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BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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PUCO

In the Matter of the Proposal of)

FirstEnergy Service Company to)

Case No. 09-778-EL-UNC

Modify Its RTO Participation)

COMMENTS OF PJM INTERCONNECTION L.L.C.

I. Introduction and Background

PJM Interconnection L.L.C. ("PJM") appreciates the opportunity to submit comments in this proceeding of the Public Utilities Commission of Ohio ("PUCO" or "Commission") on the merits of the request by FirstEnergy Service Company ("FirstEnergy") to the Federal Energy Regulatory Commission ("FERC") to realign its RTO affiliation from the Midwest Independent System Operator, Inc. (the "Midwest ISO") to PJM. Specifically, PJM herein addresses certain issues raised by stakeholders during a meeting called by the PUCO on September 15th, 2009 to receive oral comments from FirstEnergy, PJM, the Midwest ISO, the Ohio Consumers Counsel, and the Ohio Energy Group on the FirstEnergy proposal to leave the Midwest ISO and integrate with PJM. The Commission should not construe PJM's filing of comments in this proceeding as in any manner submitting to, or conceding jurisdiction to the PUCO. PJM is subject to FERC jurisdiction rather than the jurisdiction of the PUCO or any other state regulatory commission.

On August 17th, 2009, FirstEnergy submitted a request to the FERC to (i) approve the termination of ATSI's status as a transmission operator, owner and local balancing authority in the Midwest ISO and (ii) make various findings, regarding subsequent participation by ATSI and others in PJM (the "Integration Filing").¹ The implementation plan for integration into PJM is set forth in the Agreement to Implement Expansion of PJM Region for FirstEnergy Service Company. The agreement between FirstEnergy and PJM is attached to FirstEnergy's Integration Filing as Exhibit 1.

¹ As stated in the Integration Filing, "FirstEnergy" is FirstEnergy Service Company acting on behalf of five of its affiliates: American Transmission Systems, Incorporated ("ATSI"), The Cleveland Electric Illuminating Company ("The Illuminating Company"), Ohio Edison Company ("Ohio Edison"), and The Toledo Edison Company ("Toledo Edison"), Pennsylvania Power Company ("Penn Power").

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PJM supports FirstEnergy's implementation plan for integrating ATSI into the PJM Region and is able to meet the integration schedule proposed as set forth by FirstEnergy in the Integration Filing and detailed in Schedule 3.2.5 of the Integration Agreement. The proposed integration is technically feasible and promotes an efficient transition because it is designed to provide market participants and stakeholders with ample opportunity to adjust their business plans through the transition period. The proposed timing of FirstEnergy's integration is well coordinated with PJM's RPM auctions and Transmission Rights allocations as well as with your Commission's anticipated bid solicitation for FirstEnergy retail customer Standard Offer Service.

II. FirstEnergy's Integration Into PJM Results in Increased Operational Efficiency

A. Provisions of the Midwest ISO-PJM Joint Operating Agreement Do Not Provide the Benefits Associated with Day-Ahead Commitment by PJM of FirstEnergy's Generation

During the presentations provided by stakeholders to the Commission on September 15th, PJM explained that FirstEnergy's proposed RTO realignment will increase FirstEnergy's transmission ties with the rest of their RTO from three ties in the Midwest ISO to 32 ties in PJM. This significant increase in transmission tie capability with the RTO with which FirstEnergy is aligned will provide for more efficient commitment of generation by rendering FirstEnergy's generation units available for day-ahead unit commitment in PJM's Day-Ahead Market. As a result, congestion will be reduced and operational efficiency increased across both PJM and the Midwest ISO.

