April 6, 2011

Sean McNamara, Manager – Member Relations
PJM Interconnection, LLC
955 Jefferson Avenue
Valley Forge Corporate Center
Norristown, PA 19403-2497

Re: Environmental Stakeholder Letter to PJM Staff
On Integration of Public Policies into Regional System Planning

Mr. McNamara:

Environmental Stakeholder (ES) groups[1] strongly support PJM's initiative seeking stakeholder input on how best to integrate public policies into its regional transmission expansion planning process. We believe that the input from transparent and inclusive stakeholder processes, such as the RPPTF, will help PJM modelers produce the data and analyses critical to resolving identified system needs cost-effectively. Further, ES groups believe that the RPPTF process provides an opportunity for stakeholders to assist PJM staff with the development of ***comprehensive system planning*** that includes due consideration of 1) all resource options technically capable of meeting system needs, and 2) all state and federal policies likely to affect grid needs and resource option availability.

The purpose of this letter is to let PJM know that ES groups intend to address many of the issues framed in the *RPPTF Scenario Planning Matrix* and *Planning Process Strawman* proposal. Although we plan to submit more comprehensive responses to the matrix and proposal prior to the April 29 RPPTF meeting, we want to identify upfront the issues of greatest concern to our groups.

Scenario Planning Matrix

ES groups plan to offer recommendations on PJM's proposed ***sourcing strategy, at-risk generation approach,*** and ***infrastructure upgrade cost responsibility options.*** Some of our initial suggestions are noted below.

ES groups support a sourcing strategy that models 100% of legislatively-backed state and federal renewable portfolio standards (RPS). We also support conducting sensitivity studies for each state RPS goal to evaluate the impacts of achieving less than 100% of the goal. In addition, we recommend that actual RPS achievements each year be incorporated into the projected renewable energy levels for future years.

We also recommend that this same approach be applied to mandated state and federal load reduction, energy efficiency and demand response resource mandates. Sensitivity analyses should be conducted and, based upon annual re-evaluations of state achievement levels, the EE and DR achievements should be incorporated into future penetration projections.

Regarding PJM's approach to at-risk generation, ES groups recommend that PJM develop a ***process*** that ***identifies*** and ***assesses potential impacts of*** at-risk generation, ***and*** that timely selects a

[1] PJM Environmental Stakeholders include Environmental Law & Policy Center, National Audubon Society, Piedmont Environmental Council, Project for Sustainable FERC Energy Policy, Sierra Club and Synapse Energy Economics.

resource that would eliminate reliability concerns caused by the at-risk unit. Identification of at-risk units is critical to transparent and comprehensive planning for reliability. Assessment of their potential impacts should include determinations of 1) how critical to reliability and resource adequacy the identified units are, 2) whether the units would be able to comply with environmental mandates economically, and 3) which units are most likely to be retired. The process could include a variety of components, including a review by the Independent Market Monitor.

Finally, with respect to cost responsibility for infrastructure upgrades, ES groups recommend that the planning process consider both transmission ***and non-transmission alternatives*** for meeting identified grid needs, determining whether a transmission option, non-transmission option, or some combination of transmission and non-transmission resources is the most cost-effective system solution. If, after such an assessment, a non-transmission resource option is selected, the cost recovery options for the non-transmission solution should be comparable to cost recovery mechanisms available for transmission solutions. (This may reasonably include a tariff-based cost recovery option.)

Planning Process Strawman

In its straw proposal PJM presented three general approaches to grid development decision-making – alternative frameworks for deciding how to meet regional system needs. ES groups believe that none of the three alone is capable of achieving a well-designed, reliable and cost-effective regional power system. In particular, the evidence to date suggests that a Markets Only approach will not be sufficient to address future system needs.

ES groups assume that a combination (some hybrid) of the three approaches is likely to be the most effective framework for decisions. Most importantly, we believe that the ***optimal role for PJM*** in the planning process is to:

- Provide comprehensive analytical/modeling analyses that i) integrate the system's needs with all of the available resource options that can address them, and ii) provide the planning information needed to support market and state regulatory actions that address system needs timely, and
- Serve as the regional utility backstop to identify and implement least cost solutions required to address system needs if market or state actions (whether through compacts or other inter-state agreements) do not materialize within the necessary timeframes.

The information produced by PJM's comprehensive analytical work, in conjunction with the prospect of RTO backstop implementation, could function as a reasonable driver of timely action to meet regional policy and other system needs. ES groups have requested time to present more detailed recommendations on the scenario planning matrix and decision framework during PJM's April 29, 2011 RPPTF meeting.

Respectfully,

Rishi Garg
On Behalf of PJM Environmental Stakeholders

CC:
Steve Herling, Vice President, PJM Interconnection
Paul McGlynn, Manager, PJM Interconnection