



RTO Accountability: The Mission and the Measurement

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At the Wholesale Level...

- Transmission access
 - Negotiation of “wheeling rights”
 - Discriminatory treatment
 - Lengthy litigation: “*Refunds to a Corpse*”
- Build-out costs
- “Reliability” and “native load” as code
- *TLRs, demand ratchets, price squeeze you name it...*

At the Retail Level...

- Rates significantly above the national average
- Industrial subsidies for public interest programs
- Investment/technology stagnation
- Hit to global competitiveness

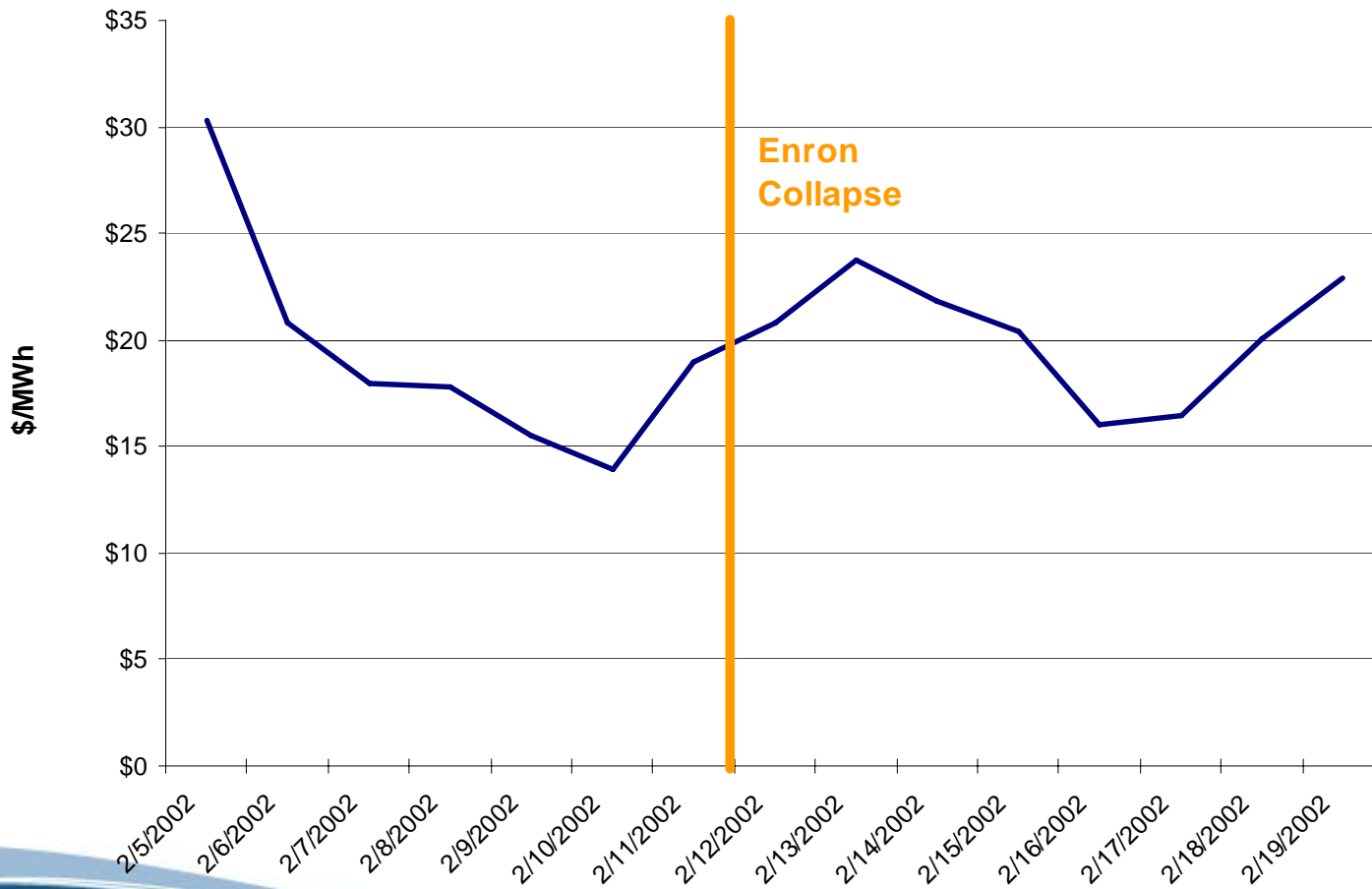
- Reminding the Regulator
What We Got Right: *Taking credit for our accomplishments*
- Building on Past Experience:
Learning What Needs Further Work
- Avoiding the Quagmire of Inaction

