

Minimum Offer Price Rule Educational Session

October 4, 2012

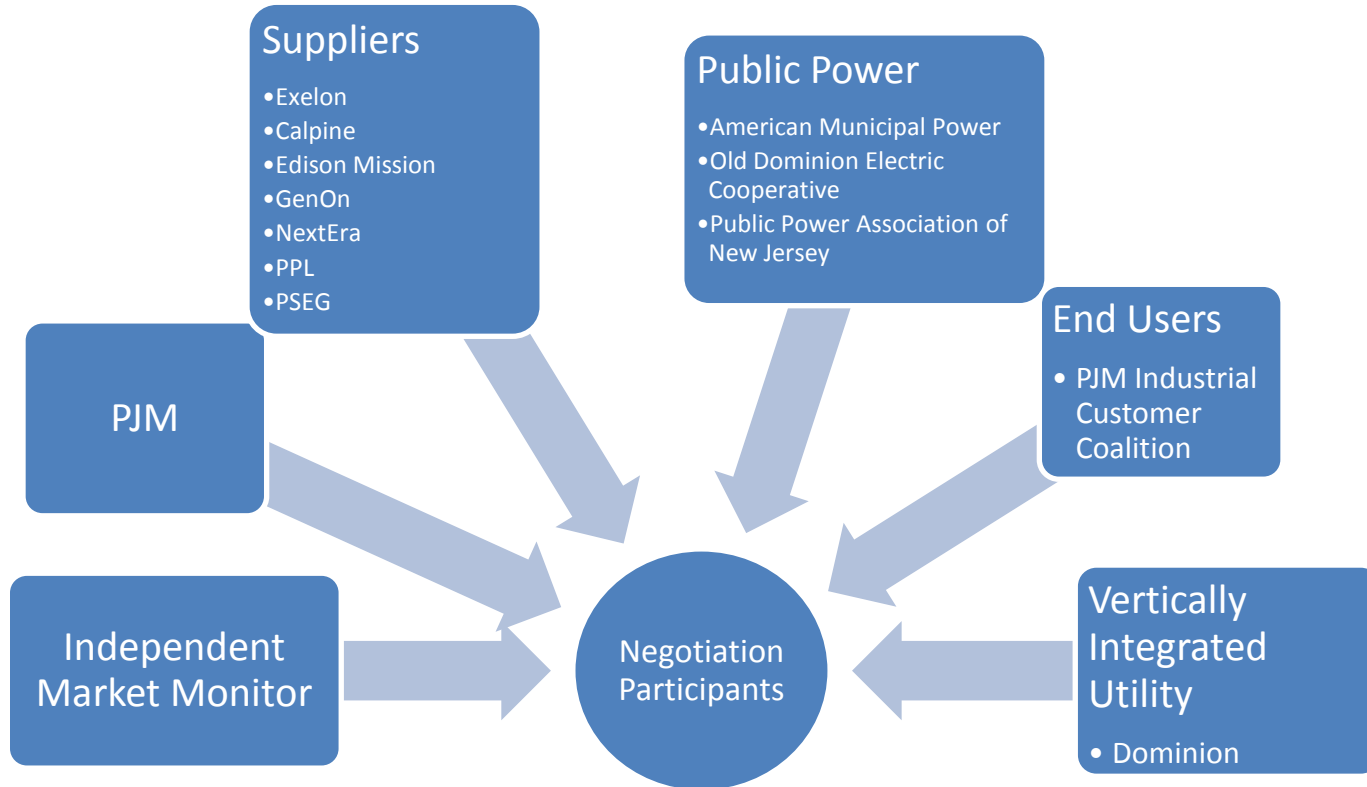
Objective: Provide stakeholders with overview of proposed MOPR reform including discussion of drivers for change and benefits of change

Agenda:

- Discuss stakeholder process
- Define perceived problem to be solved
- High Level Comparison of Existing MOPR to Proposed MOPR
- Discuss proposed exemption process details
- Discuss benefits of proposed approach
- Q&A

- 10/4 – Education Session (half day)
- 10/12 – Education Session (half day)
- 10/13 – post detail documents
- 10/17 – Discussion Session (half day)
- 10/25 – MRC – First Read and Discussion
- 10/31 – Discussion Session (half day)
- 11/29 – Potential MRC and MC Votes
- 11/30 - Potential FERC Filing effective for 2016/17 BRA

MOPR Negotiation Participants



- *Suppliers initiated discussions with Public Power.*
- *PJM and the IMM invited to provide input and guidance.*
- *Dominion and Industrial Customers invited to represent their unique interests.*
- *Four out of five PJM sectors represented, strengthening advocacy in the PJM governance process.*

