

VIA ELECTRONIC AND FIRST CLASS MAIL

March 8, 2010

John Reynolds
Chair, Load Analysis Subcommittee
PJM Interconnection L.L.C.
955 Jefferson Avenue
Norristown, PA

Steven Herling
Chair, Planning Committee
PJM Interconnection L.L.C.
955 Jefferson Avenue
Norristown, PA

Re: Request for Consultant Review of PJM's Load Forecasting Methodology

Dear Messrs. Reynolds and Herling:

The undersigned represent residential, commercial and industrial consumers; state regulators and consumer protection agencies; and load-serving entities on the PJM system--the parties that both benefit from and pay the cost of the reliability of the PJM system. As you will recall, on December 11, 2008, a similar group of seventeen stakeholders wrote to you raising concerns about PJM's draft 2009 load forecast and requesting a stakeholder process to review the load forecasting methodology.¹ Within that stakeholder process in 2009, many questions were raised and many issues were discussed.

However, as described further in this letter, significant changes are underway that present new challenges to peak load forecasting and that call for proactive efforts to ensure that PJM's load forecasting methodology realistically reflects the resource needs to meet reliability requirements. Consequently, the undersigned are writing to request that PJM retain an independent consultant to review its peak load forecasting methodology and make recommendations. As part of that process, a polling of the load serving entities and/or PJM Transmission Owners might be in order to determine the trends they are seeing in their growth patterns as a result of the issues cited

¹ *Re: Draft 2009 PJM Load Forecast and Report*, letter to Mr. John Reynolds, Chair, PJM Load Analysis Subcommittee and Mr. Steve Herling, Chair, PJM Planning Committee, signed by seventeen entities representing state utility commissions, consumer advocates, industrial customers and public power entities, December 11, 2008 (Attachment 1).

below. Our goal in requesting this review is to ensure that the load forecast is as accurate as possible and is adapted as necessary for changing circumstances.

The last consultant review of PJM's load forecasting methodology was in 2006,² and it resulted in some modifications to the methodology. However, much has changed (or continued to change) since that review:

1. The PJM RTO's peak load growth has slowed over the past several years (Figure 1), which trend is apparently not entirely explained by the economic slowdown since late 2007.
2. A severe recession caused PJM's peak load to decline in 2009. Anecdotally, there has been some permanent industrial demand destruction within the RTO footprint. PJM has revised its forecasts for 2009, 2010 and 2011 downward by over 5,000 MW.
3. PJM's peak load forecasts are highly sensitive to the assumed economic forecast, as Figure 1 suggests. However, at present there is enormous uncertainty about economic growth and a wide range between the projections of various economic forecasters.
4. After a long period of stability, retail electricity prices in the PJM footprint have risen 40% since about 2004 (based on EIA data; Figure 2), partly due to higher fuel costs, partly due to more retail customers being exposed to wholesale prices, and partly due to the addition of new market design modules (most notably the Reliability Pricing Model).
5. Policies at the state and federal levels promoting greater efficiency in electricity use and reductions in consumption at peak times have been further strengthened, and at least five states within the PJM region have enacted and are implementing legislation to mandate significant reductions in load and demand within the PJM region.³
6. PJM is presently developing a shortage pricing mechanism that, if approved, could result in much stronger incentives to reduce consumption at peak times.
7. There is a big push underway to develop the smart grid, including advanced meters, and to realize much greater price-responsiveness in electricity demand. Last year PJM stated that it "expects significant progress in developing price responsive demand within the next three years."⁴

These developments are substantially new or changed since the 2006 review of PJM's peak load forecasting methodology, and we are concerned that some significant modifications to the existing methodology may be needed to adapt to and accurately project future peak loads under these changing circumstances. We believe a consultant's review of the methodology would be valuable in identifying alternatives. The scope of the review should also include the development of the "90/10" peak load forecasts and the probabilistic forecasts of peak load that

² The Brattle Group, *An Evaluation of PJM's Peak Demand Forecasting Process*, December 5, 2006.

³ Delaware - (SB106, Energy Conservation and Efficiency Act of 2009, Jul. 2009) - peak demand reduction; Pennsylvania - (Act 129, November 14, 2008), Demand Response, targeted usage and peak demand reduction, AMI;

Ohio - (SB 221, July 31, 2008) Demand Side Management, AMI, distributed generation, time differentiated pricing; Illinois - (SB 1592, Illinois Power Agency Act, August 28, 2007) peak demand reduction; Maryland - (HB 374, SB 205, EmPOWER Energy Efficiency Act, April 5, 2008) Demand Side Management, targeted usage and peak demand reduction.