Report Card	
_____	A
_____	B
_____	I
_____	A
_____	C

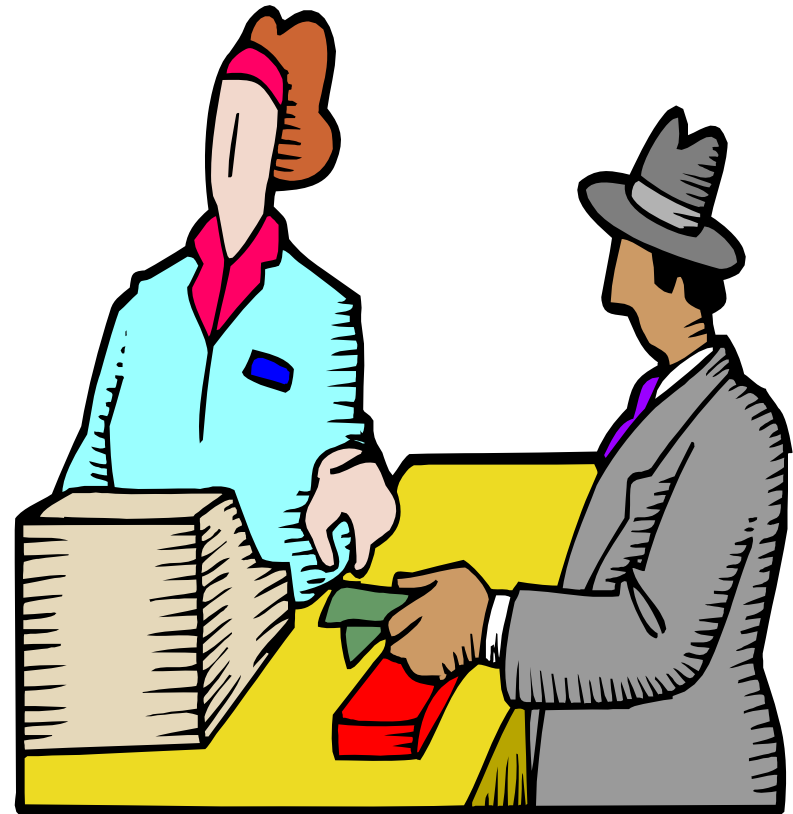
Accomplishment No. 1:

We moved the risk allocation formula:
aka “There was no Enron rate case!”