The Midwest ISO took issue with this conclusion, claiming that the Day-Ahead Energy Market Coordination provisions of the Midwest ISO-PJM Joint Operating Agreement (JOA)² provide for comparable operational efficiency with the availability of FirstEnergy's generation units for day-ahead unit commitment in PJM. A review of those provisions belies the Midwest ISO's assertion. The JOA provides that "Day-Ahead market coordination focuses primarily on ensuring that the Day-Ahead scheduled flows on all RCFs [Reciprocal Flow Gates] are limited to no more than the Firm Flow entitlements for each RTO. *Under certain conditions, an RTO may request that the Day-Ahead flow limit be raised above its Firm Flow entitlement but this is expected to happen only by exception under abnormal conditions*" (emphasis added). The JOA also states with respect to the Day-Ahead Energy Market Coordination protocol that "either RTO may request that the Day-Ahead flow limit be raised above its Firm Flow entitlement. *Normally, this protocol will be utilized infrequently and only when the need*

² The Midwest ISO-PJM Joint Operating Agreement, PJM Interconnection Second Revised Rate Schedule FERC No. 38.

*for additional congestion relief assistance is predictable on a Day-Ahead basis*³
(emphasis added).

In fact, the JOA's Day-Ahead Energy Market Coordination provisions have never been executed: the abnormal circumstances contemplated by the JOA and pre-requisite to their execution have not materialized. As stipulated by the JOA, execution of the JOA's Day-Ahead Market Coordination provisions is expected to occur only infrequently and during abnormal conditions, and would effectively require PJM and the Midwest ISO to anticipate real-time market conditions and accordingly take steps to reduce scheduled flow on a Reciprocal Flow Gate. Implementation of these provisions would result in a more efficient commitment for the brief time periods when such coordination would occur, but would not take advantage of the stronger ties FirstEnergy has with PJM on a sustained, long-term basis. In order for such coordination to recognize the physical advantages of FirstEnergy's ties with PJM, it would necessarily need to involve the exchange of energy between the RTOs as part of the coordinated, day-ahead market processes. Such exchange of energy during the day-ahead commitment and scheduling process would inject PJM and the Midwest ISO as participants in the two Day-Ahead Markets, thereby subjecting all other market participants to the financial risks of that participation.

The Commission should reject the Midwest ISO's argument that because the topology of the combined Midwest ISO-PJM footprint remains unchanged, FirstEnergy's realignment with PJM does not improve operational efficiency. Having FirstEnergy's generation available on an everyday basis for PJM's day-ahead unit commitment will undeniably reduce congestion and improve operational efficiency across both PJM and the Midwest ISO, and the Day-Ahead Energy Market Coordination provisions of the JOA do not provide comparable operational efficiency improvements.

B. The ATSI Integration Simulation Analysis Attached by FirstEnergy to Its
FERC RTO Realignment Request Indicates that Operational Efficiency Is
Enhanced by FirstEnergy's Proposed RTO Realignment

FirstEnergy submitted a request to FERC on August 17th, 2009 in Docket No. ER09-1589-000 to (i) approve the termination of ATSI's status as a transmission operator, owner and local balancing authority in the Midwest ISO and (ii) make various findings, regarding subsequent participation by ATSI and others in PJM. FirstEnergy's request relies in part on a PJM analysis entitled "ATSI Integration Simulation Analysis" ("PJM Study") attached as Exhibit 2 to its request to FERC. The PJM Study quantifies the operational efficiency impact of the integration of FirstEnergy into PJM that is enabled by the strength of the transmission ties between the ATSI System and the existing PJM system.

The PJM Study results confirm what reason and common sense dictate: that increasing the number of FirstEnergy's transmission ties from three with the rest of the

³ The Midwest ISO-PJM JOA, Section 4, Sheet No. 171.

Midwest ISO to 32 with the rest of PJM results in a gain in operational efficiency. The PJM Study concludes that as a result of PJM's realignment, annual congestion costs will decrease by \$91 million or 6.3 percent as a result of improvements in transmission utilization and operational efficiency. PJM was requested to perform the analysis by FirstEnergy in order to quantify the efficiency gain, and we recognize that different assumptions may lower or raise the estimated reduction in congestion costs. However, no realistic change in study assumptions would change the fact that operational efficiency gains will be realized by the proposed realignment, because it reduces the long irregular transmission seam that currently exists in Ohio. The Commission should not be persuaded by the arguments of other stakeholders that these findings should in some sense be discounted because consumers may be hedged against congestion costs and therefore the study results do not represent anticipated savings to FirstEnergy and/or end-use customers. Instead, the PJM Study results establish that FirstEnergy's proposed RTO realignment will enhance rather than diminish operational efficiency.

