

Good afternoon and thank you Mister Chairman and other distinguished members of the Commission, I appreciate this opportunity to address this Legislative Commission on Electric Utility Restructuring today.

My name is Rich Wodyka and I am the Senior Vice President for PJM.

My comments today on the State Corporation Commission report will address a number of elements with this report.

Specifically, I want to comment on three areas:

1. The value and necessity of wholesale markets and open access transmission to facilitate retail competition,
2. The role of the PJM Market Monitor as an independent resource for state and federal regulators, and
3. The overall value of fully functioning RTO.

First, the value and necessity of an open transparent wholesale market along with open access non-discriminatory transmission service are fundamental necessities for having any type of retail competition within a region.

The SCC report states that:

“In terms of the existence of retail competition, little, if anything has changed since last year. There still appears to be universal agreement that before a viable competitive retail market develops in the Commonwealth there must be a robust wholesale market and an operational independent regional transmission organization.”

PJM strongly agrees with that assessment. Without the certainty that an open transparent wholesale market and open access transmission brings to a region, the success of retail competition will be limited at best. But even with an open transparent wholesale market and open access transmission, retail competition may not achieve success because of other influences such as retail rate structures. State Commissions play a critical role in establishing a retail competition structure. PJM has worked cooperatively with all the various states to ensure that our robust competitive wholesale markets and open access transmission services help facilitate retail competition to deliver real value to customers. PJM's wholesale market structure and non-discriminatory transmission service has been complementary to the various retail competition structures within the existing PJM territory.

While PJM's wholesale markets and transmission services complement retail choice, they do not disturb the fundamental rights of the VA native load customers. One of the concerns previously identified has been PJM's obligation for load shedding. For the record, AEP and Dominion native load customer's obligations under PJM will be the same as they are today – neither Dominion nor AEP native load customers will be required to shed load for capacity deficiencies in other PJM load zones.

My second area of comment is on the role of the PJM Market Monitor as an independent resource for regulators. The PJM MMU was established in April 1999 after extensive stakeholder discussions as a critical function for ensuring that PJM's markets are robust, non-discriminatory and competitive.

The MMU is an internal independent arm of PJM, reporting directly to the PJM President and the independent Board. Its fundamental purpose is to

continuously monitor the PJM markets and report its findings as appropriate to the members, PJM management, the Board, as well as both federal and state regulators. Annually, the MMU publishes its extensive State of the Market report to all stakeholders including both state and federal regulators for their review and comment. Through this review process, individual state commissions can provide direct input to the MMU on concerns and issues specific to their respective state. I encourage the VA Commission to utilize this process. (Copies of the PJM State of the Market report are available on the PJM website [www.pjm.com](http://www.pjm.com) )

Independence is a fundamental principle of the MMU function. Since the MMU function was established, many elements of the MMU activities have been refined to ensure the regulators and market participants that the PJM markets are truly robust, non-discriminatory and competitive. Also as principles of good corporate governance dictate, the PJM Board recently concluded a review of the MMU function and discussed its conclusions openly with the PJM members.

Despite some assertions made at the last meeting that the MMU is not truly independent, which I believe are based on erroneous perceptions, let me assure you that the independent PJM Board clearly understands that the MMU function has to have the independence required by regulators and market participants in order for it to function properly. The PJM Board is committed to that fundamental principle of MMU independence. Other conclusions of the report reflected additional refinements of the MMU processes and activities to ensure better communications with our members.

A related issue to the MMU function is the state commission's desire for access to member's confidential market data. PJM has been working with the state regulators and the PJM market participants to develop a proposal to allow the state regulators, including the VA Commission, access to the confidential market data for their regulatory purposes. A detailed proposal is still being negotiated but we expect to file it with FERC by the end of the year. As part of the VA Commission hearing process on the DOM and AEP pending applications to join an RTO, which I hope will occur early in 2004, PJM expects to provide the commission with whatever information we can provide to address their specific issues and concerns.

My third area of comment is on the value of a fully functional RTO. The SCC report states that:

“Perhaps the most common issue raised among the comments submitted in response to Staff's letter regards the lack of a fully functional RTO as the major obstacle to an inactive competitive market in Virginia.”

In my previous comments, I spoke about value and necessity of wholesale markets and open access transmission for retail competition. But the value of a fully functioning RTO is not just in having a competitive wholesale market as I discussed earlier – it is much more than that. We all know that the Eastern Interconnection is one single, but complicated, synchronous motor that runs smoothly only when the thousands of generating stations, wholesale load delivery points and miles of transmission wire are operated in a coordinated manner. The events of the August 14<sup>th</sup> Blackout make it plainly clear that reliability problems don't respect the boundaries of states or provinces. Coordination, cooperation and communication are critical

elements for ensuing reliability of the grid. RTOs enable a higher degree of coordination, cooperation, and communication over a much larger geographic region to ensure reliability. All stakeholders need to work together to ensure that reliability is maintained.

My final point – While PJM is not under state jurisdiction, we have had and will continue to have a close working relationship with all the state commissions, including the VA Commission. Because portions of VA have already operating successfully under PJM for sometime, we have already established a good dialogue with the VA State Corporation Commission staff. The VA commission has worked with PJM on many initiatives and issues in the past. We remain committed to working with the VA commission to resolve whatever issues they may have regarding the future integration of Dominion and AEP into the PJM RTO.

Today a lot of uncertainty exists in our industry. This Legislative Commission on Electric Utility Restructuring can erase some of that uncertainty by reaffirming the current VA law that requires Dominion and AEP to join an independent regional transmission entity by January 1, 2005. The State Corporation Commission can also help remove some uncertainty by promptly setting the hearing schedule for these pending applications. These steps will help ensure future reliability and the value of competition to the electricity customers in VA.

Thank you again for this opportunity to address this Commission today.