RESTRUCTURING: LOOKING BACK TO LOOK FORWARD

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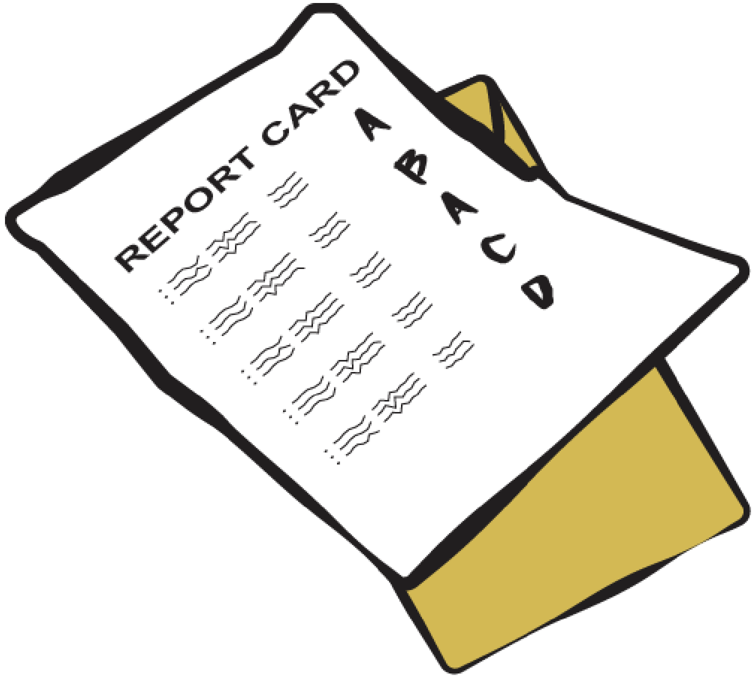
At the Wholesale Level…

- 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



Accomplishment No.1: Shifting the Risk

- Energy prices have reached a record low,
- No costs for “bail-outs”
- If anything, capacity prices too low
- Markets delivering signals: We need to react to them wisely

Accomplishment No. 2:

