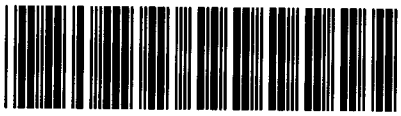

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PROCEEDING RELATED TO RESOURCE AND RESERVE ADEQUACY AND SCARCITY PRICING	§ § §	BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS

RESPONSE OF EXELON CORPORATION TO REQUEST FOR COMMENTS RELATING TO PRICING IMPACTS

Exelon Generation (Exelon) hereby files comments in response to questions relating to pricing impacts of the deployment of reserve capacity in ERCOT. Exelon appreciates the opportunity to address the impacts on both current and forward wholesale prices for electricity and the influence those prices could have on investment in generating capacity.

1. Proposals to introduce an offer floor into the market for the procurement of NSRS have ranged from about $72 to $3000. How would the different offer floors on the Non-Spinning Reserve Service scenarios impact wholesale electricity prices?

There is no doubt that deployment of Non-Spinning Reserve Service has a negative impact on real-time prices in the market. These services typically are deployed when the system needs capacity, but rather than producing a price that would incent a positive response from both load and generation, the influx of these megawatts pushes prices downward thereby dampening the price signal. Exelon believes that allowing price signals that reflect the true value of the energy during scarce conditions produces better market results in the long run. However, Exelon also is mindful that that scarcity pricing is a real time condition signaling a real time need. It is not a long term signal for a long term investment solution.

2. Do the NSRS proposals address the price dampening impact of the current NSRS deployment methodology?

Yes. Each of the proposals has a positive effect as compared to the current impact of NSRS deployments.

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3. What impact would the NSRS proposals have on future contribution to the Peaker Net Margin?

Each proposal has a positive impact to the annual Peaker Net Margin (PNM). Obviously the higher the offer floor, the stronger the positive effect on the PNM.

4. Is the Peaker Net Margin trigger working to incent new development? If not, why not?

The Peaker Net Margin is similar, in concept, to the Cost of New Entry (CONE) in those markets that employ a capacity market. Both strive to implement methodologies that would result in prices needed to incent new generation when needed. While a true energy only market has merit in signaling scarce supply conditions that should incent new generation, its efficacy is muted because of the long term investment required for building new generation. A significant difference between an energy only market and a capacity market is that a capacity market can accommodate a forward component, in that loads are forecast and supply is committed for delivery some years in the future. For example, the Reliability Pricing Model (RPM) used by PJM, produces prices for capacity to be delivered three years in the future. This forward component introduces a level of predictability about future prices that is missing in an energy only market. The predictability makes investment decisions a little easier. A mistaken notion about RPM is that it pays generators to build. A more accurate understanding is that RPM is a method to ensure that utilities and other load serving entities can acquire the capacity they need to reliably serve their customers with the most cost effective combination of new and existing resources that includes generation, demand response and energy efficiency.

The success of any resource adequacy mechanism should be measured on the ability to maintain resource adequacy at the most efficient cost, not the development of

new generation, especially where there are more cost effective alternatives. A mechanism that is measured solely on new steel in the ground, especially when that investment is not needed, is as much a failure as a mechanism that produces no investment during times of need. The goal in ERCOT should be to maintain enough capacity to ensure we meet our 13.75% reserve margin with enough of a forward component that new resources have time to enter the market when needed. Equally important as attracting new supply is incenting existing supply resources to make economic investments to remain on the system. Because capacity markets include recovery of capital costs, generator owners are more likely to invest in necessary uprates, upgrades and environmental controls that an energy only market may not support. For example, capacity payments in ERCOT might have resulted in better weatherization investment. In addition, as new supply comes to the market, older, less efficient supply should receive signals to retire.

To provide a valid price signal, a capacity market must not discriminate against existing generation. As explained above, existing generation can add uprates and other improvements that may be more cost effective than new green-field generation. Moreover, with no capacity payment, existing generation may retire prematurely which would be wasteful and could cause reliability problems. That some mothballed generation qualifies for RMR payments demonstrates why existing capacity should be included in any capacity market mechanism; without the capacity price signal, capacity will retire when it is no longer economic in an energy market, even if it is needed for reliability. .

5. What relationship does the Peaker Net Margin have to forward prices?

The forward curves move in reaction to market rules and supply/demand changes, not how close the revenue of any given year is to the Peaker Net Margin. As stated in the answer to question 1, real time conditions do not necessarily signal long term capacity needs. Even a year where the PNM is reached does not necessarily provide a strong signal to build. In February 2011, generation outages caused by extreme weather created scarcity conditions that drove prices contributing significantly to the PNM. But these conditions did not signal a long term capacity insufficiency. PNM could be achieved through sustained volatile weather patterns (extreme winter followed by extreme summer), but that one year of reaching the PNM does not ensure that the same dollars will be there the following year, or the one after that. To the extent investment depends on predictable prices, an energy only market will fall short of providing that predictability.

Respectfully submitted,

By: K Ashley by RS 10/14/11

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