

**Public
Power**



Association of New Jersey

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December 2, 2010

Via Electronic Mail – Original Via USPS

John Reynolds

Steven Herling

Chair, Load Analysis Subcommittee

Chair, Planning Committee

PJM Interconnection, LLC

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955 Jefferson Avenue

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Norristown, PA 19403-2497

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RE: Consultant Recommendations Regarding PJM's Load Forecasting Methodology

Dear Messrs. Reynolds and Herling:

The undersigned represent residential, commercial and industrial consumers; state regulatory agencies, state consumer advocates; and load-serving entities on the PJM system. We represent electricity consumers who depend upon and highly value the reliability of the PJM system. Moreover, these consumers bear the cost of ensuring that reliability, so it is in our interest that PJM make every effort to use the most accurate forecast possible to obtain the ideal level of reliability.

With regard to potential changes to PJM's long-term peak load forecasting methodology, there appear to be at least four principles on which all or nearly all PJM stakeholders agree:

1. PJM's load forecasts have important and wide-ranging impacts;
2. The goal is to achieve the most accurate and unbiased load forecast possible through the use of well-established forecasting principles and methodologies;
3. PJM's independence in producing the forecast is of utmost importance and should not be compromised; and
4. Changes to the forecasting methodology should be vetted with interested stakeholders before implementation.

In simple terms, load forecasts inform a multitude of investment decisions to ensure reliable electric service. Those plans cost money, whether they call for a distribution system upgrade or result in purchases through an RTO-wide capacity market such as RPM. Thus, the most accurate and unbiased forecast available is an essential component in maintaining system reliability.

Itron's independent assessment concludes that its recommendations will result in a more accurate and stable load forecast. Itron's two primary Phase I recommendations are encompassed in Recommendation Nos. 1 and 3 involving changes to the indices used to forecast load.¹ PJM's stakeholder discussions to date have focused on, and we believe thoroughly vetted, these two recommendations. Our confidence in Itron's conclusion has been reinforced through participation in discussions and review of PJM generated material since Itron's report was released. Recommendation Nos. 1 and 3 are ready for immediate implementation. We also expect that PJM will seek to further refine its load forecast methodology by continuing to vet the remaining Itron recommendations in the coming months.

PJM's independence in selecting and implementing the methodology used to forecast load is critical. Because the load forecast methodology is not included in PJM's Operating Agreement, the threshold for stakeholder review required to revise the methodology is different than the threshold for changes to the Operating Agreement. Although PJM would be required to demonstrate that the Member's Committee approved a particular revision to its Operating Agreement with two-thirds sector weighted support of its membership, revisions to the load forecast methodology are not subject to such a voting requirement. Additionally, while FERC's order in the recent 'Dominion' complaint case at Docket No. EL10-69-000 "strongly encourages PJM to fully engage all stakeholders in the future whenever it considers making changes that could materially impact the outcome of the load forecast," stakeholder participation should not trump PJM's independence in deciding whether and when to implement those revisions. In order to maintain independence, we caution against the establishment of a process that would subject any changes in the methodology used to forecast load, or in the process for vetting those changes, solely to stakeholder votes. Stakeholders need to understand Itron's recommendations and any future improvements to the load forecast that may be identified, but subjecting the decision of whether to implement changes to the methodology to stakeholder votes would compromise PJM's independence.

We believe PJM has set the proper course to date in consideration of the Itron-recommended changes. PJM has been careful to allow interested and concerned stakeholders to engage in full vetting of those changes prior to implementation. Upon completion of the vetting process this year, interested stakeholders will have had ample opportunity to ask questions and understand the impact of the changes included under Recommendation Nos. 1 and 3. PJM can and should, therefore, proceed to implement Recommendation Nos. 1 and 3 now, without waiting for full vetting of Itron's remaining recommendations. We believe the spirit of FERC's "Dominion" order will be satisfied – especially where, as here, the proposed changes to PJM's load

¹ Itron Recommendation 1 proposes to implement a weighted economic index that combines multiple economic measures into a single index of economic activity. Itron Recommendation 3 proposes to combine the economic forecasts from Moody's Economy.com and Global Insight to generate the weighted economic index.

forecasting methodology have been discussed in some form in many meetings dating back to at least early 2009, and where those proposed changes address concerns that were first raised in 2008. Any unnecessary delay in implementing the reform needed to ensure a more accurate load forecast would be inconsistent with statutory requirements that rates be just and reasonable.

In conclusion, PJM should adopt Itron's Recommendation Nos. 1 and 3 now, for inclusion in the 2011 Load Forecast Report. These recommendations are mechanical, can be easily implemented and are expected to improve the accuracy of PJM's load forecasts.

Thank you for your consideration and all of your hard work in this matter.

Sincerely,

/s/ James A. Jablonski

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Executive Director

Public Power Association of New Jersey

/s/ Duane S. Dahlquist

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cc/Mike Kormos, Senior Vice-President – Operations, PJM