We got the fundamentals right

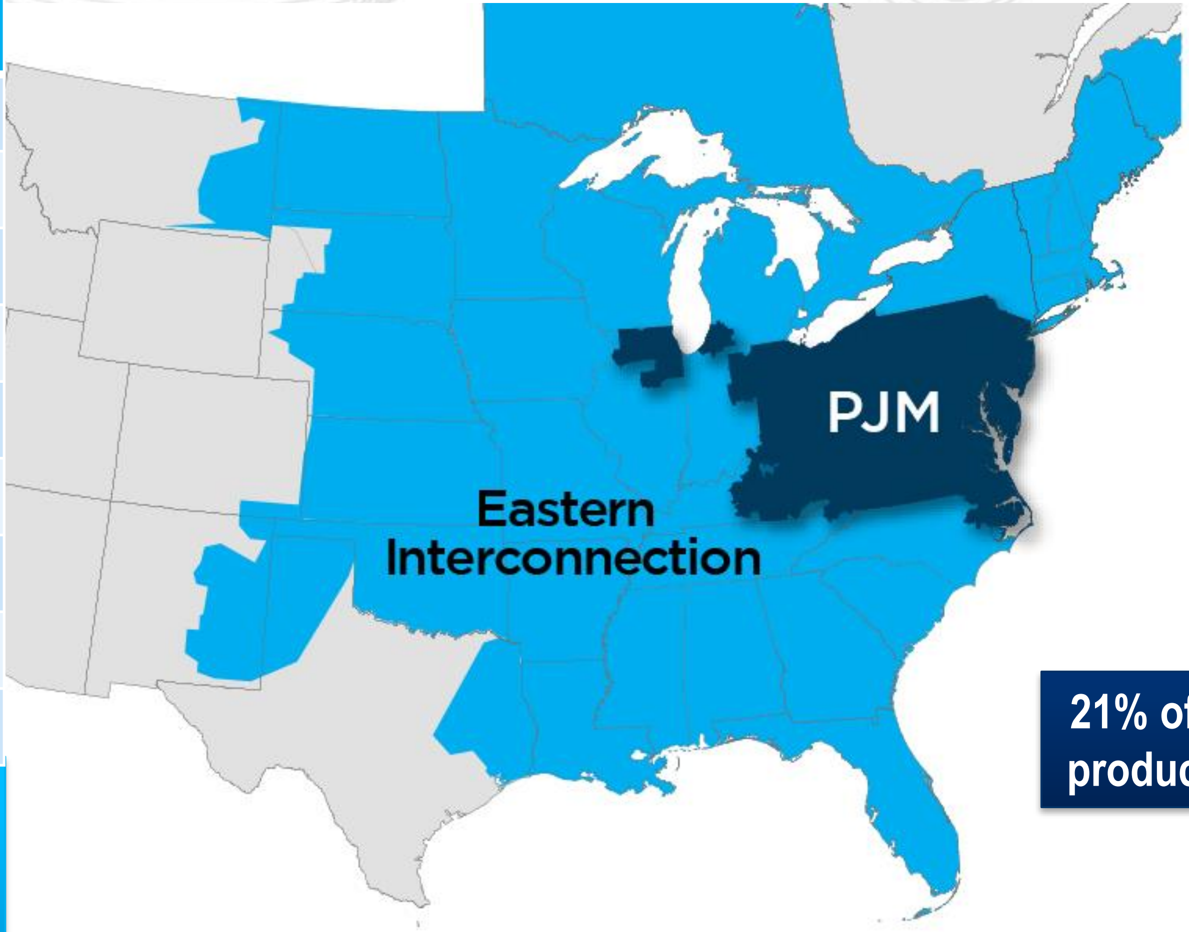
Structural solutions have worked

- 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 GWh of annual energy	792,314
Generation sources	1,304
Square miles of territory	243,417
States served	13 + DC

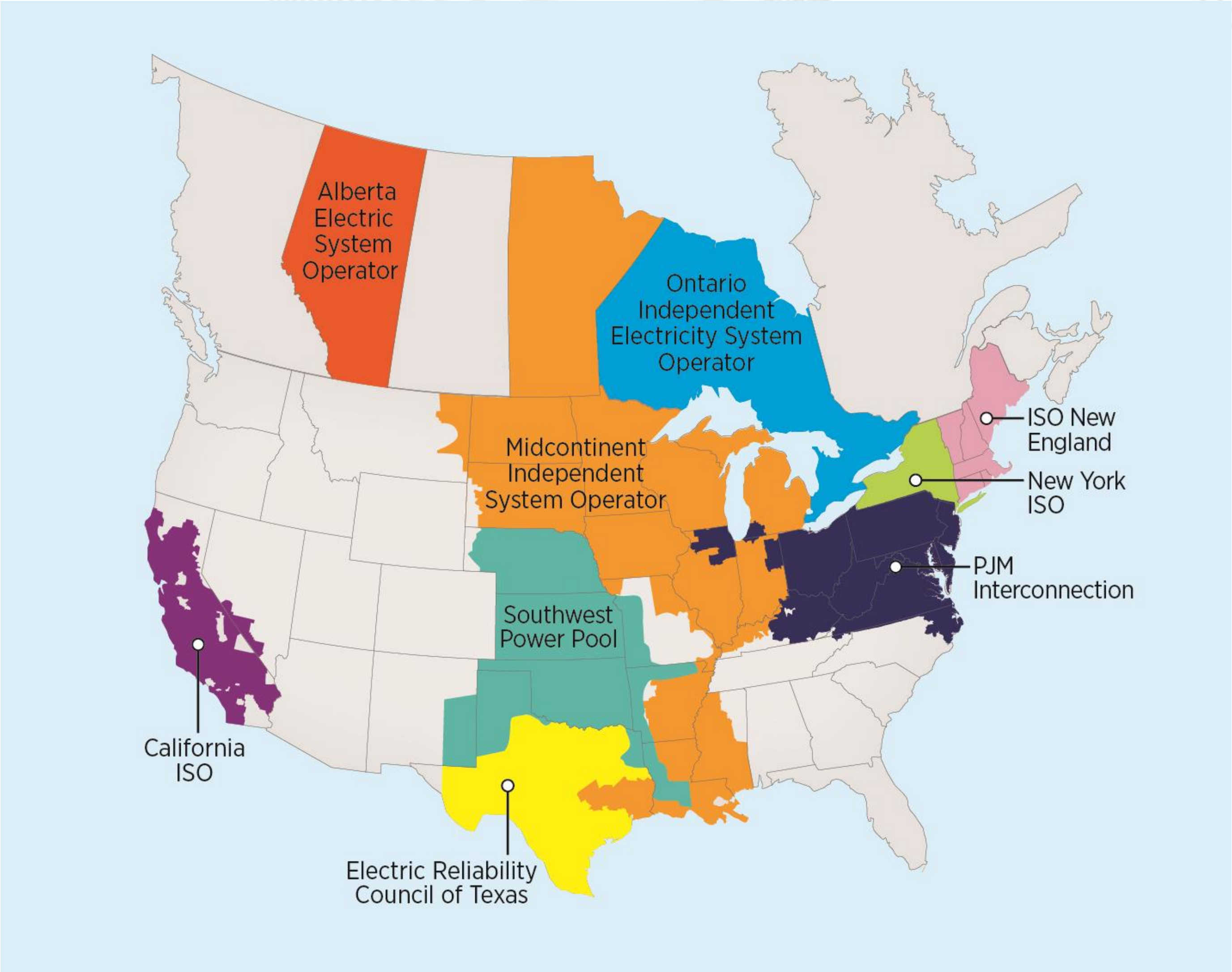
- 27% of generation in Eastern Interconnection
- 28% of load in Eastern Interconnection
- 20% of transmission assets in Eastern Interconnection



