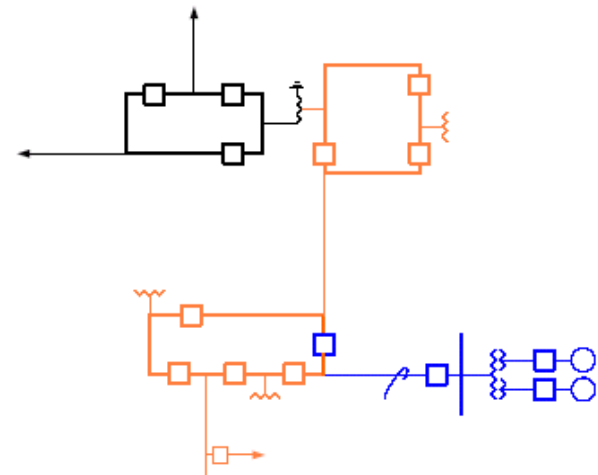


Issues With PJM Proposal for CETL Transparency and Stability

H-P Energy Resources LLC
October 2012



Stakeholders and Brattle Group Report

- ◆ Stakeholders have raised concerns with CETL transparency and stability.
- ◆ Two Brattle recommendations for CETL transparency:
 - Provide 4, 5 and 10 year CETL outlooks.
 - Make CETL models available.
- ◆ Three Brattle recommendations for CETL stability:
 - Identify successive CETL limiting elements with their CETL impacts.
 - Facilitate cost-effective transmission upgrades.
 - **“Deadband” for changing RTEP project status.**

PJM Proposal: Eliminate Objective CETL

- ◆ Address CETL transparency by replacing objective **CETL results with LDA import limits set by PJM's subjective judgment ("qualitative assessment")**
 - Proposal eliminates transparency.
- ◆ Address CETL stability by freezing LDA import limits **until PJM finds "a continuing, fundamental change in transmission and/or capacity supply circumstances."**
 - Proposal would keep using inherently obsolete limit imports in order to solve stability concerns.
 - Proposal eliminates transparency.

Issues with PJM Proposal - 1

- ◆ **Threshold questions as to what is being proposed and how the proposal would have changed the results of past RPM auctions if it had been in effect.**
 - How, for example, would PJM have changed the LDA import limits in the last BRA?
 - When would PJM have retained or changed import limits in past BRAs?
- ◆ **Proposal is inconsistent with PJM's** guidance to the Commission on the legitimacy of CETL, and Commission orders accepting this PJM guidance.

Issues with PJM Proposal - 2

◆ **Subjective shaping of import limits will impact capacity prices - LDA import limit below or above CETL would cause either: (1) excessive RPM costs to consumers, or (2) inadequate revenues to RPM resources.**

◆ Example:

- Reducing MAAC import limit by 1,000 MW in 2013-14 BRA would have cost consumers ~ \$573 million.
- Increasing MAAC import limit by 1,000 MW in 2013-14 BRA would have cost resources ~ \$671 million.

Issues with PJM Proposal - 3

◆ **Whenever PJM sets (or maintains) an LDA import limit above the CETL for a given RPM auction what happens?**

- Ignoring the difference means internal LDA resources plus CETL are inadequate under RPM construct and possibly 1-in-10 reliability standard.
- Ordering upgrades raises questions: (1) what transmission upgrades would be ordered (supplanting RPM resources that otherwise would have cleared)?; (2) when would they be ordered?; (3) when might they be cancelled?; and (4) who pays for them?

Issues with PJM Proposal - 4

- ◆ **The Proposal is the diametric opposite of the Brattle Report recommendation for increased transparency – instead, transparency is eliminated.**
- ◆ Gives PJM the inappropriate role of determining LDA import limits based on its view of “capacity supply circumstances.”
- ◆ Breaks the critical linkage between RPM and RTEP - **contrary to PJM’s past support of such linkage.**
- ◆ Allows PJM to make subjective, non-transparent, unilateral rate decisions in violation of the Federal Power Act.

Issues with PJM Proposal - 5

- ◆ Invites extensive litigation of every RPM auction **through challenges to PJM's subjective judgments.**
- ◆ Undermines the goal of incenting locational-based resources – **PJM's future subjective judgments cannot support resource investment.**
- ◆ Ensures unjust and unreasonable rates by using inherently obsolete LDA import limits.
 - **Dozens of “new key transmission upgrades” for every BRA would now be ignored.**
- ◆ Effectively eliminates the ability of merchant transmission to compete in RPM, contrary to PJM representations and Commission precedent.

Summary and Path Forward

- ◆ Proposal goes in the opposite direction from the Brattle recommendations and is fundamentally flawed.
- ◆ PJM should come back to stakeholders with its perspective on which of the five (5) Brattle (and stakeholder) recommendations for CETL transparency and stability should be pursued, and why.
- ◆ Consensus-supported recommendations should be refined by PJM and stakeholders.

Thank you.