November 3, 2014

PJM Board of Managers
c/o Mr. Howard Schneider, Chairman
PJM Interconnection, LLC
2750 Monroe Blvd.
Audubon, PA 19403

Dear Chairman Schneider,

In its October 31st letter to the PJM Board,1 Exelon makes an ex parte attempt to persuade the PJM Board of Managers to move forward with the PJM’s Capacity Performance proposal. This letter, submitted by consumer representatives and other signatories indicated below, responds to Exelon’s erroneous and exaggerated assumptions.

In its letter, Exelon claims that “operational challenges… will grow exponentially in the next three years,” asserting that its analysis provides “vivid illustrations of the reliability consequences of inaction.” Exelon goes on to states that “if similar winter conditions were to reoccur in the coming years, [it could make] a significant loss of load event a virtual certainty.”2 Exelon’s letter was not in the spirit of the ELC process, with which all other parties have complied and which we believe is the appropriate place for Exelon to have raised these points. If PJM is inclined to accept this submission, the undersigned offer an “answer” to the issues raised by Exelon in its letter in the hope that the Board will be able to make a reasoned decision not driven by unfounded fears expressed by one generating company.

Exelon’s “analysis”—the crux of which relies on graphic representation of an alleged 24.9 GW “shortfall” for the 2017/18 delivery year—is cobbled together from inaccurate and unrealistic assumptions about future developments pasted onto the extreme results from last winter. Exelon’s letter to the Board begins with its claim that there was a 4.7 GW shortfall on January 7, 2014, in contradiction to PJM’s statements that it had a few GWs to spare.3 Exelon ignores the additional resources PJM could have accessed if needed and zeroes out the substantial non-RPM-committed resources that performed on that day. In fact, on peak days when prices are high, there always has been and always will be a substantial amount of non-capacity resources, both on-system and from the various neighboring regions, that respond to high prices.

Exelon’s assumption of a shortfall is added to the once-in-24-years peak load on that day4 and the extremely high level of generation unavailability on that day. While the load on January 7, 2014 was an extremely rare event, the poor generation performance is not expected to be repeated. The combination of

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2 Exelon Letter to PJM Board of Managers, October 31, 2014, pp 1, 4.
3 Capacity Senior Task Force meeting, May 9, 2014, Item 2 (Michael Kormos stated that PJM had 3,000 to 4,000 MW more reserves before having to resort to load shed).
4 The peak load on Jan. 7 2014 was 141,745 MW, well above the forecast “90/10” extreme winter peak level of 139,099, and calculates to a once-in-24-year peak load. See PJM Enhanced Liaison Committee Updated Whitepaper Frequently Asked Questions #68, and PJM 2014 Load Forecast Report Table D-2.
the market incentives provided by last winter’s high prices, PJM’s many incremental initiatives to improve winter preparedness and performance, and improved electric-gas coordination, among other changes stimulated by last winter’s events, eliminate the chances of any reoccurrence of last winter’s extreme level of generation unavailability. Even a few weeks after the January 7th event, generation performance was much improved.\(^5\) While Exelon repeatedly cites a perceived “near-term” winter reliability concern, it fails to show that PJM’s existing tailored, incremental initiatives fail to adequately address this concern and that a massive overhaul of PJM’s market—which is proposed to be fully implemented four years from now (DY 2018/19) and will have long-term price impacts—is warranted at this time.

At the recent MRC meeting of October 30, the question was raised as to whether the effects of all of the initiatives being implemented by PJM would result in avoiding the issues experienced this past January. While PJM Executive Vice President Mr. Mike Kormos acknowledged during the meeting that operations would be improved, there remained a question of resolving the root causes that led to reliability issues during January 2014. While we acknowledge that discussing the events of January 2014 is warranted, the specific question for the Board is whether PJM’s Capacity Performance proposal has identified, addressed and resolved such root causes in manner that is necessary and cost effective for customers.

Exelon’s analysis eliminates retiring coal units but fails to add the substantial quantity of new gas-fired generation that will come on-line in the coming years based on the assumption that such generation will not have firm fuel supplies and may not have access to fuel on extreme winter days. This ignores the fact that much of the new gas-fired generation is combined cycle units planning to operate at very high capacity factors, and in many cases located on or near gas pipelines in shale gas producing regions. Furthermore, as PJM’s Mike Bryson has noted, the gas supply problems experienced last winter were primarily contractual and economic, not physical constraints, meaning that for many gas-fired generators, fuel firmness can be achieved through new arrangements with marketers even without expansion of the gas pipeline system.

Exelon’s analysis also eliminates demand response, despite the fact that demand response provided 2 GW last winter, and in contradiction of PJM’s statement that "there is, in fact, well-developed peak load reduction capability in the PJM Region, and PJM reasonably and prudently must take that capability into account in both its planning and capacity procurement functions."\(^6\)

Finally, Exelon exacerbates the purported capacity deficiency in its analysis by zeroing out its own capacity that it failed to clear in the last RPM auction. This capacity failed to clear because of Exelon’s bidding strategy—the resources were offered at high prices. The economic withholding of this capacity caused RPM prices to clear at a much higher level, actually increasing Exelon’s total RPM revenue across its very large portfolio, despite the lower cleared quantity.\(^7\)

To summarize, Exelon’s analysis starts with a once-in-24 years load event that caught many generators of all types unprepared. It then ignores the many actions by PJM and generation owners to improve winter generation performance. It assumes gas-fired generation will totally lack fuel supply, that the wide

\(^{5}\) PJM Problem Statement on PJM Capacity Performance Definition, August 1, 2014, Fig. 4 p. 7.

\(^{6}\) Answer of PJM Interconnection, L.L.C. to Complaint, Docket No. EL14-55, October 23, 2014, p. 3.

\(^{7}\) See, for instance, the calculations included in UBS US Electric Utilities and IPPs, Further Thoughts on the RPM Auction, May 28, 2014, p. 8 (calculating that Exelon increased its total RPM revenue by withholding 4,457 MW of its 25,000 MW fleet), and UBS US Electric Utilities and IPPs, Exelon Corp. – Power Trade Uplift Continues, May 30, 2014 (concluding that the withholding was allowed by the tariff, scrutiny from FERC is not expected, and market power leverage may actually increase in the future).
variety of uncommitted resources that respond to high prices on peak days are somehow unavailable, and resources which failed to clear for future delivery years, including those withheld by Exelon, FirstEnergy, and other entities with large PJM portfolios, will retire. The Board should not come to erroneous conclusions based upon Exelon’s erroneous and exaggerated assumptions. The Board’s many important decisions on PJM’s Capacity Performance proposal should be firmly grounded on accurate and well-reasoned facts, and for that reason, the undersigned submit this response to Exelon’s ex parte letter.

Respectfully Submitted,

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