

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.)

ENTRY

The Commission finds:

- (1) Amended Substitute Senate Bill No. 221 (S.B. 221), enacted by the 127th Ohio General Assembly, mandates that the Public Utilities Commission of Ohio (Commission) employ a federal energy advocate to monitor the activities of the Federal Energy Regulatory Commission (FERC) and other federal agencies and to advocate on behalf of the interests of retail electric service consumers in the State of Ohio. Section 4928.24, Revised Code, requires the advocate to examine the value of the participation of the State of Ohio's electric utilities in regional transmission organizations (RTOs) and submit a report to the Commission on whether continued participation of those electric utilities is in the interest of retail electric service consumers.
- (2) On December 20, 1999, FERC issued its Final Rule in *Regional Transmission Organizations*, Docket No. RM99-2-000 (Order 2000), amending its regulations under the Federal Power Act (FPA) to advance the formation of RTOs (89 FERC ¶61,285, 18 CFR Part 35). FERC's Order 2000 required that each public utility that owns, operates, or controls interstate electric transmission facilities to make certain filings with respect to forming and participating in an RTO. Order 2000 reflects that, among other things, its goal is to promote efficiency in wholesale electric markets and to ensure that electricity consumers pay the lowest price possible for reliable service. Order 2000 also reflects that regional transmission institutions could (a) improve efficiencies in transmission grid management, (b) improve grid reliability, (c) remove remaining opportunities for discriminatory transmission practices, (d) improve market performance, and (e) facilitate lighter handed regulation. FERC's Order 2000 notes that RTOs could successfully

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address the existing impediments to efficient grid operation and competition and could consequently benefit consumers through lower electric rates resulting from a wider choice of services and service providers. In addition, Order 2000 reflects that substantial cost savings are likely to result from the formation of RTOs. FERC has a statutory obligation to ensure that wholesale prices customers pay are "just and reasonable" and not "unduly discriminatory or preferential" (FPA §§205 & 206).

- (3) Consistent with the directives identified in Section 4928.24, Revised Code, the Commission takes this opportunity to invite public input from interested persons concerning various RTO issues that may impact the value of RTO participation for Ohio's consumers. These inquires are listed in Appendix A attached to this entry.
- (4) Appendix A has been divided into two sections. The first section concentrates on specific issues potentially affecting the value of participation in RTOs. Commenters are encouraged for each problem identified or criticism noted in their respective comments to furnish a corresponding proposed solution by providing a practical cost-effective alternative. The second section of Appendix A invites recommendations concerning alternatives to RTO participation. Similar to the first segment of Appendix A, commenters are encouraged to provide practical cost-effective alternatives to RTO participation. Likewise, those commenters advocating for continued RTO participation should identify why a particular program or policy is a success and rendering value to Ohio's consumers. Moreover, those commenters advocating for continued RTO participation are encouraged to identify changes in policies, rules, or programs that could result in more efficient RTO operations and increased value for Ohio's consumers.

In addition to the specific inquires identified in Appendix A, commenters are encouraged to provide general remarks concerning whether RTOs have provided value to consumers in the State of Ohio. Comments and replies are due at the Commission in this proceeding on May 4, 2009, and June 2, 2009, respectively. The Commission is aware of the existence of a number of extensive reports, studies, and papers attempting to quantify the value and/or costs associated with RTO participation. To avoid unnecessary duplication of filings, commenters are requested to provide either citations and/or URL links for such supporting documentation.

- (5) There are several issues complicating this investigation. The first is how to quantify the value of RTO participation in non-empirical calculation. Specifically, the General Accounting Office's (GAO) Report to the Senate Committee on Homeland Security and Governmental Affairs, issued in September 2008, observes that FERC has not conducted an empirical analysis of RTO performance or developed a comprehensive set of publically available, standardized measures to evaluate RTO performance. The GAO further observes that electricity prices are heavily dependant on fuel and that many point to the increases in fuel costs as a significant contributing factor to the price of wholesale electricity. The GAO indicates that it is not possible to draw conclusions about what impact the establishment of RTOs has had on electricity prices without properly accounting for and isolating the impacts of other factors, such as the cost of fuels used to generate electricity, changes in the fuel mix, and changes in consumer demand. (GAO Report at Pages 7, 14, 43, 48, and 54.) This circumstance is further complicated in that it could be problematic to arrive at exact measures for determining certain values even if federal metrics were established. For example, it could be problematic to quantify a different number of outages associated with RTO participation with the number of outages that might have otherwise occurred if a provider was not a member of an RTO. Consequently, it is acknowledged that some analysis may be more qualitative as opposed to quantitative. With these conditions in mind, if necessary, commenters are requested to provide estimates of the value and/or costs that RTOs bring to Ohio's consumers.
- (6) Also complicating this analysis is the fact that there is not one universal regulatory paradigm for Ohio's electric utility companies. Rather, Ohio's electric utilities are subject to varying combinations of regulatory conditions. For example, some electric utilities have transferred to affiliates all or some of their generation assets. Moreover, electric utilities subject to varying forms of intrastate regulations depending on whether they are operating under an electric security plan, a market rate option, or a rate stabilization plan. Moreover, the state is served by two RTOs, each with a unique set of tariffs. (The two RTOs serving Ohio are PJM Interconnection, Inc. and the Midwest Independent Transmission System Operator, Inc.) As a result of these varying regulatory environments, commenters are requested, if they are not

responding generically to an inquiry, to specify in their comments the regulatory circumstance being addressed.