Mean PJM RTO LMP



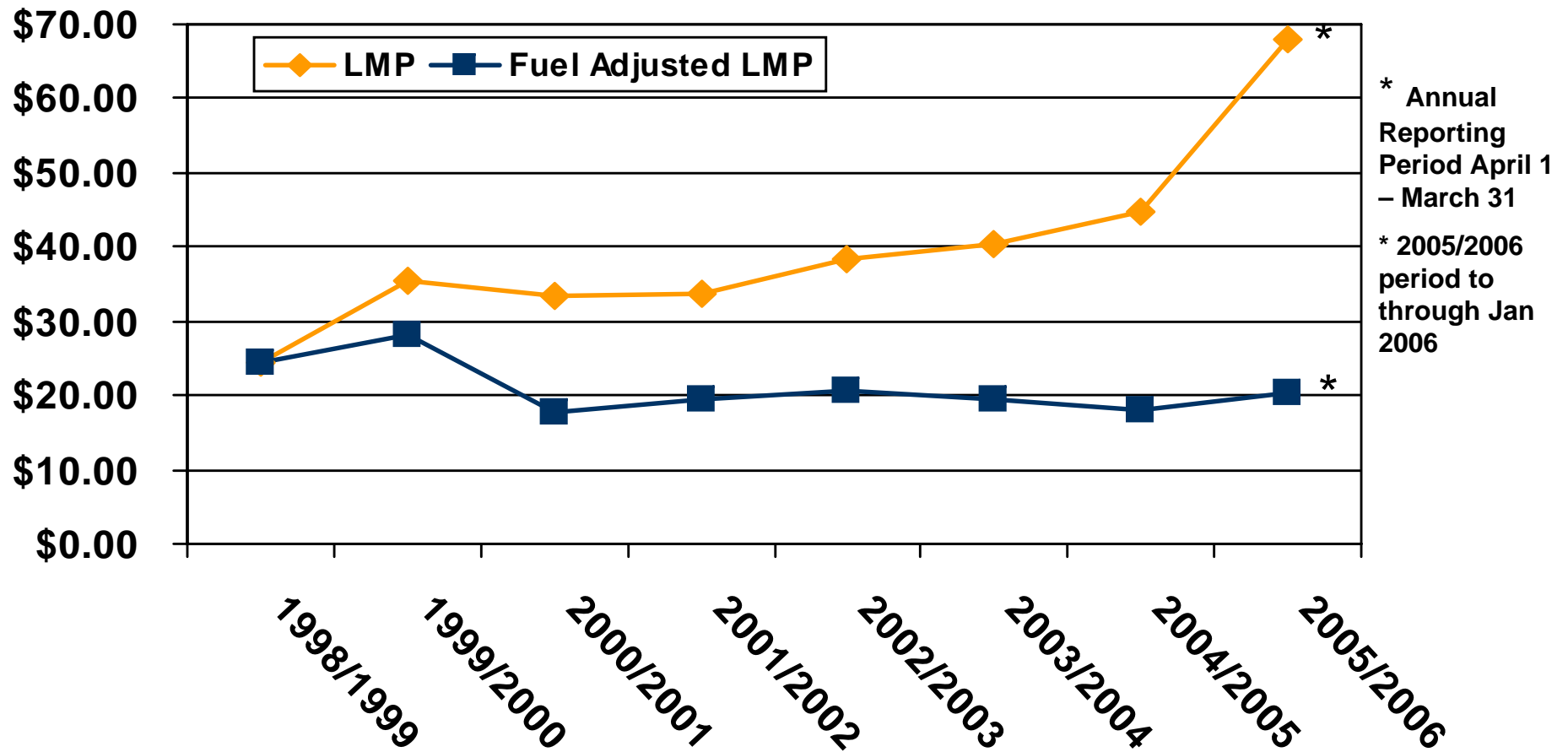
- Consumers are paying for higher commodity costs not “bail-outs”
- If anything, capacity prices too low
- Markets delivering signals: We need to react to them wisely





Comparison of Load Weighted Energy Prices to Fuel-cost Adjusted Load Weighted Energy Prices

PJM Market Results 1998-2005



Note: Fuel-cost adjustment performed based on 1998-1999 reference period. Fuel-adjustment based on hourly marginal fuel type

Accomplishment No. 2:

We got the fundamentals right!



- Regulatory solutions: Order 436, FCC Carterphone Decision
- Behaviorial solutions: Order 436, Telecomm Act of 1992
- Structural solutions: Order 636, AT&T Divestiture

- Structural Solutions Have Worked
 - Eliminating multiple control areas
 - Regional planning
 - Redispatch in lieu of TLRs
 - Maximizing use of the Grid
 - Allowing customers to make economic decisions
 - Transparency

PJM eData Services - Microsoft Internet Explorer provided by PJM Interconnection

Provided by

Elevated Significant Risk

Tuesday November 30, 2004 - 10:20 EST
Current PJM RTD Load: 71,689MW

Monitoring 65% of PJM plants 500MW or larger

My eData Preferences

leugh 2x1

My eData Constraints

Energy Contracts Activity Log

eSuite Announcements

IRC Report Emergency Msgs

PJM RTD Total Load 71,689Mw **Mid-Atlantic Region Load** 33,756Mw **Western Region Load** 37,934Mw **Min Dispa**

Price in US\$

LMP	Cur	Avg	Min	Max
PJM (Zone)	40.22	30.08	8.88	58.40

Select: LMP Chart

MegaWatts

Select: PJM Tie Flows

(+) Into PJM/NI

DLC0	-100
FE	479
NYIS	-1,218

(-) Out of PJM/NI

Scheduled
 Actual

Tie Flows

MegaWatts

	BB	A	W	C	E
Transfer Level	1,948	3,353	6,435	4,806	7,040
Warning Limit	1,850	3,185	6,113	4,566	6,688
Actual Flow	1,851	3,010	6,016	4,360	6,681

Select: PJM Transfer Interface

Ending the myth...

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OLD SCHOOL.

