



Organization of PJM States, Inc. (OPSI)

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May 24, 2019
Via Electronic Delivery

The PJM Board of Managers
C/O Ake Almgren, PH.D., Chairman
PJM Interconnection LLC
2750 Monroe Boulevard
Audubon, Pennsylvania 19408

Dear Chairman Almgren and Board of Managers,

The Organization of PJM States, Inc. (“OPSI”), writes to respond to the *Report of the Independent Consultants on the GreenHat Default* dated March 16, 2019 (“the Independent Consultant Report”), as well as the *Observations on the Report of the Independent Consultants on the GreenHat Default Recommendations* (“PJM’s Observations Report”) released by PJM Interconnection L.L.C. (“PJM”) on May 10, 2019, to the Financial Risk Mitigation Senior Taskforce.¹ OPSI continues to have significant, on-going concerns regarding the state of PJM’s Financial Transmission Rights (“FTR”) market because that market lacks adequate financial protections for load.

OPSI remains committed to the principle that the primary purpose of the FTR Market is to provide load with the opportunity to bypass congestion charges effectively through a mechanism to credit congestion revenue back to load.² It is critical that load receive the benefit of its investment in transmission without the necessity of being exposed to the consequences of a failure to properly design and manage the FTR Market. Nearly three years ago, and only a matter of months after GreenHat began trading in the FTR Market,³ OPSI raised significant concerns about the functioning of the FTR Market and observed that “[t]he risk of full congestion revenue recovery through either the retention of Auction Revenue Rights

¹ This letter was approved unanimously by the OPSI Board.

² “FTRs allow market participants to offset potential losses (hedge) related to the price risk of delivering energy to the grid. . . . FTRs are a method to bypass congestion charges associated with PJM’s Locational Marginal Price or LMP. They give market participants the ability to attain a better price certainty when delivering energy across the grid.” <https://learn.pjm.com/three-priorities/buying-and-selling-energy/ft-FAQs.aspx#faq-box-text0>. This letter was approved unanimously by the OPSI Board.

³ *Independent Consultant Report* at 11.

(ARRs) or the conversion of all or a portion of them to FTRs should not be on [load].”⁴ The OPSI Board of Directors then formally “request[ed] that PJM propose a redesign of the ARR/FTR construct that will ensure that all congestion revenues are returned to [load]. Such redesign may include an option for [load] to sell the rights to congestion revenues in either a PJM administered or secondary market.”⁵

The Independent Consultant Report identified several “Complications Contributing to the Green-Hat Situation,” including “PJM Market Design Flaws Gave GreenHat Room to Develop.”⁶ In addressing the Market Design issue, the Independent Consultant Report makes three formal Recommendations (F1-F3).⁷ At this time, it appears that PJM and its Financial Risk Mitigation Senior Task Force are primarily focusing on Recommendations F1 and F2. Statements affirming PJM’s commitment to pursue Recommendation F3 are lacking.

OPSI wishes to underscore the critical importance of Recommendation F3, which advises PJM, “[w]ith expert help, [to] conduct a *general review* of the FTR market and other PJM markets, to evaluate the risks and rewards of potential structural reforms.”⁸ Neither the discussions in the Financial Risk Mitigation Senior Task Force nor PJM’s Observations Report indicate that PJM is even considering such a *general review*, informed by expert help, of the FTR Market. Pursuing Recommendation F3 would give PJM and the stakeholder community, as well as OPSI, further opportunity to evaluate an improved market structure. Therefore, OPSI urges PJM to seize that opportunity, avail itself of outside expert help, and conduct the general review of the FTR Market recommended by the Independent Consultant Report.

We request that the PJM Board consider the critical importance of Recommendation F3 and take the steps necessary to address the complications that led to the GreenHat default, including re-examination of whether the current FTR Market design is accomplishing its fundamental objectives and serving load. We look forward to an engaged dialogue on this important topic with the PJM Board during the NARUC Summer Meeting or at your earliest convenience.

Sincerely,

A handwritten signature in cursive script that reads "Michael Richard".

Michael Richard
OPSI President

⁴ OPSI Resolution 2016-4, available at <https://opsi.us/wp-content/uploads/2018/08/RESOLUTION-FTR-2016-4.pdf>

⁵ *Id.*

⁶ *Independent Consultant Report* at 26.

⁷ *Id.* at Appendix 5.

⁸ *Id.* (emphasis added).