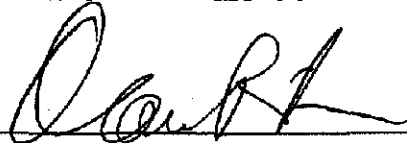
- (7) The Commission welcomes the various commenters' responses and recommendations to the attached inquiries listed in Appendix A. After comment and replies are furnished by interested persons, the federal energy advocate will prepare a report for the Commission's consideration consistent with the mandates of Section 4928.24, Revised Code.

It is, therefore,

ORDERED, That comments from interested persons are due in this proceeding on May 4, 2009, and reply comments are due on June 2, 2009. It is, further,

ORDERED, That a copy of this entry be served upon all persons identified in the service list for this investigation.

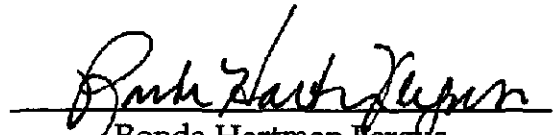
THE PUBLIC UTILITIES COMMISSION OF OHIO



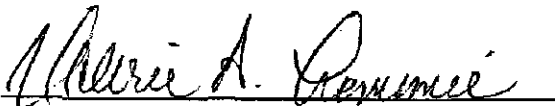
Alan R. Schriber, Chairman



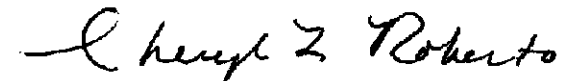
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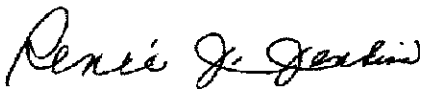


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Renee J. Jenkins
Secretary

RTO INQUIRIES

RTO Value

1. Are FERC's Order 2000 goals and objectives being realized to promote efficiency in wholesale electric markets and to ensure that electric consumers pay the lowest price possible for reliable service?
2. Are RTOs providing value to Ohio's customers through more effective management and use of the grid by:
 - (a) Addressing discrimination in access to transmission service?
 - (b) Eliminating of pancaked transmission rates?
 - (c) Regional transmission scheduling, tariff administration, and settlements?
 - (d) Enhancing reliability?
 - (e) Improved utilization of transmission assets and management of transmission congestion?
 - (f) Regional unit commitment and security constrained economic dispatch?
 - (g) Regional procurement of Ancillary Services and consolidation of Balancing Authorities?
 - (h) Regional transmission planning?
3. Are the RTOs' locational marginal pricing (LMP) policies providing value to Ohio's consumers?
4. Are the RTOs' ancillary services markets and the integration or co-optimization of those markets with the RTOs' energy markets efficient and providing benefits to Ohio's consumers?
5. Are the RTOs' market monitoring and mitigation policies effective in ensuring competitive prices and providing value to Ohio's consumers?
6. Are the RTOs' resource adequacy requirements and the resulting capacity markets (or, in the case of PJM, its Reliability Pricing Model and Fixed Resource Requirement) reasonable and providing benefits to Ohio's consumers? Are these policies effective in promoting needed resource investment and long-term contracts which could help finance such investment? Do these policies promote an appropriate level of investment that is consistent with the needs and preferences of Ohio consumers?
7. Are RTOs effective in facilitating transmission planning and needed transmission investments that benefit Ohio's consumers? Are they effective in facilitating transmission planning and investment that may be needed for the development of renewable energy resources?
8. Are the RTOs policies and practices be effective in facilitating long-term contracts between load serving entities and generation developers or suppliers that may be needed to support the construction of additional base load generation facilities?

9. Are the RTOs' transmission cost allocation methodologies and policies resulting in value for Ohio's consumers?
10. Are the RTOs' Financial Transmission Rights and other transmission congestion hedging policies and practices effective and providing value to Ohio's consumers?
11. Are the RTOs demand response programs, policies toward behind-the-meter generation, and other Load Modifying Resources effective and providing value to Ohio's consumers over and above state sponsored programs?
12. Are the RTOs policies and practices relating to the treatment of Price Responsive Demand (PRD) consistent with facilitating the development of PRD through dynamic and time-differentiated retail pricing? (PRD is consumer demand that predictably responds to changes in wholesale prices as a result of dynamic or time-differentiated retail rates.)
13. Are the RTOs' queue and interconnection policies providing value to Ohio's consumers?
14. Is the resolution of seams issues being thoroughly addressed and resolved by the RTOs operating in Ohio?
15. Does the RTOs' treatment of financial-only market participants (or virtual traders) provide value to Ohio's consumers?
16. Are the RTOs' administrative expenses and corresponding assessments to member companies reasonable and resulting in value to Ohio's consumers?

RTO Alternatives

1. Are there viable, cost-effective alternatives to the existing RTO memberships of Ohio utilities or to Ohio utility participation in RTO managed functions (e.g. renewable tracking, reserve sharing groups, etc.)?
2. Would it be reasonable, cost effective, and viable for the Ohio Commission to pursue the construct of an Ohio-only RTO?
3. What recommendations could be made to FERC or required of Ohio's RTO member companies that would result in increased value to Ohio's consumers?