

February 8, 2019

VIA ELECTRONIC MAIL

Ake Almgren, Chairman
The PJM Board of Managers
2750 Monroe Blvd.
Audubon, Pennsylvania 19408

Dear Dr. Almgren and the PJM Board of Managers,

The undersigned PJM stakeholders have been participating in and monitoring PJM's efforts regarding reserve procurement and shortage pricing in the energy market. We understand the Board's concerns as stated in the April 11 and December 5, 2018 letters, some of which we share, and we appreciate the Board's transparency and direction regarding those concerns. For instance, in the Board's December 5 letter, the Board informed stakeholders of what components a "comprehensive package" addressing reserve procurement and pricing issues must include. The Board's letter stated:

The comprehensive package should include the following components:

- Consolidation of Tier 1 and Tier 2 Synchronized Reserve products
- Improved utilization of existing capability for locational reserve needs
- Alignment of market-based reserve products in Day-ahead and Real-time Energy Markets
- Operating Reserve Demand Curves (ORDC) for all reserve products
- Increased penalty factors to ORDCs to ensure utilization of all supply prior to a reserve shortage
- Transitional mechanism to the RPM Energy and Ancillary Services (E&AS) Revenue Offset to reflect expected changes in revenues in the determination of the Net Cost of New Entry

The Board further noted that "[i]f such timely consensus cannot be achieved on all the aforementioned principal components, the Board will direct PJM management to make a Section 206 filing to implement the remaining components to address the reserve procurement and pricing issues."

As you are now well aware, even with the Board's helpful and forthright direction on the subject, stakeholders were unable to come to a consensus. As such, we understand that PJM staff will provide the Board for its consideration an energy package that will result in a Section 206 filing. Further, we understand, based on a PJM Inside Lines article, that PJM "staff will rethink the inclusion of a transition mechanism for the Capacity Market Energy and Ancillary Services Offset to reflect expected changes in revenue in the determination of Net Cost of New Entry."¹ Such an exclusion from any proposal would be contrary to the Board's directive in its December

¹ <http://insidelines.pjm.com/members-reject-compromise-proposal-to-revamp-reserve-pricing-rules/>

5, 2018 letter. Stakeholders took this Board’s charge seriously and although they were unable to come to consensus the undersigned write this letter to remind the Board of its commitment to making a “Section 206 filing to implement the remaining components to address the reserve procurement and pricing issues.”²

We appreciate your time and attention regarding this matter.

Sincerely,

Kentucky Office of the Attorney General, Office of Rate Intervention
Rebecca W. Goodman, Executive Director
Kent A. Chandler, Assistant Attorney General
Lawrence W. Cook, Assistant Attorney General

Office of the People’s Counsel for the District of Columbia
Sandra Mattavous-Frye, People’s Counsel
Karen R. Sistrunk, Deputy People’s Counsel
Anjali G. Patel, Senior Assistant People’s Counsel
Frederick (Erik) Heinle III, Assistant People’s Counsel

Division of the Public Advocate for the State of Delaware
Regina A. Iorii
Deputy Attorney General, Delaware Department of Justice
In the capacity of Counsel to the Division of the Public
Advocate for the State of Delaware only

Public Service Commission of West Virginia, Consumer Advocate Division
Jacqueline Lake Roberts
Consumer Advocate, Director

² In an effort to reach consensus, some stakeholders voted in favor of proposals that did not include all the components listed in the Board’s letter. These votes should not be construed as a lack of support or diminution of importance of any particular item.