



VIA E-MAIL

June 8, 2006

Mr. Steven R. Herling
Vice President, Planning
PJM Interconnection, LLC
955 Jefferson Avenue
Norristown, PA 19403

Subject: TEAC Plan

Dear Steve:

At the May 23rd TEAC Meeting, you requested that members submit written comments on the TEAC Plan to you. Williams hereby submits the following comments for inclusion in the package sent to the PJM Board of Managers.

Williams appreciates the thorough analysis performed by PJM's team in developing the comprehensive plan presented at the meeting. However, Williams is concerned about the nature of the base assumptions for the transmission planning studies and Williams believes the results would be substantially different and substantially more defensible if assumptions were used that more accurately reflect a reasonable expectation of future system growth.

The focus of our concern is the assumptions made about the size and location of future generation. During the TEAC Meeting PJM's team indicated that the future generation sources modeled in the studies were taken from PJM's generation interconnection queues as these queues presently exist. Williams is concerned that these assumptions do not reflect the future capacity adequacy structure in PJM and they do not reflect the market signals that will be generated by a locationally based capacity adequacy structure.

These assumptions are not only driving the perceived need for some of the major transmission facilities identified in the plan but the assumptions are also driving the potential allocation of costs to certain transmission zones in the region at the exclusion of other zones. Williams believes the transmission planning studies would have identified a materially different transmission plan had the engineers used a future generation model that is consistent with the underlying rationale for the proposed capacity market structure.

Williams is concerned that the business rules related to the nomination of generation projects in the existing queues do not match the time horizon for the transmission planning studies. Williams is also concerned that the present lack of transparent prices

signaling local reliability problems has driven the nature and location of generation projects presently nominated in the queues.

The existing business rules for the nomination of generation projects into the interconnection queues permit proposed projects to enter into the queues if the expected date of commercial operation is less than seven years away. Williams understands that certain proposed generation projects whose development and construction lead time is greater than seven years may enter the queues if approved by PJM. At most the generation queues only have available information for seven years yet the transmission planning studies have a 15 year horizon.

It is questionable whether the interconnection queues could ever be considered an adequate source for a future generation model even for the seven years in which they overlap the transmission planning horizon. The identification of potential future generation sites is a very costly and time-consuming process. It is also a very competitive segment of the market. Because of the amount of time, money and competitiveness involved, developers have a rather strong incentive to reveal potential projects only when commercially necessary.

The existing rules for entry into the interconnection queues make the queues an unsuitable source for future generation for the transmission planning studies. The studies require a future generation model that covers the full period of the transmission planning studies, 15 years. The information available in the interconnection queues fails to provide that information over the complete period of the transmission planning studies. PJM must develop a reasoned alternative to using the information as the sole source for the future generation model for this reason. As a result the information in the generation queues is unsuitable as the sole source for the future generation model in the transmission planning studies spanning a period of 15 years.

Furthermore, entry into the interconnection queue is merely a step in the feasibility determination process of developing a generation project. The studies performed in that process determine the cost of the transmission component of the generation project. The results received from PJM are part of the information the developer needs to determine if the proposed project is economically viable. PJM's experience with the generation interconnection queues supports this point. Overall, there have been a substantial number of generation projects entering the interconnection queues that never materialize into operating generation projects.

Additionally, the information about future generation in the interconnection queues is based on today's paradigm for a capacity market model. The present lack of forward-looking transparent signals indicating the locational value of capacity coupled with existing vertical demand curve stymies the development of generation in many areas of the system and the effects of this are visible in the interconnection queues. While there is recognition that the existing capacity market requires substantial restructuring, there is still too much regulatory risk associated with the proposed capacity market structure for

the competitive market to respond. This regulatory risk will subside once the implementation details are finalized and the market is operational.

PJM's stakeholders are presently working on a solution to the capacity market design problems. Everyone's expectation is that these deficiencies in the existing capacity market will be fixed in the new market structure. The assumptions made in the planning studies are substantially inconsistent with the expectations for the capacity market over the next 15 years. The assumptions used in the studies need to reflect PJM's expectations over the period being studied. Assuming that only the generation presently nominated in the interconnection queues will develop over a 15 year horizon is incongruent with the expectations that a forward-looking locationally based capacity market will induce the development of resources when necessary and where necessary to solve local reliability problems.

William believes that over the 15 year horizon of the transmission studies the locational price signals resulting from the new locational capacity structure will result in generation projects being added in areas with reliability deficiencies. Consequently, Williams believes that the planning studies require assumptions consistent with that expectation. Rather than relying on the generation queues as the source of a future generation model, Williams believes that PJM needs to perform transmission planning studies using a future generation model that reflects this expectation.

The TEAC is supposed to recommend transmission upgrades for Board approval. A transmission upgrade with Board approval can be ordered for construction by PJM if the project is reliability based. Implicit in any such recommendation is an assurance that the proposed project is the most economic solution to the problem identified. This should not mean the most economic transmission solution that PJM can order to be built. The RTEP process must also identify other potential solutions and provide at least an order of magnitude estimate of cost of implementation. To fail in this essential step is to fail the fundamental mission of providing low cost energy to consumers.

Thank you.

Sincerely,



Robert P. O'Connell, P.E.

Manager – Regional Government Affairs Power