



August 18, 2017

Elena Brennan, Legislative Clerk
Committee on Energy and Commerce
2125 Rayburn House Office Building
Washington, DC 20515

Dear Ms. Brennan:

Enclosed are responses to additional Member questions for the record of the July 18, 2017 hearing entitled "Powering America: Examining the State of the Electric Industry through Market Participant Perspectives." As requested, an electronic copy of these responses has also been emailed to your attention. We appreciate the opportunity to offer these additional responses, and to participate in the hearing.

On Behalf of the Members,

A handwritten signature in blue ink, appearing to read "Lisa G. McAlister".

Lisa G. McAlister
Sr. Vice President and General Counsel for Regulatory Affairs

4846-9649-8509, v. 1

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U.S. House Subcommittee on Energy
Hearing on Powering America: Examining the State of the Electric Industry
Through Market Participant Perspectives
July 18, 2017

Responses to the Additional Questions for the Record by
Lisa G. McAlister
Senior Vice President and General Counsel of Regulatory Affairs,
American Municipal Power, Inc. (AMP)

We reiterate our appreciation to the subcommittee leadership and members for the opportunity to testify, and appreciate the opportunity to augment the comments in our written and oral testimony by responding to these questions.

In response to the Honorable Chairman Upton's question:

- 1. In your written testimony, you mentioned the lack of consistent transmission planning between markets. How can the planning process move towards more consistency and better value inter-regional projects?**

The interregional planning process must move towards more consistency and must better value inter-regional projects. Moving away from compartmentalized and multiple threshold evaluations and requiring the RTOs to coordinate modeling, planning and other cross-border functions would get closer to achieving those goals. Lack of effective inter-regional transmission planning has put AMP at risk of not being able to economically use its share of its coal-fired plant to serve AMP's load.

AMP is directly involved in the dysfunction between PJM and MISO regarding varying and duplicative obligations on generating resources that seek to serve load located in an adjacent RTO. Unfortunately, AMP has been drawn into this matter in spite of protests and through no fault of its own but, rather with the Federal Energy Regulatory Commission's (FERC) acquiescence, the actions of large transmission owners have placed AMP in the position of having a significant portion of its owned resources located

in MISO while the great majority of its load is located in PJM. This unenviable situation resulted directly from the decisions by American Transmission Systems, Incorporated (ATSI) and Duke Energy Ohio/Duke Energy Kentucky (Duke) to withdraw from MISO and participate in PJM. A sizable number of AMP's members take service from the transmission facilities owned by ATSI and Duke, so prior to those companies' RTO "realignment," a considerable portion of AMP's member load was located within MISO. That was the situation that existed when AMP negotiated the purchase of its approximately 368 MW share of the coal-fired Prairie State Generating Campus (Prairie State) located in Illinois, within MISO's footprint. When ATSI and Duke moved into PJM, however, the interconnected AMP members were compelled as a practical matter to move into PJM, as well. Consequently, AMP found itself in the situation in which Prairie State and other supply resources remained within MISO¹ while after the migration most of its load was located in PJM. That outcome was one over which AMP had no control — as the Commission has found, "ATSI and Duke, and not their transmission customers, decided to withdraw from MISO"² — and it is the situation that continues to this day.

In order for AMP to utilize Prairie State for its intended purpose - providing long-term power supply service to AMP's members in an economical and reliable manner - AMP is required to utilize a pseudo-tie from MISO to PJM. A pseudo-tied generation

¹ It is worth noting that AMP also has two hydropower plants that are physically located in MISO's footprint that were developed prior to the time FirstEnergy and Duke migrated to MISO that remain stranded in MISO as AMP is unable to cost effectively obtain transmission from MISO to PJM to serve AMP's load that was moved into PJM as a result of the transmission owner decisions. And, even if AMP was able to obtain the firm transmission service, it would still have the risk and uncertainty associated with the pseudo-tie rules as discussed further below.

² *Midwest Indep. Transmission System Operator, Inc.*, 153 FERC ¶ 61,101 at P 170 (2015); see also *Midwest Indep. Transmission System Operator, Inc.*, 138 FERC ¶ 61,140 at P 65 (2012).

resource is one physically located in one RTO, but treated electrically as being in another balancing authority area. When a generator is pseudo-tied out of MISO, its “telemetered reading or value . . . is updated in real time and used as a tie-line flow in the Area Control Error equation but . . . no physical tie or energy metering actually exists.” In other words, generating facilities, like Prairie State, that are pseudo-tied out of MISO to PJM do not reside within the MISO Balancing Authority Area, do not participate in MISO’s markets, and MISO loses functional control of the unit.

AMP’s decision to pseudo-tie Prairie State into PJM was not made to take advantage of more advantageous market conditions in one RTO or the other; rather, it was a step that was necessary to utilize Prairie State to provide long-term power supply service to AMP’s members that were moved into PJM. To serve its PJM load, AMP is required by PJM’s FERC-approved tariff to pseudo-tie.

