

Exelon Comments for FERC Technical Conference  
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Key Messages

1. Intro: The good in the order
  - a. Exelon has been a consistent supporter of RPM as an essential initiative to achieve resource adequacy
  - b. Commission has affirmed the need for a new capacity construct
  - c. Forward procurement and locational ICAP are the most important elements of RPM – Commission has affirmed both
  
2. But: The bad in the order
  - a. We believe the opt out is discriminatory
  - b. Imposing a demand curve on the PJM capacity market, then allowing entities to opt out of the demand curve, would create discrimination in PJM that can't be cured
  - c. The opt out also would diminish the effectiveness of the demand curve in achieving long-term resource adequacy in PJM
  
3. Why the Opt Out is Discriminatory
  - a. Fundamentally you will have similarly situated loads in PJM that are required to carry different levels of reserves – but they will enjoy the same level of PJM reliability
  - b. With no opt out: Our customers, and the customers of the company opting out, pay the same costs for capacity (\$/MW of load) and enjoy the same level of reliability
  - c. With opt out: Our customers will pay more for capacity (\$/MW of load) than the customers of the company opting out yet still have the same level of reliability
  - d. Why? The only reason a company is likely to opt out is that it will cost it – and its customers – less but they will get the same amount of reliability due to the operation of the PJM market

- e. With the opt out, generators in opt out territories simply will not see capacity prices that are high enough to induce them to build
4. What is the cure for the discrimination disease?
- a. First choice: No opt out, as we recommended in our initial comments and our petition for rehearing
  - b. Second choice: Eliminate the demand curve and replace it with a simple vertical demand curve (a.k.a. a fixed reserved margin)
    - i. That would eliminate the need for an opt-out and erase all discrimination problems
    - ii. The forward procurement requirement will reduce volatility in capacity prices
  - c. Third choice: Make the demand curve steeper – closer to vertical
    - i. That would reduce the discrepancy in reserve requirements between opt out and non-opt out loads
    - ii. We do not support the suggestion to stretch out (flatten) the demand curve; that makes the discrimination problem worse
5. The Installed Reserve Margin (IRM) must be set by PJM, not by individual states or utilities
- a. That is implicit in the order
  - b. It must be explicit
6. Beware of the slippery slope
- a. The Commission must ensure that any opt-out provision does not become the camel's nose under the tent – a slippery slope that could threaten the viability of PJM itself
  - b. The opt out represents the first time that the Commission has made a PJM requirement optional
  - c. The effectiveness of the PJM market stems from interdependent mandatory requirements
  - d. The PJM market could turn into a toppling house of cards, rather than an integrated whole, if FERC undermines its essential mandatory elements

7. Finally – Allowing an individual LSE to opt out creates an incentive for game playing in “choice” states
  - a. Allowing an individual LSE to opt out creates a checkerboard effect in choice states
  - b. Customers will be able to switch back and forth between opt out and non-opt out LSEs
  - c. That creates an unstable situation with potential gaming opportunities
  - d. If the Commission (unwisely) perpetuates the opt out option --
    - i. We believe opt out should be limited to non-choice states because of the gaming issues
    - ii. If available in choice states, all LSEs need to be subject to the same requirement

Exelon's Answers to Questions Posed in  
Supplemental Notice of Staff Technical Conference on RPM

**A. What should be the time period for which load serving entities (LSEs) must commit to using the long-term fixed resource requirement option?**

Exelon believes that LSEs must commit to the fixed resource requirement option for at least five years. This option must be irrevocably selected at least four years prior to the delivery year. This is consistent with what PJM filed.

**B. What should be the level of deficiency charge needed to ensure compliance?**

Any deficiency charge needs to be high enough to induce compliance.

Exelon believes that an LSE that is short should pay a daily deficiency charge equal to two times the Cost of New Entry times its capacity shortage in each zone. Exelon believes that those LSEs that choose the fixed resource requirement option, like all other LSEs, would be subject to any compliance penalties if they do not comply with requirements related to all generation. This is consistent with what PJM filed.

**C. Should an LSE that fails to procure the full amount of capacity be precluded thereafter from using the long-term fixed resource requirement option?**

Exelon believes that the deficiency charge discussed above provides an adequate incentive for opt-out customers to meet their obligations. However, if an LSE establishes a pattern of failing to procure the full amount of capacity, or effectively disregards the need to procure capacity, it should be precluded from future participation in the fixed resource requirement option and should be required to participate in the auction.

**D. How much capacity should the LSE be required to procure under this option?**

PJM has proposed that the demand curve be calibrated to yield the new entry price at IRM plus 1%. Assuming that opt out customers are required to procure on the same forward basis as non-opt out customers (and that the deficiency charge is assessed whenever they fall short), and that the demand curve is calibrated to eliminate both undue discrimination and resource adequacy deficiencies, then IRM plus 1% would be an acceptable level of capacity for opt out customers.