



**Pennsylvania Public Utility Commission  
Provider of Last Resort Roundtable**

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**PJM INTERCONNECTION**

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- Other states in PJM have addressed POLR issues.
- Key Considerations When Designing POLR Programs.
- PJM Technical/Legal Issues Associated with EDC/Supplier relationships.
- PJM Market Considerations Related to state POLR programs.
- Other Considerations.

- Network Integrated Transmission Service.
- **LSE**
  - Load Serving Entity.
  - Party taking on obligation to pay for all load based obligations assigned by PJM.
- **SOS/Default/BGS/POLR**
  - A means of assigning the retail load service obligation for customers not affirmatively choosing a Retail Access LSE ( i.e., an EGS) in a given zone of PJM.
  - Generally done through a competitive means, regulatory fiat, or some combination of both.
  - These entities may or may not be customers of PJM.
- **Principal**
  - The legal entity with the ultimate LSE obligation to PJM via the PJM Agreements but assigns certain obligations to an Agent on an interim basis.
  - On the hook to PJM for meeting the obligation, unless it becomes insolvent.
  - If Principal becomes insolvent, unsecured losses are mutualized to the Membership as a whole. (If Principal is a non-utility supplier, the EDC may have ultimate responsibility to serve the load upon the Principal's default.)
- **Agent**
  - An entity identified to PJM by a Principal in PJM's agency agreement form as acting in the stead of said Principal for some or all of the LSE obligation as defined in PJM's agency agreement form.
  - Must provide sufficient credit to meet PJM standards based on the level of assumed obligation.
  - If Agent becomes insolvent, PJM turns to Principal to recoup unsecured losses.



# Other States in PJM Have Addressed POLR Issues



# What other states in PJM have addressed POLR issues to date?

- **Already Implemented Program or Have Final Commission Order.**
  - **New Jersey BGS**
    - Auction of Load Service obligation.
    - Largest loads provided with short term spot based retail pricing as a default.
    - Small to medium sized loads provided with longer term pricing with contracts issued as far out as 3 years.
    - Auction winning suppliers become the legal Principal in PJM's eyes for serving all obligation components of the assigned load.
    - If the auction winner defaults, the other winners may elect to serve a pro rata share of the BGS load of the defaulting winner, with the EDC being the ultimate backstop.
  - **Maryland SOS**
    - RFP issued for Load service obligation.
    - Opportunity for largest loads to see spot based retail pricing as default.
    - Small to medium sized loads provided with longer term pricing with contracts issued as far out as 3 years.
    - Obligation to serve is solely for non-transmission related charges.
    - RFP winning suppliers may or may not become the legal Principal in PJM's eyes for their billing obligations. Issue remains to be resolved.
    - PJM bill is split between EDC and Supplier for each MW of load served under the SOS contract.
    - The EDC is the ultimate backstop if a RFP winner defaults on its SOS load service obligation.



- **Already Implemented Program or Have final Commission Order (continued).**
  - **District of Columbia SOS**
    - Similar structure as Maryland's program.
    - RFP winning suppliers will not become the legal Principal in PJM's eyes for their billing obligations. Utility will remain the legal Principal for all obligations, but supplier will serve as its Agent for non-transmission related charges.
    - The EDC is the ultimate backstop if a RFP winner defaults on its SOS load service obligation.
    - The parties in DC are finalizing the terms of the full requirements contract.
- Pending filing before PA PUC
  - Duquesne Light
- Upcoming
  - DE PSC to initiate an SOS working group



# Key Considerations When Designing POLR Programs

- Which entities have legal obligations to PJM, and what obligations do they have?
- What is the EDC's role if a competitive POLR Supplier defaults?
- Does the program timing align with the PJM Planning Period (June 1 through May 31)?
- When do the entities that have legal obligations with PJM need to have their PJM settlements accounts established?



- Which entities have the legal right to the FTRs, and when will they have the load obligation?
- If the EDC is not the POLR provider, what will the EDC do with any capacity resources and Active Load Management they currently own or have under contract?
- What will happen to any utility sponsored Demand Side Response programs?



