incorporates economic expansion. PJM can designate one or  
25 more transmission owners to construct and own or finance

1 such facilities, specify the estimated cost, and identify  
2 the market participants that bear responsibility for those  
3 costs.

4           However, the transmission owner rate filings to  
5 recover those costs was rejected. To put that in  
6 perspective, in the fall of 2000, in response to Order 2000,  
7 the PJM transmission owners filed an innovative rate  
8 proposal including investment incentives. FERC rejected  
9 that filing.

10           In early 2003, FERC suggested investment  
11 incentives as part of its proposed policy for efficient  
12 operation and expansion of the transmission grid. The PJM  
13 transmission owners filed another innovative rate proposal  
14 which was based on that particular policy as well as PJM's  
15 new economic expansion planning process. Again, FERC  
16 rejected the proposal.

17           On August 15th, in response to the recent events,  
18 FERC issued a statement saying, we need regulatory certainty  
19 and other incentives for investment. Two strikes have been  
20 called, but the PJM transmission owners are ready to step up  
21 to the plate once again. The famous song says "three  
22 strikes and you're out," but the transmission owners prefer  
23 the wisdom of the German philosopher Schopenhauer. He said  
24 all truths pass through three stages; first it is ridiculed,  
25 second it is violently opposed, third it is accepted as

1 being self-evident."

2 (Laughter.)

3 MR. BOURQUIN: FERC needs to complete the  
4 planning and investment linkage for the overall investments  
5 and the overall approach to be successful. And what we have  
6 to do now is make clear what is rhetoric and what is real.

7 Recently, FERC has worked to eliminate regional  
8 through-and-out charges but only for selected regions. Such  
9 an approach has two problems; first, market aberrations are  
10 likely to result as participants choose the three paths.  
11 There could be solutions to this problem based on increased  
12 policing by market monitors, and the addition of more and  
13 more market rules, but that is not the preferred approach.

14 Second, we could have potential imposition of new  
15 lost revenue charges in an era of increasing RTO costs, and  
16 these charges are being resisted by both load-serving  
17 entities and regulators alike. And this can lead to  
18 opposition of the expansion of the regional transmission  
19 organizations themselves.

20 Further, it is difficult to develop transitional  
21 mechanisms for lost revenue recovery when we don't know what  
22 we are transitioning to. Market participation are faced  
23 with the surety of surcharges but the promise of savings.  
24 FERC needs to define the permanent solution to eliminate the  
25 uncertainty and allow markets to expand. Individual

1 transmission owners, or even groups of transmission owners,  
2 cannot resolve this matter alone. FERC must move forward,  
3 collect additional input from regulators and market  
4 participants if that is necessary, and then set the policy.

5 In the FERC white paper, FERC stated its goal of  
6 stability and certainty for customers, and more is needed in  
7 this rate area to meet that goal. More is needed to specify  
8 how existing transmission assets that are used in  
9 interregional transactions are going to be addressed in the  
10 future.

11 In summary, PJM complies with the FERC white  
12 paper elements and in the framework of regional differences,  
13 has improved upon the wholesale market platform in many  
14 areas. FERC must do more on the regional planning and cost  
15 allocation elements, however, to allow RTOs, such as PJM, to  
16 flourish and participants to understand, with certainty,  
17 when and how they will realize savings.

18 Thank you for this opportunity.

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1           MS. CAVANAUGH: Thank you. Speaking first for  
2 the Other Supplier Sector is Ron Matlock, Manager of  
3 Regulatory Affairs at Duke Energy Trading and Marketing,  
4 LLC.

5           MR. MATLOCK: Just to clear up some confusion,  
6 the PJM Other Supplier Sector is really two sectors: It's  
7 other wholesale suppliers and other retail suppliers, and,  
8 of course, their issues and concerns tend to be different,  
9 sometimes quite different. So, consider me as speaking on  
10 behalf of the other wholesale supplier sector.

11           The first thing I want to point out is that I  
12 think that among wholesale competitors, there is universal,  
13 or at least near universal agreement that, conceptually, PJM  
14 has the best market design. I don't think that's an issue.

15           Where there are disagreements is in how that  
16 wonderful conceptual design is being implemented. That's  
17 where the issues lie.

18           To keep my remarks brief, I'm just really going  
19 to focus on one issue only: Now, as a backdrop, I want to  
20 note that by my reckoning -- and I think this is a  
21 conservative estimate -- the PJM market monitoring staff  
22 devotes 25,000 man-hours per year to ensuring that the  
23 locational marginal prices are never inappropriately high.

24           So, I think it's safe to say that we're compliant  
25 with that aspect of the white paper. I want to talk about

1 the flip side of that issue and devote a mere few minutes  
2 here to the notion that you should also ensure that  
3 locational marginal prices are never inappropriately low.

4 Let me point out the obvious: Scarcity is not a  
5 good thing in electricity markets. In the extreme, it could  
6 mean a service interruption, so scarcity should be avoided.

7 What you're aiming for in an electricity market  
8 is adequacy of supply, or even better yet, abundance. Now,  
9 taking a long-term perspective on that issue, that's why PJM  
10 has a resource adequacy requirement, and why that's an  
11 important part of the white paper.

12 However, the current PJM construct has some  
13 widely recognized flaws, and we are currently awaiting the  
14 PJM members' consultant report on a new capacity adequacy,  
15 resource adequacy construct that we feel will provide more  
16 appropriate price signals for long-term capacity.

17 The game plan, as I understand it, once this  
18 consultant report comes out, is for this proposal, which has  
19 been already vetted pretty thoroughly and lengthily through  
20 the PJM stakeholder process, will be vetted for yet another  
21 perhaps couple of months. There will be a filing at FERC  
22 sometime in early 04 with implementation scheduled for  
23 slightly later in the year. Please give that due  
24 consideration when it arrives on your doorstep.

25 Looking at the short-term operational

1 perspective, the way PJM signals scarcity and the need for  
2 resources is allowing the interaction of supply and demand.  
3 When demand gets very high, it intersects the supply curve  
4 typically at a high level, the far portion of the supply  
5 curve, and prices move to an appropriately high level,  
6 sometimes in the hundreds of dollars, very infrequently, but  
7 occasionally \$1,000, and that's an appropriately high price.

8

9           However, this interaction of supply and demand  
10 can break down when supply is added to the system or demand  
11 is taken off the system and these actions don't show up in  
12 the supply and demand curves. This creates an  
13 inappropriately low price signal.

14           Now, I want to make it very clear here that low  
15 prices, per se, are not a bad thing. If you're a consumer,  
16 that's a good thing; you want prices to be low. I'm just  
17 making the point that when it's appropriate for prices to be  
18 low, they should be low, and that's the vast majority of the  
19 time.

20           When it's appropriate for prices to be high, they  
21 should be high. That's a very small percentage of the time.

22           And inappropriately low price sends the wrong  
23 message. It tells consumers that power is cheap when it  
24 isn't. It tells producers that more supply is not needed  
25 when it is.

1                   Recognizing this problem, recently the New York  
2                   ISO asked that when it has to consume expensive reserves or  
3                   purchase expensive demand resources to balance supply and  
4                   load, that LMP reflect that; that's what they requested,  
5                   and, you, the Commission, said, okay.

6                   Also recognizing this problem, the ISO New  
7                   England asked that when it has to consume expensive reserves  
8                   to balance supply and demand, LMP reflect this, and you  
9                   said, okay. A number of market participants in PJM believe  
10                  that there are similar issues in our market, and there is  
11                  currently a push to ensure that scarcity pricing, in the  
12                  short-term sense, is addressed through the PJM stakeholder  
13                  process.

14                  It's my hope and the hope of a number of market  
15                  participants, including many members of the other wholesale  
16                  supplier sector, that we can have a proposal properly vetted  
17                  and filed so that it can take effect shortly prior to next  
18                  Summer. And I hope that you will see this proposal, and  
19                  when you see it, you will simply say, okay. Thank you.

20                  MS. CAVANAUGH: Thank you, Ron. Speaking next  
21                  for the Other Supplier Sector is Michael Swider, Manager of  
22                  Regulatory Affairs at Strategic Energy, LLC.

23                  MS. SWIDER: Thank you for allowing me to speak  
24                  today. I'd first like to state that we got a lot of input  
25                  from a lot of retailers, but my comments, I don't think

1 reflect every retailer's comment, because I don't think we  
2 had a chance to get them all.

3 I'd like to lead off by saying, first of all, our  
4 group feels that for the most part, PJM is doing a good job  
5 and really should be certified as an organization that's  
6 SMD-compliant, for the most part.

7 The staff is highly competent and very energetic,  
8 and as Mr. Harris mentioned earlier, they are constantly  
9 making these incremental improvements that are really  
10 benefitting the market. One of these recently is some  
11 changes to the FTR market that is going to make it easier,  
12 we think, for retailers to operate here. However, there are  
13 some concerns that retailers have about things that PJM  
14 does, and thinks that they should be looked at again as part  
15 of this process.

16 One of these, following on Mr. Matlock's  
17 comments, is market mitigation. The retailers think that in  
18 mitigation, PJM has been a little heavy-handed. There is  
19 certainly a need to have strong locational market power  
20 mitigation rules in effect, but the PJM 2002 State of the  
21 Market Report states that there isn't a market power  
22 problem, broadly, in PJM, so there really isn't a need to  
23 have such strict price caps, because that's really sending  
24 the wrong message out there.

25 Retail suppliers were out there selling price

1       certainty to our customers. We don't need the system  
2       operator to be managing price certainty for them.

3               Another concern that retailers have that  
4       Commissioner Thomas earlier alluded to, is the resource  
5       adequacy in PJM. Resource adequacy and transmission  
6       reliability are extremely important for the markets.

7               We definitely support efforts to maintain the  
8       current high level of reliability in PJM. It's important to  
9       look at the cost of that and also the structure for paying  
10      for that.