The Commission should also not lend credence to arguments that differences in the mechanisms by which PJM and the Midwest ISO procure ancillary services in any way invalidate the results of the PJM Study. While the Midwest ISO may establish prices for ancillary services as part of its Day-Ahead Market, PJM also monitors these quantities to ensure availability of sufficient quantities as part of its day-ahead commitment and scheduling process. Therefore, any minor differences between the two procurement mechanisms would not change the PJM Study's conclusions that a more efficient day-ahead commitment will be achieved once the FirstEnergy system is included in the RTO with which it is more strongly tied.

During the September 15th, 2009 presentations to the Commission, the Midwest ISO criticized the PJM Study for relying on hurdle rate assumptions that it argued were rendered superfluous by the coordination provisions of the Midwest ISO-PJM JOA. But as the discussion above at Section II.A clarifies, the operational efficiencies associated with the day-ahead commitment opportunities provided by the integration of FirstEnergy into PJM are in no sense comparable to any the JOA's Day-Ahead Commitment Coordination protocol could provide. The Commission should reject arguments that the hurdle rates assumptions of the PJM Study are too high, and that the efficiency gains demonstrated by the PJM Study are illusory. Regardless of the specific hurdle rate assumed, the PJM Study confirms what is readily apparent: increasing FirstEnergy's transmission tie capacity with the rest of its RTO from three ties rated at approximately 4,500 MW to 32 ties rated at approximately 24,000 MW will result in an increase in operational efficiency.

III. FirstEnergy's Integration Into PJM Will Support Ohio's Energy Policy and Decrease PJM Administrative Charges for Ohio Customers

A. FirstEnergy's Integration Into PJM Will Enhance the Competitive Provisioning of Retail Electric Service in Ohio and Facilitate Achieving the "Green" Provisions of Senate Bill 221.

PJM has worked continuously to support and enhance competitive retail access provisioning across its footprint by lowering barriers to participation by competitive electricity suppliers. For example, PJM has implemented web portals with standardized data transfer protocols and centralized settlement and billing processes to support daily retail load switching in order to lower transaction overhead and to support competitive retail access programs such as those in Ohio. The increased amount of transmission line capacity tying FirstEnergy to the rest of PJM will facilitate the participation of increased numbers of bidders in retail procurement auctions for Standard Offer Service, as well as increase competitive supply that is available to satisfy reliability requirements. At the same time, price transparency in PJM's Capacity Market will level the playing field to enhance competition in the retail market by revealing the price of capacity to all market participants.

Also, PJM believes that the proposed FirstEnergy realignment will provide benefits to consumers and will further state and national goals of open access, encouragement of demand side resources ("DSR"), energy efficiency and renewable integration. PJM's settlement and billing processes are tooled to provide support for retail access programs in states such as Ohio, as the level of retail access in the PJM states is markedly greater than in the states served by the Midwest ISO. PJM's markets have been designed to interface effectively with any retail market design and without preference to any particular retail access program, and provide support of daily load switching among retail suppliers. The availability of these interfaces serves to reduce the administrative overhead faced by retail suppliers and thereby supports retail competition and increases the liquidity of retail access programs.

B. FirstEnergy's Integration Into PJM will Facilitate Achieving the "Green" Provisions of Senate Bill 221.

The proposed FirstEnergy integration into PJM will provide opportunities to further Ohio's goals encouraging reliance on demand side resources, energy efficiency, and advanced and renewable electricity resources. PJM provides unique opportunities for participation by such resources in PJM's Reliability Pricing Model (RPM) Capacity Market and in its Energy Market. At the same time, the increase in transmission tie capacity that FirstEnergy's integration into PJM provides will enable increased imports of advanced and renewable energy capacity into the ATSI zone.

