

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

FirstEnergy Solutions Corp.)	
Allegheny Energy Supply Co., LLC,)	
)	
v.)	Docket No. EL12-19-000
)	
PJM Interconnection, L.L.C.)	

**COMMENTS OF THE
ELECTRIC POWER SUPPLY ASSOCIATION**

The Electric Power Supply Association (“EPSA”)¹ respectfully submits the following comments² to the Federal Energy Regulatory Commission (“FERC” or “Commission”) in the above referenced proceeding.³ Specifically, FirstEnergy Solutions Corp. and Allegheny Energy Supply Company, LLC. (collectively, “FirstEnergy”) submitted a complaint pursuant to Sections 206 and 306 of the Federal Power Act (“FPA”) with proposed changes to the PJM Interconnection, L.L.C.’s (“PJM”) current rules governing the funding of Financial Transmission Rights (“FTRs”),⁴ which FirstEnergy alleges have become unjust, unreasonable

¹ EPSA is the national trade association representing competitive power suppliers, including generators and marketers. Competitive suppliers, which collectively account for 40 percent of the installed generating capacity in the United States, provide reliable and competitively priced electricity from environmentally responsible facilities serving power markets. EPSA seeks to bring the benefits of competition to all power customers. The comments contained in this filing represent the position of EPSA as an organization, but not necessarily the view of any particular member with respect to any specific issue.

² On January 5, 2012, EPSA filed a timely document-less intervention in this proceeding.

³ *Complaint and Request for Fast Track Processing of the FirstEnergy Companies*, FirstEnergy Solutions Corp. and Allegheny Energy Supply Company, LLC, Complainants v. PJM Interconnection, L.L.C., Respondent, Docket No. EL12-19-000 (Filed December 28, 2011) (“FirstEnergy Complaint”).

⁴ Capitalized terms not otherwise defined herein have the meaning given in PJM’s Open Access Transmission Tariff, FERC Electric Tariff, Sixth Revised Volume No. 1 (the “Tariff”), including Attachment K thereto.

and unduly discriminatory and preferential due to recent, unexpected events. EPSA agrees with FirstEnergy that the current underfunding of FTRs is a pervasive problem that should be addressed, and further agrees that the Commission should require PJM to resolve the revenue inadequacy issue on an expedited basis. However, EPSA does not take a position on the specific solution proposed by FirstEnergy.

I. BACKGROUND

In seeking modifications to the PJM Tariff and Operating Agreement (“OA”) related to the FTR rules, FirstEnergy argues that FTRs, which are a day-ahead product, are significantly underfunded in PJM due to inclusion of incremental real-time congestion costs that PJM is unable to model, such as increased loop-flow, unexpected transmission outages, real-time changes in transmission system capability, and real-time modifications in neighboring balancing authority areas, among other things. The FirstEnergy Complaint reflects that for the 2010/2011 planning year alone, FTRs were underfunded by 15%, which represents over \$256 million, and states the revenue inadequacy started in March 2010, has continued for 21 months, which spans three consecutive planning years "and appears to be worsening over time, thereby creating additional costs and risks for FTR holders that will ultimately be reflected as risk premiums that will be included in wholesale and retail prices."⁵

FirstEnergy asserts that "even though FTR holders are not causing the revenue

⁵ FirstEnergy Complaint at 2.

shortfall in the real-time market due to incremental congestion, FTR holders are being held solely responsible for the costs of the shortfall."⁶

As a solution, the FirstEnergy Companies request that the current reference to real-time events in the calculation of congestion charges that FTR holders receive be eliminated, and incremental real-time congestion costs be allocated to all transmission customers.⁷

II. COMMENTS

EPSA is concerned with the present sub-optimal situation that underfunding of FTRs has caused, and agrees it is a systemic problem that PJM should be required to address without delay. The purpose of FTRs is to allow market participants to adequately hedge the costs of transmission congestion and to send the proper price signals to encourage system efficiencies for generation and transmission; however, as a result of the revenue inadequacy, FTRs are sending less efficient signals, creating unintended risks and additional costs for PJM market participants, including EPSA members who may hold FTRs. For example, the inability of a market participant to properly hedge its retail portfolio is contrary to the underpinning of the FTR's intent.

While EPSA does not take a position on the merits of the specific solution proposed by FirstEnergy, EPSA would highlight that in Exhibit B, Robert Stoddard provides in his affidavit a discussion of the manner in which other ISOs/RTOs collect real-time imbalance charges broadly and considers various

⁶ Id. at 3.

⁷ See Exhibit A, Affidavit of Brian A. Farley, and Exhibit B, Affidavit of Robert B. Stoddard, which both discuss the FirstEnergy proposed solution. The Stoddard Affidavit includes broader discussion of economically sound remedies for the current underfunding of FTRs in PJM.

alternative approaches.⁸ EPSA further notes that the ongoing PJM stakeholder process undertaken to address this issue is nearing its conclusion. This stakeholder process has considered as many as twenty-three proposed alternatives, with voting at the most recent stakeholder meeting favoring a solution that resulted in a *status quo* approach with no modifications to the current FTR rules.⁹ EPSA submits that the current FTR underfunding situation in PJM undermines the integrity of the FTR market and requires a market remedy; it cannot be allowed to continue indefinitely. EPSA therefore urges the Commission to require PJM to address the FTR revenue inadequacy issue on an expeditious basis.

The Commission should direct PJM to conduct and publish for review a root cause analysis of why FTRs are chronically underfunded, and to develop and implement an appropriate resolution to the underfunding issue before the 2013 FTR auction, which takes place in May, 2013. Only from this analysis will PJM, the Commission, and stakeholders understand the underlying cause of these chronic, massive shortages and be able to determine the best approach for addressing them. Although a stakeholder process has been ongoing to address the FTR revenue inadequacy issue, PJM has not yet undertaken the necessary analysis to fully account for and explain the ongoing deficiency. In order to have a resolution in place in time for the May 2013 auction, the root cause analysis should be completed by the close of the second quarter 2012 to allow for sufficient review and assessment by stakeholders. Additionally, PJM should be

⁸ Id., Exhibit B at 12-16, 18-21.

⁹ Id., Exhibit A at 11-13.

required to update the Commission on its progress in resolving the underfunding issue every 60 days until it makes the necessary section 205 filing.

IV. CONCLUSION

Wherefore, EPSA respectfully requests that the Commission consider the comments herein. EPSA urges the Commission to require PJM to address the significant FTR underfunding issue, conduct a root cause analysis, and to act on an expeditious basis in this proceeding as described herein.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the comments via email upon
Each person designated on the official service list compiled by the Secretary in
this proceeding.

Dated at Washington, D.C. January 13, 2012.

A handwritten signature in black ink, appearing to read "Nancy Bagot", written in a cursive style.

Nancy Bagot, VP of Regulatory Affairs