11              We're concerned that the current model really is  
12      not sufficiently competitively neutral and really needs to  
13      be looked at again. There is a process currently re-looking  
14      at this model that also Commission Thomas referred to, the  
15      Centralized Resource Adequacy Model, which he expressed hope  
16      was going to resolve some of these market power issues.

17              I only wish that he was at the CRM meeting where  
18      the PJM monitor showed up and expressed a concern that the  
19      model that was being developed was perhaps going to create  
20      even more market power problems. This gets into my final  
21      comment, which is that the level of state regulators's  
22      involvement in PJM, and one area we think that PJM is weak,  
23      and we think the FERC is correct, is the involvement of  
24      state commissions in some issues.

25              One of those issues is the issue of reliability

1 and resource adequacy. We don't think that the current CRM  
2 model is going to be very good for the market.

3 We would rather have seen that whole process  
4 being run more by a state reliability committee or a  
5 regional/state committee. We very much encourage PJM and  
6 the Commission to find a way to get the PJM Commissioners  
7 more involved than they are in the current MOU process.

8 The state commissioners set the rules for retail  
9 markets in their states, and they really need to be involved  
10 in the wholesale process, though, to see how that interacts  
11 with their state retail rules. Thank you very much.

12 MS. CAVANAUGH: Thank you, Michael. Representing  
13 the Electric Distributor Sector is Pat McCullar, President  
14 and CEO of Delaware Municipal Electric Corporation and our  
15 current Vice Chair of the Members Committee.

16 MR. McCULLAR: Thank you, Ellen. I was just  
17 noticing as I was listening to the comment here, that we're  
18 really very logically organized here in our presentations.  
19 We have the generators, the transmission, the suppliers, and  
20 then the electric distributors and the end users.

21 The electric distributors and the end users, we  
22 represent the load, and if you need a definition of load,  
23 it's very simple: We're the ones who write the checks.  
24 Also, if we weren't here, the rest of us wouldn't be  
25 necessary, so please keep that in mind.

1 (Laughter.)

2 MR. McCULLAR: I would like to extend a special  
3 thanks to Chairman Wood and Commissioner Brownell for  
4 allowing this forum to express views. It's very helpful.  
5 Your willingness to listen to concerns and suggestions has  
6 been very helpful to the entire process. We thank you for  
7 that.

8 As I said, we represent the Electric Distributor  
9 Sector of PJM, basically made up of municipal distribution  
10 utilities, cooperative distribution utilities, and Pepco  
11 Holdings, Inc., which is an investor-owned distributor,  
12 Pepco in Washington, D.C., Conectiv on the Delmarva  
13 Peninsula, and Atlantic Electric in New Jersey.

14 The comments I present today do not necessarily  
15 reflect my personal views on the subject matter, nor the  
16 views of the Delaware Municipal Electric Corporation, but  
17 the consensus view of the members of the PJM Electric  
18 Distributor Sector.

19 We wish these not to be viewed as criticisms, but  
20 to be thought of as a way to focus attention on important  
21 issues as we go forward. PJM's regional transmission  
22 planning process is slowly improving its effectiveness in  
23 dealing with not only the imperative need for reliability in  
24 serving load and generation interconnections, but with the  
25 increasingly important need to recognize and prioritize

1 solutions for regional problems to facilitate competitive  
2 wholesale markets, and an improved congestion management  
3 process will provide increased long-term economic  
4 improvements, allowing all parties to access the benefits  
5 that competition can bring.

6 The improved planning process will also result in  
7 a more reliable transmission grid, assuring the continued  
8 development of transmission facilities that minimize  
9 congestion and provide a high degree of reliability is key  
10 to the robust energy delivery systems that America needs to  
11 thrive.

12 Sufficient generation capacity currently exists  
13 to serve load today, but we must provide the ability to  
14 deliver that economic generation to the load. Transmission  
15 planning must work with a market structure that sends the  
16 proper signals for investment in generation to serve future  
17 load growth, which we feel will be substantial in the years  
18 to come.

19 Phil Harris has often referred to the national  
20 electric infrastructure as a huge electric motor, and I  
21 think it's a wonderful analogy. Of great concern to us,  
22 however, is the clear evidence that the motor has some very  
23 old parts.

24 We have a critical responsibility to improve the  
25 reliability of this all-important electric motor, because

1       our national economy is totally dependent upon it.  If that  
2       motor fails, our economy fails.

3               Our problem is that while electric load continues  
4       to increase, long-term transmission investment just isn't  
5       happening.  Increasingly, transmission capacity is falling  
6       behind demand, and in some regions of the country,  
7       transmission systems are inadequate and incapable of  
8       delivering economic energy, even when more than enough  
9       generation capacity exists to economically serve the load.

10              New rules and structures are needed to overcome  
11       the reluctance and the uncertainties that have created our  
12       current static transmission infrastructure.  These new rules  
13       need to mark a clear path through regulatory and financial  
14       obstacles, so that the transmission facilities get built in  
15       a timely manner, and at an appropriate cost.

16              Of equal importance is distribution reliability.  
17       Distribution facilities also need to continue to invest in  
18       improvements.  Local facilities are the first to feel the  
19       effects of increased demand; distribution facilities need to  
20       keep pace with load growth.

21              In today's less secure environment, distribution  
22       utilities have to address the need to harden certain  
23       facilities for critical customers.  And please remember,  
24       electric distribution companies get the phone call when the  
25       lights go out, regardless of the cost.

1 Fair cost allocation is another issue that  
2 effects the development of competitive energy markets.  
3 Pancaked rates act as barriers to market access and fair  
4 competition.

5 Transmission owners should be fairly compensated,  
6 and all transmission owners should have an equal opportunity  
7 to cover their investments. However, care should be taken  
8 to design incentives that actually provide the desired  
9 results.

10 The cost of transmission improvements should not  
11 be targeted to less than zonal levels, since any  
12 transmission improvement improves the overall system  
13 capability.

14 The Market Monitoring Unit is an essential tool  
15 in maintaining a fair and competitive market. The PJM Board  
16 of Managers is currently reviewing the entire market  
17 monitoring construct, hopefully with the intent to improve  
18 its effectiveness. We applaud them for that.

19 The PJM market monitor needs sufficient  
20 independence from interference from any party and sufficient  
21 empowerment by FERC to assure the elimination of barriers to  
22 competition and effective mitigation of market power abuses.

23 Firm transmission rights are an evolving tool.  
24 The FTR allocation methods need to evolve to assure fair  
25 treatment of electric distributors who are meeting their

1 load-serving obligations, including municipal, cooperative  
2 load-serving entities and providers of last resort.

3 Decoupling FTR-ARRs from specific generation  
4 assets will allow more efficient management of energy supply  
5 portfolios, resulting in more economic service to retail  
6 customers. Currently, FTR evaluation is often limited by  
7 transmission constraints.

8 If existing transmission constraints limit full  
9 FTR allocations, the constraint causing this to transmission  
10 facilities should be given priority for appropriate  
11 upgrades.

12 Regarding resource adequacy approaches, load-  
13 serving entities will not pay unnecessary costs to keep  
14 generators in business artificially. The market was created  
15 to decide who made good business decisions and who has not.

16 If a market exists, then those decisions will  
17 either be rewarded or not. If a market does not exist,  
18 however, a reasonable regulatory backstop may be needed to  
19 provide adequate capacity over the long term.

20 We have looked at the NYISO demand curve program,  
21 but we don't feel that it is needed in PJM. In summary, PJM  
22 continues to work toward competitive wholesale power markets  
23 that serve all users, but it is not there yet.

24 We must continue to all work together to remove  
25 barriers to competition and to create a better market.

1       Transmission congestion issues must be solved. Empowered  
2       market monitoring must exist to prevent abuses through both  
3       real market power and economic market power.

4               Not only must we assure a sufficient number of  
5       generators exist in a market segment to be competitive, but  
6       we must also assure that generation is not withheld to  
7       inflate prices. PJM also must control organizational costs  
8       so that the cost of membership itself is not a barrier to  
9       competition.

10              All sectors of membership, including electric  
11       distributors, must be equally represented in the PJM  
12       stakeholder process. I extend both praise and appreciation  
13       to the Chairman's Advisory Team for their efforts to improve  
14       the stakeholder governance process at PJM. I believe all  
15       participants will appreciate the new procedures as they are  
16       implemented.

17              PJM must continue its current efforts to work  
18       with FERC and the state commissions to assure the interests  
19       of the end users, those who ultimately write the check, and  
20       that they get their full money's worth. Finally, PJM must  
21       lead the way to higher reliability and lower delivered  
22       energy costs to retail consumers to stimulate the national  
23       economic.

24              On behalf of the Electric Distributors Sector,  
25       thank you very much for this opportunity to comment.

1                   MS. CAVANAUGH: Thank you, Pat. Representing the  
2 End Use Sector, Dave Kleppinger.

3                   MR. KLEPPINGER: Thank you, Ellen. I found it  
4 appropriate that I was placed at the end of the line,  
5 because the end use customers are also at the end of the  
6 line, and as Pat already indicated, the payor of the costs  
7 of the system.

8                   I was hoping that by the time we got to this  
9 point of the agenda, that I would be able to say that I  
10 could agree with at least something that everyone said  
11 earlier today. Unfortunately, I cannot.

12                   The End Use Sector consists of 19 members within  
13 PJM, out of the close to 250 members today. One might think  
14 it is a homogeneous sector, but that is also not true.

15                   The operating agreement permits any retail end  
16 use electricity consumer to be in that sector, and the group  
17 consists primarily of state consumer advocates, large  
18 commercial and industrial customers, but we also have within  
19 our membership, cooperatives, municipalities, and retail  
20 marketers.

21                   Fortunately, we are able to reach consensus on  
22 most issues, and we do have basic consensus on the comments  
23 that will follow, although I will say that any end use  
24 members can probably disclaim anything I say as not being  
25 something that they agree with.