- Broad cross section of stakeholders believe current MOPR is flawed
- PJM received significant number of complaints regarding the MOPR implementation process
- PJM suggested stakeholder groups discuss the issues
- PJM recognized the concern with lack of clarity in the MOPR exemption process

- **Supplier concerns with Current MOPR**
 - Flawed unit-specific exemption structure leads to outcomes that are inconsistent with a competitive market
 - Exemptions available despite state subsidies and discriminatory procurements connected to building and clearing new units in RPM
 - Opaque and subjective exemption process
 - Incentive for cost and revenue manipulation
 - Applied Mitigation Insufficient
 - One year duration allows for anomolous results
 - Mitigation at 90% Net CONE inaccurately represents the 20-year levelized CONE on which RPM is predicated

- **Load Interest concerns with current MOPR**
 - Loss of guaranteed clearing/ability to offer zero for self-supply
 - Direct attack on public power business model and unnecessary threat to other load-serving market participants
 - Lack of clarity in exception language
 - Continued litigation and disputes over exception standards and process
 - Legitimate arrangements (projects built under tolling agreements; projects built by rate-regulated utilities) risked not clearing due to MOPR screens

Comparison of Existing and Proposed MOPR

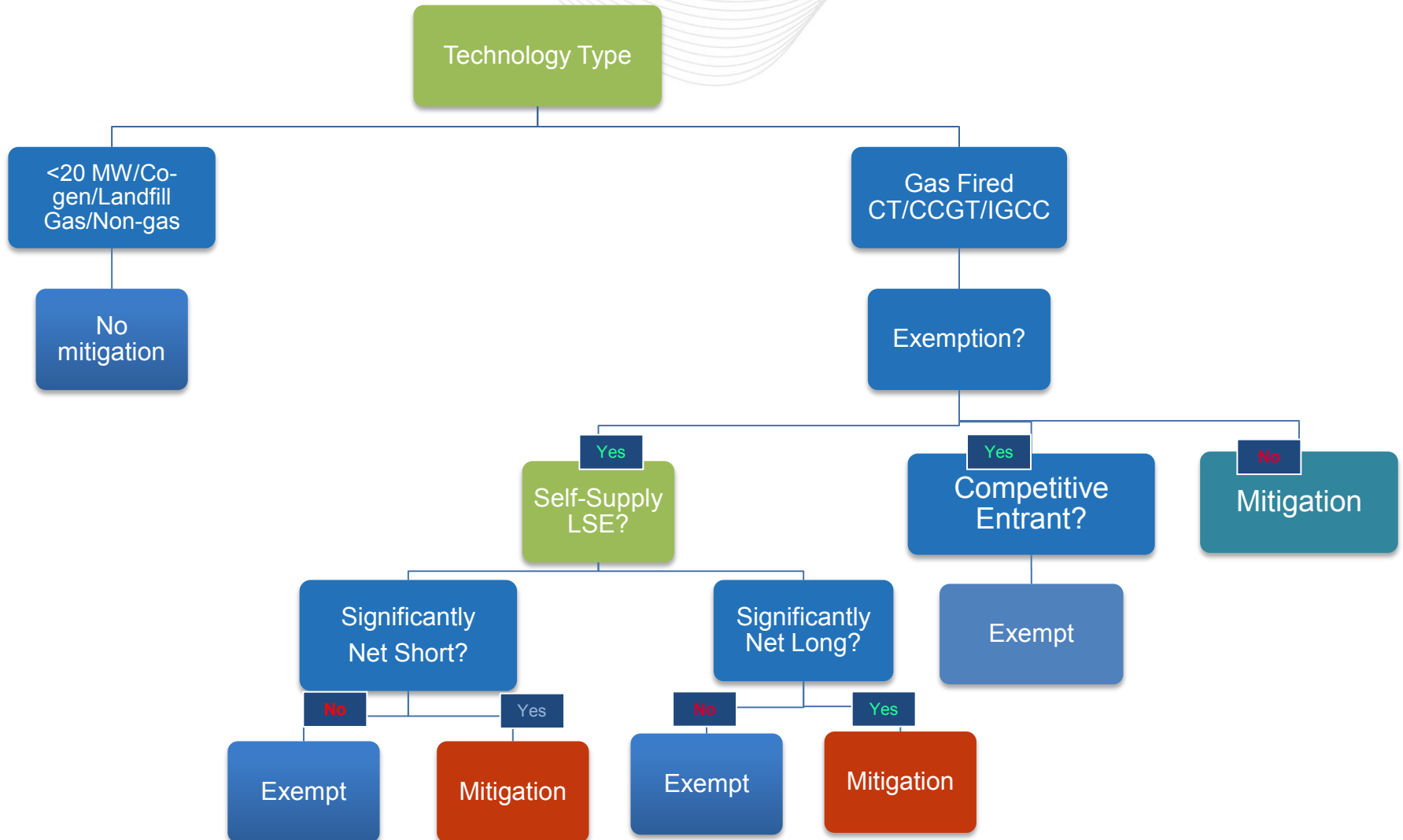
Design Feature	Existing MOPR	Proposed MOPR
Resource Types	All new generation resources (except nuclear, coal, IGCC, hydro, wind, solar have zero min. price threshold)	All new gas-fired resources (CC,CT,IGCC) over 20 MW (except for landfill gas and eligible cogeneration)
Locations	Any LDA for which separate VRR curve is established	Entire PJM market region
Default MOPR	Lower of 90% net cone for the asset type (70% where there is no applicable asset type cone) or unit specific minimum offer floor determined by IMM and PJM.	100% of net cone for asset type

