

MEMORANDUM

To: PUCO Staff

From: Environmental Law & Policy Center, Sierra Club, the Ohio Environmental Council, and the Natural Resources Defense Council

Date: April 22, 2013

Re: Draft Rules to Require Ohio Utilities to Participate in the PJM Reliability Pricing Model

4901:1-39-X Requirement to participate in the PJM Reliability Pricing Model

(A) Definitions

1. “Anticipated eligible resources” means peak reduction from energy efficiency and load curtailment resources that the electric utility anticipates being created in order to comply with ORC § 4928.66(A)(1)(a) and that will be eligible to participate in the PJM Reliability Pricing Model by complying with all PJM requirements found in PJM Manuals 18 and 18b.
2. “Delivery year” means the year for which resources are committed through PJM Base Residual Auction and Incremental Auctions.
3. “Energy measurement and verification” means the method for measuring and verifying savings from anticipated eligible resources as defined by PJM in PJM Manual 18b.
4. “Existing eligible resources” means peak reduction from energy efficiency and load curtailment resources that are already installed in order to comply with ORC § 4928.66(A)(1)(a) and that are eligible to participate in the PJM Reliability Pricing Model.
5. “Incremental Auction” means one of the three incremental auctions conducted after the PJM Base Residual Auction and defined in PJM Manual 18.
6. “PJM Base Residual Auction” means the 3-year forward capacity auction as defined in PJM Manual 18.
7. “PJM Reliability Pricing Model” means the capacity auction model implemented by PJM and detailed in PJM Manuals 18, 18b, and 19.

(B) Electric utilities shall retain ownership of the right to bid into the PJM Reliability Pricing Model of all installed and anticipated resources that are created under electric utility portfolio plans.

- (C) Beginning January 1, 2014, electric utilities shall bid into the PJM Base Residual Auction 100% of their existing eligible resources and anticipated eligible resources that the utilities expect to create under an approved portfolio plan.
- (1) For anticipated eligible resources that are expected to be created beyond in years beyond the scope of an approved portfolio plan, utilities shall bid a declining percentage of anticipated eligible resources using the final year of the latest approved portfolio plan as a baseline:
 - (a) 90 percent of the resources from the final year for the first year without an approved portfolio plan
 - (b) 85 percent of the resources from the final year for the second year without an approved portfolio plan
 - (c) 80 percent of the resources from the final year for the third year without an approved portfolio plan
 - (d) 75 percent of the resources from the final year for the fourth year without an approved portfolio plan
 - (2) Electric utilities shall bid at a price of no more than the combined price of the administrative costs of the bidding process and the cost of providing the necessary energy measurement and verification.
- (D) In the delivery year, the revenue from the PJM Base Residual Auction and Incremental Auctions, minus the energy measurement and verification costs, the costs of bidding, and any other costs prudently incurred by the electric utility, shall be passed through to customers by offsetting the energy efficiency rider of relevant customer classes.
- (1) Offsets to riders shall be assigned to rate classes based on the percentage that each rate class contributed to the cleared bids in the PJM Base Residual Auction or any Incremental Auctions in which the electric utility participates.
- (E) If an electric utility falls short of the capacity bid into the PJM Base Residual Auction for any year, it shall purchase the shortfall from the third Incremental Auction corresponding to the applicable PJM Base Residual Auction. The balance of the Incremental Auction purchase, whether positive (purchased capacity at a price lower than the PJM Base Residual Auction) or negative (purchase capacity at a price higher than the PJM Base Residual Auction) shall be credited or charged against the overall PJM Reliability Pricing Model revenues for that delivery year.
- (1) The Commission may conduct an independent management audit of the prudence of an electric utility's activities concerning participation in the PJM Reliability Pricing Model.

(F) An electric utility shall file the results of all PJM bidding as part of its annual energy efficiency reporting by March fifteenth of each year, as required by section 1-39-05(C) of this chapter. This filing shall include, at a minimum:

- (1) The amount of resources bid
- (2) The amount of resources cleared
- (3) All costs incurred to conduct the bid
- (4) The amount of revenue expected from the bid

Comments

Electric utilities are not currently capturing all the value of resources created by the efficiency standard. Those resources can, through electric utility participation in the PJM Reliability Pricing Model through the Base Residual Auction (“BRA”) and Incremental Auctions, significantly reduce the cost to customers of the efficiency standard while lowering rates.

The BRA is a competitive auction that secures capacity commitments three years before the resources will be needed. Participants in the BRA bid eligible resources into the auction, which commits them to install those resources by the delivery year. There is no requirement that the resources electric utilities bid into the BRA are actually installed at the time of the bid, only that they will be available when needed in three years, which means that resources do not need to be installed and producing savings at the time of the bid. Electric utilities, therefore, are free to bid the savings they generate to meet the efficiency standard into the BRA.

For years in which there is an approved portfolio plan, we propose that an electric utility bid 100% of its installed and anticipated eligible resources into the BRA and any relevant Increment Auctions. This will help realize the true value of the portfolio plans by using the market to value the resources and return earned revenue to the ratepayers that fund the portfolio programs. In auctions for delivery years beyond the approved plans, we propose that electric utilities bid a declining percentage of resources based on the final year of the approved plan. This will minimize the risks associated with bidding resources from plans that have not been approved and therefore do not have specific estimates for which BRA-eligible resources upon which the electric utility will employ to meet the requirements of the energy efficiency and peak demand reduction standards. It is, however, appropriate to require electric utilities to bid a substantial amount of resources even in years without approved years because the requirements of the efficiency standard are escalating and electric utilities tend to rely on very similar portfolios to meet the requirements.

We recognize that there is a non-trivial cost to participating in the auctions, and therefore we propose that electric utilities deduct from the revenue generated by clearing the BRA and Incremental Auctions the administrative and energy measurement and verification

costs before passing on the remaining revenue to customers. Revenue should be returned to customers via reduction in the riders/rates. Reductions in the riders should be proportional to the percentage that each rate class contributed to the cleared bids in the auctions.