

To: PJM Planning Group

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Subject: Comments on October 30, 2006 TEAC Meeting

The note contains the MPSC's comments on the material presented at the October 30, 2006 TEAC meeting.

A. Review of Scenario Planning Results

1. *The MPSC strongly suggests that more information be provided on the electric load forecast.* Economic growth is the key driver of electric load growth and the MPSC has concluded it is important the TEAC members understand what economic growth assumptions underlie the electricity demand forecast. Among the additional information that should be presented to the TEAC are:
 - a. The underlying economic growth rate within the PJM region, identifying differences in assumed economic growth by major zone (e.g., MAAC, PJM South, PJM West);
 - b. The economic growth rate assumed to occur in PJM should be compared with the national economic growth rate. If there is a difference the reasons should be provided.
 - c. If there are any key factors influencing economic growth in the PJM region a brief capsulation-description of these factors should be provided.
 - d. The high and low economic growth scenarios for PJM should be presented, with at least a brief description of the fundamental factors that are likely to cause economic growth to exceed or fall below that assumed in the base case.

2. *Consideration should be given to a more explicit presentation of generation scaling results. As presented at the TEAC generation scaling is still a black box to several attendees. Would it be possible for PJM to summarize the generation scaling results? For example, would it be possible to show the amount of generation assumed by zone, or major zone (PJM East, PJM South, and PJM West), based on:*
 - a. Existing generation;
 - b. Existing generation with ISA generation;
 - c. Existing generation with ISA generation and scaling;
 - d. Existing generation with ISA generation and scaling, and generation that has received an impact study?

This information would give the TEAC meetings a more informed understanding of the amount and location of incremental generation sources assumed by PJM. This in turn would facilitate a more informed and discussion on the scenario planning assumptions, including whether the scaling results represent realistic generation development outcomes.

B. Review of Market Efficiency Input Assumptions

1. *MPSC agrees with comments that the Base Case should not assume that reserve margins falls to two percent by the close of the forecast period. The base case should reflect that reserve margin and LOLP reliability criteria are met. The high generation case should in effect be the Base Case.*
2. *MPSC believes that the low generation scenario should remain as is. This case would reflect a scenario whereby some generation is retired because of a combination of technological obsolescence and forced retirements resulting from strict state air emission legislation, such as the Healthy Air Act recently passed in Maryland. New generation would be forthcoming, but because of siting and licensing difficulties there is a long catch up period that extends through the 15 year planning horizon.*
3. *MPSC believes that there should be an overbuild scenario. The over-build scenario would be coupled with a high natural gas and oil price scenario. The high natural gas and oil prices would encourage accelerated ordering and construction of baseload coal and nuclear units. Developers would accelerate*

orders and construction of these baseload projects because they can realize significant economic rents under high oil and natural gas price conditions.

4. *This over-build scenario might also be coupled with a high emission allowance price scenario.* The high emission allowance prices would encourage the introduction of additional nuclear units as well as the more rapid introduction of clean coal units. The high emission cost scenario would also be consistent with a high natural gas and oil price scenario in that high emission costs would tend to have the effect of increasing operating rates at natural gas, oil, and dual fueled fired generating units, both within PJM and nationwide. The high emission cost scenario would also have the effect of increasing the price of high quality coal.
5. *Consistent with comments on scenario planning, MPSC believes that there should be material that describes the source of the peak load and energy forecasts.* This would include a review of the key economic drivers of the peak load and energy forecasts, and whether there is differential in growth rates within the PJM footprint. For example, where is the growth most rapid in the PJM footprint, and what are the reasons for the differences?
6. *Similarly, it would be useful if there was some descriptive material that accompanied the fuel price and the emission price allowance forecasts.* PJM in its presentation indicated that the price forecasts were based on fundamentals. While a detailed explanation may not be needed, MPSC has concluded some descriptive material is needed to describe the fundamental forces or factors that are affecting fuel and air emission allowance prices.

In closing, I note a suggestion with regard to formatting the emission allowance price charts. I believe the charts would be easier to read if there was a single price starting point, at least for emission such as SO₂ and NO_x which have a price history.