



# The Public Utilities Commission of Ohio

George V. Voinovich, *Governor*

Craig A. Glazer, *Chairman*

September 10, 1998

The Honorable John D. Dingell, Ranking Member  
U.S. House of Representatives  
Committee on Commerce  
Room 2125 Rayburn House Office Building  
Washington, D.C. 20515-6115

Dear Congressman Dingell:

Thank you for allowing the Public Utilities Commission of Ohio (PUCO) the opportunity to address your concerns regarding the volatility exhibited this summer in the electric markets, particularly in the Midwest. Enclosed please find the PUCO's answers to the questions posed in your letter dated July 15, 1998.

The PUCO shares your concerns and is in the midst of conducting an investigation into the summer electric supply constraints. We will report our findings to the Ohio General Assembly this fall. I will be sure to forward a copy of the report to you at that time.

If you have additional questions or concerns regarding the enclosed information, please do not hesitate to contact me at (614) 466-3204

Sincerely,

A handwritten signature in black ink, appearing to read "Craig A. Glazer", written over a large, stylized, looping flourish.

Craig A. Glazer  
Chairman

cc: Sue Sheridan

## **The Public Utilities Commission of Ohio's Answers to Congressman John D. Dingell's Questionnaire**

- 1. Please outline your understanding of the course of events leading to supply curtailments and price surges in electricity markets during the week of June 22, including any gaps in your understanding of relevant factors.**

The PUCO is currently investigating what caused the supply curtailments and price surges in the week of June 22, 1998. The PUCO will deliver the report to the Ohio General Assembly; we will be happy to provide a copy for Congressman Dingell. During its preliminary investigation, the PUCO found that firm load customers were not interrupted; instead, the industrial customers that contracted for interruptible rates were the only customers that were curtailed. The final report will identify the events leading to the supply curtailments. While it is too early to say what the PUCO's final report will find, we can preliminarily identify five events that lead to the supply curtailments and price surges. First, the Cinergy Zimmer plant in Cincinnati went off line for unscheduled maintenance. Second, on June 24, 1998, the First Energy Davis-Besse power plant and its transmission system were heavily damaged by a tornado. Third, the AEP Gavin 2 plant was operating at restricted capacity. Fourth, the AEP Cardinal 2 plant was off-line. Fifth, the First Energy and Duquesne Beaver Valley nuclear plant in Pennsylvania, which serves Ohio customers, was off-line. In sum, curtailments and price surges appear to have been caused, in part, by a combination of storm damage, transmission line constraints imposed by PJM, scheduled and unscheduled maintenance on generating stations, and hot humid weather. The final report will determine whether there are additional factors that contributed to the curtailments and price spikes, such as market manipulation.

- 2. Are you considering initiation, or have you already begun, an inquiry into these events? If so, please describe the purposes, scope, and timetable for completion of any such proceeding.**

On July 7, 1998, the PUCO opened an investigation, in Case No. 98-978-EL-UNC, on the generation and transmission constraints that occurred during this past summer. The scope of the investigation primarily focuses on: 1) the events of June 22-26, 1998; 2) reasons for the generation and transmission capacity deficiencies; 3) impact on firm customers; and 4) impact on interruptible customers.

The PUCO began to address these problems three years ago in Case No. 95-866-EL-UNC. In that case, the PUCO noted that many industrial customers enter contracts for lower rates with the understanding that in the event of a power shortage their

supply will be shut off. In response to industrial complaints that power is often available from another generation provider, the PUCO approved a pilot program that allows industrial customers to "buy-through" the interruption.

On July 7, 1998, the PUCO approved two tariffs aimed at helping large industrial customers of AEP. In Case No. 98-981-EL-ATA, the PUCO approved a tariff that allows industrial customer to lock in a price for two or four-week increments ending July 31 and August 31. In Case No. 98-982-EL-ATA, the PUCO approved a tariff that allows industrial customer to sell their firm power entitlements back to the local generating company. Copies of the PUCO's orders in these cases, as well as our response to the filing by the Industrial Energy Users-Ohio is attached.

**3. Are you seeking or participating in any such proceeding undertaken by another organization?**

FERC has announced a national investigation into the events of that week. The PUCO is cooperating and sharing information with FERC.

**4. Do you consider the price spikes and supply shortages in the Midwest during June to be a one time event, or might they recur? Are you concerned about the remainder of the summer, and what are the factors affecting near-term market stability? If you think a recurrence of market turbulence is possible, do you believe changes in market structure or regulation may be needed?**

In Case No. 98-978-EL-UNC, the PUCO is currently conducting an investigation to determine whether the June supply shortages were merely a one-time event, or evidence of a larger problem. Again, the staff of the PUCO will file the report this fall.

**5. Are you aware of any complaints alleging market manipulation or conflicts of interest involving regulated utilities or other market participants?**

Yes, on June 25, 1998, the Industrial Energy Users-Ohio requested the PUCO to take emergency action. In response, the PUCO approved the tariffs for AEP described in the answer to question number two. In addition, the PUCO ordered each of the utilities to make available the operational status of their generating plants and the available transmission capability (ATC) to their customers. This will allow the customers to better access hedging instruments and the futures market.

- 6. What if any direct or indirect effects on consumers resulted, or may yet result, from the price and supply disruptions in the Midwest in late June? Are residential consumers more or less vulnerable than industrial consumers, in terms of price increases and reliability of supply?**

The direct effect of the price increases was that industrial customers on interruptible contracts were interrupted or forced to buy through the interruption.

Residential and commercial customers are less vulnerable to price increases, since they pay fixed rates. Nonetheless, residential and commercial customers will see the price volatility reflected in their fuel adjustment clauses in the fall. The price spikes of June will be averaged over the total prices during the six-month period.

- 7. What if any effects did this market volatility have on public power entities and their consumers?**

Since we do not regulate municipal utilities, this question should be addressed to FERC.

- 8. Do you foresee any lessons to be drawn from this experience for state or federal legislators deliberating the merits of electric restructuring legislation? How would more widespread retail competition affect market stability in the future, and how would residential consumers be affected? Are markets ready to make a smooth transition to full retail competition now, and should Congress pass legislation to compel states to adopt competition?**

While it is too early to speculate on the conclusion of the PUCO final report, it is safe to state that the market for electricity is in the early stages of development. The final report may indicate a problem that must be remedied by either a futures market or a power exchange. Regardless of the conclusions contained in the PUCO's final report, the outcome of the PUCO's investigation may indicate that Congress should include a provision for a futures market or a power exchange to reduce price volatility in any federal legislation.