1           Mr. Harris indicated compliance by PJM with most  
2 of the SMD tenets, and we fully agree with him on that  
3 subject. However, we also agree that there are continuing  
4 areas that require development and enhancement, because  
5 we're not yet convinced that the benefits of competition at  
6 the wholesale level have actually filtered down to end use  
7 customer interests which are, in fact, the driver of this  
8 nation's economic engine.

9           The four primary areas of concern -- and many  
10 have been discussed already today -- are: Market power  
11 mitigation, resource adequacy, regional transmission  
12 planning, and retail market integration and coordination. I  
13 will briefly touch on each of those four.

14           With respect to market power mitigation, every  
15 year that the Market Monitoring Unit has issued the State of  
16 the Market Report, there have been repeated references to  
17 the potential exertion of market power in nearly all PJM  
18 markets. That conclusion was reiterated most recently in  
19 the Market Monitoring Unit Report analyzing the potential  
20 integration of Commonwealth Edison.

21           In order for proper mitigation to occur, the  
22 Market Monitoring Unit needs sufficient authority and  
23 direction from the FERC in order to identify what is and is  
24 not acceptable market behavior, and, in fact, identifying  
25 what behaviors do or do not constitute inappropriate

1 behavior, should be provided.

2 Furthermore, when market power is, in fact,  
3 observed by the Market Monitoring Unit, the speed of the  
4 response is critical to the protection of the customer. The  
5 capacity market issue that occurred in early 2001, took  
6 three to four months to resolve and cost consumers more  
7 money than it needed to.

8 I will say that when market power or  
9 inappropriate behavior was observed in 2002 at the western  
10 pricing points, quick action was taken and customers were  
11 protected.

12 With respect to mitigation, we believe that there  
13 needs to be region-specific mitigation measures that may not  
14 be identical across all RTOs. The reason for that is that  
15 not all RTOs have the same market design.

16 The entire market design needs to be analyzed in  
17 order to address local market power concerns, particularly  
18 in load pockets, before we leap to solutions of proxy bids  
19 and scarcity pricing.

20 With respect to scarcity pricing, I would just  
21 note that this morning in the presentation by PJM on the  
22 events of August 14th, scarcity was not an issue with  
23 generation. In fact, the fabled term of excess capacity was  
24 used that was available in PJM on August 14th.

25 That leads to the resource adequacy requirement

1 and the need for consistency in resource adequacy across the  
2 entire PJM footprint.

3 We recognize that fair compensation is needed to  
4 generators in any resource adequacy model, but that  
5 compensation should not be over-compensation. There have  
6 been many critics over the years of the installed capacity  
7 system utilized by PJM and the capacity market construct  
8 under which we operate.

9 However, we believe that many of those critics  
10 fail to recognize the public benefit of the resource  
11 adequacy requirement that does exist. And despite the blip  
12 in the capacity market prices in early 2001, since that time  
13 our capacity market construct has demonstrated substantial  
14 price stability. New capacity has continued to be added,  
15 and system reliability has been maintained.

16 Of particular note is that end users are  
17 continuing in many jurisdictions in the PJM footprint, to  
18 make stranded cost payments on the same capacity that  
19 generators are now seeking higher payments for. We see no  
20 reason to bail out corporate decisions that have been made  
21 in the last few years to purchase generation at prices that  
22 have not been materialized in the marketplace.

23 Prior to changing PJM's resource adequacy model,  
24 end users must be assured that changes being proposed are,  
25 in fact, preferable to the status quo.

1                   While the footprint has not yet expanded to  
2 Missouri, this is a "Show Me" issue for the end use customer  
3 sector.

4                   The third issue is regional transmission  
5 planning, and while PJM is compliant with the directives of  
6 the SMD white paper, I think all the commenters today have  
7 indicated that further progress is necessary, and that the  
8 RTEPP process needs to be continually enhanced.

9                   Regulatory and RTO involvement are absolutely  
10 necessary when the market fails to respond to create the  
11 necessary transmission expansion. Nonetheless, as with  
12 generation, investors in such transmission investment are  
13 entitled to fair compensation, not over-compensation.

14                   Finally, with respect to retail marketing  
15 integration and coordination, we are encouraged by PJM's  
16 recent decision to name a Manager of Retail Market  
17 Integration. That Manager will work closely, I am sure,  
18 with the end user sector, as well as the state and federal  
19 commissions.

20                   It implies a recognition that retail markets need  
21 to see the benefits of the wholesale competitive market that  
22 PJM strives to create and enhance. Load participation can  
23 actually enhance all these markets, not only the demand-side  
24 capacity market, but also energy markets and ancillary  
25 markets.

1           We are hoping to utilize the Retail Market  
2           Integration Manager as a forum for the advocacy of end use  
3           customer participation and load participation in all those  
4           markets. This will require substantial jurisdictional  
5           coordination among state agencies, the RTO, and the FERC.

6           And we believe the memorandum of understanding  
7           already discussed today, has been a model that has worked,  
8           and we intend to use that model in this area as well.

9           One of the retail market integration issues of  
10          concern to at least some of the end use members is that for  
11          LMP to really work, the load-serving entity must see that  
12          bus or nodal price as opposed to a zonal averaging of those  
13          prices. That is an issue, again, that will require  
14          substantial coordination at the state level.

15          In summary, PJM is compliant, basically, with all  
16          the elements of standard market design, but with over 200  
17          tariff modifications since its inception, we probably will  
18          need to see 200 more over the next six-year period as that  
19          market continues to evolve, in order to improve upon the  
20          existing market rules.

21          The four primary areas of concern that I have  
22          addressed will hopefully assure that retail end use  
23          customers will see the benefit of competitive wholesale  
24          markets and continue to contribute to the economic growth in  
25          the PJM footprint.

1                   Once again, thank you to the FERC Chairman and  
2                   Commissioner for scheduling this technical conference and  
3                   providing us with this opportunity.

4                   MS. CAVANAUGH: Thank you, Dave. Chairman Wood  
5                   and Commissioner Brownell, on behalf of the PJM  
6                   stakeholders, we appreciate the opportunity to make those  
7                   comments.

8                   CHAIRMAN WOOD: Ellen, thank you very much. I  
9                   want to thank the members of this panel, as well, for your  
10                  participation and thoughts. After a ten or 15-minute break,  
11                  I'd like us to engage with the panelists, Mr. Harris, and  
12                  our state regulator panel on some questions and thoughts  
13                  that were raised by you all in the prior presentations and  
14                  build on that discussion and open it on up to the broader  
15                  audience to talk about what appear to be a handful of  
16                  recurring issues. That will probably require a little bit  
17                  further discussion, but it's time for a break first. Let's  
18                  do that.

19                  (Recess.)

20                  CHAIRMAN WOOD: We'd like to welcome everybody  
21                  back after our 15-minute break. What we'd like to do for  
22                  this last hour of the meeting today is to do some  
23                  interaction on what we've heard earlier today.

24                  I'd like to make sure I have identified -- our  
25                  state colleagues are here in this area -- and make sure I've

1 got -- most of them are here, right? There's David, okay.

2 We heard this morning, mostly from, I guess,  
3 pretty much right down the line from the state  
4 commissioners, almost a unanimous discussion on the  
5 integration of AEP, so let's just take the 800-pound gorilla  
6 first, and then the rest of this meeting ought to go  
7 quickly.

8 (Laughter.)

9 CHAIRMAN WOOD: We can talk about this, according  
10 to my general counsel, and I understand there is someone  
11 from AEP, or if there is someone with any other viewpoints  
12 in the room, we'd certainly like to invite that  
13 participation now.

14 But I guess my question to our colleagues at the  
15 states is, what's your recommendation to us? We need to  
16 solve the AEP issue. Do you have any suggestions on what  
17 actually might be the proper way to move forward on that?  
18 Fred?

19 COMMISSIONER BUTLER: Fred Butler, Commissioner  
20 of the New Jersey Board of Public Utilities.

21 Chairman Wood, let me just take a first cut at  
22 that. We have a utility in New Jersey, Rockland Electric.  
23 That's a division of Con Edison.

24 They were not in PJM at the beginning of our  
25 transition period, and we encouraged them to do that. They

1       were able to somehow disconnect whatever portion of their  
2       system they needed from the Con Ed piece in the New York  
3       ISO, and join PJM, and I understood that there was some  
4       discussion along those lines for AEP for its portions in the  
5       state of Virginia and those not in the state of Virginia.

6                If that could be a path to perhaps go down where  
7       the portions that are not in the state of Virginia could be  
8       moved into PJM, and let the Virginia piece be under the  
9       provisions of the Virginia law as it currently exists, that  
10      might be a way to approach the problem.

11               CHAIRMAN WOOD: Any other thoughts on that? I  
12      know we actually got a response to a data request from AEP.  
13      There is Craig Baker. I know Craig.

14               (Laughter.)

15               CHAIRMAN WOOD: I know there are some concerns  
16      raised by the Company in the data response that I read on  
17      that issue. Do you want to elaborate on that and then on  
18      the other question, Craig?

19               MR. BAKER: My name is Craig Baker with AEP. I  
20      think I would start by pointing to two filings that we made  
21      at the FERC, one being a filing that we made on February  
22      28th. In that filing, we indicated that we were attempting  
23      to pursue participation in PJM, and had filed with the  
24      various state regulatory bodies who had exerted jurisdiction  
25      on the decision of AEP.

1           Those states were Ohio, Virginia, Indiana, and  
2 Kentucky. At the time, we indicated we thought we had been  
3 unsuccessful so far in Virginia, and that we didn't know how  
4 Kentucky would come out.

5           As we now know, Kentucky has initially denied our  
6 requests to transfer the assets of Kentucky Power Company  
7 into PJM. We have asked for rehearing on that, so we've  
8 been proactive in trying to get them to change their mind.

