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May 22, 2009

Public Utilities Commission of Ohio  
Docketing Division  
180 East Broad Street  
Columbus, Ohio 43215-3793

Re: Case No. 09-90-EL-COI

Enclosed please find an original and twenty copies of the Comments of the COMPETE Coalition in the above-referenced matter.

Sincerely,



William L. Massey  
Counsel for the COMPETE Coalition

Enclosures

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BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Commission's	)	
Investigation into the Value of	)	Case No. 09-90-EL-COI
Continued Participation in Regional	)	
Transmission Organizations		

**Comments of the COMPETE Coalition**

The COMPETE Coalition appreciates this opportunity to submit comments regarding the value of Regional Transmission Organizations (RTOs). COMPETE represents more than 340 electricity customers, suppliers, generators and their nearly seven million American workers.<sup>1</sup> Our members, a number of which do business in Ohio, support well-structured competitive electricity markets as the best means of meeting America's energy and environmental challenges at the lowest available cost for consumers.

The Commission's March 4, 2009 order invites comments on whether the RTOs serving Ohio provide value to consumers and whether those RTOs are realizing the goals of FERC's Order No. 2000 to promote efficiency in wholesale markets and ensure that electric consumers pay the lowest possible price for reliable service. COMPETE strongly believes the RTOs serving Ohio are delivering on both counts. The RTOs are successfully attracting the infrastructure needed to provide the reliable supply of electricity that is critical to the economic well-being and security of the nation and Ohio. They are keeping costs down, and they are the best means of meeting environmental challenges.

**New infrastructure**

It is estimated that \$1.5 trillion in investment will be needed over the next 20 years to replace and modernize the nation's electricity production, transmission and distribution infrastructure. That significant sum jumps to \$2 trillion if the costs of limiting carbon emissions are factored into the estimate.<sup>2</sup> The RTO markets offer the best opportunity for such capital-intensive, long-lived investments to be made efficiently and in a manner that ensures a reliable supply of electricity.

Transparent electricity prices that vary by location, such as those provided in the PJM Interconnection (PJM) and the Midwest Independent Transmission System Operator (MISO) through the Locational Marginal Pricing ("LMP") mechanism, signal when and where facilities are needed. The incentives provided by the markets then attract the right type of efficiency, transmission, generation and demand response investment. RTO markets have proven so

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<sup>1</sup> The members of COMPETE are listed in Attachment 1 to these comments.

<sup>2</sup> The Brattle Group, *Transforming America's Power Industry: The Investment Challenge 2010-2030*, prepared for the Edison Foundation, November 2008, at xiv, Table 1.

attractive to generation developers, in particular to wind power developers, that they have a tremendous backlog of facilities seeking interconnection with the regional power grids.

PJM and MISO both have mechanisms for ensuring resource adequacy. PJM's Reliability Pricing Model (RPM) forward capacity market has proven to be an effective mechanism in that area for attracting investment and ensuring a reliable supply of electricity.<sup>3</sup> In 2005, PJM foresaw shortages and widespread blackouts if nothing was done to replace its existing capacity markets. Since the adoption of RPM, six auctions have resulted in 27,640 MW of new resources, including 10,464 MW in the most recent auction held between May 4 and May 8, 2009 for the 2012/2013 delivery year.<sup>4</sup> In the most recent auction, the clearing price for capacity in the western portion of PJM, which includes Ohio, was only \$16.46/MW-day.<sup>5</sup> This is a substantial decrease from the \$110 clearing price across PJM for the previous delivery year.

In MISO, voluntary monthly capacity auctions are conducted for load serving entities to supplement bilateral contracts. Load serving entities must identify capacity resources sufficient to meet their projected loads and deficiency charges are imposed for any shortfalls. This mechanism was implemented only recently and thus it is too soon to evaluate in MISO.

Both MISO and PJM employ regional transmission expansion processes which are well-suited to meet transmission infrastructure needs. The regional scope of MISO and PJM aligns the planning and operation of the grid with the physical flows of electricity. The result is a superior ability to identify problems in the regional grid and develop the most effective and efficient regional solution. This regional, rather than company-specific, approach to transmission planning saves consumers in the PJM region about \$390 million annually.<sup>6</sup> The large regional scale of RTOs also improves operational reliability by allowing the operator to view a regional picture of grid conditions that is broader than with the typical, smaller, stand-alone grid operations.

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<sup>3</sup> The North American Electric Reliability Corporation has found that RTO and ISO capacity markets can help assure adequate resources. NERC observed that the marked improvement in resource adequacy in New England "is directly due to newly operational mechanisms designed to add greater long-term planning visibility. Dubbed 'forward capacity markets,' these and similar mechanisms are being implemented in some parts of North America." NERC, *2008 Long-Term Reliability Assessment 2008 - 2017*, at 9.

