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May 14, 2010

PJM Board of Managers
PJM Interconnection
c/o Mr. Terry Boston
955 Jefferson Avenue
Norristown, PA 19403-2497

Dear Board of Managers:

RE: Proposed Marginal Losses Modeling Change

The PJM Board of Managers has been asked to consider changing the transmission system model used to calculate marginal losses. Two fundamental questions are before the Board: 1) whether the policy objectives that the modeling revisions are designed to achieve are meritorious, and 2) if so, when such revisions should be implemented given the substantial market impact. As to the second and most contentious question, the Board is tasked with balancing the equity of changing the modeling in 2011 versus prospective application of the modeling change in 2012. Constellation strongly urges the latter course. A delayed implementation date of June 1, 2012 will achieve an equitable balance between preserving the original economic bargain of existing supply contracts versus implementing a modeling change that will support a public policy goal.

Prospective modification of the loss modeling will limit adverse impacts on the pricing of supply contracts that have already been negotiated in reliance upon the current loss pricing structure. No reliability or market efficiency goal will be achieved by implementation prior to 2012 that would offset the inequity of upsetting existing contracts. Since no reliability or market operations need is at stake, it is reasonable for the Board to honor the forward obligations established by market participants who have entered into tens of billions of dollars worth of forward energy contracts.

The magnitude of the potential market disruption is enormous. For example, at the wholesale level, the New Jersey BPU recently certified the results of the 2010 Basic Generation Service Auctions, noting that the value of the auctions was approximately \$7 billion, representing 8,500 megawatts of electric generating capacity. Similarly, wholesale default

service auctions for 2011, 2012 and part of 2013 have concluded in both New Jersey and Maryland. Further, at the retail level, competition to provide forward contracts has been robust and will continue as a result of the expiration of the Pennsylvania's market transition. Many competitive LSEs and customers have negotiated fixed price forward contracts well before the recent discussions to modify the loss pricing – all of which would require modification.

In the simplest terms, the Board has been asked *when* to institute a policy decision that will affect the laudable public policy purpose of reducing the marginal loss surplus. Constellation generally supports the proposed model change, but only if the change is implemented prospectively to protect the bulk of existing agreements that could not have reasonably anticipated such modification at the time contracting.

Sincerely,



Kathleen Hyle

President

Constellation Energy Commodities Group, Inc.

Director

ConstellationNew Energy, Inc.

CC:

Mr. Howard Schnieder, Chair, PJM Board

Mr. Lynn Eury

Dr. Ake Almgren

Mr. John Coughlin

Mr. Neel Foster

Dr. Jean Kinsey

Dr. Richard Lahey

Mr. William Mayben

Ms. Susan Riley