C. PJM Administrative Charges Will Decrease as a Result of FirstEnergy's Integration Into PJM.

As requested by Commissioner Valerie Lemmie during the September 15th, 2009 Commission meeting, PJM has estimated the impact on RTO administrative charges for Ohio utility zones that would result from FirstEnergy's proposed integration into PJM.⁴ For the period in 2011 that is subsequent to the proposed FirstEnergy integration, June 1st through December 31st, 2011, PJM estimates a reduction of ATSI's administrative charges by \$6 million, as compared to estimated administrative charges that would have been incurred had ATSI remained in the Midwest ISO. This reduction would occur because PJM's projected operating budget is less than the Midwest ISO's and PJM market volumes, over which such costs are allocated, are higher. Furthermore, for the same seven-month period ending December 31, 2011, the estimated reduction in administrative charges for the Ohio portion of the AEP zone in PJM would be approximately \$0.5 million (the reduction across the entire AEP zone would be approximately \$1.2 million), and the estimated reduction for the Dayton zone would be \$0.2 million as a result of ATSI's integration into PJM. These reductions would occur because the PJM market volumes over which administrative cost are allocated would increase by approximately 9 percent upon the integration of the ATSI zone and the operating budget is estimated to increase by approximately 2 percent. Therefore, the administrative rates charged throughout the PJM footprint would reduce for all PJM market participants due to these administrative economies of scale.

Beginning in 2012, PJM's analysis indicates that annual RTO administrative charges for the ATSI zone would decrease by approximately \$9 million, from approximately \$30 million to approximately \$21 million as compared to the administrative charges for the ATSI Zone if it remained in the Midwest ISO. Across Ohio, RTO administrative charges are anticipated to decrease by approximately \$10.2 million annually. This reduction includes a decrease in annual PJM administrative charges for the Ohio portion of the AEP zone of approximately \$1.2 Million (the reduction across the entire AEP transmission zone would be approximately \$3 million) and a reduction for the Dayton zone of approximately \$0.4 million. If one assumes the Midwest ISO's annual operating budget does not change, then the Midwest ISO administrative charges for Duke

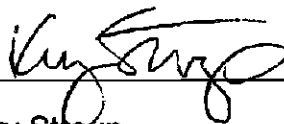
⁴ PJM's estimation analysis evaluated the impact on respective PJM and Midwest ISO administrative charge allocation anticipated for the integration year, 2011, and illustrates the impact of the FirstEnergy integration into PJM. The allocation of administrative charges is based upon budget projections for 2011 by PJM and the Midwest ISO in conjunction with anticipated energy demand for each zone (ATSI, AEP, Dayton and Duke) relative to the total demand in the RTO. Accordingly, the analysis assumes the movement on June 1, 2011 of 11 percent of the Midwest ISO's load to PJM, where that load would account for approximately 9 percent of PJM's load. The analysis provides an approximation that is reasonably consistent with PJM's historical observations. PJM conducted a similar analysis using actual PJM and Midwest ISO budgets for 2009 that assumed the proposed FirstEnergy RTO alignment was effective for this year, and obtained similar results.

Energy's Ohio utility could increase by approximately \$0.4 million.⁵ This potential increase would be caused by a reduction in Midwest ISO market volumes which would increase the administrative charge rate to remaining Midwest ISO members.

IV. Conclusion

PJM supports the proposed integration of PJM into FirstEnergy, and urges the Commission to consider the comments it hereby submits in considering the benefits that will result from FirstEnergy's realignment with PJM.

Respectfully Submitted,



Kerry Streup

Manager, State Government Policy

PJM Interconnection L.L.C.

⁵ PJM has no knowledge or information about the potential impact of the proposed FirstEnergy RTO realignment on the Midwest ISO budget or administrative cost allocation. PJM only provides this comment in an effort to provide a complete response to the Commission's question. This calculation assumes that Duke Energy Ohio represents 1.3 percent of MISO administrative charge volume and that the Midwest ISO's administrative costs would not change as a result of the integration of FirstEnergy into PJM.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the Comments of PJM Interconnection LLC was served upon the following parties via regular U.S. Mail, postage prepaid, or also by electronic mail, this 25th day of September, 2009.


Evelyn R. Robinson

SERVICE LIST

Case No. 09-0778-EL-UNC

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