⁴ Statement of Terry Boston, President and CEO, on behalf of the PJM Board of Managers: *Demand Response in the PJM Markets*, June 26, 2009.

are used in PJM's Load Deliverability ("CETO") Analyses. We also request that PJM solicit stakeholder input on other related questions that could be addressed in the consultant's review as the detailed scope of work is developed. In addition, the signatories ask for the opportunity for stakeholders to review and have opportunity, with a short window for comment, to make input to PJM and the consultant on a "preliminary" report from the consultant to ensure that all stated issues are covered.

As noted in the December 11, 2008 letter referenced above, the load forecast is a major determinant of the quantity, price, and cost of capacity procured through PJM's Reliability Pricing Model. It is estimated that each 1% of change in the peak load forecast translates into approximately \$500 million in costs to load entities—a very significant impact. PJM's load forecasts are also a major input to the analysis of need for new transmission lines within PJM's RTEP process. Consequently, it is extremely important that PJM and stakeholders can be confident that PJM's forecasts project as accurately as possible changes in peak load over the coming years without compromising reliability.

We appreciate your thoughtful consideration of our request for a consultant review of PJM's load forecasting methodology.

Sincerely,

/s/ James A. Jablonski
James A. Jablonski

Executive Director
Public Power Association of New Jersey

/s/ Duane S. Dahlquist
Duane S. Dahlquist

General Manager
Blue Ridge Power Agency

/s/ William F. Fields
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Chairman
Public Service Commission of Maryland

cc: Mike Kormos, Senior Vice President – Operations, PJM

Figure 1: PJM RTO Peak Loads and Forecasts

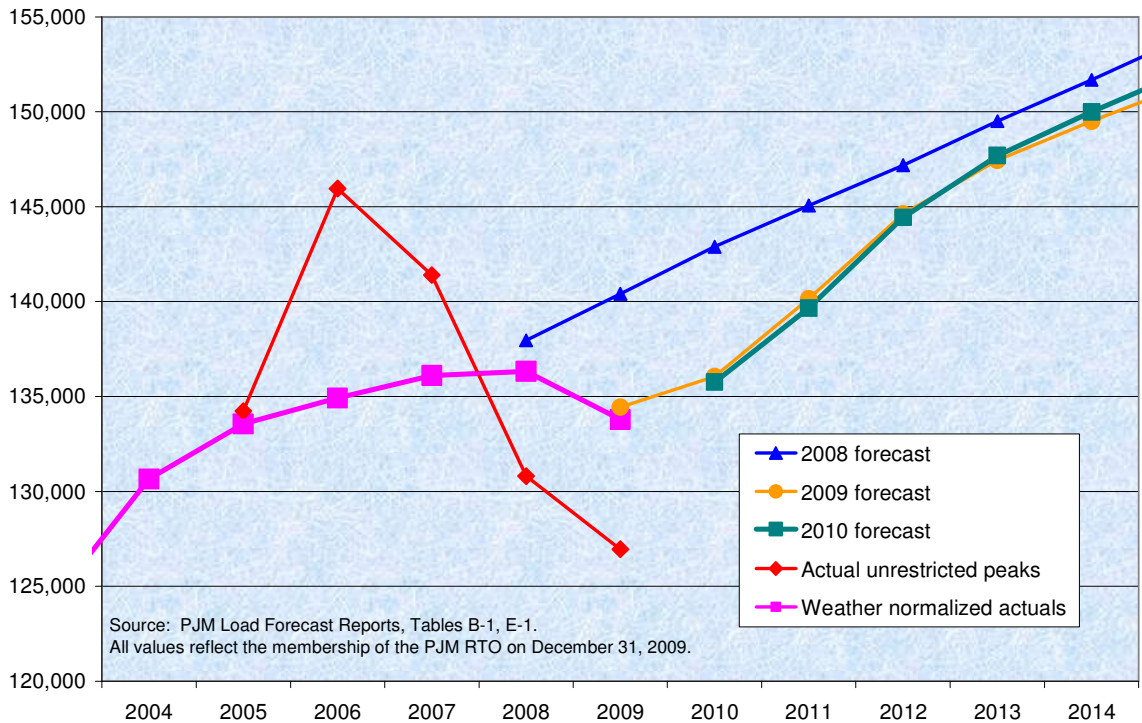


Figure 2: PJM RTO States' Average Retail Electricity Prices (average nominal retail prices across all customer sectors)

