

A ROMP THROUGH RESTRUCTURING... *LOOKING BACK TO LOOK FORWARD*



**National Energy Marketers Association
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At the Wholesale Level ...

- Transmission access
 - Negotiation of “wheeling rights”
 - Discriminatory treatment
 - Lengthy litigation: “*Refunds to a Corpse*”
- Build-out costs
- “Reliability” and “native load” as code
- *TLRs, demand ratchets, price squeeze you name it...*

At the Retail Level ...

- Rates significantly above the national average
- Industrial subsidies for public interest programs
- Investment stagnation
- Hit to global competitiveness

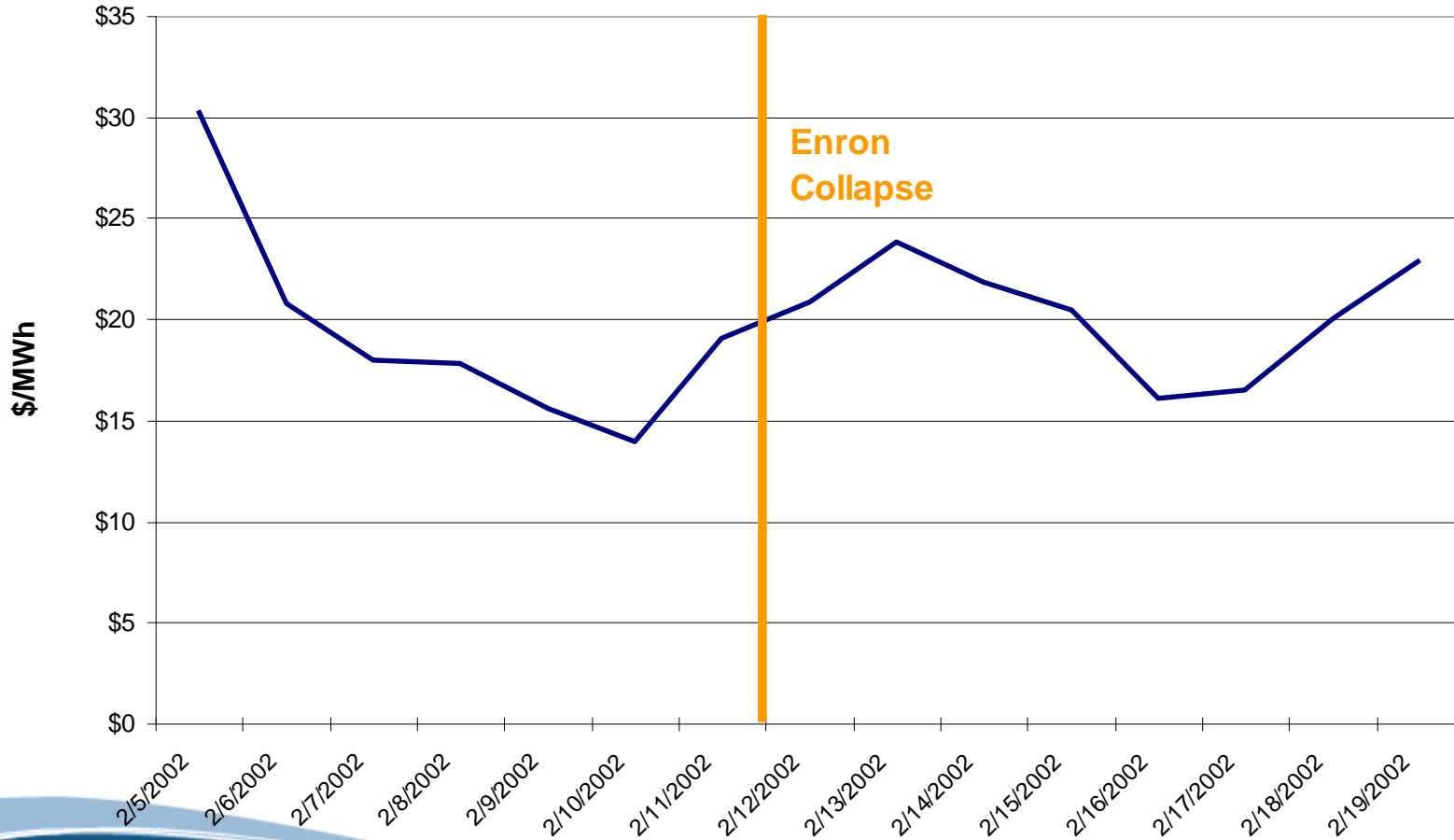
- Reminding Ourselves What We Got Right: *Taking credit for our accomplishments*
- Building on Past Experience: *Learning What Needs Further Work*
- Avoiding the Quagmire of Inaction

Report Card	
_____	A
_____	B
_____	I
_____	A
_____	C

Accomplishment No. 1:

We moved the risk allocation formula:
aka “There was no Enron rate case!”

Mean PJM RTO LMP



Accomplishment No. 2:

We got the fundamentals right!



