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Manu Asthana
President & CEO
PJM Interconnection
2750 Monroe Blvd.
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Dear Manu,

I am writing to respond to your December 5, 2023, correspondence with the Sierra Club.

Talen has been working with PJM for several months on an interim generation solution to resolve reliability concerns in the BGE zone of PJM during the period necessary to implement longer-term transmission solutions. I want to address the issue of the Brandon Shores and H.A. Wagner retirements, and then comment on our joint efforts to find an interim solution to the reliability concerns. That solution will require the cooperation of several parties, not just PJM and Talen, and it will require compromise from all, including the Sierra Club, the State of Maryland, and the Independent Market Monitor (IMM).

The reliability issues facing the BGE zone are not new or unanticipated. In February 2020, PJM released a study that specifically analyzed retirement of coal-fired generation in Maryland, identified Brandon Shores as slated for 2025 retirement, and found "the simultaneous retirement notification of the generation sources studied will impose infrastructure overloads to seven existing transmission facilities in the region." Similarly, PJM's Resource Retirements, Replacements & Risks public materials from February, March, and April 2023 all pre-date our announcements and reflect the likely 2025 retirements of Brandon Shores and H.A. Wagner. It is not a surprise that these plants are leaving the system.

Nonetheless, you are correct in your letter, when you note Talen's prior intent to convert Brandon Shores and H.A. Wagner Unit 3 from coal-fired operations to fuel oil. But that is not the end of the story.

Talen analyzes each capital project, such as a fuel conversion from coal to oil, on a standalone basis to ensure the economic viability of the project. In this instance, structural market economics around Brandon Shores' planned fuel conversion were impacted substantially by a large drop in PJM capacity prices, higher than anticipated project costs, and higher risk of significant capacity performance penalties like those experienced with Winter Storm Elliott. Those factors make the plant's continued operation uneconomic. Additional capital investment in Brandon Shores does not make sense, given the negative returns on capital, and we cannot run on coal past the end of 2025.

Prior to filing its deactivation notice, Talen engaged with PJM to express its concerns about market rules and significantly lower capacity auction offers in the beginning of 2023, which had negatively impacted the economic feasibility of the Brandon Shores conversion project. As soon as it became clear that market prices and PJM's rules did not support the capital expenditure necessary to perform the conversion, Talen submitted its notice of deactivation for Brandon Shores. That notice was sent more than two years before the time specified by PJM rules.

Talen's decision to retire H.A. Wagner has similar roots. The conversion of H.A. Wagner Unit 3 from coal to oil is nearly complete. H.A. Wagner, however, has been dispatched by PJM in 2023 much more often than anticipated. We now believe H.A. Wagner will reach the limits of its air permit, which only allows the plant to operate on oil to capacity factors under 15%, much more quickly than anticipated, putting Talen at risk of significant Capacity Performance penalties if H.A. Wagner is unable to run when called upon because of its permit limitations. The economic problem is compounded by the prices at which H.A. Wagner has been capped in the energy market when called. Accordingly, Talen intends to retire it as well, in June 2025.

The reliability solutions are difficult. Under present circumstances, Talen cannot burn coal to extend the life of the plants -- the agreement with Sierra Club and our NPDES permit will not allow it -- and the economics of conversion to oil at Brandon Shores are not viable. We agree wholeheartedly with you, operating one or both plants using coal under a series of ninety-day emergency orders from the Department of Energy is simply not a viable solution. There is no emergency at present, so no orders are pending, and there is no assurance any order (really, a series of orders) will be issued. Operating Brandon Shores and H.A. Wagner requires substantial advance planning, capital expense on fuel and maintenance, and commitments to employees. Talen cannot responsibly run the plants under rolling temporary conditions.

We believe as a market construct, Reliability Must Run ("RMR") arrangements should be used as a last resort and without distorting the market. To be sure, Talen does not desire to be in an RMR situation; operating under an RMR is not in our business model.

Nonetheless, consistent with the discussions we have been holding with PJM, and in these circumstances, Talen is willing to provide generation from Brandon Shores under an RMR arrangement. As you note in your December 5 letter, an RMR is a non-starter without relief from our agreement with Sierra Club and extensions of all necessary permits from the State of Maryland. As for PJM and the IMM, we simply ask for a fair return of and on equity, and that any RMR (i) not artificially distort the energy or capacity markets, and (ii) call for Brandon Shores to be used only when necessary to relieve transmission constraints, not for energy. If all stakeholders come together on these points, Talen can run the plant.

Talen looks forward to further engagement with you on these issues.

Yours very truly,



Mac McFarland

cc: Josh Tulkin, Director / Sierra Club, Maryland Chapter
Shruti Bhatnagar, Conservation Chair / Sierra Club, Maryland Chapter
Governor Wes Moore
Lieutenant Governor Aruna Miller
Senate President Bill Ferguson, Maryland Senate
Speaker Adrienne A. Jones, Maryland House of Delegates
Chairman Fred Hoover, Maryland Public Service Commission
Director Paul Pinsky, Maryland Energy Administration
Brandon Scott, Mayor, City of Baltimore
PJM Board of Directors