



Innovation and Investment in Energy

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February 8, 2019

Via E-Mail

The PJM Board of Managers  
c/o Ake Almgren, Ph.D., Chairman  
PJM Interconnection, L.L.C.  
2750 Monroe Blvd. Audubon, PA 19408

Dear Chairman Almgren and Board Members:

I wanted to share with you LS Power's thoughts on the importance of competitive market pricing to ensure long term reliability and to support continued investment in the PJM marketplace. LS Power and its affiliates currently supply PJM more than 11,000 MW of generation and about 1,700 MW of demand response and energy efficiency products. LS Power has found PJM to be an attractive RTO/ISO to invest in due to the competitiveness and transparency of its markets. However, recent initiatives have threatened to disrupt the long term price signals necessary for a well-functioning marketplace.

Historically, PJM has been proactive in supporting market constructs that maintain or enhance competitiveness of the marketplace. In fact, in response to FERC's issuance of Order AD14-14 in June 2014 (to "Evaluate issues regarding price formation in the energy and ancillary services markets operated by Regional Transmission Organizations and Independent System Operators"), PJM submitted comments in March 2015, followed by releasing the whitepaper "Proposed Enhancements to Energy Price Formation", in November 2017.

However, recent state actions and other proposed actions at the federal level have derailed and changed the priorities of the stakeholder process. PJM focus and stakeholder activities shifted from initiatives to correct deficiencies in Energy Market pricing, to State Subsidies and how to accommodate a certain class of assets into the market, while still trying to preserve the competitiveness, transparency and long term price signals necessary for a functioning marketplace.

LS Power commends the Board for its April 2018 letter that highlighted the importance of correcting energy pricing and providing direction to the PJM stakeholders. However, even after the Board's further support in December and PJM's comprehensive package and an intense week of negotiations among a diverse group of stakeholders including LS Power that resulted in a compromise package, the members were unable to come to consensus.

LS Power therefore urges the Board to continue on the path clearly laid out in the Board's December, 2018 letter and promptly make a Section 206 filing with FERC reflecting the package proposed by PJM staff and described to the members at the February 6, 2019 Members Committee, specifically including:



- Consolidating Tier 1 and Tier 2 Synchronized Reserve products
- More flexible Reserve Sub-Zone modeling
- Alignment of Day-ahead and Real-time market-based reserve products including a new 30-minute Real-time Reserve product
- Operating Reserve Demand Curves (“ORDCs”) for all reserve products
- Increase Penalty Factor for ORDCs to \$2,000/MWh at all times
- Removal of the capacity transition mechanism

Additionally, we urge the Board to consider improvements to streamline the stakeholder process going forward. Taking four years to reach a point where it’s possible to file changes to certain market provisions is just too long, regardless of whether other unrelated issues are identified during the pendency of that process. We look forward to discussing potential improvements with you.

Finally, I want to thank the Board and PJM staff for their efforts in conducting a complete and thorough stakeholder process, and for providing detailed analyses and information as requested by stakeholders during the process.

Sincerely,

A handwritten signature in blue ink, appearing to read "Nathan Hanson", followed by a long horizontal flourish.

Nathan Hanson  
Senior Vice President