9           They have agreed to that rehearing to allow us to  
10 put in a cost/benefit study. So, we are going forward with  
11 that, and we will be working with them to develop a  
12 procedural schedule.

13           Similarly, in Virginia, they have indicated that  
14 they will require cost/benefit studies for any process that  
15 they would go through in providing approvals for the RTO  
16 choices. We pointed out that there clearly seems to be  
17 disagreement between the states and, in some cases, the  
18 states and the FERC, as to what this ought to look like,  
19 going forward, and that that was something that we, by  
20 ourselves, could not resolve, and suggested that a dialogue  
21 and a workout between the various state interests in the  
22 East and the FERC may be a way to accomplish that.

23           I haven't seen any progress on that. We would be  
24 willing to work to try to help that.

25           On the second front, I can't remember the exact

1 date of this filing, but we had gotten a data request from  
2 you, asking us about the potential of splitting the system.  
3 At that point, the question really revolved around what if  
4 you just split off Virginia?

5 And we laid out a number of issues with that,  
6 that I would hope people would look at. Those involve  
7 things like, in the case of Virginia, you are looking at an  
8 operating company that splits two states, not just  
9 splitting up AEP, but splitting up one of our companies.

10 We have a central dispatch agreement to share  
11 reserve, costs, energy. We don't know how those would work  
12 if we were to split the company up.

13 We think it is a long, long process to go through  
14 all the regulatory issues, as well as the operational issues  
15 of splitting it up. We would suddenly have to have two  
16 control centers where we have one now. There are both  
17 operational and legal issues around that that we think the  
18 faster way is try to resolve the issues between the states  
19 and the states and the states and the FERC.

20 CHAIRMAN WOOD: Actually, let me ask a procedural  
21 question. I know you're in a pending case in Kentucky. Is  
22 there a pending case in Virginia yet?

23 MR. BAKER: We have -- I'm trying to remember the  
24 exact status -- we had filed for approval. That was put on  
25 hold, and the only thing I don't know is whether we have to

1 refile with the cost/benefit, or if we can piggyback onto  
2 the case that we already have. I can find that out.

3 CHAIRMAN WOOD: What would be the appropriate  
4 forum to do that discussion in, if you've got pending cases?  
5 That's kind of what we've got. I think we've also got that  
6 in Indiana. That's pending, correct? And Ohio. I don't  
7 know if there's a staff person from Ohio here; is that true?  
8 Maybe not.

9 MR. BAKER: I can give you my understanding of  
10 Ohio, and if there is someone here -- the case in Ohio was  
11 put on hold, awaiting further clarification of what was  
12 developing at a federal level.

13 CHAIRMAN WOOD: Okay.

14 COMMISSIONER BROWNELL: Maybe, Phil, in the  
15 interest of those who might not have had the benefit of  
16 seeing a response to the data request, PJM also responded,  
17 so maybe Phil, from an operational perspective, you would  
18 like to make some comments?

19 MR. HARRIS: Certainly from an operational  
20 perspective, you can operate the system if it was chosen to  
21 do so as a separate system in Virginia, separate from the  
22 rest of AEP. Technically, that can be accomplished and can  
23 be done.

24 I think what Craig was alluding to is the  
25 intracompany agreements to unwind those and to make it

1       operate as two separate entities, would take a lengthy  
2       period of time, as I understand it. Technically, those  
3       things can be done.

4               CHAIRMAN WOOD: Do any of other state colleagues  
5       have any thoughts, or industry or market participants?  
6       There's Craig again.

7               MR. BAKER: Craig Baker again with AEP. I just  
8       wanted to respond to Phil's statement. I would agree with  
9       Phil that anything is technically feasible, although I  
10      probably would have felt better about saying that before a  
11      couple of weeks ago.

12              But that having been said, I don't disagree with  
13      that. The complexities come out that if you were looking at  
14      splitting up a company and splitting up possibly multi-  
15      companies. For example, Kentucky is not connected to  
16      Virginia, except through Ohio and West Virginia, and the  
17      operational complexities shouldn't be minimized.

18              They are pretty difficult to work through. They  
19      could be worked through, but it's not something that could  
20      be done in days or weeks.

21              MR. GLAZER: Craig Glazer from PJM with one sort  
22      of procedural comment: This is part of the Gordian Knot of  
23      this whole thing.

24              One of the conditions in the Virginia procedure  
25      was a question as to Virginia had a concern that it would

1 not go forward because of uncertainty as to the effect of  
2 SMD on PJM and whether or not, if in fact, it was passing on  
3 PJM rules, whether, in fact, those might change as a result  
4 of you're ordering and SMD.

5 So it gets us right back to this proceeding today  
6 and the discussion today about compliance with the white  
7 paper. But one of the grounds that Virginia said in its  
8 order for not moving forward was, in fact, uncertainty about  
9 what the effect of SMD would be on PJM.

10 That's where all this sort of starts tying  
11 together in a little ball here. We sort of come back upon  
12 ourselves.

13 I don't have a solution, but, in fact, that is  
14 one of the issues that sort of got us into this tie with  
15 SMD.

16 CHAIRMAN WOOD: While we're committed to doing  
17 all the white paper visits and we're halfway through as of  
18 today, so we can finalize the rule at that point pretty  
19 shortly. Anyone else on this issue?

20 (No response.)

21 CHAIRMAN WOOD: I'm going to recommend that we  
22 get all the states who are interested and all interested  
23 parties in before a Settlement Judge and bring Mr. Baker's  
24 companies and the issues as he raised them up, and PJM  
25 issues up, and see where we go.

1           I think it is important to have on-the-record  
2 discussions about this, because of the procedural posture  
3 here. I think I'll take that back to our Staff, Nora and  
4 Bill, and hopefully we can get something out.

5           I think that as of August 14th, it's probably, in  
6 my mind, the biggest unresolved issue that we've got to deal  
7 with.

8           Hearing all the other implications of that today,  
9 it has certainly made it clear to me that it's really a  
10 market integration issue that's going to affect Com Ed; it's  
11 going to affect really a lot of issues that are going to be  
12 bubbling before us in the next 60 days with activities as  
13 good America moves toward full grid integration into MISO as  
14 well. We've got those issues popping up.

15           Would that be a forum that could work? Are there  
16 any suggestions or advice for us as we try to craft  
17 something here that would address the concerns you all have  
18 raised here today? Glen?

19           COMMISSIONER THOMAS: The only thing I would  
20 suggest is that you put some sort of time limit on those  
21 discussions. We do need some final resolution of this thing  
22 at some point.

23           COMMISSIONER BROWNELL: When will the  
24 cost/benefit study be done, Craig?

25           MR. BAKER: Every time I get handed the mike, I'm

1 told to say my name again. We have been working with PJM.  
2 We need them to perform some base-case and change-cases.  
3 Once we get the data from them, then we will  
4 jurisdictionalize it.

5 Our target date right now is sometime before  
6 early December, but we'll try to move that as fast as we  
7 can.

8 COMMISSIONER BROWNELL: We're going to ask our  
9 friends at PJM to get that data to you faster, and then  
10 we're going to ask you to move faster. We have now some  
11 experience, positive and negative, with cost/benefit  
12 studies, so we're pretty sure that they can move pretty  
13 quickly.

14 MR. BAKER: Okay.

15 CHAIRMAN WOOD: All right, access to market data  
16 by the states: Let me ask this, Phil, first, and then maybe  
17 any of the market participants. What's kind of the  
18 reticence here? Is that because of confidentiality issues?

19 MR. HARRIS: You probably ought to ask Barry  
20 Spector to address the nuances of that.

21 MR. SPECTOR: I'm Barry Spector, counsel to PJM.  
22 The current PJM document, the PJM operating agreement,  
23 requires PJM to maintain as confidential, all information  
24 that market participants designate as confidential. There  
25 is no exception in that document and in those rules for

1 providing the data to third parties, merely because you've  
2 got a confidentiality agreement. It's a flat-out bar to  
3 providing confidential information to others, with one  
4 notable exception, and that's the FERC.

5 That document could be changed. Proposals could  
6 be made to share that data with others. I'll let market  
7 participants speak for themselves on whether they would have  
8 concerns with an amendment to the PJM operating agreement  
9 that would let that data be shared beyond the FERC, which is  
10 the only place it can be shared today.

11 CHAIRMAN WOOD: Could we ask market participants,  
12 again, in the interest of candor, to let us know what the  
13 concerns would be with such an amendment to the PJM  
14 operating agreement that would broaden the inclusion of that  
15 access to data to the state commissions that comprise the  
16 Board here. Yes, sir?

17 MR. MATHIS: Bob Mathis, Edison Mission Energy.  
18 We actually have been one of the companies to express  
19 concerns about the preservation of confidential information  
20 with PJM. I think we would be willing to entertain an  
21 amendment to the operating agreement that would make it  
22 explicitly available to state regulatory authorities, again,  
23 subject to the appropriate guarantees of confidentiality on  
24 their part.

25 I don't think there would be any concern that, at

1 least theoretically or conceptually, it being made available  
2 to state commissioners, for the same reason that we have no  
3 concern with the FERC seeing it as well.

4 CHAIRMAN WOOD: Are there any different views  
5 that Mr. Mathis put out? It's good to hear about them now,  
6 before we get a filing.

7 MS. OGENYI: Gloria Ogenyi with Conectiv. I  
8 don't know that I have very different views, but I just want  
9 to point out that I think that for me as a market  
10 participant, the timing of access to this information is  
11 important to us.

12 Information that is still live, if it gets out  
13 there -- I know that New York had an incident not too long  
14 ago, about two months ago, where confidential information  
15 was accidentally released. That hurt companies. That's  
16 just one concern that I have. Timing is important.

17 If information has been out there for like six  
18 months, I think we can establish a timeframe that we are  
19 comfortable with providing access. Also, you know, I don't  
20 have huge concerns about regulators getting it, because it's  
21 the same thing as FERC getting it.

