

February 8, 2019

The PJM Board of Managers
c/o Ake Almgren, Chairman
PJM Interconnection, L.L.C.
2750 Monroe Boulevard
Audubon, PA 19403

Dear Mr. Almgren and the Board of Managers,

P3 appreciates the leadership the Board showed by placing long overdue time constraints on PJM stakeholders to develop much needed reforms to PJM's reserve pricing rules. Without this Board-imposed discipline, the process would have likely been even more protracted. Consistent with the Board's December 5, 2018, mandate, PJM should now move forward to submit to FERC proposed energy and reserve market reforms given the stakeholders' failure to reach an agreement consistent with the Board's vision. After the conclusion of the Members Committee vote, PJM outlined the package of reforms that it will recommend to the Board for filing. P3 believes that the outlined package will improve energy and reserve market effectiveness. As further explained below, P3 urges the Board to authorize PJM to file immediately its proposed reforms with FERC.¹

Consistent with the Board's December 5, 2018, directive, P3's members worked very hard to forge a compromise that could be filed with the FERC under Section 205 of the Federal Power Act. The proposed compromise resulted from lengthy deliberations that yielded significant concessions from both supply and load interests, in an effort to find common ground sufficient to advance a Section 205 filing. Indeed, while P3 members, collectively, supported most components of the PJM proposal (but strongly opposed the proposed transition plan), we had divergent priorities. All P3 members recognized that the compromise featured components that strayed materially from PJM plan, but were willing to make certain concessions for the increased certainty of a Section 205 filing. In the end, despite support from P3 members, the compromise proposal narrowly failed to gain enough cross-sector support. As the Board has recognized, the time for continued deliberation has been exhausted. PJM stakeholders must move on and address a problem that the Board has concluded needs to be addressed.

As the Board has accurately observed, there is substantial evidence that PJM's co-optimized energy and reserve markets fail to reflect the true cost and value of serving demand, especially during periods of system stress. PJM energy and reserve markets currently suffer from several impediments. Among other things, day ahead and real time reserve market products are not aligned, operator actions

¹ The views expressed in this letter represent the views of P3 as an organization and do not necessarily represent the views of individual P3 members with respect to any issue.

in uncertain conditions as the system approaches reserve shortage are not revealed in market prices and instead compensated via out-of-market uplift, and much of PJM's current reserve capability is uncompensated or under-compensated. PJM has developed a package of proposed reforms that addresses these problems. PJM's package, as outlined to the Members Committee, is more comprehensive, more effective, and likely more durable than the failed compromise. The Board should now move forward, as planned, to remedy these flaws and thereby restore just and reasonable energy and reserve market outcomes.

As part of PJM's 206 filing, P3 urges the Board to file PJM's final proposal to stakeholders provided that the capacity transition mechanism is appropriately removed, as PJM stated. Specifically, P3 supports:

- Maintaining a three-year rolling average measure of energy and ancillary services to appropriately offset capacity revenues. P3 strenuously opposes a capacity transition mechanism based on projected energy revenues that may or may not materialize;
- PJM's proposed ORDC with a \$2,000/MWH cap that reflects the maximum price at which PJM can dispatch internal supply;
- PJM's proposed ORDC shape, derived from a 30-minute forward estimation of forecast uncertainties which is the timeframe most consistent with PJM dispatcher actions; and
- The institution of consistent products across the day ahead and real time markets.

P3 supports a market design that will provide clear signals in both the energy and reserve markets, insuring the system develops the correct resource mix to meet changing market conditions and provides the appropriate market-based construct to ensure reliability. PJM's proposed energy and reserve market reforms are warranted and supported by substantial evidence. It is time to move this issue to FERC to allow these necessary and overdue reforms to come to fruition.

Respectfully submitted,

/s/ Glen Thomas

Glen Thomas, President