Base Capacity Extension for 2020/2021 Delivery Year

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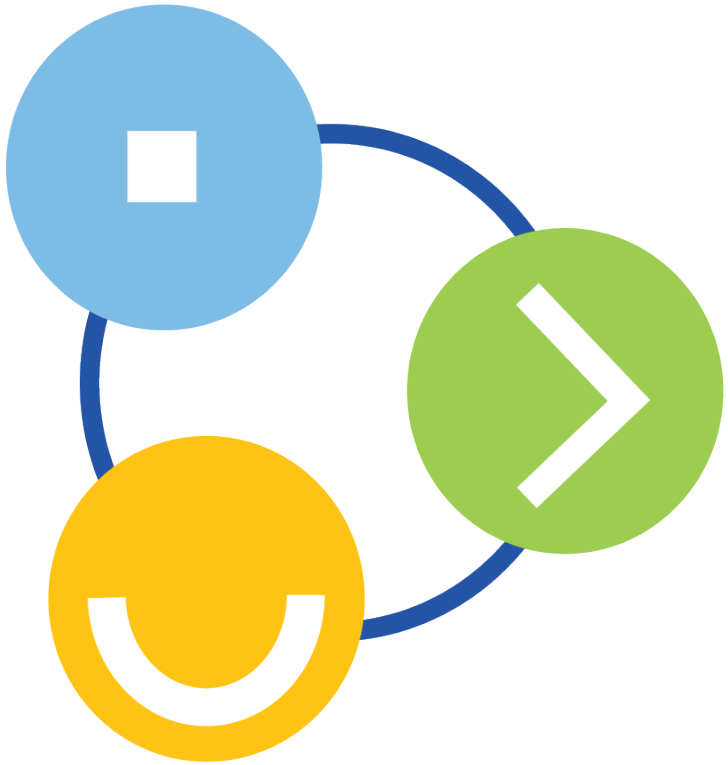

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SCRSTF

- SCRSTF concluded with no majority supported proposals
- M34 Section 8.5 – Reporting to Senior Standing Committees
  - Reports to include "proposals that receive a simple majority vote…*as well as any additional proposals that are requested to be included by at least three Members in at least two sectors*…"
- Report from SCRSTF received today

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PJM Board Decision on Aggregation

- PJM Board announced decision to file aggregation enhancement proposal at OPSI last week
- Board decision informed solely by SCRSTF vote
- Board did not have the benefit of Senior Standing Committee presentation, discussion and voting results

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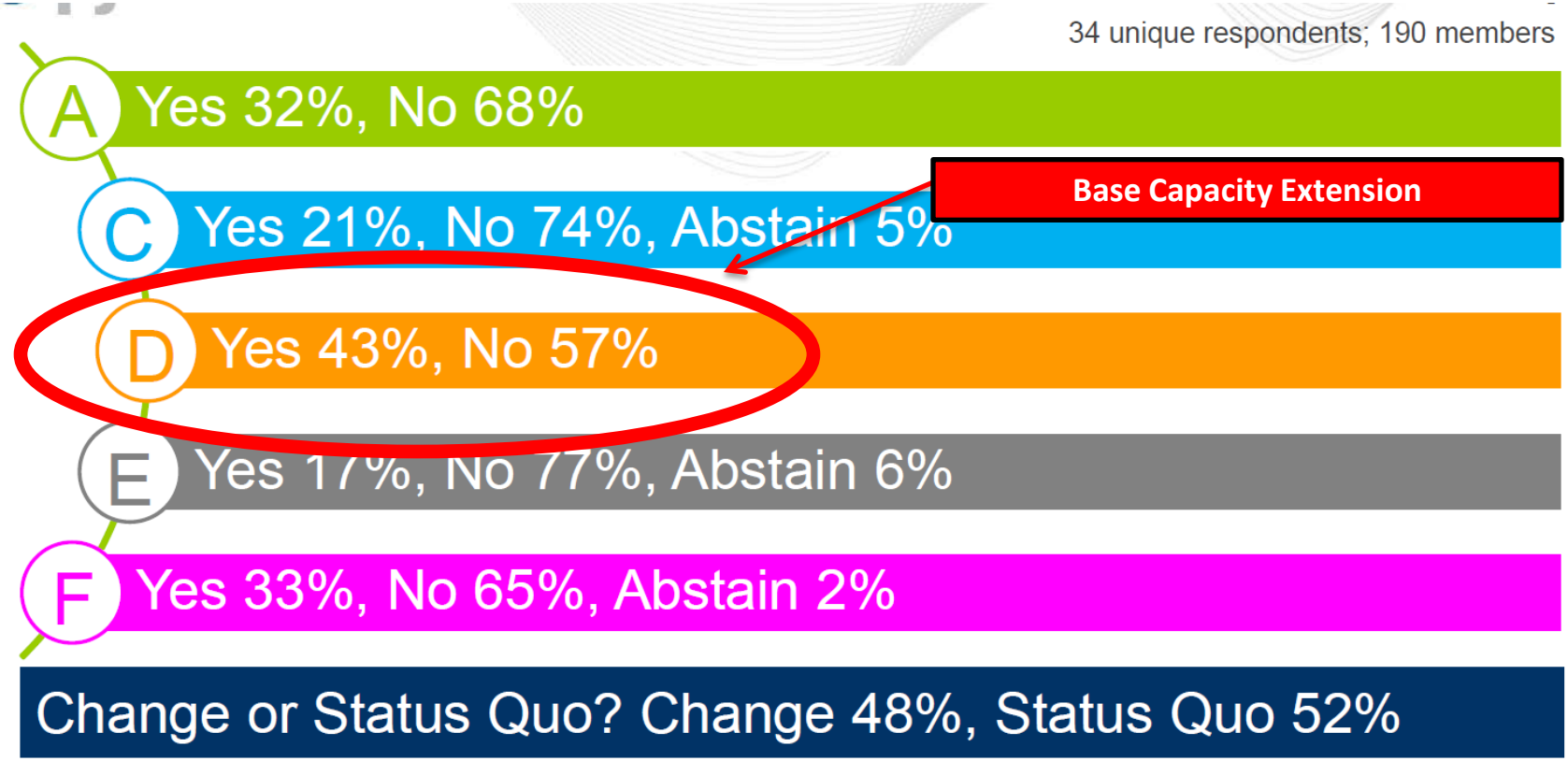
SCRSTF Voting Results