22 But if we can put -- get our hands around who  
23 uses it, and be sure that they maintain it in such a format  
24 that it doesn't leak out, I think that's all that we are  
25 concerned about.

1                   But there is also the timing of what information  
2 do they have access to, within what timeframes.

3                   CHAIRMAN WOOD: Gloria, what would you propose  
4 would be maybe an appropriate timeframe boundary that would  
5 be workable, based on this New York incident or some other  
6 experience?

7                   MS. OGENYI: If information is six months old, I  
8 don't have as huge a concern with that information, as if  
9 it's live. Then the harm that could come to a company, if  
10 that information gets out, could be much more real if it's  
11 something that is live and ongoing.

12                   So, maybe six months to one year could be  
13 something that we could talk about with the state  
14 commissioners.

15                   CHAIRMAN WOOD: What was it when you all  
16 mentioned this issue today? Arnetta, I think you brought it  
17 up first, or maybe Gail or one of you all did.

18                   CHAIR McRAE: I definitely wasn't thinking six  
19 months to a year, principally because, from the standpoint  
20 of reaction time, talking, for example, about something like  
21 local market power issues, we're being asked to trust the  
22 efforts of the PJM MMU, whereas states also have information  
23 along with what confidential data we might obtain, might  
24 help us get a better handle on what's happening in our  
25 territory.

1           Still, information that's six months to a year  
2 old is going to be very much after the fact if you're  
3 dealing with an immediate issue.

4           The other thing that I would say on this point is  
5 that state regulatory commissions often handle confidential  
6 information in proceedings. So it's really not a novel  
7 concept. I do understand that accidents occur and sometimes  
8 they occur even within the company itself.

9           I frankly don't believe that there's enough of an  
10 example out there to make a case that you're taking on an  
11 enormous or even extraordinary risk, so I think that would  
12 be much too long a timeframe.

13           COMMISSIONER HADLEY: Dave Hadley with the  
14 Indiana Utility Regulatory Commission. This dialogue has  
15 several different tentacles to it.

16           As was explained by counsel for PJM, often the  
17 operating agreements -- and it was true with the Midwest ISO  
18 as well -- have this blanket ban on RTOs putting out any of  
19 that information to any party. That includes any  
20 stakeholder, which was the Midwest ISO's language. That  
21 includes state commissions as well.

22           They are modifying that tariff because of our  
23 concerns in that area. It also goes to market monitoring  
24 and the confidentiality agreements that are built into their  
25 contracts, both with FERC's market monitoring unit, with the

1 market monitoring units of RTOs and ISOs.

2 An example from the timeline of information on  
3 your July 23rd Order's with-, through-, and out-issues being  
4 addressed, there was a discussion about hoarding, and if any  
5 hoarding took place, you would expect immediately the RTO or  
6 the market monitor, upon discovery, to notify FERC and its  
7 market monitoring unit.

8 State commissions were not included in that  
9 information because of this confidentiality issue. It  
10 occurred on the very day of the Order, that hoarding did take  
11 place, and the state commissions where that that event took  
12 place in, were not notified.

13 So, six months after the fact, for a breach of  
14 the markets, is something that we need to be knowing about  
15 much sooner, and would like to be true partners included in  
16 the loop at the time of this incident.

17 CHAIRMAN WOOD: Are there any state statutes that  
18 would maybe, through Freedom of Information Acts or  
19 whatever, actually not allow the confidentiality to be  
20 allowed by the state PUC or PSE; do you know of any? That's  
21 been a concern raised, I think, in a couple of other states,  
22 not the ones that are here today.

23 I just wondered if that -- or if you give it to  
24 the PSE, it's now going to be available to attorneys general  
25 and everybody else in the state government.

1                   COMMISSIONER HADLEY: Dave Hadley again, Mr.  
2 Chairman. On that issue, through our organization of MISO  
3 states, we have had dialogue with the Market Monitoring Unit  
4 at FERC, and understand that your general counsel has been  
5 reviewing all 50 states' jurisdiction over that issue, and  
6 what assessment that you make.

7                   Within the OMS, we have a market monitoring team  
8 that will be working on that same issue, and I'd like to  
9 partner with you to get that list, to have individual states  
10 also make that assessment to see if we're in agreement with  
11 your general counsel on where there are differences,  
12 understanding what those are, and at the same time, the  
13 states that do need to improve their language statutorily,  
14 maybe get model language that could be utilized.

15                  The President of OMS, when this issue first came  
16 up over a year ago, recognized her state had this  
17 limitation. Once you give information to their commission,  
18 it was immediately public knowledge by their statute. She  
19 began working with her governor and her legislative staff to  
20 alter that.

21                  That's the kind of partnership that really gives  
22 us as an organization of states at the regional level, an  
23 opportunity to address the concerns of market participants  
24 of FERC and have resolved those as true partners.

25                  While we're there, we do have that study that

1 we've committed to do at the beginning of August. We just  
2 kind of -- we'll get that out to the states shortly, the  
3 analysis of the 50 state statutes. It's a nice thick book,  
4 but I think it should help us resolve this particular  
5 concern.

6 MS. PHILLIPS: Marge Phillips from PSEG. I'd  
7 like to flip it so that I understand better, what the issue  
8 is here. I guess, one, I'm asking whether you don't have  
9 confidence in Joe Bowring, the Market Monitor.

10 Not only does he monitor our behavior, but then  
11 he goes to FERC with reports, so there's a double-check  
12 process on what we're doing. I'm trying to understand a  
13 little bit, if there's a mistrust issue, and also if you  
14 could let us know, are you interested in getting the data  
15 for everybody or just the utilities that are regulated in  
16 your jurisdiction?

17 CHAIR McCRAE: I speak specifically for Delaware.  
18 I'm not necessarily interested in the data on everyone. To  
19 the extent that there is an impact in my jurisdiction or  
20 concern about an impact in my jurisdiction, I would like to  
21 have access to data that I believe would be necessary for us  
22 to independently assess its effect in our state.

23 I don't see this as a trust issue, frankly. I  
24 think PJM operates with information that it has available to  
25 it. States also have considerable information available to

1       them, along with some of the market data that we're not able  
2       to get right now that might help us have a fuller picture of  
3       what's going on.

4                   And to also talk in terms of the Market  
5       Monitoring Unit, I do understand from some recent  
6       conversations that there has been an incident or two which  
7       was not brought to the states' attention, because under  
8       whatever current procedures you have, these matters are  
9       worked out in-house, if you will, with your members or  
10      stakeholders or whoever, and states are told somewhere later  
11      in the process now. I personally found that unacceptable,  
12      because if there is some misbehavior, I would like to know  
13      it as early as possible, so that I and my state can be on  
14      top of it.

15                   It's not necessarily a mistrust question. It's a  
16      process issue, and it's an independence issue, from where I  
17      sit.

18                   COMMISSIONER BUTLER: Real quickly, this is Fred  
19      Butler, New Jersey Board of Public Utilities. I would agree  
20      with Arnetta on the jurisdictional issue, and I want to turn  
21      it back on you as to why the group thinks that we should be  
22      kept out of the loop in terms of what's going on.

23                   Is there is a mistrust of the state commissions  
24      that we can't be allowed to be party to this as true  
25      partners in all of this, without spilling the beans to the

1 inappropriate parties? We do this every day.

2 If we can do it in telecom and survive, we can  
3 certainly do it in energy.

4 MR. MATLOCK: Can I respond to that from the  
5 panel up here? From my perspective, it's not an issue of  
6 mistrust with the data. I think what Margie was getting at  
7 -- and that's really the point I was going to make -- right  
8 now, the PJM Market Monitor has access to the confidential  
9 data, and, again, 25,000 man-hours a year scrutinizing the  
10 data, looking for inappropriate behavior, plus, currently,  
11 the FERC Office of Market Oversight and Investigation has  
12 access to this. We're getting scrutiny there.

13 I look at that and say, well, that's kind of  
14 double jeopardy. I'm a former state commissioner staffer,  
15 so I understand if this information goes to the state  
16 commissions as well, the concern is, well, does it go to  
17 triple jeopardy, quadruple jeopardy?

18 I hate to say the C-word, California, but, you  
19 know, we were subject to some very intense investigation in  
20 the allegations of physical withholding in California.  
21 After I don't know how many months -- I think it actually  
22 took over a year -- we were completely exonerated, but it  
23 was still a lot of work and a lot of money spent on our  
24 part, defending ourselves from what turned out to be an  
25 unfounded allegation.

1           So it's really more that concern of how much  
2 scrutiny do we need to be subject to? The more scrutiny  
3 there is, I think, the greater opportunity, again, for an  
4 unfair or unfounded allegation, which we still have to spend  
5 money to defend.

6           CHAIR McCRAE: I promise this will be my last  
7 comment on the subject, but I believe that states have both  
8 the responsibility to oversee what occurs in their retail  
9 market, and accountability to the residents of the states in  
10 which they reside when something goes awry.

11           From my personal standpoint, I believe if I'm  
12 bearing that kind of weight, that I should have an  
13 opportunity to make my independent assessment of what the  
14 circumstances are or what may be warranted within the  
15 specific market in which I'm functioning.

16           Nobody calls -- with all due respect to our  
17 illustrious Commissioners in FERC, I would suggest that they  
18 are not going to get a phone call if there's a problem going  
19 on with their bill. Nor will you or the supplier. It's  
20 going to come to the commission.

21           I therefore see us having an independent role and  
22 responsibility that we must take very seriously, including  
23 scrutiny, if that needs a third eye.

24           MR. DILLON: Jesse Dillon from PPL. We  
25 understand the Commissioner from Delaware's role and how

1 commissioners are put on the front line every day. We see  
2 it in our Pennsylvania Commission as we see it elsewhere.

