



Organization of PJM States, Inc. (OPSI)

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November 28, 2022

David E. Mills
Chair, Competitive Markets Committee
2750 Monroe Boulevard
Audubon, Pennsylvania 19408

Dear David,

Thank you for your participation in the OPSI Advisory Committee (AC) meeting on October 18, 2022. We look forward to further meetings with you, including periodic meetings with the Competitive Markets Committee of the PJM Board of Managers where we can discuss the IMM's annual budget requests and prepare for contract renewal.

Reflecting on our recent meeting, we offer the following observations on comments made at that meeting relating to the budget of the PJM Independent Market Monitor (IMM).

The IMM reports certain information to the Finance Committee each year and the PJM Board of Managers reviews the IMM's budget. In this budget cycle, the IMM has not only reported the required information to the Finance Committee, he has responded to additional, specific questions from PJM Members and has adequately described the rationale for his 2023 budget modification, in our view.

The concerns expressed at the AC meeting echoed a footnote included in the September 29, 2022, Finance Committee report to the PJM Board:

Although [concerns about Monitoring Analytics' 2023 budget] are more fully documented in publicly available Finance Committee meeting materials, in the view of certain Sector-Elected Representatives, the budget increase of 11% over the forecasted 2022 expenses is considerable. Other Sector-Elected Representatives do not share those concerns for various reasons. Additionally, Monitoring Analytics' actual annual spend has consistently come in 15-20% below budget for many years. Some Sector Elected Representatives would prefer to see a more precise budget that deviates on average from actual spend within a tighter range

(e.g. +/-5%) in future years. Other Sector-Elected Representatives do not have the same view given the nature of Monitoring Analytics' work.¹

The argument that the spread between the IMM's budget and spend is considerable and should be cause for concern without looking at other relevant factors is a strawman. The entities raising these concerns know that over time ratepayers are only charged the IMM's actual expenses and that the budget is a cap on his expenditures for a given year. Unreasonably restricting the IMM's budget will cost stakeholders in the long run as this would place the IMM in a position of balancing his efforts and staff between critical issues bounded by limits set by a budget absent this safety gap.

Focusing on the gap between the budget and actual spend in light of the current inflationary environment and staffing challenges facing many organizations is puzzling at best. The IMM submitted a budget request with a 3.7% increase in an environment where inflation is running at 8.2%. The AC further notes that NERC's budget increase is similarly driven by personnel needs and exceeds 11%, compared to the IMM's requested increase of 3.7%.

In making budget requests, the IMM must not only ensure it can cover its expenses from year to year but that it has an adequate stream of income from month to month in order to operate consistently. This is complicated by PJM's funding mechanism that passes through funding for the IMM based on transmission system usage, which varies from month to month. The AC expects the IMM to seek the resources necessary to ensure its work monitoring PJM's markets, which serve 65 million Americans, is not interrupted due to funding issues.

Further, some Finance Committee members have raised the concern that the IMM is spending more than comparable entities in other RTOs. The PJM IMM is an active participant in the PJM stakeholder process and provides all stakeholders with significant analyses of proposals. Since the PJM stakeholder process does not provide the normal tools on which state commissions rely for decision making, i.e., discovery and the ability to cross examine parties under oath, the IMM's active participation in the PJM stakeholder process is critical to the states and critical to the proper functioning of the PJM markets. The volume of activity in the PJM stakeholder process is overwhelming, and the IMM's effort to remain engaged in this process in addition to providing many detailed reports and filings throughout the year is extremely valuable. The AC urges the PJM Board of Managers to keep this volume of work in mind as it reviews the IMM's budget from year to year. The IMM serves a crucial role in maintaining reliable and efficient energy market services by ensuring robust trust between the markets, participants, and stakeholders. In closing, we emphasize the fact that the AC exists to provide advice to the PJM Board and others regarding all matters related to the IMM and his functioning. We rely on stakeholders to provide feedback in this setting in order to properly fulfill our role "to provide advice to the Commission, [the IMM], PJM Board and PJM stakeholders regarding any matter concerning the MMU, market monitor, or the Market Monitoring Plan."² We encourage all PJM members and PJM managers to utilize our public forum to air and discuss the critical issues facing markets in the PJM region and any concerns with the IMM's

¹ PJM Finance Committee Letter to the PJM Board at n. 1 (Sept. 29, 2022).

² *Organization of PJM States, Inc. et al. v. PJM Interconnection, L.L.C.*, Order Approving Uncontested Settlement and Denying Rehearing at n. 15 (March 21, 2008). PJM, Open Access Transmission Tariff, Attachment M § III.G. ("The OPSI Advisory Committee shall meet with the Market Monitoring Unit on a regular basis and as otherwise necessary to receive and discuss information relevant to this Plan. In part, the OPSI AC expects to receive relevant information from PJM members in addition to the IMM.").

operations. To this end, we would ask the Board to schedule meetings where PJM Managers and Members discuss the IMM in private in coordination with meetings where these conversations happen in public, such as the AC.

Sincerely,

A handwritten signature in black ink, appearing to read "Joe Fiordaliso". The signature is fluid and cursive, with the first name "Joe" being particularly prominent.

Joseph L. Fiordaliso
Chair
Market Monitoring Advisory Committee

cc: PJM Board