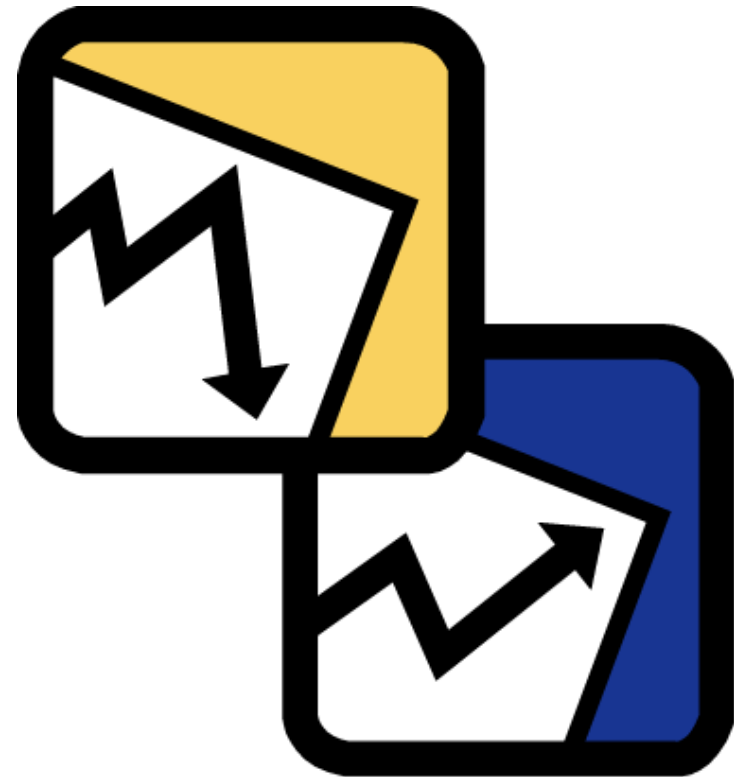
Mr. Grapes (helping himself to another glass of that fine old Madeira). "HAH! WE LIVE IN STRANGE TIMES—WHAT THE DOOCE CAN PEOPLE WANT WITH DRINKING FOUNTAINS!"

- Pay at Risk based on:
 - Operational Performance Standards
 - Customer Satisfaction Standards
 - Cost Controls
 - Implementation of new programs
- RTO Initiatives established by the Members Who Adopt an Annual Plan

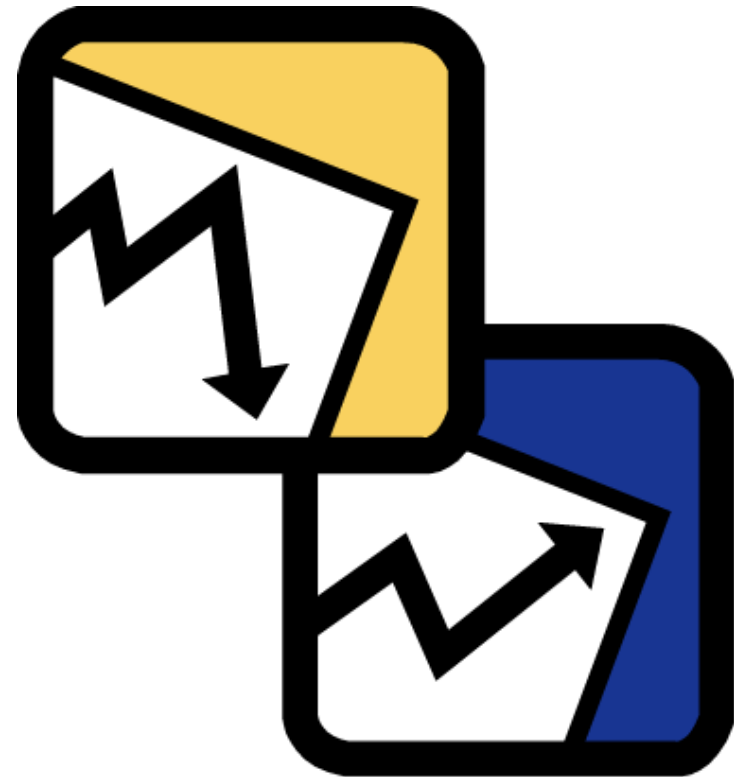
Rate Structure:

- Stated Rate
- Cannot exceed stated rate without full rate case filing
- Involvement of Member-Finance Committee in budget reviews and recommendations to the Board
- Refunds go directly to PJM members