# **PJM Technical & Legal Issues Associated with EDC/Supplier Relationships**

- **EDC/Supplier relationship structures.**
  - Structures In Use Today.
    - Distribution utility is Principal provider for all LSE obligations with no Agent identified to PJM for any resources.
    - Distribution utility is Principal provider with an Agent serving all or most of the load obligation.
    - Competitively chosen non-utility Supplier(s) serve(s) as Principal providers. (*NJ BGS*).
  - Structures Requested to be Used.
    - Distribution utility is Principal provider for all obligations while competitively chosen non-utility Suppliers serve as Agent for all but NITS charges.
    - Distribution utility is Principal provider for NITS obligations while competitively chosen non-utility Suppliers serve as Principal for all other LSE obligations.

- Distribution utility is Principal with no Agent
  - All PJM obligations and charges flow to single entity.
  - Can be accommodated by the current PJM market settlements system and accounting procedures.
  - Can be accommodated by current PJM Agreements.

- Distribution utility is Principal but has assigned for **all** obligations to an Agent(s).
  - PJM directly places LSE obligations (energy, unforced capacity, Ancillary Services, NITS) into account of agent(s).
  - Obligation associated charges/credits flow to Agent(s) with Principal as backstop.
  - Agent has right to conduct business directly with PJM for assigned obligations. (e.g., FTR/ARR requests).
  - Can be accommodated by the current PJM market settlements system and accounting procedures.
  - Can be accommodated by current PJM Agreements.

- **Distribution utility is Principal but has assigned non-NITS obligations to Agent(s).**
  - PJM directly places LSE obligations (Energy, Unforced Capacity, Ancillary Services) into account of agent(s).
  - Obligation associated charges/credits flow to Agent(s) with Principal as backstop for unsecured losses.
  - Agent does not have the right to conduct business directly with PJM for Financial Transmission Rights (FTR) and Auction Revenue Rights (ARR) requests. Only the NITS customer may enter these requests.
  - Agent has right to conduct business directly with PJM for non-NITS related requests. (e.g., day-ahead demand bidding).
  - Manual settlements intervention required each month to move certain non-NITS charges that are tied to NITS obligation into account of Agent.
  - Can be accommodated by current PJM Agreements.

- **Non-utility Supplier(s) serve(s) as Principal for all obligations. (NJ BGS)**
  - All LSE & and NITS obligations and charges flow to the non-utility supplier(s) account(s) directly.
  - Can be accommodated by the current PJM market settlements system and accounting procedures.
    - PJM's market settlements system handles this structure in the same manner as Retail Access LSEs.
  - Can be accommodated by current PJM Agreements.

- **Distribution utility is Principal for NITS  
Others Principal for non-NITS obligations.**
  - Requested structure, not currently in use.
  - No Agent.
  - PJM directly places LSE obligations (Energy, Unforced Capacity, Ancillary Services) into account of other supplier.
  - Obligation associated charges/credits flow to other supplier with PJM membership as backstop for unsecured losses.
  - Other supplier does not have the right to conduct business directly with PJM for FTR/ARR requests. Only the NITS customer may enter these requests.
  - Other Supplier has right to conduct business for non-NITS related requests. (i.e., day-ahead demand bidding).
  - Manual settlements intervention required each month to move certain non-NITS charges that are tied to NITS obligation into account of Other Principal supplier.
  - PJM tariff does not directly authorize this sort of relationship splitting. Tariff may, in fact, prohibit such a structure. (PJM is further researching this question.)





# Market Considerations Related to State POLR Programs.



- Timing of POLR allocation vs. timing of PJM market activities (i.e., FTR auction and ARR allocation).
- POLR structure should consider the potential for the creation of Oligopoly or Monopoly power on the demand side of the market.
  - PJM's Market Monitor has previously raised concerns about the exercise of Monopsony power in the PJM market.
- POLR program structures to date have broken the incentive link that encourages demand response.



# Other Considerations

- Any POLR structure should balance the market's desire for certainty with some level of flexibility to adjust to market changes over time. This is particularly important given the extended market transition still underway in many service territories of PA.
- PJM proposed Generation Attributes Tracking System (GATS) would offer a platform for confirming supplier performance with any POLR resource mix requirements.
- Qualifications for POLR providers should ensure that if they will be PJM customers directly, they have or will be able to meet PJM's standards and obligations.
- A POLR program may need to consider whether and how parties should recover the cost of unforeseen charges PJM might impose, and further consider the impact of any such program changes on long-term contracts. (e.g., charges to pay for unsecured losses when another PJM member becomes insolvent, SECA charges, changes in the way transmission losses are recovered).