

SAMPLE LETTER
COPY SENT TO CONGRESSIONAL DELEGATION IN PJM STATES

RE: *Concerns About PJM Capacity Market*

Dear PJM Congressional Delegation Member

As representatives of residential, commercial and industrial end-use electricity consumers in our communities within the PJM regional transmission operator (“RTO”) footprint, we are keenly attuned to the importance of grid reliability. However, we are equally concerned about affordable service – and are deeply troubled by proposals currently before the Federal Energy Regulatory Commission (“FERC”) that have been put forth by PJM, and supported by merchant generation entities, that dramatically increase electric costs without providing meaningful and necessary improvements in system reliability.

The PJM Reliability Pricing Model (“RPM”) was originally established as an administrative construct to procure on a forward basis the necessary resources to meet a defined reliability requirement. Through RPM, resources committed as “reliability resources” earn a revenue stream, separate and apart from energy and ancillary services revenue streams, for their commitment to perform when called upon by PJM. In practice, however, RPM has significantly raised electricity prices with only moderate generation additions. Moreover, certain generators have not performed consistent with performance expectations. Changes to PJM rules are necessary to address these performance deficiencies.

Unfortunately, PJM’s most recent proposed “solution” to the risk of generation non-performance – PJM’s “Capacity Performance” proposal – goes far beyond the fixes necessary to address the non-performance issue, and is neither practical nor cost-effective. This proposal is not a minor revision that should be routinely approved. Rather, citing concerns over generation operational performance in January 2014, PJM is proposing to significantly revise RPM, effectively transforming this administrative construct from a backstop mechanism for “missing money” into the primary source of funding for generation resources. This broad coalition believes FERC must fully review the proposal and its implications on consumer costs. While there was some unavailable generation during the January 2014 cold weather, we experienced even colder weather during February 2015 without any system strain or emergency conditions. This proves that PJM’s current proposal is unnecessary and unjustified. In spite of the “sky is falling” rhetoric that spreads fear of impending widespread blackouts, even PJM’s own data show quite the opposite. Specifically, PJM is forecasting reserves in the 18-21% range for the next four years, compared to a required reserve margin of about 15.7%.¹ Similarly, PJM’s Independent Market Monitor demonstrated in its 2014 State of the Market Report that the generation in the PJM queue coming on line should outpace the planned retirements.²

We understand that you want to ensure system reliability. We all share that goal. We believe we can meet the challenge of reliability while also ensuring affordable power supply needed to support the quality of life for families and operate businesses – cost-effective reliability should be the end goal.

¹ See, for example, <http://www.pjm.com/-/media/planning/res-adeq/20150202-forecasted-reserve-margin-graph.ashx>.

² See table 12-5 on page 420, at: http://www.monitoringanalytics.com/reports/PJM_State_of_the_Market/2014/2014-som-pjm-volume2-sec12.pdf.

This coalition believes the following are required to address reliability and other concerns that we share with PJM and FERC:

- FERC must examine the impact of PJM's Capacity Performance filings, which are not just "tweaks," but amount to *ad hoc* overhauls of RPM, as a whole.
- The focused initiatives that PJM has put in place to address operational performance issues identified during winter 2014 should be given a full and fair opportunity to continue working, which would reduce or eliminate the need for the disruptive and costly Capacity Performance proposal. Actual performance during January and February 2015 indicates that PJM's fixes, other than Capacity Performance, are working. Few, if any, additional changes are necessary.
- Resource adequacy can be achieved without Capacity Performance, as demonstrated this past January and February 2015 when PJM experienced 4 of its top ten winter peaks with no performance issues from its generating fleet. Additional opportunities to improve operational performance can be explored via changes to PJM's energy market, if necessary.
- Enhanced Congressional oversight is critical to ensure that FERC is responsive to consumers' pricing and service quality needs.

As such, we ask that you work with us to ensure that PJM and FERC take appropriate steps to:

- Make affordable costs to consumers an integral part of the RTO mission, with accountability, while promoting reliability;
- Demonstrate that proposed market and tariff changes produce net benefits to consumers and just and reasonable rates;
- Take action on tariff changes and disputes in such a way that mitigates any disruptive effects of those changes and disputes on market participants' economic decision-making;
- Provide meaningful participation in policy development by both voting and non-voting stakeholder representatives; and
- Require RTO governing boards and management to be transparent in RTO deliberations, corporate goal setting, and management incentives.

Reliable electric service is not optional. Neither is affordable electric service. We urge you to work with us to promote policies that advance cost-effective reliability. Toward that end, our request is that, in lieu of approving PJM's Capacity Performance proposal, Congress should encourage FERC to reject or suspend PJM's Capacity Performance proposal. Instead of accepting the Capacity Performance proposal, FERC should direct PJM stakeholders to evaluate whether less intrusive changes to PJM's market rules are necessary.

Thank you for your consideration.

Very truly yours,

American Municipal Power, Inc. (comprised of 132 municipal electric entities in nine states – Ohio, Pennsylvania, Michigan, Virginia, Kentucky, West Virginia, Indiana, Maryland and Delaware)

Blue Ridge Power Agency
Delaware Division of the Public Advocate
Delaware Municipal Electric Corporation
Illinois Citizens Utility Board
Office of the People's Counsel for the District of Columbia
Ohio Municipal Electric Association
Old Dominion Electric Cooperative
Pennsylvania Municipal Electric Association
PJM Industrial Customer Coalition (comprised of 28 large electricity-consuming companies in various manufacturing and institutional sectors, which have facilities throughout the PJM Region)
Public Power Association of New Jersey
Public Service Commission of West Virginia
Southern Maryland Electric Cooperative