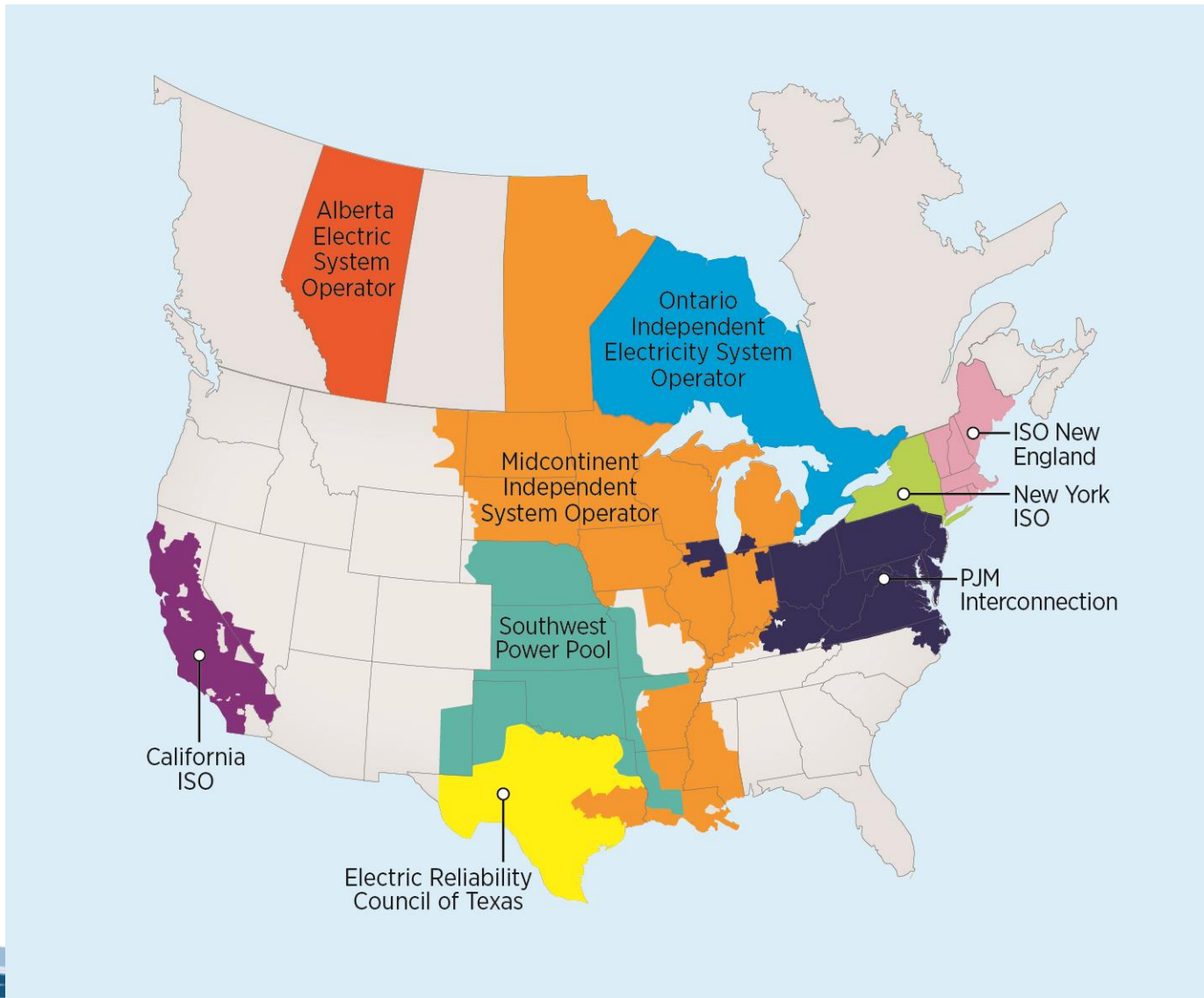
- Structural Solutions Have Worked
 - Eliminating multiple control areas
 - Regional planning
 - Redispatch in lieu of TLRs
 - Maximizing use of the Grid
 - Allowing customers to make economic decisions
 - Transparency

Key Statistics	
Member companies	990+
Millions of people served	65
Peak load in megawatts	165,492
MW of generating capacity	176,569
Miles of transmission lines	82,546
2016 <u>GWh</u> of annual energy	792,314
Generation sources	1,304
Square miles of territory	243,417
States served	13 + DC
<ul style="list-style-type: none"> • 27% of generation in Eastern Interconnection • 28% of load in Eastern Interconnection • 20% of transmission assets in Eastern Interconnection 	



21% of U.S. GDP produced in PJM

As of 2/2017



Provided by

Elevated
Significant Risk

Tuesday November 30, 2004 - 10:20 EST
Current PJM RTO Load: 71,689MW

**Monitoring 65% of PJM plants
500MW or larger**

PJM RTO Total Load 71,689Mw
Mid-Atlantic Region Load 33,756Mw
Western Region Load 37,934Mw
Min Dispa

