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March 5, 2024

The Honorable C.T. Wilson
Chair, Economic Matters Committee
Room 231, House Office Building
Annapolis, MD 21401-1991

Re: House Bill 1315--Informational Only

Dear Delegate Wilson:

Talen Energy ("Talen") submits this written testimony on House Bill 1315 ("Bill"). We understand and appreciate the reliability issues that appear to be its underlying motivation. Our testimony presents additional facts to the Committee regarding Talen generation assets targeted by the Bill. There have been many inaccurate statements and misinformation regarding Brandon Shores ("Brandon") and H.A. Wagner ("Wagner"), which we would like to clarify here.

Talen operates two power generation assets in Maryland: Brandon, which is coal-fired, and Wagner, which was recently converted to 100% oil-fired. Both facilities are slated to retire in June 2025. In 2023, shortly after Talen announced the plant retirements, the regional transmission organization, PJM Interconnection ("PJM"), determined that each retirement will impact electric grid reliability, specifically within the BGE zone, until and unless additional transmission is constructed. These reliability issues are not new or unanticipated.

Indeed, as early as 2020, stakeholders raised concerns about reliability in the BGE zone associated with carbon emissions reduction legislation intended to force Maryland coal plant retirements (HB 1545 and SB887). (Talen opposed these bills.) In February 2020, just prior to hearings, PJM released (and supplied to delegates in the respective committees holding bill hearings) a study that (i) specifically analyzed retirement of coal-fired generation in Maryland, (ii) assumed the 2025 retirement date for Brandon proposed in the legislation and (iii) found "the simultaneous retirement notification of the generation sources studied will impose infrastructure overloads to seven existing transmission facilities in the region."

While these Sierra Club-supported bills did not pass, it was clear to observers that the State had adopted a policy to phase out coal generation quickly and the legislation would be reintroduced. Environmental groups, including the Sierra Club, continued an active lobbying campaign in support of that legislation. At the same time, new EPA regulations related to wastewater discharges would have required Talen to spend tens of millions of dollars to keep the plants

operating on coal. In response to environmental demands and legislative pressure, Talen subsequently reached an agreement with the Sierra Club which would not require the plants to retire, so long as the plants ceased burning coal by the end of 2025. As a result, in 2020, Talen announced its intention to convert Brandon and Wagner to run on oil.

Following the 2020 announcement, Talen took steps to advance the oil conversion projects at Brandon and Wagner. We undertook the design and engineering work associated with both projects. We also applied for and received the necessary permits in 2021 and 2022 to support the conversions.

Subsequently, however, conditions and economics around the conversions shifted significantly in a manner that no longer could viably support the Brandon conversion project. First, structural market economics around Brandon's planned fuel conversion were impacted materially by a significant drop in PJM capacity prices for the 2024-2025 Base Residual Auction, which was held in early 2023. This price drop had a substantial negative effect on projected revenues from the plants.

At the same time, higher-than-anticipated project costs pressured the conversions from the expense side of the equation, while execution and attendant financial risks associated with continued operations of Brandon and Wagner increased as well. Specifically, Winter Storm Elliott, which occurred in early 2023, illustrated the significant Capacity Performance penalties that could be borne by Brandon and Wagner. The risk of these types of penalties made the decision to continue operation even less viable. Taking these factors together, Talen was unable to support a decision to invest additional capital to convert Brandon when that investment would clearly lead to negative returns on capital.

Nonetheless, prior to filing its deactivation notice, Talen engaged with PJM in early 2023 to express its concerns about market rules and the significantly lower capacity auction offers, which had made the Brandon conversion project uneconomic. As soon as it became clear that market prices and PJM's rules would continue not to support the capital expenditure necessary to perform the Brandon conversion project, Talen submitted its April 2023 notice of deactivation for Brandon. That notice was sent nearly two years before the notification time specified by the PJM tariff.

In addition to the economic constraints of conversion, Talen faces environmental limitations on continued operation of Brandon without conversion to oil. As noted in its communications with PJM, Brandon's National Pollution Discharge Elimination System ("NPDES") permit precludes operation using coal after December 31, 2025. In addition, Brandon is subject to the terms of the agreement with Sierra Club, which prohibits use of coal after December 31, 2025. The conditions of the NPDES permit and Sierra Club agreement, the prospect of administrative, civil, and criminal enforcement of the permit, and potential legal action by the Sierra Club, all dictated that Brandon would need to deactivate.

Talen's decision to retire Wagner has similar roots. The conversion of Wagner from coal to oil is complete. Wagner, however, was dispatched by PJM in 2023 much more often than anticipated and came very close to reaching the limits of its air permit, which only allows the plant to operate on oil for a limited time each year. This limitation puts Talen at risk of significant Capacity

Performance penalties if the plant is unable to run when called upon because of its permit limitations. The basic economic issues facing Wagner were compounded by the prices at which Wagner was capped in the capacity market when dispatched. Accordingly, Talen filed its notice to retire Wagner in June 2025.

The reliability solutions are difficult. Under present circumstances, Talen cannot burn coal to extend the life of the plants -- the agreement with Sierra Club and our NPDES permit will not allow it – and the economics of conversion to oil at Brandon are not viable. Running under a series of 90-day emergency orders from the Department of Energy is not an optimal solution. Operating Brandon and Wagner requires substantial advance planning, capital expense on fuel and maintenance, and commitments to employees. Talen cannot responsibly run the plants under rolling temporary conditions. Furthermore, we believe as a market construct, Reliability Must Run ("RMR") arrangements should be used only as a last resort and without distorting the market. To be sure, Talen does not desire to be in an RMR situation; operating under an RMR is not in our business model.

Nonetheless, consistent with the discussions we have been holding with PJM, and in these circumstances, Talen has been open about its willingness to consider operating Brandon under an RMR agreement. This is not, however, an option unless we have relief from our agreement with Sierra Club and extensions of all necessary permits from the State of Maryland. Any RMR arrangement would also require fair compensation and would provide for Brandon and Wagner to be used only when necessary to relieve transmission constraints. All stakeholders need to come together to make this happen.

Thank you for allowing us to provide this information regarding the Talen assets located in Maryland and to clarify some of the misinformation circulating.

Thank you,

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