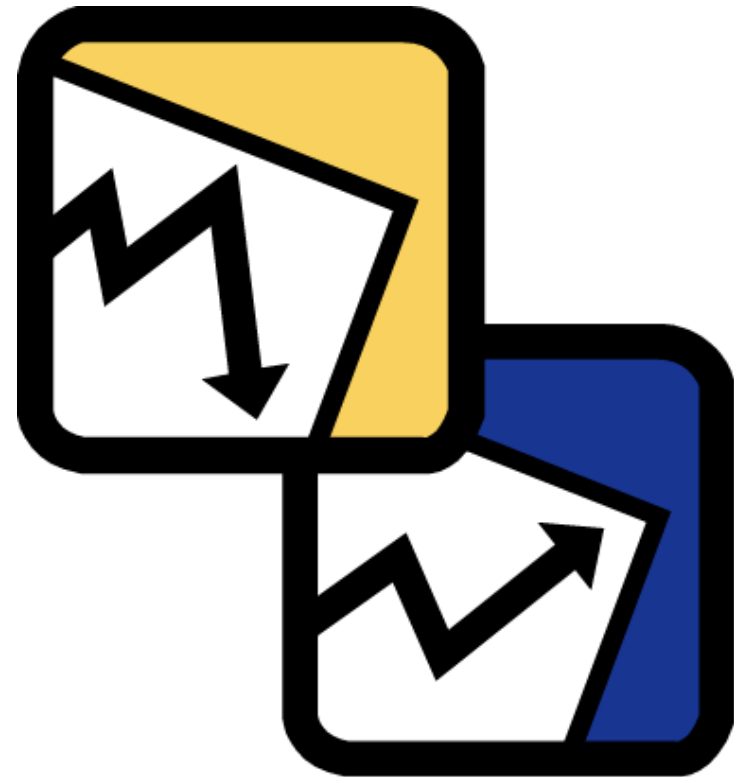
- **Issue One:** Need to Decide the Role of the RTO
 - *RTO as a business?*
 - *RTO as a quasi-regulator?*
 - *RTO as a public interest organization?*



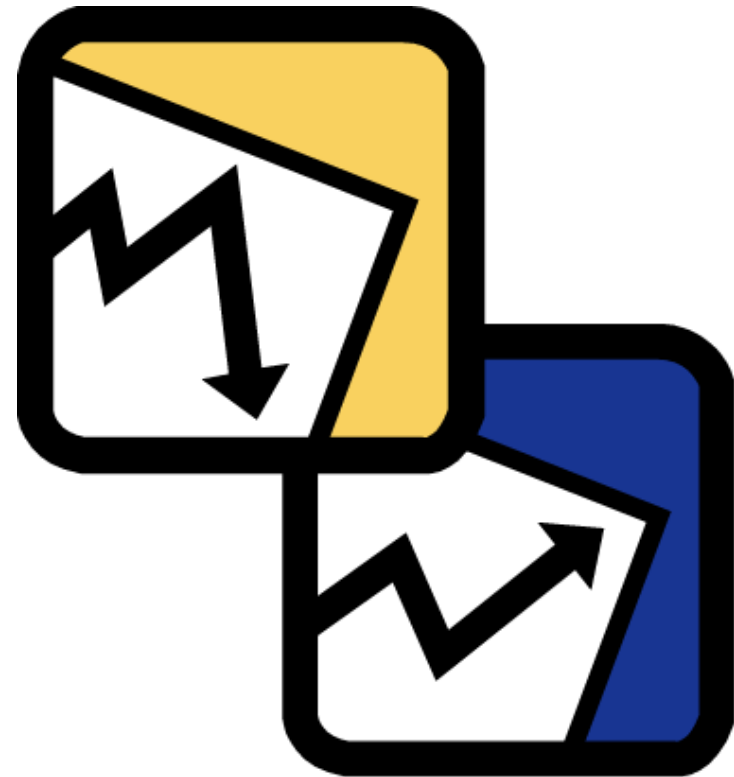
- **Issue Two: What are we measuring?**
 - The world with and without restructuring aka “the road not taken...”?
 - Consumer prices?
 - Operational efficiency?
 - Investment in new resources?
 - Customer satisfaction?
 - All customers?
 - Only end use customers?



