

**PJM Reliability Pricing Model – CONE Triennial Review
Brattle Draft Findings - Released April 29, 2014¹**

Questions and Comments

***Submitted by: Southern Maryland Electric Cooperative²
PJM Capacity Senior Task Force - May 8, 2014***

Reference Technology: Slides 5 and 24; Recommendation that PJM use the average of CC and CT Net CONE values:

1. Please explain why a CC technology should be used since this is not the least cost technology, in terms of installed cost/KW. Why should a CC unit be used in the calculation of gross CONE when it is not the least-cost increment of capacity? (i.e., juxtapose CT vs. CC on slide 6).

CC Technical Specifications: Slide 17; Recommendation that FT requirement be added for SWMAAC CCs:

2. Have the issues identified in the last CONE review in Docket No. ER12-513 regarding the suitability of Dominion Cove Point pipeline to serve gas-fired generators now been rectified such that it is reasonable to assume a CC would subscribe to FT?
3. Slide 29: “Concern in SWMAAC - Gas deliverability issues require more oil-based dispatch, causing higher costs and lost revenues”. If Brattle asserts a gas deliverability issue today, how will requiring all CC resources in SWMAAC to subscribe to FT cure the gas deliverability issue?

¹ <http://www.pjm.com/~media/committees-groups/committees/mrc/20140429-cone/20140429-triennial-review-of-rpm-brattle-draft-study-results.ashx>

² SMECO’s questions/comments of the draft Brattle report are preliminary and are subject to refinement as the 2014 CONE review progresses through the PJM stakeholder process and more is learned about Brattle RPM proposals. SMECO’s silence as to any of the new Brattle proposals (e.g., “Curve width”) should not be construed as acquiesce.

ATWAAC: Slides 20-21; Recommendation that PJM use a 8% ATWAAC (13.8% ROE, 7% debt cost and 60%/40% debt/equity ratio:

4. Given that FERC policy is that “a proxy group should consist of at least four, and preferably at least five members, if representative members can be found” Opinion No. 511, SFPP, L.P., 134 FERC ¶ 61,121 at P 203 (2011), can Brattle explain why its proxy group, with 3 publicly traded merchant entities, is compliant with FERC precedent for proxy group size for ROE determination?
5. From the ATWACC Reference Points and Recommendation on slide 20, please explain how the 8% ATWAAC was arrived at from the among the data points?
6. Please explain why the statement, used with regard to the selection of reference technology, “Merchants are building CCs, not CTs” (slide 5) cannot be validly used to justify the inclusion of IOUs and Cooperatives - who also build CCs - in the project group for which the calculation of the ATWAAC is based on?
7. Fairness Opinions – slide 20 indicates that these fairness opinions are from the 2011 CONE review. This would put the date of these fairness opinions in the spring of 2011, some 36 months ago. Please indicate if Brattle plans on updating these Fairness opinions, and if so, does Brattle plan on releasing these documents to stakeholders in its upcoming report?

E&AS Methodology Review: Slides 34-35; Recommendation of a Parent LDA Net CONE as floor for Sub-LDA Net CONE:

8. Regarding the proposal to impose a Parent LDA Net CONE value as the minimum Net CONE value for sub-LDAs, please explain why, if an E&AS in a sub-LDA is reasonable, why over-riding the calculation of net CONE at the sub-LDA level reasonable?
9. What E&AS data did Brattle review and what is the source of Brattle’s data (if data were reviewed) for SWMAAC E&AS revenues (from which Brattle concludes that the current E&AS revenues in SWMAAC are overstated).

CT and CC Capital Costs: Various slides and Appendix:

10. Contingency (EPC and owners'), slide 18: Please explain the cause of the significant increase in total contingency from the Docket No. ER12-513 CONE study?
11. Property tax, slide 22 re "CC CONE values are higher than before in all CONE areas - SWMAAC and Dominion increased the most due to higher assumed labor costs, property taxes...", Which specific Maryland Counties were used to determine the SWMAAC CC property taxes? Were PILOTs considered?

VRR Curve Changes: Slide 44; "Right-shifting"

12. Please explain how the proposal to Right-shift point "a" to 1-in-5 LOLE (to approx. IRM – 1%), was arrived at?
13. How does this proposal comport with the documented fact that each of the past several BRAs has over-procured capacity (requiring PJM to enter sell offers into the IAs to unwind the over-procurement). More specifically, this proposal to right-shift point "a" to 1-in-5 LOLE would appear to result in an increased occurrence of BRA over-procurement.

VRR Curve Changes: Slides 9, 40, 53; 1-day in 10 Reliability Targets

14. Please explain why “at base modeling assumption the existing VRR Curve does not meet 1-in-10 reliability objective on average”?
15. How does the above statement comport with the reality that over the past 4 BRAs, for example, the actual achieved reserve margin was over 20% (significantly better than 1-day-in 10-years LOLE) on average:

- 2013/2014 Delivery Year: Reliability Pricing Model (RPM) Base Residual Auction (BRA) cleared 152,743.3 MW of unforced capacity in the RTO. This represents a 20.3% reserve margin; however when the Fixed Resource Requirement (FRR) load is considered the **actual reserve margin for the entire RTO is 20.2%**.³
- 2014/2015 Delivery Year: RPM BRA cleared 149,974.7 MW of unforced capacity in the RTO representing a 20.6% reserve margin. When FRR load is considered the **actual reserve margin for the entire RTO is 19.6%**.⁴
- 2015/2016 Delivery Year: RPM BRA cleared 164,561.2 megawatts (MW) of capacity. The actual reserve margin **for the entire RTO will be 20.2%**.⁵
- 2016/2017 Delivery Year: RPM BRA cleared 169,159.7 MW of unforced capacity in the RTO. Accounting for load and resource commitments under the FRR the reserve margin for the entire RTO for the 2016/2017 Delivery Year **is projected to be 21.1%**.⁶

Local VRR Curve Changes: Slide 50 “Recommendations to Address Challenges”

16. With regard to the statement “Raising LDA price caps from 1.5 Net CONE to 1.7 Net CONE would help reliability substantially, but still not to target levels in all LDAs under a reasonable range of LDA Net CONE premia (without even assuming estimation error), and it slightly increases already-high price volatility”, please document that local LDAs in PJM are not, in reality, meeting their reliability targets under the current VRR construct.

³ <http://www.pjm.com/~media/markets-ops/rpm/rpm-auction-info/20110513-2014-15-base-residual-auction-report.ashx> at 1.

⁴ <http://www.pjm.com/~media/markets-ops/rpm/rpm-auction-info/20110513-2014-15-base-residual-auction-report.ashx> at 1.

⁵ <http://www.pjm.com/~media/markets-ops/rpm/rpm-auction-info/20120518-2015-16-base-residual-auction-report.ashx> at 1.

⁶ <http://www.pjm.com/~media/markets-ops/rpm/rpm-auction-info/2016-2017-base-residual-auction-report.ashx> at 1

VRR Curve Changes: Slide 50-52; “Minimum Width”

17.Regarding the Curve Width proposal (distance from point “a” at the cap to “c” at the bottom of the curve) and the accompanying statement on slide 50 “it also makes sense to stretch the curve rightward in the smaller, more import-dependent zones, so that the curve is wider and less sensitive to fluctuations in supply, demand, and CETL”, please explain the situations in which the minimum-width constraints would and would not be binding?