Proposal - Base Capacity Extension with Base/CP Penalty Structure Alignment

- Base Capacity product retained for 2020/2021 DY
- Base Capacity penalty rate made comparable to CP
- Base Capacity stop loss made comparable to CP
- Extension period used to explore potential and options for recognizing the capacity value/contribution of seasonal resources

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Base Capacity penalty rate made comparable to CP

- Identical formula used to calculate Base Capacity penalty rate compared to CP
- Adjusted for difference in expected PAHs
- Aligns offer incentive between CP and Base capacity products
- Aligns performance incentive

RTO Base Capacity Penalty Rate = $102,315/20 Summer PAH = $5116/MWh

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Base Capacity stop loss made comparable to CP

- Identical Stop Loss applied to Base Capacity compared to CP
- Aligns offer incentive between CP and Base capacity products
- Aligns performance incentive

RTO Stop Loss = 1.5 * $102,315 = $153,473

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Recognize Capacity Value/Contribution of Seasonal Resources

- PJM has a clear difference in peak load between winter and summer
- Forecast Summer Peak Load 2020 – 157,000 MW
- Forecast Winter Peak Load 2020/2021 – 136,000 MW

Summer/Winter Pk Load Diff = 21,000 MW

According to January 2016 PJM Load Forecast Report

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Recognize Capacity Value/Contribution of Seasonal Resources

- PJM states annual resource commitments are required for this difference due to generator maintenance and operational needs
- Operational needs stem from Polar Vortex in winter of 2014
- Operational enhancements implemented after Polar Vortex have allowed PJM to navigate colder winter periods (e.g. 2015) with no issues

Summer/Winter Pk Load Diff = 21,000 MW

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Recognize Capacity Value/Contribution of Seasonal Resources

- Additional investigation of seasonal reliability/capacity needs is both warranted and prudent
- Given 21,000 MW peak load difference, is reliability need really the same between summer and winter?

It is incumbent on PJM and its members to determine to ensure optimal resource procurement!

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What is at risk?

- 2019/2020 BRA Cleared 27,000 MW of Base Capacity
  - Generation – ~16,800 MW
    - Includes renewables like solar
  - DR - ~9,700 MW
    - Includes commercial, rate base and government sponsored programs
  - EE - ~460 MW
- IMM estimates that without Base Capacity BRA cost would have been *$5.2 billion* greater

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What is at risk?

- Base Capacity resources/product developed to address PJM peak load - occurs in summer
- Base Capacity Demand Response accesses seasonal cooling loads – clearly won't be present in winter
- Generators with winter fuel delivery issues
- Base level of production from renewable resources

Provide resource diversity and operational flexibility to PJM during peak season

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Base Capacity Extension

- Allows PJM and its members to answer 2 critical questions:

> Are PJM's Capacity Needs Seasonal?
> What is the proper value for Seasonal Capacity Resources?

- Without:
  - Stranding potentially valuable resources
  - Unduly increasing ratepayer capacity costs
  - Unduly reducing resource diversity and operational flexibility

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