3 It's not a question for us of distrust.  
4 Obviously, confidentiality is an issue, but that can be  
5 dealt with. For us, I think one of the questions -- and  
6 this has been useful -- is, what is the jurisdictional  
7 split?

8 And the Commissioners at FERC have seen this in a  
9 number of areas. What uses will the information be put to?

10 Suppliers could be a lot more comfortable --  
11 suppliers and transmission providers -- with information  
12 being shared with states, if we had more of a dialogue about  
13 the uses of that information, about what we might be subject  
14 to.

15 Ron mentioned the idea of multiple jurisdictions.  
16 It could be 14 jurisdictions in PJM fairly soon, so there  
17 are concerns about what the information will be used for,  
18 what jurisdictional bases it could be put to, and how it  
19 will be handled.

20 And I think dialogue about those issues would  
21 make suppliers feel a lot better about some of those issues.

22

23 CHAIRMAN WOOD: Two back here, one on the panel  
24 up here.

25 MR. LEVIN: John Levin, Pennsylvania Commission

1 Staff. At the NARUC meeting that we just held in Denver, we  
2 just had a forum on Sunday on some of these issues.

3 There were a couple of interesting comments from  
4 state regulators and also from market monitors as well. One  
5 of the problems that state commissions and staff has is that  
6 it's hard for them to get their hands around market power  
7 issues, as they are developing, because they don't see what  
8 the market monitor is seeing.

9 Likewise, it's hard for the market monitor to  
10 really be able to talk to state commissions, fully, because  
11 he or she is subject to restrictions on what kind of data he  
12 can talk about, even indirectly.

13 The New York State staff commented that, in fact,  
14 they do have access to a lot of market data. They are  
15 onsite and they have a pretty good market monitoring program  
16 inhouse.

17 They said they wanted access to the data, and  
18 once they saw it and got it and started working with it, and  
19 could understand what the market monitor was seeing, they  
20 felt a lot more confident about what was being done. It's  
21 certainly no reflection on the market monitors around the  
22 country.

23 I have met a number of them, I know a few of  
24 them and have great respect for them, but it's one thing to  
25 take someone's word that everything is okay, and another

1 thing to actually see the data on which they're making that  
2 judgment, and look at it and say, yeah, they're right.

3 There were a couple of comments earlier about a  
4 market power issue in this region. It's possible that that  
5 situation could have been avoided if the state commissions  
6 could actually see the data that the market monitor was  
7 seeing.

8 Of course, the state commissions have an  
9 incomplete picture under present rules, many of which were  
10 drafted by market participants themselves.

11 CHAIRMAN WOOD: Joe, back there, and then a  
12 panelist up here.

13 MR. DeVITO: Joe DeVito, NRG Energy. If we had  
14 an appropriate demand response program -- and I know, Mr.  
15 Chairman, you've heard me say this before -- then this all  
16 becomes somewhat of a moot point. I think obviously we're  
17 not going to get anything relatively soon in that area.  
18 We're in this quasi-state and we're trying to figure out  
19 well, what do we do in this state, and obviously the states  
20 are concerned and we're concerned.

21 Certainly as a company that has suffered, I  
22 think, pretty heavily from over-mitigation, we're on the  
23 other side of the issue. We see the prices that we get  
24 mitigated to, so we have a little bit more knowledge, and I  
25 can understand why the states would be concerned on the

1 other issue.

2 But for us, the concern is political risk, as  
3 well as regulatory risk. What we saw in California, for  
4 example, we saw what I would consider a completely bogus  
5 physical withholding investigation that after a year or a  
6 year and a half of going through the evidence, it was made  
7 perfectly clear that there really wasn't physical  
8 withholding, and from our side of the equation, what went on  
9 there was bogus.

10 So, anytime that we allow more and more people to  
11 scrutinize this data, they all seem to be looking at lower  
12 prices. I don't see anybody rushing in to say, okay, the  
13 supplier is certainly not getting paid enough money. They  
14 all want to make sure that we're not getting overpaid.

15 There's a high level of political risk. Having  
16 said that, I perfectly understand that the states also have  
17 needs. Certainly, if we had a better appreciation of what  
18 it is the state needed, maybe we could draft something here  
19 that gets everybody comfortable. Maybe it's a reporting  
20 issue where the market monitor comes out and shares a little  
21 bit more information after the fact, there might be  
22 something to work out.

23 But certainly I think the issue needs some  
24 dialogue.

25 CHAIRMAN WOOD: Bruce?

1                   MR. BLEIWEIS: Bruce Bleiweis, Reliant Energy. I  
2 have just a couple of comments.

3                   We totally agree with the comments of Chair McRae  
4 that six months is too long a period. We have advocated  
5 that with PJM and sent a letter to Joe Bowring, maybe 15 or  
6 17 months ago, indicating that more data in PJM should be  
7 posted publicly on a shorter lead time than six months.

8                   Also, when we went through for the Chairman's  
9 benefit and everyone else, when we went through that process  
10 of amending the PJM operating agreement that would allow PJM  
11 releasing confidential information to FERC, one of the  
12 issues that we had asked for and ultimately didn't become  
13 part of the protocol, was there would be a several-day or  
14 five-day period where the entities whose data was going to  
15 be released, could seek a court of competent jurisdiction  
16 for a stay on that, so maybe that could be a piece of that.

17                   When you look at the data that the states or  
18 anyone else is requesting, on a case-by-case basis, maybe  
19 there could be a short period where there could be some  
20 discussion. Another key element of this process, I think,  
21 would be when anyone gets data -- and this is something that  
22 PJM does very well in the market monitoring unit -- when  
23 they look at data and they come to what they think may be a  
24 conclusion, the first thing that Joe does is, he picks up  
25 the phone and he calls the entity involved.

1           One of the concerns we've had is, you look at  
2 data. Many people can draw many different conclusions from  
3 that data. I think an integral part of that process should  
4 be a discussion between the state and the entity involved in  
5 trying to discern what does that data mean, because  
6 sometimes the data could be misinterpreted.

7           CHAIRMAN WOOD: Why don't we take two more  
8 comments, and then we'll move on to a couple of other  
9 issues.

10           MR. MATHIS: Mr. Chairman, John Mathis, again. I  
11 just wanted to maybe draw a distinction that I'm not sure  
12 has been drawn between filing the information on a regular  
13 basis with, say, 14 jurisdictions, and simply, on a case-by-  
14 case basis, to pick up on Bruce Bleiweis's point, having the  
15 states be in a position, the state commissions be in a  
16 position to make a request for data and then having to be a  
17 process by which that specific request gets considered by  
18 the entity that's filed, as well as the entity requesting  
19 the data.

20           I think that can be worked out in the context of  
21 the kinds of procedures PJM has in place right now. I  
22 probably should have been a little more clear in my comment  
23 that filing it with 14 entities on a continuing, full-time  
24 basis, is not what I was referring to as more access.

25           CHAIRMAN WOOD: Grace, you get the last word.

1 MS. HU: Grace Hu, D.C. Commission Staff. I have  
2 been monitoring PJM monitoring for a long, long time, and  
3 the data access is, indeed, a very crucial issue for the  
4 states. We do have the statutory obligation to monitor the  
5 wholesale markets, quite a few of us.

6 In D.C., we actually have legislation which  
7 specifically says that we need to carefully monitor the  
8 market power problems in the wholesale market. I think that  
9 answers somebody's concern about jurisdiction issues.

10 Also, I understand that at the New York  
11 Commission, they do have direct access to the confidential  
12 information from their ISOs, and sometimes the New York  
13 Commission staff, they have identified problems prior to the  
14 ISO staff. In that case, they notify the ISO staff and tell  
15 them where the problems were, and, because of that, save the  
16 ratepayers millions of dollars.

17 I think those are important concerns, and right  
18 now, the states receive the sort of secondhand information  
19 from the MMU in PJM. I'm not saying Joe Bowring is not  
20 doing a good job. He's doing an excellent job for the  
21 entire region.

22 However, we do need direct access of the data.  
23 Right now, the states are treating us, the general public --  
24 we receive information six months or a year afterwards. At  
25 that time it's too late.

1           Really, there is no remedy whatsoever, because  
2           it's the past tense, so it's important that we get real-time  
3           building information, and the real-time outage information  
4           to facilitate state collaborative efforts in monitoring the  
5           wholesale markets.

6           CHAIRMAN WOOD: Grace, thank you. Because my  
7           name is Pat and so is his, I'll take one more.

8           MR. McCULLAR: I think I understand and  
9           sympathize with both parties. I can do that because I am  
10          kind of in the middle.

11          But one of the things we may want to consider as  
12          a solution is, since the custodian of the data is already  
13          the market monitoring unit, maybe we could consider some way  
14          of creating a tighter interface between the state regulatory  
15          bodies and the market monitoring unit, so that two things  
16          are accomplished:

17          One, the market participant only has to supply  
18          the data once or maybe not supply it all because it's  
19          already custodian'd by the market monitoring unit. And the  
20          state commissions, in a tighter interface, would have access  
21          to that information when it was important to look at it.

22          I just throw that out as a possible solution.

23          CHAIRMAN WOOD: A process to get to a solution is  
24          something that my colleague, Nora, has thought about, and  
25          I'm going to let her throw an idea out there that we may

1 want to pursue.

2 COMMISSIONER BROWNELL: As the Wicked Witch of  
3 Data Requests at FERC, it's only appropriate that I try to  
4 come up with a solution. It strikes me, in listening to the  
5 conversation, it's one that's gone on for quite some time.

6 I think everyone wants to get to the same place.  
7 It's a question of trust, it's a question of understanding,  
8 kind of what data is needed and how it will be used, and who  
9 will have access to it.