<sup>4</sup> PJM News Release, *PJM Clears the 2012/2013 RPM Forward Capacity Auctions*, May 15, 2009. <http://www.pjm.com/Media/about-pjm/newsroom/2009-releases/20090515-rpm-news-release-509.pdf>

<sup>5</sup> PJM News Release, *id.*

<sup>6</sup> *PJM Efficiencies Offer Regional Savings*  
<http://www.pjm.com/~media/documents/presentations/pjm-value-proposition.ashx>

## Keeping costs down

RTOs such as PJM and MISO provide the market framework needed for improved operating efficiency and lower costs. For example, the large regional scope of these markets provides a large number of competitors and a wide array of resource types. This means that the market will be supplied by resources with the lowest available costs. In the PJM market, centralized dispatch of resources over a large region results in annual savings of between \$340 million to \$445 million.<sup>7</sup>

The RTOs' fair rules and independent administration ensure the level playing field needed to attract the ample and diverse field of participants needed to drive down costs. PJM's energy market prices, when adjusted for fuel costs, are 23% lower than they were ten years ago.<sup>8</sup> Overall, PJM's operations produce as much as \$2.3 billion in annual savings,<sup>9</sup> and MISO's operations save \$805 million to \$1.1 billion per year.<sup>10</sup>

A specific example of lowering customers' costs in the Midwest is the recent auction to supply the FirstEnergy operating companies' standard offer service from June 2009 to May 2011. The auction price of \$61.50/MWh, accepted by the Commission, will lower Ohio residential customer rates between 7.4% to 16%.<sup>11</sup> Such a successful outcome would not be possible without the features of a well-functioning organized wholesale market like MISO.

Organized markets such as PJM and MISO also provide customers with valuable tools to manage, and thus keep down, their own electricity costs. For example, the RTOs' transparent price signals and demand response programs allow customers to shift usage times and aggregate their demand in order to lower costs and realize incentives for providing demand response resources to the market. PJM's load response programs are the "most direct vehicle" by which customers can reduce or shift loads "from periods when demand and prices for electricity are high to periods when demand and prices are low, thereby having a decisive effect on reducing overall wholesale energy costs both to the reducer as well as other consumers."<sup>12</sup>

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<sup>7</sup> *PJM Efficiencies Offer Regional Savings*, *id.*

<sup>8</sup> Testimony of Andrew Ott, *En Banc* Hearing, Pennsylvania Public Utility Commission, October 23, 2008 at 5.

<sup>9</sup> PJM, *PJM Efficiencies Offer Regional Savings*, *id.*

<sup>10</sup> Graham Edwards, Presentation to Federal Energy Regulatory Commission, *Review of Wholesale Electric Markets*, Docket No. AD08-9, Technical Conference, July 1, 2008, at 4. <http://www.ferc.gov/EventCalendar/Files/20080701140415-MISO-Edwards.pdf>

<sup>11</sup> PUCO News Release, *PUCO Accepts FirstEnergy Auction Results*, May 14, 2009. <http://www.puco.ohio.gov/PUCO/MediaRoom/MediaRelease.cfm?id=9388>

<sup>12</sup> Statement of Pamela C. Polacek on behalf of the Industrial Energy Consumers of Pennsylvania and the Industrial Customer Groups, *En Banc* Public Hearing on "Alternative Energy, Energy Conservation and Efficiency, and Demand Side Response, Pennsylvania Public Utility Commission, November 19, 2008 at 2.

## Meeting environmental challenges

A market-based cap-and-trade program for emissions credits is expected to be enacted by Congress as a means to reduce greenhouse gas emissions. This program will function most efficiently with the foundation of competitive electricity markets, like those administered by PJM and MISO and other areas of the country.

Competitive electricity markets provide the accurate, transparent price signals needed in the emissions markets. A cap-and-trade system will work most efficiently if the supply and demand of both electricity and carbon emissions are determined by accurate, market-driven price signals. In PJM and MISO, prices reflect the cost of the last increment of generation needed to serve demand. As such, prices can directly show consumers the cost of resources, including CO<sub>2</sub> emissions if they are priced, that can be saved by using less energy. With this price signal, customers' decisions regarding the cost savings that result from conservation or efficiency investments will be based on an accurate measure of resource cost savings, including the true value of CO<sub>2</sub> reductions.

