

NORTHEAST TRANSMISSION DEVELOPMENT

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Via Email (rtep@pjm.com)

June 7, 2016

PJM Transmission Expansion Advisory Committee
Attn: Paul McGlynn, *Chair*
2750 Monroe Boulevard
Audubon, PA 19403

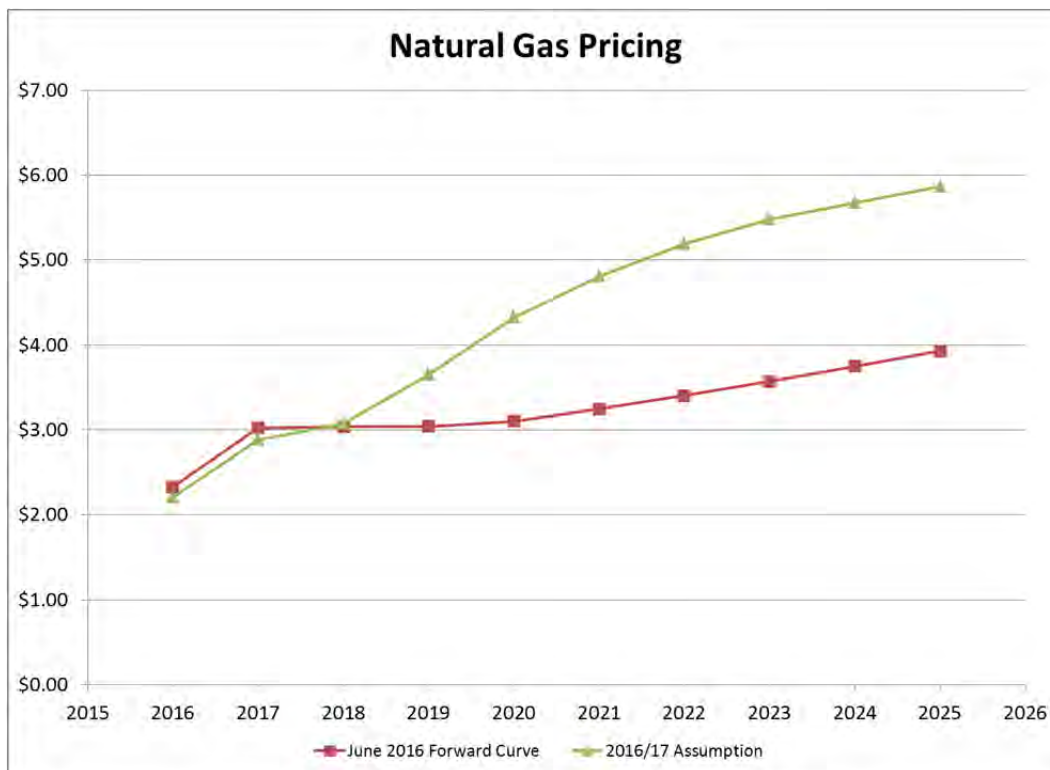
RE: PJM 2016/17 Input Assumptions (Market Efficiency)

Dear Paul:

We write to provide comments regarding the 2016/17 market efficiency input assumptions related to fuel and emission pricing, which is being presented for the first time at the upcoming June 9, 2016 TEAC meeting.

Fuel Price Assumptions

The proposed fuel price assumptions appear to be inconsistent with current market forward pricing as shown in the figure below. It is unclear the basis for PJM's proposed assumptions to cause 40-50% higher natural gas costs in 2020 and beyond as compared to current forward pricing. Unrealistic fuel price assumptions could significantly impact economic transmission planning.



CO₂ Emission Pricing

PJM continues to assume a National CO₂ emission price of \$0/ton relative to a RGGI CO₂ emission price beginning at over \$5/ton in 2016 with significant escalation to \$10+/ton in 2020 and beyond. The stark contrast in CO₂ emission cost included in PJM's proposed assumptions creates significant congestion into the RGGI states (Maryland/Delaware). This will encourage construction of new transmission to relieve this congestion, which would not otherwise exist in an environment where carbon is more broadly regulated. Put another way, the RGGI states will be paying to build transmission to import generation from states that do not impose a CO₂ emission cost.

Given the current regulatory environment (the Environmental Protection Agency finalized the Clean Power Plan Rule in August 2015), it seems unreasonable to assume a long-term CO₂ emission cost of zero for the non-RGGI states in PJM. Once carbon regulations are enacted, the RGGI states will be expected to have a lower CO₂ emission cost than non-RGGI states, as they have already implemented measures to reduce CO₂. This is supported by PJM's preliminary Clean Power Plan analysis and is the very opposite of what PJM is proposing.¹

It is possible the Clean Power Plan will be enacted during the proposal evaluation process for the 2016/17 Long-Term Window. At a minimum, PJM should consider two sets of assumptions for CO₂ emission pricing in its evaluation to ensure that, to the extent carbon regulations are enacted, the proposal(s) it is selecting are still the most efficient or cost-effective solutions.

Northeast Transmission appreciates the opportunity to provide comments on the 2016/17 input assumptions.

Sincerely,

NORTHEAST TRANSMISSION DEVELOPMENT, LLC



Robert Colozza
Senior Vice President

¹ See <http://www.pjm.com/~media/documents/reports/20160506-pjm-clean-power-plan.ashx> at Slides 14-15.