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December 9, 2014

PJM Members Committee

Dear Members:

Based on the Board's approval, PJM will submit a Section 206 filing to FERC to allow cost-based offers in the energy market to set price up to \$1,800/MWh through March 2015. The filing also will propose allowing generators to recover justifiable costs beyond \$1,800/MWh through make-whole payments.

We believe this action is prudent preparation for the possibility of high fuel costs that could result in generating resources not recovering their costs despite producing power when most needed to meet high demand.

Last January fuel prices spiked to high levels, resulting in an unusually high number of generator cost-based bids being constrained at the \$1,000/MWh cap despite having higher costs. To allow generators to recover their costs and continue supplying energy, PJM requested and received quick FERC approval to temporarily waive the offer cap when justified by fuel price escalations.

Member companies engaged over the past eight months to consider changing or eliminating offer caps in PJM's energy markets but did not achieve the required two-thirds majority consensus for approving a solution. While PJM is not expecting weather extremes similar to last January's, by seeking approval for a higher cap through this winter PJM hopes to avoid any possibility of having to scramble to submit waivers that seek FERC decisions within 24 hours. Notably, PJM's proposal for a \$1,800/MWh cap on cost-based offers, for purpose of setting energy market prices, mirrors the limit agreed by many members in the latest compromise effort.

We are limiting the filing request to this winter in anticipation of FERC developing a longer term solution to offer cap issues from a national perspective over the next year.

PJM's filing will be submitted to FERC in the next few days.

Sincerely,

A handwritten signature in black ink that reads 'Terry Boston' in a cursive script.

Terry Boston