RT
 DA
 BOTH
 Scale
 16 hr
 LMPs
 Time
 < . >
 11/29/2004

	LMP	Cur	Avg	Min	Max		LMP	Cur	Avg	Min	Max
PJM (Zone)		40.22	30.08	8.88	58.40						

Select: LMP Chart

(+) Into PJM/NI

DLCO	-100
FE	479
NYIS	-1,218

(-) Out of PJM/NI

 Scheduled
 Actual
 Tie Flows

	BB	A	W	C	E	
Transfer Level	1,948	3,353	6,435	4,806	7,040	RTIs
Warning Limit	1,850	3,185	6,113	4,566	6,688	
Actual Flow	1,851	3,010	6,016	4,360	6,681	

Select: PJM Tie Flows

My eData Preferences

leugh
2x1

My eData
Constraints

Energy Contracts
Activity Log

eSuite
Announcements

IRC Report
Emergency Msgs

Done Trusted sites

Policy Headaches Looking Forward:

- Impact of State Legislative Support for Specific Resources
- Losing Our Way: Re-regulation by piece part
- Fuel Diversity vs. Fuel Security



State Legislative Actions:

Gradations of actions with different market impacts:

- Federal Subsidies
- State support for customer-focused programs (e.g. weatherization, energy efficiency)
- Generic RPS Goals
- State-ordered ratepayer \$\$\$ subsidies for a particular class of units or single units



Solution Options:



- No action
- PJM IMM Proposal: Across the Board Minimum Offer Pricing Rule (“MOPR”)
 - Issue: ‘Paying twice’ problem
- PJM Proposal Capacity Repricing
 - Issue: Accommodates individual states but does not immunize neighboring states as much as MOPR

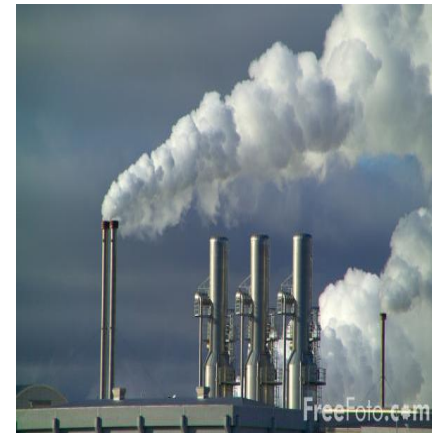
Re-regulation plant by plant:

- The “half slave/half free” problem
- Skewed investment signals
- Re-juggling the risk allocation formula once again
- Ignoring the lessons of the past—(stranded costs, technology risk etc.)



Looking Further:

- Monetizing the value of Distributed Resources thru a single market
- Fuel security vs. fuel diversity
- More transparent natural gas markets
- Being mindful of our past: Keep the 'risk/reward' decision on the investor side



An Added Complication:

Who Decides?



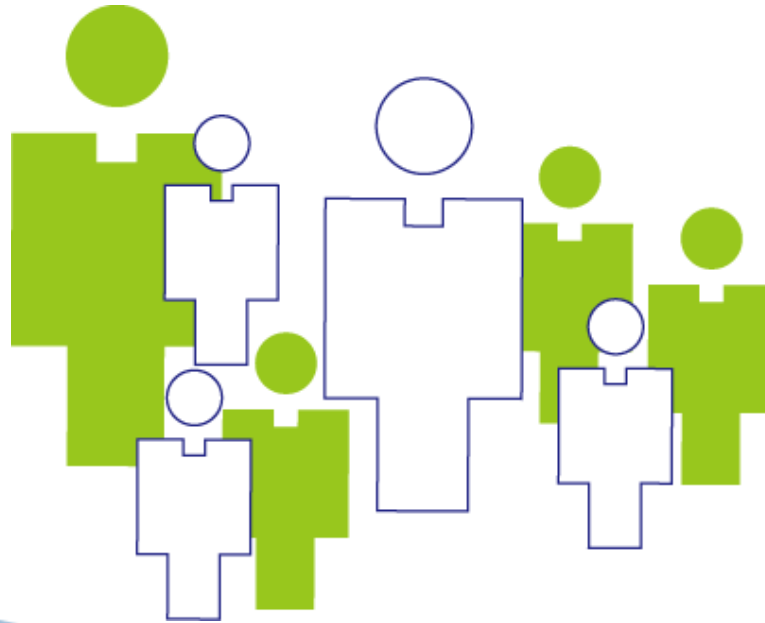
- States:
 - State Energy Policies:
Governors/legislators
 - State PUCs
- FERC
- Environmental Agencies
- Department of Energy
- Congress
- US Supreme Court
 - Demand Response Case
 - Hughes Case



“Hanging in mid-air”: a dangerous place



- A restructured industry or “Golden memories of yesteryear...”
 - The choice is ours



LET'S TALK...



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