AMP’s pseudo-tie became effective on June 1, 2016. Shortly thereafter, it became evident to AMP that the RTOs were both charging AMP for congestion over the same facilities. In other words, PJM would charge AMP for congestion on a transmission facility and MISO would also charge AMP for congestion on that same transmission facility. After an inability to achieve an informal resolution of this issue, AMP filed a complaint at FERC requesting that the RTOs stop duplicative congestion charges and refund AMP for the duplicative charges that had already been collected. The RTOs have acknowledged the double-charging issue as well as independently recognizing various problems that were not resolved for generation pseudo-tied from MISO to PJM prior to implementation of the pseudo-ties. Specifically, the RTOs identified problems associated with grid reliability and adequate modeling (such as coordinated congestion management and the potential need

by MISO to commit or de-commit a pseudo-tied resource that it does not control in order to maintain its transmission system within thermal and voltage operating limits); market inefficiencies in MISO caused by the dispatch of pseudo-tied generation; and pseudo-tied units that retire or suspend operations without adequate notice to MISO and both RTOs charging congestion and administrative costs.

While the RTOs have been slowly working this issue through its Joint Operating process since the last quarter of last year, they have not come up with a solution, keep pushing the date by which they estimate a solution can be achieved, refuse to address the issue of refunding pseudo-tied generators for the duplicative charges already collected, and take up valuable stakeholder time developing new pseudo-tie agreements that do not address the current problems. AMP has detailed the lack of progress in a response to an RTO status update filed at FERC that is attached hereto.

In sum, from AMP's perspective, it appears that the RTOs have undertaken a long-running effort to restrict the use of external capacity resources located in one RTO to serve load in the other RTO by burdening the use of the pseudo-tie to the point that it is rendered uneconomic. If AMP's use of Prairie State to serve its PJM load becomes burdened to the point of being uneconomic, AMP's members would be deprived of the intended benefits of a resource in which AMP has invested significantly and in which the revenues derived from any alternative use almost certainly would not cover its members' PJM capacity costs. This stranding of new generation runs contrary to FERC's own long-running effort to remove artificial transactional barriers between RTOs (and especially between MISO and PJM). Burdening pseudo-tie arrangements with additional and overlapping requirements and costs predictably will impede the use of that mechanism,

which, in turn — also predictably — will reduce competition in the capacity and energy markets. Competition from external resources, which is one of the few forces that exert downward pressure on prices in PJM's capacity auctions, has and will suffer as a result. Consumers will suffer the higher prices that necessarily will follow an impairment of competition.

PJM and MISO have been working on implementation of a Joint and Common Market since 2004. The goal of the Joint and Common Market is to achieve all the benefits of a combined market across the footprint that includes both PJM and MISO and that meets the needs of all customers and stakeholders on a non-discriminatory basis using the electric power grid in the two RTO's regions. The RTOs have acknowledged that these benefits will be gained by examining the different rules by which the two RTOs operate as individual entities and evolving to coordinate market operations and ensure there are no impediments to trade in either, both, or between the markets. The RTOs stated that modifications to their respective operations, tools and processes would be developed through an open stakeholder process designed to benefit participants regardless of which RTO they belong to, or if they are in both. As demonstrated through the pseudo-tie example, more work is required for the inter-regional planning process to be more consistent and better value interregional projects.

In response to the Honorable Chairman Upton's question:

2. **Your testimony mentioned the need for the transmission planning process to provide equitable treatment. Could you offer further examples of discriminatory treatment that has occurred in transmission planning and your thoughts to make the process fairer?**

Today there is a bifurcated process that works for effectively advancing broadly-supported transmission projects undertaken for system reliability, but provides scant review to "supplemental projects" that are rapidly driving up transmission costs.

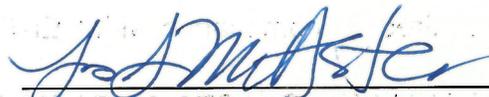
AMP agrees that grid reliability is crucial. PJM, through its Regional Transmission Expansion Planning process, over a 15-year horizon identifies transmission constraints and other reliability concerns and develops transmission solutions to mitigate those identified reliability criteria violations (these are called baseline projects).

However, there is a second category of transmission projects called supplemental projects that are not required for compliance with NERC, PJM or even the Transmission Owners' system reliability, operational performance or economic criteria, and are not state public policy projects. Rather, supplemental projects are mostly replacing aging infrastructure or hardening the grid for added resilience. These supplemental projects are made based upon the determination of transmission owners, are not approved by PJM or states (with the exception of a siting process in some states) and are drastically increasing in the amount spent on supplemental projects. Specifically, out of approximately \$30 billion in transmission projects in PJM since 2005, almost \$19 billion has been for supplemental projects that have been proposed absent transparent criteria and models that stakeholders can review and comment on prior to the plans being finalized, despite the fact that the transmission owners have turned over the planning and operation of their facilities to PJM. While supplemental projects are supposed to be

subject to the same open and transparent process as baseline projects, this is not the case.

The best way to balance grid reliability and concerns about discriminatory treatment between baseline and supplemental projects, as well as transmission rate increases is to ensure that all stakeholders have an opportunity for early and meaningful input and participation in the transmission planning process; that transmission owners have transparent, and to the extent possible, consistent criteria and models; and ensure that Return on Equity (ROE) rates reflect current economic conditions and additional incentives are awarded judiciously to reflect actual levels of risk. This could be achieved by subjecting supplemental projects to the same rigorous process as baseline projects.

Respectfully submitted,



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