Further, the RTOs' neutral rules and regional scope attract environmentally friendly demand response providers and renewable generation resources, such as wind, because these new players are able to compete on a level playing field with traditional resources. Demand resources in the RTO and ISO markets are displacing generation and reducing emissions. Under the first five RPM auctions, total load response in the PJM capacity market has increased by over 3,500 MW, which is the equivalent of displacing the need to install three to four base-load generation plants.<sup>13</sup> The most recent auction produced an additional increase of over 5,600 MW of demand resources and over 500 MW of energy efficiency resources.<sup>14</sup>

In addition to avoiding greenhouse gas emissions, demand response saves money and improves reliability. More than two-thirds of the demand response that cleared the most recent RPM auction was in constrained regions.<sup>15</sup> By forestalling the cost of building additional generating facilities, the demand response that is providing capacity in the PJM footprint saves about \$275 million per year.<sup>16</sup> Moreover, demand response resources are providing critical reliability services, increasing the operational flexibility of the grid and complementing the addition of new variable generation resources such as wind and solar energy.<sup>17</sup> Thus, the tremendous growth in consumer demand response in RTOs contributes to improved reliability.

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<sup>13</sup> Ott, *op cit.*, at 9.

<sup>14</sup> PJM Press Release, *op cit.* More than 10,000 MW of demand response and energy efficiency resources were offered into the most recent RPM auction.

<sup>15</sup> PJM Press Release, *id.*

<sup>16</sup> *PJM Efficiencies Offer Regional Savings*, *op cit.*

<sup>17</sup> *Ten Year Outlook for Electric Reliability Highlights Environmental Initiatives*, Transmission among Key Concerns, NERC press release, October 23, 2008.

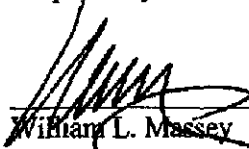
Wind resources in particular are attracted to RTO markets by their fair rules and large regional scopes that offer many diverse resources to provide balancing services for variable generators. That is why more than 70% of installed wind capacity is now located in regions with organized competitive electricity markets such as RTOs, despite the fact that these areas represent only 44% of U.S. wind energy potential.<sup>18</sup> Competitive wholesale electricity markets and investment by competitive electricity suppliers are responsible for over 85% of new wind capacity.<sup>19</sup> MISO currently has more than 62,000 MW of renewable resources in its interconnection queue.<sup>20</sup>

### Customer support

Competitive RTO markets such as PJM and MISO enjoy broad customer support because they empower customers to better manage their energy supply and usage and thereby lower their costs. This is because the organized markets provide accurate and transparent prices, fair rules, direct access to a wide array of resources, a platform for demand response, and a means of assuring a reliable supply of electricity into the future.

More than one-third of COMPETE's member are electricity customers. In Ohio, commercial customers find that the MISO and PJM markets are good for business. In a letter to Governor Strickland and the Ohio legislature's leadership, representatives from seven companies, with 376 facilities in Ohio, over 70,000 employees and over \$70 million in annual electricity purchases, stated that "regional competitive wholesale electricity markets with independent oversight, as we have in the PJM and MISO marketplaces in Ohio and 26 other states, provide access to generation at the lowest available cost" and "helps us maintain low priced goods and services for our customers."<sup>21</sup>

Respectfully submitted,

  
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<sup>18</sup> Letter from American Wind Energy Association, et al. to FERC Chairman Kelliher, February 26, 2007.

<sup>19</sup> Electric Power Supply Association, *Power Facts - AWEA Report Shows Wind Energy Still on Record Pace with Competition Leading the Way*, October 28, 2008.  
<http://www.epsa.org/forms/documents/DocumentFormPublic/view?id=DC350000002F>

<sup>20</sup> *Inside FERC*, April 20, 2009 at 19.

<sup>21</sup> Letter to Governor Strickland from representatives of 7-Eleven, Inc., Best Buy Co., Inc., JCPenney, Macy's Inc., Medline, University Manors, and Wal-Mart Stores, Inc., April 22, 2008.

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# COMPETE

Electricity Competition **IS** the Public Interest

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## Membership List

2degrees Network	Atlantic Scaffolding Company
7-Eleven, Inc.	Bay Area ndt
ABB Inc.	Bell Fuels Inc.
ABuzz Media	Big Lots Stores, Inc.
AdaptivCool	BJ's Wholesale Club, Inc.
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Rapid Power Management  
re-Source Innovations  
Realgy, LLC  
Recurrent Energy  
Red Robin Gourmet Burgers  
Rehabit, LLP  
Renewable Energy Development LLC  
RES Americas (Renewable Energy  
Systems)  
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Retail Industry Leaders Association  
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Safeway Inc.  
St. George's School  
Satori Energy  
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School Project for Utility Rate Reduction  
Scott Specialty Gases  
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Sempra Energy  
Seven-Utility Management  
Consultants, Ltd.  
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Sierra Energy Group  
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Site Controls, Inc.

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Spark Energy  
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Texas Energy Aggregation  
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