10 I appreciate the confidentiality of the state  
11 commissions, but I think that we need to work on that a  
12 little bit more carefully, so I would like to ask PJM to  
13 host a working group with the appropriate representatives to  
14 deal with those issues, to include, indeed, any procedural  
15 changes in terms of posting information that PJM itself  
16 could make and come up with a recommendation in 120 days. I  
17 hope that meets the new stakeholders' process, but if it  
18 doesn't, I'm sorry; we're the exception rather than the  
19 rule. Phil, are you ready to take that on?

20 MR. HARRIS: We'll be posting something on the  
21 website about the initiation date for this working group and  
22 we'll find a date to kick it off. You'll be seeing a  
23 notice on that, and we'll meet the 120-day clock.

24 COMMISSIONER BROWNELL: Thanks.

25 CHAIRMAN WOOD: Thanks for the thoughtful

1 conversation. I think it could help us in other regions of  
2 the country where this issue has come up. I heard a number  
3 of other issues today. I want to maybe go through them a  
4 little bit quickly, because I know that 5:15 is our outside  
5 latest time.

6 But the local market power mitigation issue came  
7 up at this morning's meeting at the stakeholder group, and I  
8 think -- I don't know, but is Ron still over there? Yes.  
9 Ron and others have brought up the resource adequacy  
10 requirement, which is one of -- there were actually two of  
11 the eight big issues in the wholesale power market platform.

12 They are related here, and I guess I wanted to  
13 see if there's any -- I mean, if I walk away from this  
14 debate, as I have from many others on the same issue, with  
15 kind of a core question, do we want to design a local market  
16 power mitigation cost recovery device to recover just sunk  
17 investment costs or just going forward investment costs?

18 Certainly, the latter would be a smaller number  
19 than the former, but it seems to kind of be an issue that we  
20 see in New England, in New York, we see in here, and we've  
21 actually seen it as a more extreme case in California,  
22 because you do not have a resource adequacy requirement  
23 where a generator can recover any other revenues to offset  
24 fixed costs. It seems to me that these are interplayed,  
25 and, quite frankly, those are the last two items that we

1 kicked off two years ago in the RTO Week discussions and in  
2 the SMD rule in the wholesale power market platform white  
3 paper, that we just couldn't figure out the right answer to,  
4 quite frankly.

5 That's resource adequacy and local market power  
6 mitigation devices, and as you see us grapple with those,  
7 actually probably more directly in a series of recent New  
8 England filings, but not exclusively there -- they're  
9 popping up everywhere now -- we don't have the magic arrow  
10 answer on this thing, and, quite frankly, look to some  
11 development here, and, as I heard this morning, we're going  
12 to see by April, is that right, for local market power  
13 mitigation efforts?

14 MR. HARRIS: September?

15 CHAIRMAN WOOD: Good, that's sooner than I  
16 thought. Good or bad, we won't be any smarter September  
17 30th than we are today, but y'all will be, and I hope PJM  
18 can lead the way for a thoughtful balance on these issues.

19 But I just wanted to flag at least what I heard  
20 this morning, and then a little bit more this afternoon.  
21 These are linked; how you recover capacity revenues does  
22 have a relationship back to the cost of an RMR or more  
23 broadly, local market power mitigated unit.

24 I hope that -- I don't know, though, that we get  
25 past the philosophical question of, is it just going-forward

1 costs that we're talking about here, or is this the sunk  
2 costs of the unit.

3 I guess if anybody's got any thoughts on that  
4 we'll hear them, and, if not, we can move forward, but I  
5 thought the discussion today was quite wholesome on that.  
6 Yes, sir? The gentleman from the People's Council; is that  
7 right?

8 MR. FIELDS: Bill Fields, with Maryland People's  
9 Council. The particular dispute we're having in our working  
10 group is not so much the issue of whether we're going to  
11 design a system that only allows for recovery of sunk costs,  
12 as opposed to going-forward costs. The issue really  
13 revolves around what extraordinary pricing are we going to  
14 do that allows recovery of a certain amount of costs, while  
15 still allowing the unit to remain in the market?

16 I think we have a disagreement. It's certainly  
17 my position that if a unit is going to remain in the market  
18 with an opportunity to recover more than what we are  
19 guaranteeing it, then I don't think it's appropriate,  
20 considering that we have a capacity market, to give that  
21 unit a guarantee of recovery of sunk costs.

22 The other option is to give it some guarantee of  
23 return of recovery of sunk costs, but to limit its ability  
24 to garner market returns. I think if you give it the  
25 ability recover some sunk costs, then you're giving it too

1 much compensation. You're giving it two opportunities to  
2 recover capital costs.

3 My concern there is, one, just and reasonable  
4 pricing, and, two, whether we're going to send a price  
5 signal that results in efficient solutions to a congestion  
6 problem. If we send a price signal that's too high, we can  
7 encourage inefficient market entry, whether that's  
8 transmission side or generation side. That's not getting us  
9 to the solution that's in the best interest of the public.

10 That's the issue that we've been grappling with,  
11 in particular, on the local market power group. We haven't  
12 ruled out either way of doing it, but the objection I have,  
13 like I said, is to leave them in the market but still give  
14 them recovery of sunk costs. That's what I think is not  
15 appropriate.

16 MR. DILLON: Jesse Dillon of PPL. Bill and I may  
17 not see eye-to-eye on this issue, but to answer your  
18 specific question, Mr. Chairman, one point cannot be denied,  
19 and that is that in the long run, unless generators are able  
20 to recover a full return of and return on their investment,  
21 they will not build, and they will not be there to meet the  
22 needs.

23 So, I view your question as having an answer, but  
24 that doesn't solve every problem associated with this issue.  
25 We've been involved in these issues, as you know, in New

1 England and elsewhere, and they are difficult issues, but  
2 that's the answer to your question.

3 CHAIRMAN WOOD: Yes, sir?

4 MR. NAUMAN: Steve Nauman from Exelon  
5 Corporation. We have generation in New England, in PJM, and  
6 in what's going to be West PJM, and also in the Southwest  
7 Power Pool, Texas and the Southeast.

8 We've given this a lot of thought. We think one  
9 of the things is, when you do look at this, there really is  
10 not one answer. There are going to be different reasons why  
11 you need a unit for reliability purposes. You may need it  
12 occasionally due to a transmission situation, and a specific  
13 solution might be good for that, that is not good for a unit  
14 that's a retirement candidate, that you need to maintain the  
15 reliability of the situation.

16 We don't think, again, that there will be one  
17 answer, but there needs to be a menu of different situations  
18 where different types of pricing or different types of  
19 mitigation would apply all the way from the present cost-  
20 plus-ten percent to places where full recovery of embedded  
21 costs or including to-go costs would be appropriate.

22 CHAIRMAN WOOD: Who picks the menu? The  
23 generator or the PJM?

24 MR. NAUMAN: I think through the stakeholder  
25 process, the RTO would be able to define the different

1 situations that would be faced by a generator and by the  
2 customers. It also would work with transmission expansion,  
3 which at some point would compete, but it would be through  
4 the stakeholder process.

5 CHAIRMAN WOOD: Yes, sir?

6 MR. TATUM: Ed Tatum, Old Dominion Electric  
7 Cooperative. Thank you for the opportunity.

8 Bill Fields correctly noted that we have been  
9 kicking this local market power mitigation issue around in  
10 the working group with Mr. Bowring and the other market  
11 participants for quite awhile.

12 There was a good amount of discussion today.  
13 That's not to say that we do not believe that this process  
14 should not continue within PJM and is not apt to bear fruit.

15 I am confident that the working group will bring  
16 a proposal by the 30th that would reflect a sound and  
17 rational approach to this issue. Regarding the concept of  
18 generators -- and we certainly cannot dispute the need for a  
19 new unit coming in to be able to recover its costs, but I  
20 actually urge the Commission to consider the basic concept  
21 that we are in a market that's evolving and moving from one  
22 that was vertically integrated, to one that's competitive,  
23 and initial conditions do matter.

24 Some of those units that we are talking about  
25 were put out there as transmission assets, as an economic

1 choice that was appropriate at that time. We need to deal  
2 with them in that way.

3 The other point I'd like to bring up is, within  
4 PJM, we have a reliability construct and we talk about --  
5 Mr. Harris, in his slides, talked about the reliability of  
6 the regional process by ensuring the deliverability of those  
7 new generators as they interconnect to our grid.

8 In that situation, that is a bit of a  
9 contradiction, the concept of scarcity, from a capacity  
10 standpoint. If you are able to be deliverable to the PJM  
11 region by virtue of its historic type power pool, then you  
12 are deliverable to load. Thank you.

13 CHAIRMAN WOOD: I see a hand up here.

14 MR. DeVITO: Joe DeVito with NRG, again. Thank  
15 you, Mr. Chairman. I think you're absolutely right when you  
16 said that market power mitigation and resource adequacy are  
17 linked. I think they are linked at the hip.

18 I'm not going to try to repeat what Phil said in  
19 terms of the deliverability test. That's a mike-full, but  
20 certainly PJM makes the assumption that capacity anywhere in  
21 the pool is deliverable to any load in the pool, and in  
22 order to exercise market power, the first thing that someone  
23 needs to know is, they need to know that a constraint is  
24 going to bind.

25 CHAIRMAN WOOD: What?

1           MR. DeVITO: That a transmission constraint is  
2 going to bind. They need to know that they can basically  
3 bid what they want and the market has no choice but to take  
4 it. So, I think the best solution that we've seen in all  
5 the markets that we're in, is locational capacity.

6           If you have a known area that has frequent  
7 constraints and therefore strong market power mitigation is  
8 needed because of that, then having a capacity market that's  
9 focused on that specific area in PJM -- I certainly can  
10 mention Delmarva as an area that has frequent transmission  
11 constraints and having a locational capacity market that's  
12 targeted toward that -- would advocate the need for  
13 reliability must-run contracts.

14           If you try to go out there and go after new  
15 resources and the players that have existing resources, why  
16 wouldn't you just file to retire those resources and  
17 participate in the next RFP?