21% of U.S. GDP produced in PJM

As of 2/2017

ISO RTO Council



Policy Headaches Looking Forward

- Impact of PURPA Reform
- Impact of state legislative support for specific resources
- Fuel diversity vs. fuel security

PURPA Repeal, EPACT 2005

- Repeals must offer purchase obligations where RTO markets exist—some utilities in PJM have sought release others have not
- Largest presence of PURPA small QF units in PJM are in NC((72 units) and NJ (64 units)

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

Capacity Market 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

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

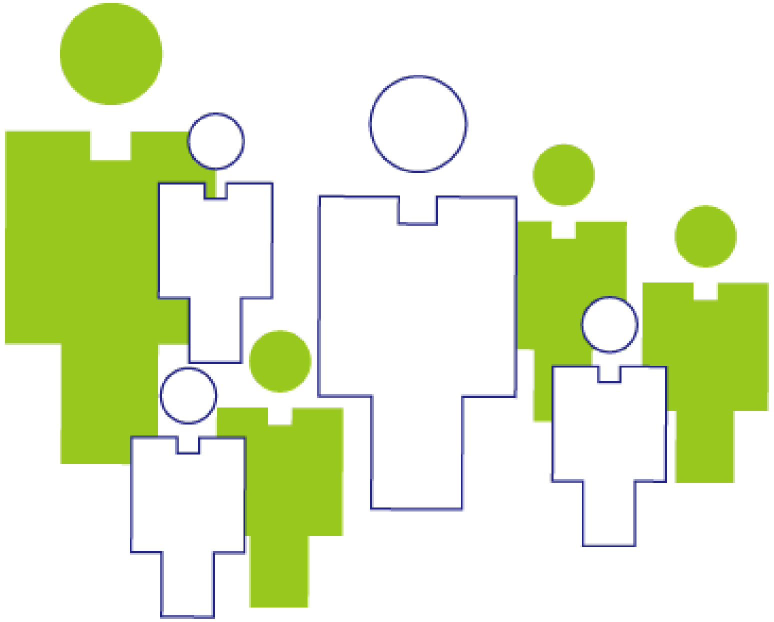
Who Decides?

- States:
  - State Energy Policies: Governors/legislators
  - State PUCs
- FERC
- Environmental agencies
- Department of Energy
- Congress
- US Supreme Court

"*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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