



100 Pine Street • PO Box 1166 • Harrisburg, PA 17108-1166
Tel: 717.232.8000 • Fax: 717.237.5300

Susan E. Bruce
Direct Dial: 717.237.5254
Direct Fax: 717.260.1666
sbruce@mwn.com

May 8, 2014

Ms. Adrien Ford
Director, Market Evolution
PJM Interconnection, L.L.C.
2750 Monroe Blvd.
Audubon, PA 19403

VIA EMAIL

**RE: Triennial Review of RPM – The Brattle Group's Draft Study Results – PJMICC
Preliminary Comments and Questions**

Dear Ms. Ford:

PJM has established a schedule for stakeholders to provide comments on The Brattle Group's Draft Study Results on its Triennial Review of RPM. Per Section 5.10 of the PJM Tariff, the Triennial Review addresses three key parameters in the PJM Variable Resource Requirement ("VRR") curve: the Cost of New Entry ("CONE"), the Energy and Ancillary Services ("EAS") Offset methodology, and the VRR Curve shape. As we understand, stakeholders' comments will inform Brattle as it finalizes the Triennial Review as well as inform PJM as it develops its position on Brattle's recommendations. To that end, PJM Industrial Customer Coalition ("PJMICC") offers the attached list of preliminary comments and questions for Brattle's and PJM's consideration.

As a threshold matter, PJMICC must qualify that its list of preliminary comments and questions should not be viewed as complete or exhaustive. The attached list of comments and questions are based on PJMICC's analysis to date of the Brattle presentation that is dated April 29, 2014. That analysis is ongoing. Accordingly, the absence of comment on any particular aspect of the Brattle Draft Study Results should not be construed to indicate PJMICC support and/or opposition. As additional information is gleaned and opportunity for analysis of the Draft Study Results occurs, PJMICC reserves its rights to amend, supplement, or eliminate one or more of the attached questions and comments and to modify any of the positions set forth therein.

PJMICC appreciates this opportunity to share its initial comments and questions and looks forward to sharing its views throughout the PJM stakeholder process and the ensuing FERC proceeding.

Very truly yours,

McNEES WALLACE & NURICK LLC

By 
Susan E. Bruce

SEB:mas
Attachment

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Capacity Senior Task Force
Triennial Review of RPM (Gross CONE, EAS Offset, and VRR Curve)

PRELIMINARY COMMENTS/QUESTIONS OF THE
PJM INDUSTRIAL CUSTOMER COALITION

May 8, 2014

1. Explain the process by which Sargent & Lundy was selected to provide input on the development of Gross CONE values.
2. Is it PJM's intent and objective to select a third-party consultant for Gross CONE calculations that is independent of PJM market participants? If yes, explain how Sargent & Lundy meets this criterion.
3. Draft CONE Recommendations – preliminary response to certain items:
 - a. Average CC and CT Net CONE values
 - i. Moving to the use of CC Net CONE values, in lieu of or in addition to CT Net CONE values, may be appropriate.
 - ii. How does this averaging approach relate to the 3-year period between BRA and Delivery Year in the event that BRA does not clear sufficient capacity?
 - iii. If the theory is correct that "all economic resource types should have the same Net CONE" (presentation, p. 24), then why not include other, non-gas technologies?
 - iv. On what basis does one make the determination that a particular resource type will be "economic" in the long-run; doesn't this beg the question?
 - b. Adopt level-real value for Gross CONE
 - i. Agreed.
 - c. Replace Handy-Whitman as the basis for escalating Gross CONE values
 - i. Agreed.
 - d. Add dual-fuel to Rest of RTO; assume new CCs in SWMAAC have firm gas transportation
 - i. Has the additional cost of dual-fuel capability in CONE calculations been borne out by actual performance during peak periods?
 - ii. Are CCs in SWMAAC actually arranging firm interstate natural gas pipeline capacity?
 - e. Forward-looking EAS calculation
 - i. Generally agree that using forward-looking EAS offsets would better reflect actual investors' decisions; interested in exploring potential methods of calculation.
 - f. Parent LDA Net CONE as floor for Sub-LDA Net CONE
 - i. Stakeholders should discuss the basis for and legitimacy of this recommendation because, if energy price signals are strong in a Sub-LDA, Net CONE methodology should not ignore them.
 - g. Location Screening
 - i. For 3 of the 5 proposed locational areas, there have been no new CC or CTs placed into service since 2002 – do we have enough real-world data?

PRELIMINARY COMMENTS/QUESTIONS OF THE
PJM INDUSTRIAL CUSTOMER COALITION

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- ii. We need to proceed tentatively with respect to selection of locations and any resulting "locational cost adjustments."
 - h. Contingency
 - i. What is driving the significant increase in contingency from prior CONE Study (increase of 50%)?
 - i. Project Development
 - i. Total ECP plus OFE costs are increasing 250% - why?
 - j. ATWACC
 - i. What is the basis for 13.8% ROE?
 - ii. Are there any real-world data available to show ROEs for actual new CCs and CTs in PJM region?
- 4. Draft VRR Curve Recommendations – preliminary response to certain items:
 - a. "Right-shifting"
 - i. Given the excess procurement that has occurred and may continue to occur as a result of load over-forecasting and the "+1%", right-shifting the VRR Curve should not be considered. Right-shifting in these circumstances will only exacerbate over-procurement.
 - ii. What is basis for Brattle's conclusion (presentation, p. 9) that current VRR Curve "does not meet 1-in-10 reliability objective on average"? How does this compare with results of the Hobbs analysis upon which RPM was based?
 - b. Stretch the VRR Curve into a convex shape
 - i. Worth considering as a means of reducing RPM clearing price volatility, but moving point "c" to the right may not be appropriate means for achieving convexity given past auction results, current reserve margins, and actual LOLEs.
 - c. Increase LDA price cap to 1.7X Net CONE; changing VRR Curve for Smaller LDAs
 - i. This proposal seems extreme, particularly if combined with proposal to set a floor for Sub-LDA Net CONE.
 - ii. Brattle should consider whether higher price signals in small LDAs have effectively attracted new resources in those small LDAs.
 - iii. Bigger question - is RPM attempting to "price-signal" in areas where price-signaling does not make a difference?
 - iv. Bigger question - Does RPM work only in an LDA of "sufficient size and scope"? When LDAs are too small, is transmission the only cost-effective solution due to RPM's inherent inability to ensure that new resources will respond to extremely high RPM clearing prices?

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5. Related Recommendations

- a. Agree that the Related Recommendations on slides 80-85 should be explored in the near future, but not necessarily in parallel with or as part of the Gross CONE, EAS, and VRR Curve process.
- b. Is it possible to consider the filing of some improvements for implementation prior to May 2015 BRA?

6. Overarching Issues/Questions

- a. What is the interrelationship of the various changes and recommendations in the Brattle analysis? Which changes, if any, must be implemented as a package? Which could be implemented individually?

CAVEAT: The comments and questions listed above are based on PJMICC's analysis to date of the Brattle presentation that is dated April 29, 2014. That analysis is ongoing. PJMICC reserves the right to amend, supplement, or eliminate one or more of the questions and comments above, upon completion of that review. PJMICC also looks forward to sharing its views throughout the PJM stakeholder process and the ensuing FERC proceeding.