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Organization of PJM States, Inc. (OPSI)
President John R. Rosales
700 Barksdale Road, Suite 1
Newark, DE 19711

RE: OPSI's Oct. 9, 2017 Letter and Resolution

Dear President Rosales,

On behalf of the PJM Board, I thank OPSI for the constructive discussion between our Boards in Virginia on October 3. The PJM leadership team looks forward to continuing dialogue with commissioners and staff in the coming months on topics including those that were the focus of your October 9th letter and resolution – demand side resource market participation and the proposals under consideration by PJM stakeholders in the on-going Capacity Construct / Public Policy Senior Task Force (CCPPSTF).

Regarding demand side resources, in addition to engaging in discussions with PJM, I encourage OPSI representatives to offer perspectives and suggestions for solutions to the stakeholder group recently formed to tackle them beginning this fall. PJM agrees demand response resources are valuable, and we seek ways to have them receive compensation in accordance with their contribution to reliability. For seasonal resources that do not participate as Capacity Performance resources, the new stakeholder group will explore measures to value their contribution to grid reliability.

Regarding your comments on the CCPPSTF, I would like to offer perspectives on (1) PJM's desire to accommodate state public policies; (2) PJM's responsibility to ensure that wholesale markets support resource adequacy; and, (3) the timing of any potential action.

PJM stakeholders and PJM have actively engaged in discussions on this issue. The CCPPSTF has held over 16 meetings in the past 10 months and proposals have been well vetted. PJM agrees that several proposals under consideration at the task force may not accommodate the state supported resource participation in the capacity market. PJM's proposal, however, places no restrictions on participation. The PJM proposal clears all capacity resources, including state sponsored resources, based on the generation owner's submitted offer. It places no conditions on how resource owners can offer into the market. Some states exclusively rely upon PJM's markets to ensure resource adequacy, and many resources bringing that adequacy rely exclusively on PJM market revenues. Therefore, resources relying exclusively on the PJM market revenues depend on market offers effectively reflecting the cost of providing the service for which the market is securing. As offer prices reflect the lowest price sellers will accept for their service

based on their cost and risk appetite, if sellers are less reliant on market revenues, their incentive to submit an offer reflecting cost is lowered. Accordingly, when a resource receives payments from outside the market, its risk is reduced and its decision about offer price will change to reflect a change in that risk. PJM's capacity repricing approach mitigates this impact by ensuring prices reflect what they would have been had the sponsored resource not received an out-of-market payment.

Regarding the timing, the PJM Board of Managers did not take action regarding any of the task force proposals at its October session. Addressing out-of-market payments remains an important matter. PJM staff, its stakeholders, its Independent Market Monitor, and, the U.S. District Court for Northern Illinois¹ have each noted impacts to the wholesale market from out-of-market payments, with the court noting that it is the job of the wholesale market to address any impacts².

Given the broad level of concern, PJM leadership must evaluate and inform the Board of Managers of all options to address potential market impacts. The PJM stakeholders are scheduled to meet on this issue through December 2017. I encourage engagement at these sessions to articulate and address concerns any state may have on this issue.

In the future, appreciating that typically the full PJM Board of Directors and management team is in attendance, it would be helpful to the discussion for OPSI to express its formal positions in advance of or during the meeting. Not only would that minimize the need for correspondence like this, only a few days after our meetings, but it would also perhaps offer increased opportunity for real engagement through face-to-face discussion to better promote understanding and conciliation on issues such as these between the PJM and OPSI Boards.

I again wish to reiterate the PJM Board's appreciation of the importance of these topics to OPSI. PJM's goal is to provide an environment that allows for open dialogue between our boards. I invite OPSI members or the organization to continue engaging conversations with PJM as these, and all matters, are evaluated.

Sincerely,



Andrew Ott

¹ *Village of Old Mill Creek, et al., v. Star, et al.* No. 1:17-cv-01164, LEXIS 109368 (N.D. Ill. 2017) "There is no dispute that ZECs will affect the market and that Illinois has created a subsidy that favors certain participants in the wholesale auctions."

² *Id.* "So long as FERC can address any problem the ZEC program creates with respect to just and reasonable wholesale rates—and nothing in the complaints suggest that FERC is hobbled in any way by the state statute—there is no conflict. The complaint certainly alleges that ZECs will cause billions of dollars in market impact, but it does not allege that FERC is damaged in its ability to determine just and reasonable rates."