18           Basically what you want to try to do is, you want  
19 to try to create as close to a market signal that can meet  
20 the need as you possibly can get. From all the experience  
21 that we have, locational capacity markets seem to work the  
22 best.

23           CHAIRMAN WOOD: Yes, sir?

24           MR. CAMPBELL: I agree with a lot of the comments  
25 that have been made so far.

1           I would suggest that when Steve Nauman made  
2 different situations, different mitigation schemes for  
3 different situations, there's a lot of variables in here for  
4 appropriate mitigation.

5           Less frequent mitigation might require a more  
6 clear indication of recovery of costs, but within PJM, the  
7 other suppliers, myself included, we're not looking for a  
8 guarantee of cost recovery. We're looking for an  
9 opportunity to make a bid that will allow us to recover  
10 costs.

11           There's a very distinct difference. Bids need to  
12 able to reflect locational costs. You have constraints  
13 where locational costs are high. It may be cost of  
14 construction, may be a cost of fuel, but entities that are  
15 located in those regions that have higher costs, have a  
16 limited opportunity to recover those costs during  
17 constrained operations, and they should be allowed the  
18 opportunity to make a bid that may allow them to recover  
19 costs in those situations.

20           CHAIRMAN WOOD: We're getting a lot of generators  
21 talking, and I do want to hear your point of view, but is  
22 there anybody that might be from the non-supplier side that  
23 would like to pipe in here? Bruce, we'll end up with you.

24           MR. BLEIWERS: Bruce Bleiwers, with Reliant  
25 Energy. I have just a short answer to your question: No,

1 we're not looking for recovery of sunk costs.

2 What we're looking for is a return of capital and  
3 the return on the capital that we'll need to continue to  
4 invest in the plant going forward, including whatever  
5 dollars we need to invest in the plant going forward, what  
6 the plant costs to build, what the purchases are in  
7 material, at least from our point of view.

8 We not looking for any recovery of sunk costs.

9 CHAIRMAN WOOD: Since we will see this one soon  
10 enough on September 30th, we won't form a task force,  
11 working group, or obtain a Settlement Judge at this time.  
12 But I do appreciate the good discussion I heard this  
13 morning. I know that a lot has gone into that, that we just  
14 got a flavor of here today.

15 We're going to run out of time to talk about some  
16 other issues that I heard about today. I would like to say,  
17 as an overview, certainly compared to the other places where  
18 we've been, I should say, to their credit, they are moving  
19 forward in other parts of the country well.

20 And, again, as I said at the beginning of our  
21 meeting today, I think a lot of people, as much as it may  
22 hurt to look at PJM as a role model to follow and how  
23 stakeholders, state regulators, market participants, and the  
24 public get well served by well-functioning wholesale  
25 markets, I want to just thank you, Phil.

1           I want to recognize the members of the Board who  
2 are here: John Kaufman, Howard Schneider, John McNeely  
3 Foster, and a new member we've got, Len Airie, who just  
4 recently joined the Board. Thank you all for your  
5 leadership of this RTO. It's bringing a lot of value to  
6 customers in this part of the country, and as we saw last  
7 week, brings good reliability, too. Thank you for that  
8 effort.

9           I guess, just for completeness purposes, we did  
10 hear what everybody said. I think, quite frankly, because  
11 of where PJM is in its evolution, the -- I, quite frankly,  
12 wouldn't look to whatever rule we come out with as the SMD  
13 is going to be adding something new to PJM that's not  
14 already there, that you already have gone well beyond.

15           Quite frankly, it's difficult to write a rule  
16 that applies to the entire country equally, and as kind of  
17 the fastest runner in the race, it's difficult to envision  
18 that we could come up with something in NRS, considering our  
19 white paper approach, that would require revisiting some  
20 fundamentals of PJM practice or tariffs.

21           That being said, I think we certainly heard  
22 today, a number of things going forward that raise some  
23 interest. I do note that some issues were raised about  
24 export fees. We raised those in our white paper.

25           While we had talked about that and ruled on it in

1 a pending case with the MISO, as between this kind of  
2 virtual single region, there are some exports from PJM to  
3 non-PJM territories other than MISO, toward New York, toward  
4 the South, that may be relatively balanced and should,  
5 therefore, relate to a bill-and-keep methodology of just  
6 saying you got what you got and we don't have export fees  
7 anymore.

8 We can talk about that at some future date. I  
9 was intrigued also, as we have been with the recent case.

10 As I think Arnetta pointed out, issues of  
11 congestion on the Delmarva Peninsula, which is, I guess, a  
12 unique geographic feature, but, quite frankly, there are  
13 isolated parts in just about every power region in the  
14 country that have similar issues.

15 But how the transmission expansion signals are  
16 sent by LMP and how they're responded to or may not be  
17 responded to by the process that we've got here, certainly  
18 the regional planning process is something we've had the  
19 occasion here to look at just in the past couple of months  
20 with the filings before our Commission, and the changes to  
21 the cost allocation methods that I know were pointed out  
22 today earlier by the last panel.

23 We're still not all the way there yet, but I do  
24 think the overview of planning for not only reliability, but  
25 for economic purposes, is an important step that can give a

1 price signal to merchant transmission owners, just as clear  
2 as it can to the ones who will recover their costs through  
3 regulated rates.

4 That battle is a tough one. We'd ask for more  
5 clarification as to how some of that got done. I understand  
6 that was filed in the last week or so, but, again, you all  
7 are at the vanguard on this issue, but it's a critical one  
8 to decide how transmission is paid for.

9 As we thought about what happened on August the  
10 14th, a lot of the big discussions about infrastructure got  
11 talked through. There are a lot of transmission-related  
12 investments, not just big power lines, but, quite frankly,  
13 more importantly, the small, smart grid, new technology,  
14 real-time control systems. Phil and I talked about this on  
15 August 15th, that PJM has a good amount of them, but  
16 certainly not redundant throughout the entire system, as I  
17 think the model system should be.

18 So, those issues are not things that, quite  
19 frankly, FERC is going to get involved in. We're going to  
20 monitor, we're going to support. We want to provide the  
21 mechanism that those of us who can, can get recovered, and,  
22 if need be, get incentivized in the first place. And we'll  
23 continue to hash that out until we get something that is,  
24 from our perspective, balanced, but that also recognizes the  
25 needs of TOs to get rate recovery.

1           So, the cost allocation issue, the LMP issue, the  
2 transmission expansion, I heard export fee, I heard a couple  
3 of thoughts on FTRs. If I'm not mentioning your thought,  
4 please note that I heard them, but I'm just saying ones that  
5 may have kind of struck the screen more than once today from  
6 some of the commenters.

7           The FTR issue, Arnetta, you pointed that out, but  
8 I heard it from a couple of others with different wrinkles.  
9 I'll have to, quite frankly, reread the transcript to make  
10 sure what, exactly, still is outstanding there.

11           But I do know we've got, not just from the  
12 Delmarva congestion experience, but this is an issue across  
13 the country. Again, you all did it first. We want to  
14 understand the FTR issues, particularly as we go to the  
15 Midwest and talk about some allocation issues there that are  
16 going to be hard to deal with.

17           I guess a final parting thought is that there was  
18 a variety of thoughts on our Commissioner panel, and Gail,  
19 you and Terry mentioned it first, I think, some discussion  
20 about the role of the states in this and the white paper  
21 vision of the RSC versus the preexisting MOU that you all  
22 have had with the interconnection for six or so years.

23           Again, we want to be at the service of y'all in  
24 making that a very good working relationship. I think it's  
25 been a good one. Certainly it was a model for us as we look

1 at the whole RSC concept, was the existing relationship that  
2 you all had. But we did go further in the white paper and  
3 went ahead and codified some specific issues and some roles.

4 The folks out in Chicago moved forward with a  
5 pretty well defined organization. I think, Kevin, you spoke  
6 to that a while ago.

7 If there's anything that we can do to provide  
8 some help there, because there may not be unanimity of  
9 opinion with the new folks coming into the PJM and the folks  
10 who have been in PJM for a while, we certainly do not want  
11 to see that create any friction.

12 I think there are some real win/wins there that  
13 probably none of us thought of yet. But, again, I just want  
14 to say we are, personally, and our staff, at the service of  
15 the states as they work with PJM in thinking through how  
16 they want that relationship to work.

17 It's been a great one so far, and I think we want  
18 that to continue. You're the front line. It's not a state  
19 versus federal deal; it's we're all in this deal together,  
20 and I appreciate, again, as I mentioned to you all at lunch,  
21 the continued synergistic relationship that we've had with  
22 the regulators here to make this market, from the  
23 regulator's side, work well, and to support the good, hard  
24 work of not only the RTO staff, but all the market  
25 participants who do so much to keep that frequency at 60

1 hertz.

2 It matters a whole lot more now than it did three  
3 weeks to go to most of America. Nora?

4 COMMISSIONER BROWNELL: I particularly think we  
5 want to recognize and thank our Staff, if they would stand  
6 up. They've done such a great job, not only in organizing,  
7 but in preparing us, in developing the background. Thank  
8 you all.

9 We've got Ed Myers, whom you all know, Sarah  
10 McKinley in the back, Sheldon Cannon.

11 (Applause.)

12 COMMISSIONER BROWNELL: I'm not going to go  
13 through everybody, but buy them a drink. They're good guys.

14 (Laughter.)

15 CHAIRMAN WOOD: But they'll have to pay you back  
16 for it.

17 (Laughter.)

18 CHAIRMAN WOOD: Those Pennsylvania rules just  
19 come on back; don't they?

20 (Laughter.)

21 CHAIRMAN WOOD: Kevin Caddon is a force of  
22 nature. Thank you all for your warm hospitality. Please  
23 keep up the great work on behalf of the people here on in  
24 this part of the country.

25 (Whereupon, at 5:10 p.m., the technical

1 conference was adjourned.)

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