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STATE OF MARYLAND



PUBLIC SERVICE COMMISSION

July 29, 2014

Adrien Ford, Facilitator
Amanda Egan, Secretary
PJM Capacity Senior Task Force
955 Jefferson Avenue
Norristown, PA 19403

Re: Triennial Review of Reliability Pricing Model

Dear Adrien & Amanda:

Attachment A sets forth the Maryland PSC Solutions Package for inclusion in the CRSTF Solutions Matrix. In our judgment, several of the matters require brief additional comment and it is the purpose of this statement to provide that comment. First, as respects Gross CONE determination in SWMAAC, we understand that Monitoring Analytics will shortly be presenting a study to show that PJM/Brattle numbers for LDAs throughout PJM are overstated by as much as 15%. Also, BLS labor cost data for labor pools throughout SWMAAC suggest that Brattle has selected higher than average cost labor pools as the base for its labor cost, arguing that these pools support current generation development projects concentrated in the south of SWMAAC. While current projects are to a degree, but not fully, concentrated as Brattle states, future projects are likely to be more dispersed in the State and therefore the Maryland PSC believes that a more averaged SWMAAC wide labor rate should be used. Once full data on this and the IMM Study become available, the Maryland PSC may update this position with a specific lower Gross CONE value.

Second, the Maryland PSC has opposed PJM's adoption of nominal level pricing for fixed and capital costs on several occasions, and continues that objection here, supporting a similar objection made by Brattle in its 2011 and 2014 Reports. As we have previously stated in opposing this improper PJM position:

“[The MD PSC strongly opposes the use of Nominal Levelized cost recovery treatment both as inappropriate to a truncated one year cost evaluation (i.e. that of the BRA) and as inconsistent with the use of a one or three year revenue offset estimate. As described in the Brattle Report, Nominal Levelized costing assumes that investment and other fixed costs are recovered in equal installments over the life of major, capital intensive equipment, such as generation equipment, rather than with increasing payments over the equipment's life reflecting annual

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inflation. As Brattle explains, this advances expected inflation recovery into the early years of project life.¹ While either Nominal Levelized or Real Levelized, in inflation corrected terms, produces the same result over the unit's entire life, that is not true where the only value used for cost recovery is a first year value as in the case of the BRA. For this reason, Brattle recommends adoption of Real Levelized, stating that Nominal Levelized will result in cost over-recovery and over-procurement of generation resources under the RPM.²

Brattle has further opposed PJM's level-nominal adjustment in its 2014 Report as follows:³

“We recommend replacing PJM's level-nominal calculation (yielding annual CONE values that are assumed to stay constant over 20 years in actual, nominal dollars) with a level-real calculation (which would yield annual CONE values that are assumed to increase with inflation over time). This alternative level-real calculation is consistent with the approach used by New York Independent System Operator (NYISO) and ISO New England (ISO-NE), and we believe it is more representative of investors' expected recovery of capital and fixed costs over the long term.”

The Maryland PSC's other positions are stated in Attachment A as part of its Solution Package. Only two require further comment. First, the Maryland PSC has requested data from PJM on the effects and benefits/disadvantages of the PJM/Brattle proposal to move VRR Curve Point “a” to the right as a measure to increase reliability. Once that information and other studies are completed, the Maryland PSC will further comment and may support this proposal. Second, the Maryland PSC sees no advantage to substituting a Parent LDA's Net CONE for that of a sub-LDA simply because the former produces higher prices than the latter, which it understands to be the essence of PJM and Brattle's support for this proposal. If PJM/Brattle consider their procedures for measuring Net CONE to be reasonably accurate, then they should be willing to accept their results without seeking an unnecessary margin of error by importing a higher than required Net CONE estimate from nearby areas.

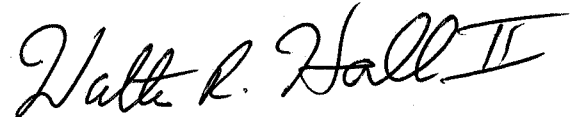
¹ The Brattle Group, Second Performance Asses. of PJM's Reliability Pricing Model at pp. 81-86 (Aug. 26, 2011).

² Brattle Report at pp. 81 & 85. “[W]e believe setting CONE equal to level-nominal costs will overstate annualized costs over time and, as a result, could lead to over-procurement under RPM” Indeed, as respects defining minimum bid thresholds under MOPR, Brattle states an even stronger position, stating that: “We believe level-real annualization is more consistent with market fundamentals and competitive bidding behavior. As a result, we recommend against retaining the level-nominal approach for CC and CT offer thresholds under the MOPR.”

³ The Brattle Group, Third Triennial Review of PJM's Variable Resource Requirement Curve at pp. iv, 9-11 (May 15, 2014).

Please incorporate the Maryland PSC's Solutions Package into the CSTF Solutions Matrix for these issues, and post this Statement of Support on the CSTF Meeting website.

Sincerely,

A handwritten signature in black ink that reads "Walter R. Hall II". The signature is written in a cursive style with a prominent "W" and "H".

Walter R. Hall II