

FERC-DOE CONFERENCE – MARCH 28, 2019  
PANEL: INCENTIVES AND COST RECOVERY FOR SECURITY INVESTMENTS

Thanks...

I am happy to be here today to discuss the investments the utility industry is making to address cyber and physical threats to our Nation's energy infrastructure.

A resilient electric power system is key to ensuring the secure and reliable provision of electricity.

Exelon supports the resilience of the U.S. power system through investments in its transmission and distribution network and its best-in-class nuclear fleet.

- We serve over 10 million customers with more than 11,000 miles of transmission lines.
- We operate over 20,000 MW of nuclear generating capacity, which ran at a capacity factor of more than 94% in 2018.
- And we own one of the few LNG alternatives in gas-starved New England.

The questions in the **agenda** for this panel suggest that a new incentives program might be needed to encourage security-related investments.

The electric industry does not need a new set of incentives to continue investing in critical infrastructure.

- Yes, existing incentives promote needed transmission investments.
  - and should therefore be retained.
- This includes the ROE adder for RTO participation, which recognizes the benefits of regional transmission operations.

But more important than a new set of incentives is your support in the day-in-and-day-out processing of rate filings and market rule changes for both transmission and generation assets.

For our **transmission assets**, we need a fair opportunity to recover our costs and earn a reasonable Return on Equity.

We need timely consideration of rate filings, and flexibility when we propose new kinds of solutions to security concerns.

For example, our ComEd utility is planning a superconducting cable demonstration project that will enhance resilience in the vital downtown Chicago area.

- While operating a low voltage (12 kV), the project will provide a transmission function by looping substations with a new technology partially funded by the Department of Homeland Security.
- We will be asking for your support of this project through a request for transmission rate treatment and abandonment protection being filed in the next few days.

Exelon is also working with other Transmission Owners in PJM to enhance our planning processes to mitigate CIP-014 vulnerabilities.

- The PJM Transmission Owners have taken the necessary physical security measures to protect these facilities.
- But we believe a stronger approach is to upgrade our transmission systems such that these facilities no longer need to be designated as CIP-014 substations, enhancing system security.
- In order to do this without disclosing where vulnerabilities exist, we need changes to our transmission planning requirements.
- The PJM Transmission Owners will be proposing those changes in the near future, and we ask for your consideration and support.

For our **generation fleet**, timely action on market reforms is equally important.

- Our nuclear plants are fuel secure, providing round-the-clock emissions-free electricity under the harshest conditions.

- But the increasing dependence of the electric system on natural gas for fuel can put the entire electric system at risk.
- Addressing this systemic risk to the electric industry is just as critical as addressing cyber and physical threats to electric generators.

To address these risks, we need price signals in the energy markets that accurately reflect the value of our investments.

- Indeed, the top recommendation in the August 2017 DOE staff report on grid resilience was to improve energy market price formation.
- Consistent with that recommendation, FERC should act promptly on fast start reforms that have been pending for over a year.
- And FERC should give timely consideration to the reserve reforms being filed soon by PJM.
- Changes to the PJM reserves market are needed to ensure that suppliers are appropriately incented to provide reserves and are reasonably compensated for doing so.

The failure of current PJM rules to reflect the value provided by reserves is sending a clear signal that neither PJM nor FERC are interested in related investments by generators.

The pending **resilience proceeding** provides yet another venue for your support.

- In that proceeding, Exelon asked FERC to direct the RTOs to perform fuel security studies in their regions.
- To ensure that RTOs are evaluating the right vulnerabilities, federal officials should develop a design-base threat for the RTOs to use in studying our ability to withstand cyber and physical threats.
- The results of this design-base threat evaluation should then be reflected in RTO transmission planning and market design.
- Triggered in part by the cost-of-service filing by our Mystic unit, FERC has directed ISO-NE to address these issues in a series of compliance filings.
- Other RTOs, however, are just beginning to consider these fuel security issues.
- But we still do not have a consistent design basis for these evaluations, which means we have no way to tell whether they will be useful.

**Finally**, resilience is, in part, about adapting to changing system conditions.

- And some changes, such as the increasing frequency of severe weather events and greater susceptibility to flooding, are being driven by climate change.
- Utilities are responding to these challenges with investments to build a more resilient electric power system.
- But states are also looking for ways to mitigate the effects of climate change.
- This includes reducing greenhouse gas emissions in the power sector by supporting emissions-free generation.

The Commission needs to come to grips with these climate imperatives and find a way to work them into market rules. That is the ultimate way to enhance the long-term security of the nation's electric power system.

Thank you for inviting me to be a part of this important conversation.