Comparison of Existing and Proposed MOPR

Design Feature	Existing MOPR	Proposed MOPR
Exemption	Unit specific alternative minimum offer established through detailed review of project cost/revenue	Specific exemptions for the following categories subject to specific criteria: <ul style="list-style-type: none"> •Self-Supply (traditional business models building or contracting for capacity for the needs of their customers and consistent with specific criteria) •Competitive entry (generation that is consistent with competitive entry and that meets specific criteria)

Comparison of Existing and Proposed MOPR

Design Feature	Existing MOPR	Proposed MOPR
Duration of Mitigation	Until new resource clears in one RPM auction	Non-exempt units must clear in RPM auctions for 3 separate delivery years, or must clear in 1 RPM auction in certain situations where reliability could be detrimentally affected
Certification	Corporate officer certification of project costs	Corporate officer certification for self-supply or competitive entry exemption submission
Information Posting	None	Total MW of exemptions requested and approved by category posted 60 days prior to auction and additional information posted after auction



Self-Supply LSE means any load serving entity that procures or builds capacity under long-standing business models

- Public Power Entities - defined as cooperative and municipal utilities
- Single Customer Entities - LSEs that serve only retail customers that are Affiliates of the LSE
- Vertically Integrated Utilities - defined as utilities that build generation included in their regulated rates

Self Supply LSE Type	Maximum Net Short Position (MW UCAP, <i>measured at RTO, MAAC, SWMAAC and EMAAC unless otherwise specified</i>)
Single Customer Entity	150 MW
Public Power Entity	1000 MW
Multi-state Public Power Entity	1000 MW in SWMAAC, EMAAC, or MAAC LDAs and 1800 MW RTO
Vertically Integrated Utility	20% of LSE's Reliability Req.

Self Supply LSE Type	Maximum Net Long Position (MW UCAP)
Less than 500	75 MW
Greater than or equal to 500 and less than 5,000	15% of LSE's Reliability Requirement
Greater than or equal to 5,000 and less than 15,000	750 MW
Greater than or equal to 15,000 and less than 25,000	1,000 MW
Greater than or equal to 25,000	4% of LSE's Reliability Requirement capped at 1300 MWs

Demonstration that the New Generation is being developed for Competitive Entry consistent with all of the following criteria:

- No costs are recovered from customers either directly or indirectly through a non-bypassable charge linked to the construction of or clearing of the new generation in RPM.
- No costs of the new generation are supported through long-term contracts obtained in any state-sponsored or state-mandated procurement processes that are not Competitive and Non-Discriminatory.
- Seller does not have any formal or informal agreements or arrangements to receive payments, rebates, etc. from any governmental entity connected with the construction or clearing in RPM of the new generation

- Supplier group perspective on advantages of this approach
 - Market results less likely to be affected by state-subsidized or other uncompetitive entry
 - Fair, bounded exemptions for self-supply and competitive entry not intended to adversely affect market
 - Enhanced transparency
 - Improved, more objective process for seeking exemption and review
 - MOPR application that better reflects foundational principles of RPM
 - A sustainable solution that may eliminate or reduce future disputes, including litigation.

- Load Interest Group perspective on advantages of this approach
 - Exempts from the MOPR new entry under long standing business models and other load-serving market participants on a multi-year horizon
 - Clear definitions and bright line quantity thresholds
 - Restores ability to offer as a price-taker
 - Improved process for seeking exemption and review
 - A sustainable solution that will eliminate or reduce future disputes, including litigation.

- Significantly improves clarity of implementation, focuses more on situational incentives and less on project cost review
- Resolves significant and legitimate stakeholder concerns for a broad cross-section of stakeholders
- PJM / IMM review standards are more clear
- Information transparency is improved