February 18, 2014

Mr. Howard Schneider
Chair, PJM Board of Managers
PJM Interconnection, LLC
P.O. Box 1525
Southeastern, PA 19399-1525

Re: 2014 Polar Vortex impact on PJM Market

Dear Mr. Schneider and Members of the PJM Board:

The Retail Energy Supply Association (RESA) is writing to you regarding the PJM market impacts wrought by the unusually cold winter of January, 2014 and the resulting challenges the competitive retail supplier community is facing. RESA is comprised of 21 retail electric and natural gas suppliers, almost all of whom operate in PJM.\(^1\) State utility commissions, legislators, and customers have contacted RESA and its member companies to get an understanding of what caused the unexpectedly high prices during the span of extreme cold temperatures as well as details of how customers and their bills will be impacted. Understandably, it is imperative to senior management at the RESA member companies that we are able to respond to the inquiries quickly and accurately. RESA wishes to inform the Board that, as part of our efforts to be responsive to our regulators and customers, we have expressed these concerns both at the Federal Energy Regulatory Commission (FERC) and in the PJM stakeholder process.

As you may know, RESA filed in support of PJM’s emergency FERC filing to allow cost-based offers from Generation Capacity Resources to temporarily exceed $1,000/MWh. In its filing, RESA strongly advocated that LMP is the appropriate place to reflect the extraordinary generation costs caused by nearly unprecedented natural gas price spikes. On January 27, 2014, prior to RESA filing in support of PJM, some RESA members spoke with PJM Staff and explained the importance of price transparency,

\(^1\) RESA’s members include: AEP Energy, Inc.; Champion Energy Services, LLC; ConEdison Solutions; Constellation NewEnergy, Inc.; Direct Energy Services, LLC; GDF SUEZ Energy Resources NA, Inc.; Homefield Energy; IDT Energy, Inc.; Integrys Energy Services, Inc.; Just Energy; Liberty Power; MC Squared Energy Services, LLC; Mint Energy, LLC; NextEra Energy Services; Noble Americas Energy Solutions LLC; NRG Energy, Inc.; PPL EnergyPlus, LLC; Stream Energy; TransCanada Power Marketing Ltd. and TriEagle Energy, L.P. The comments expressed in this filing represent the position of RESA as an organization but may not represent the views of any particular member of RESA.
i.e., having adequate public information about the excess generator costs so that retail suppliers and their customers can understand the detailed causes of costs incurred. With the need for market transparency, especially during the time when waivers to market rules are accepted, we urged PJM Staff to include a separate line item on supplier settlement statements indicating the costs PJM had incurred out of the ordinary course. Unfortunately, PJM Staff indicated that it is not feasible to provide such a line item (both from an IT perspective and due to confidentiality concerns), but that aggregate data might be provided, with generators’ permission. PJM Staff was sympathetic to our concerns and indicated a willingness to work with stakeholders to provide this information. However, due to the strong interest and imperative expressed by our customers and regulators, RESA is requesting that the Board oversee PJM’s effort to make all non-confidential market information relevant to the high energy and uplift charges that occurred during the cold winter events of January 2014 public and transparent. Concurrently, RESA members look forward to actively participating in the stakeholder process to ensure transparency in this regard.

RESA is also very concerned about the extremely high Balancing Operating Reserves (BOR) costs experienced in January, particularly on days when demand was less than forecast and real time LMPs were lower than day-ahead LMPs. While we understand from the presentation at the February 7, 2014 Market Implementation Committee meeting that PJM is reviewing the logs and expects to resettle some days, we remain deeply concerned about the lack of transparency regarding January market conditions that precipitated record BOR charges for one month. In addition, RESA requires more information on what needs to be done to modify the market design (be it forecasting, dispatch, cost allocation, etc.) to ensure PJM is sending accurate price signals at all times, especially when the system is seemingly stressed.

Many Retail suppliers offer fixed price products to retail customers that include the cost of ancillary services like BOR. For retail products that incorporate the costs of ancillary services into retail fixed prices, the enormous increase in BOR costs for January will have substantial financial impacts on retail suppliers, even suppliers who forecasted their load perfectly and hedged their market clearing price risk. As we have seen, two retail suppliers have defaulted to PJM and all market participants will pay for those defaults.

RESA wishes to bring to the Board’s attention a request some RESA members made at the recent MIC, and requests the Board ensure that PJM develops a report that clearly explains the market conditions in which such high levels of real time operating reserves were needed in January. This report should provide full transparency as to how the costs flowed, insights into the impacts on the market of reliability analyses, forecast deviations, and dispatcher behavior, similar to the type of analysis and reporting done for this summer’s price spikes. This analysis is needed to help PJM stakeholders, regulators, and consumers have confidence that their bills are just and reasonable, or alternatively, determine whether market design changes are necessary to assure that prices properly reflect operational needs and dispatch, and are appropriately allocated to market participants. It is imperative that all market participants and consumers have confidence in PJM’s ability to assess and discover any
and all market design issues and this specific information is urgently needed so that stakeholder discussions on future changes start from an informed basis.

We are very appreciative of PJM’s impressive performance in maintaining reliability throughout this winter season and recognize the demands that these nearly unprecedented weather conditions have placed on PJM and its Staff. Thank you in advance for your leadership on these issues, and as noted above, the RESA members look forward to working with you, PJM Staff, and our stakeholder colleagues to ensure PJM continues to have the most efficient and transparent markets that underlie and facilitate the competitive market benefits our members bring to consumers.

If you have any questions, you can reach me at 512-608-2413 or mlauderdale@integrysenergy.com

Very truly yours,

Melissa Lauderdale

Melissa Lauderdale
President

cc: Andrew Ott
   Stu Bresler
   Joseph Bowring