Dear Board of Managers,

American Electric Power, The Dayton Power and Light Company, and FirstEnergy Service Company are collectively writing to you to urge your support for pursuing the timely filing at FERC of majority of PJM Staff recommendations for updates and improvements to the RPM Parameters as required by the Triennial Review. As integrated utilities and PJM members, our companies serve significant load, supply generation, and own and maintain significant amounts of transmission and distribution infrastructure in the PJM footprint and beyond.

For the RPM capacity construct to function as designed, the key parameters that drive the auction price outcomes must be up to date and set appropriately. In particular, the Cost of New Entry (CONE) must reflect current market conditions and the Variable Resource Requirement ("VRR") curve must create stable long run investment signals without creating unnecessary volatility or inadvertently reducing system reliability. Therefore establishing the correct parameters leads to efficient price outcomes for all participants and high system reliability.

As described herein, our companies support the proposed PJM changes to the shape of the VRR curve as being preferable to the current curve. The current curve exacerbates unnecessary administrative volatility with its steep slope and vertical tail. The current curve causes extreme price volatility from year to year even when largely overall supply resources and demand are relatively unchanged. The curve volatility is unwarranted and discourages reinvestment in existing facilities leading to premature unit retirements and decreased system reliability. The Brattle Group’s proposed shape identifies this acute problem for Rest of Market region resources such as ours. We agree that shifting the curve 1% to the right is an improvement over the status quo, however we would have preferred a 2% shift as offered by Brattle to help to rectify the persistent under-compensation of capacity resources as continually noted by the IMM. We also agree with the retention of a simple cycle CT as the reference resource technology is appropriate at this time.

Regarding PJM’s proposed cost of capital assumptions, we agree with many others that the Weighted After-Tax Cost of Capital (WACC) is understated leading to an understated CONE value and correspondingly lower RPM prices. The RPM prices need to be market correct and not too high or low both of which lead to inefficient market price outcomes and more importantly potentially reducing system reliability. Only
private equity firms are building merchant plants in PJM. These developers therefore should be utilized as the reference group for CONE inputs. Again while seemingly a detail, these parameters are critical to get right such that RPM price outcomes are correct. The series of incorrect RPM price outcomes, particularly in the Rest of Market region, are driving premature unit retirements, reduced levels of reinvestment and a looming system reliability problem. We urge the Board to carefully review and understand the impact of moving forward with an 8% WACC vs. a more appropriate 13% and how that contributes to under compensation for existing resources.

The forward looking E&AS proposal details are lacking and the historical look back should be retained. We would support ongoing dialogue about the merits of a forward looking E&AS for implementation at a future date; although we are not persuaded that the time is ripe for making this change.

We are pleased to provide this feedback to the Board on this critically important topic. The actions of the Board in this matter have direct implications on the viability of generation in the Rest of Market and ultimately system reliability. We look forward to helping to successfully develop of emerging Capacity Performance rules and its successful implementation. Getting the Triennial Review parameters correct is a foundational building block for reaching the goals of Capacity Performance.

American Electric Power, The Dayton Power and Light Company, and FirstEnergy Service Company appreciate the Board’s consideration on these important issues.

Respectfully submitted,

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