- **Issue Three: The Relevant Market for comparison**
 - Only the RTO footprint?
 - Comparisons between RTOs?
 - Market vs. non-market considerations?

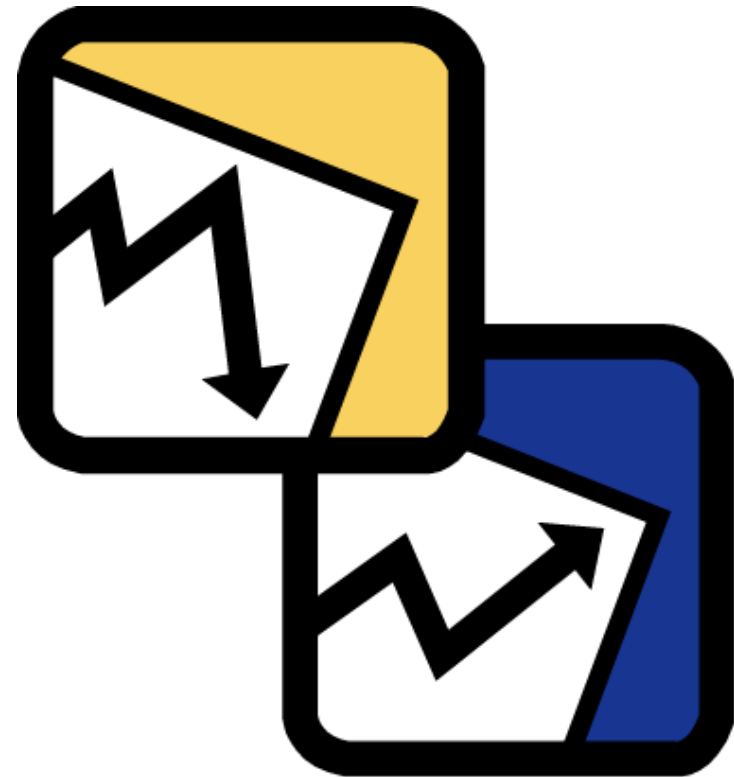


- **Issue Four:
Transparency of
comparative
information**
- **USOA Reform---Only
a Partial Success**
- **Degree to which non-
RTO market
participants utilize
the markets**



The GAO Findings

- **Cost/benefit consideration of specific market reforms**
- **Cost/benefit considerations of RTOs**
- **Cost/benefit consideration of the present operation of the electric grid**

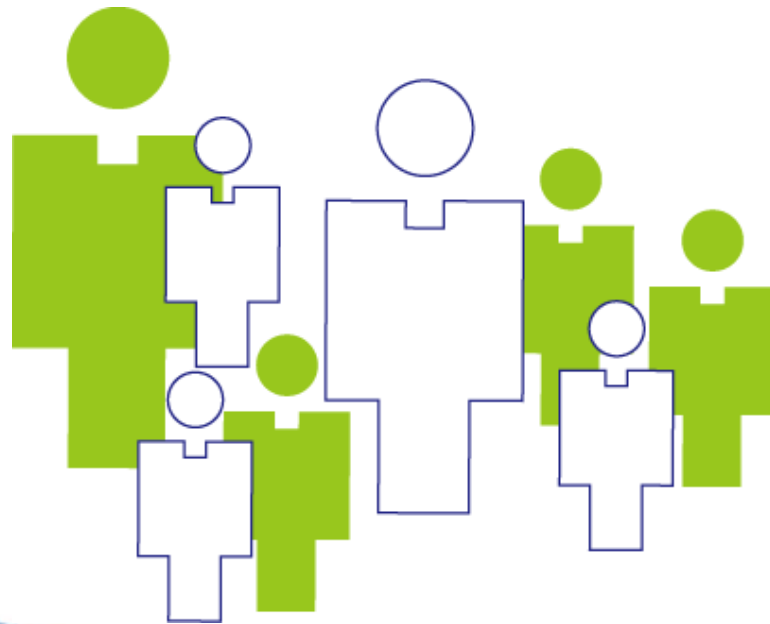


- Industry “scorecard”
 - Quantifiable Benefits
 - Qualitative Benefits
- Forward looking benchmarks
- Addressing measurement of reliability improvement aka “the numbers game”

“Hanging in mid-air”: a dangerous place



- A restructured industry or “Golden memories of yesteryear...”
 - The choice is ours





Let's Talk

LET'S TALK...

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