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Mr. Howard Schneider
Chair, PJM Board of Managers

Dr. Ake Almgren
Vice Chair, PJM Board of Managers

PJM Interconnection, LLC
2750 Monroe Boulevard,
Valley Forge Corporate Center
Audubon, Pennsylvania 19403

October 11, 2017

Re: October 18, 2017 Liaison Committee Meeting Agenda

Dear Mr. Schneider and Dr. Almgren:

The members of the Liaison Committee (“LC”) and I appreciate the Board of Managers’ (“Board”) thoughts and guidance on potential topics for our upcoming meeting. However, the members of the LC have respectfully elected to refocus our agenda due to the issuance of a proposed rule by Secretary of Energy Rick Perry that would require all RTO/ISOs subject to the Federal Energy Regulatory Commission’s (“FERC” or “Commission”) jurisdiction to allow for “the full recovery of costs” for resources with at least 90 days of fuel located onsite.¹ Secretary Perry alleges that this proposed rule is needed to ensure that the electric grid remains resilient in the future.

This action is as swift as it is remarkable. The Commission’s final rule could be issued within sixty (“60”) days of notice being published in the Federal Register, or approximately December 1, 2017, and may take effect thirty (“30”) days later. Initial comments are due on or before October 23, 2017 and reply comments are due shortly thereafter.² Regardless of whether this initiative is ultimately instituted as proposed, FERC’s timeline creates the very real possibility that PJM could be directed to implement

¹Notice of Proposed Rulemaking, *Grid Resiliency Pricing Rule*, at page 11. September 28, 2017. Available at <https://www.energy.gov/downloads/notice-proposed-rulemaking-grid-resiliency-pricing-rule>.

² Notice Inviting Comments, *Grid Reliability and Resilience Pricing*, FERC Docket No. RM18-1-000. October 4, 2017. Available at <https://ferc.gov/media/headlines/2017/2017-3/10-04-17.pdf>.

some type of resiliency paradigm within the year. The LC members believe that our upcoming meeting may be the only opportunity to vet this paramount issue with the Board in advance of these aggressive deadlines. Given the need for expedient action, the LC members plan to dedicate the majority of our time to a discussion of resilience.

The LC members wish to dedicate the balance of our meeting to a discussion on the future of Demand Response and Energy Efficiency. PJM's recent Demand Response whitepaper suggests a paradigm change in how those products participate in PJM markets, while efforts are ongoing to address lingering issues related to Capacity Performance. As you know, this important issue has been deferred from several previous meetings

My colleagues and I appreciate the Board's understanding and flexibility as we modify the proposed agenda in response to these extenuating circumstances. We look forward to a productive meeting on October 18, 2017 at the Chase Center in Wilmington, Delaware.

Very truly yours,



Michael R. Borgatti
Vice President – RTO Services
and Regulatory Affairs
Gabel Associates, Inc.
Liaison Committee Chair

CC: Mr. Andy Ott, PJM Interconnection, LLC
Mr. Dave Anders, PJM Interconnection, LLC

October 18, 2017 Liaison Committee Agenda

1. Opening Remarks – 10 minutes

2. Resilience – 85 minutes

The concept of “resilience” is multifaceted and touches on nearly every aspect of the PJM landscape, including cybersecurity, planning, and market design. The sheer breadth of the issue naturally leads to differing priorities amongst the sectors. The LC members have crafted three specific areas of interest that are all implicated by the proposed rule currently before the Commission, which, in turn, would also impact any prospective resilience paradigm on a general level. Sector representatives may target their comments towards any or all of the topics listed below depending on their constituents’ priorities. Representatives may also choose to address specific questions posed in the Commission’s request for comments. The areas of interest are as follows:

- a. **What are the Attributes of a Resilient System?** The Commission’s request for comments begins by asking “What is resilience, how is it measured, and how is it different from reliability?” This is indeed the core issue facing stakeholders as articulated in PJM’s Resilience Roadmap. The LC members seek the opportunity to discuss the various attributes needed to transition from a reliable system to one that is resilient and whether Secretary Perry’s proposed rule improves or hinders progress towards this goal. Sector representatives may elect to identify specific components of the energy system that they believe foster resilience as well as the extent to which these qualities are or are not addressed through PJM’s current planning, operations, and markets initiatives.
- b. **Energy Market Price Formation & Resilience.** Earlier this year, PJM issued a whitepaper entitled, *Energy Price Formation and Valuing Flexibility*, which initiated a discussion of whether the current energy market design was adequately valuing all resources’ contribution to reliability. Since then, PJM has been analyzing potential avenues to ensure that the energy market is accurately reflecting the cost and value of the underlying resources. LC members seek the opportunity to discuss the energy market price formation issues in a resilience paradigm. Sector representatives may choose to focus their comments on the potential ramifications associated with wide scale reregulation of certain assets as well as whether PJM’s efforts to enhance price formation could serve as a bridge to long-term resilience.
- c. **Capacity Market Implications & Resilience.** LC Members seek the opportunity to address the implications for the capacity market. PJM’s Capacity Construct and Public Policy Senior Task Force (“C²P²”) has been engaged in a process to consider potential reforms to PJM’s Reliability Pricing Model (“RPM”) capacity market in response to certain state energy policies. Much of the dialogue to date has focused on avenues to accommodate state energy initiatives that incentivize certain types of generation. Federal incentive programs have been excluded from those discussions to date. The sector representatives seek the

opportunity to discuss the impact that Secretary Perry’s proposed rule could have on these efforts and on RPM price formation generally. The discussion could also include each sector’s views on whether PJM’s proposal to accommodate all state energy policies through a capacity repricing mechanism would ensure that RPM remains viable under this regime. Some sectors may offer views on specific elements of the proposals under consideration at the C²P².

3. The Future of Demand Response and Energy Efficiency – 20 minutes

Demand Response and Energy Efficiency resource providers and investors are both at strategic decision points, making this an appropriate time for a Board level discussion, with sector input, on the potential path forward. Both issues merit Board discussion because, as highlighted by PJM in its recently released whitepaper, titled *Demand Response Strategy*, “[t]he more that demand actively participates in electricity markets, the more competitive and robust the market results.”³ PJM has set forth its short, medium, and long-term objectives for Demand Response and has also initiated a process to determine how to consider avenues to salvage value from stranded summer Demand Response. However, it is unclear what the priorities are and what the plan is to implement those recommendations. Stakeholders are interested to know how the Board values these resources and the operational benefits they provide.

4. Closing Remarks – 5 minutes

³ PJM Interconnection, LLC, *Demand Response Strategy*, July 2017. Available at <http://www.pjm.com/~media/library/reports-notice/demand-response/20170628-pjm-demand-response-strategy.ashx>.