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Mr. Howard Schneider
Chairman, PJM Board of Managers
PJM Interconnection, LLC
2750 Monroe Boulevard
Valley Forge Corporate Center
Audubon, Pennsylvania 19403

February 3, 2017

Re: Topics for the February 14, 2017 PJM Liaison Committee Meeting

Dear Mr. Schneider:

The members of the PJM Liaison Committee (“LC”) appreciate the PJM Board of Managers’ (the “Board”) consideration of our proposed agenda for the February 14, 2017 LC meeting. We are encouraged that the Board shares our collective view that these issues are ripe for discussion given their significance to the stakeholder community. We also agree that selecting two topics for this meeting will promote a more robust and productive dialogue between the Board and LC members. While members of our community strongly support discussing *“The Future of Demand Response in PJM”*, the LC believes that several of the more salient aspects of that topic can be addressed during our conversation about the interplay between public policy and PJM’s markets. The agenda below reflects this balance. The LC members may consider dedicating additional attention to this matter during a future meeting. The proposed February 14, 2017 LC meeting agenda is as follows:

- 1. Opening Remarks (5 minutes)**
- 2. Next Steps in the PJM Transmission Planning Process (50 minutes)**

The post Order 1000 transmission planning and development landscape continues to raise significant issues for stakeholders. Indeed, the deployment of Distributed Energy Resources (“DERs”) and energy storage resources, evolving load profiles, and cost-causation principles influence our thinking on the future transmission planning process in PJM. As the process for soliciting competitively bid Regional Transmission Expansion Plan (“RTEP”) projects evolves, including opening of a new RTEP window, stakeholders would appreciate the opportunity for

dialogue with the Board regarding the future of transmission planning, with a specific focus on the following items:

- a. What role should cost-caps play in the Order 1000 transmission planning process?
- b. Is PJM's current cost allocation paradigm the best mechanism to allocate the expense associated with our developing grid?
- c. Do stakeholders and PJM have sufficient and accurate detail on system topology and transmission planning decision-making to properly vet these projects or are new criteria appropriate?
- d. What is the best way to evaluate the transparency of PJM's transmission planning process?

3. State and Federal Public Policy Interactions with Centralized Power Markets (50 minutes)

The interplay between energy policy mandates and competitive centralized capacity and energy markets has garnered significant attention recently. Stakeholders have grappled with a number of significant policy changes since the last LC meeting, including the adoption of various new state-level energy policies aimed at procuring local supply from specific generation sources. In response, PJM and stakeholders have engaged in a spirited debate regarding the future form and structure of PJM's markets.

The Markets and Reliability Committee recently approved a Problem Statement and Issue Charge to brainstorm and develop modifications to the Reliability Pricing Model ("RPM") that could accommodate both capacity construct objectives and state actions. Federal policymakers recently proposed a variety of energy infrastructure initiatives that may ultimately inform this discussion. In a recent filing to the Federal Energy Regulatory Commission ("FERC"), PJM stated its intent to consider a variety of related topics, including whether new methodologies should be identified to value and/or compensate the operational flexibility provided by certain Demand Response resources which have and continue to be developed pursuant to various state initiatives. While the scope and breadth of this undertaking is likely to evolve in response to ongoing stakeholder discussions, some entities in our community appear eager to pursue some type of reform while others believe that no changes to the existing capacity construct are needed.

Given that this process has the potential to substantially impact constituents in every sector, stakeholders would like to discuss the breadth of this issue with the Board, with a focus on providing and gathering perspective on the following items:

- a. How do government energy policies impact PJM's markets? Is the impact negative or positive, or neutral and why? Can energy policies and PJM's markets be harmonized? Are there previous examples of harmonization between state policies and PJM markets that provide models for success or lessons learned?

- b. What markets might be affected? When will the markets be impacted? Are the concerns ongoing or prospective?
- c. By what metrics should the effect of governmental policies be measured? For example, what are the impacts to consumer cost, market pricing, reserve margins, and market entry and exit?
- d. Is there a meaningful way to distinguish between the intent of these policies and to determine if such policies represent a tangible threat to the ability of PJM markets to operate efficiently? If so, how might an intent-based review of these policies impact investors, analysts, regulators, and consumers' perceptions of PJM's markets?
- e. How might PJM's markets evolve in response to these policies?
- f. What is the proper forum for these discussions?

4. General Session at the Annual Meeting (5 minutes)

The LC Charter requires that the LC and the Board discuss the format and topics for General Sessions. We understand that exciting plans are underway for the celebration of PJM's 90th anniversary as a power pool and 20th anniversary as a Regional Transmission Organization. The LC suggests a brief agenda item to affirm the plans for the 2017 Annual Meeting General Session.

5. Closing Remarks (5 minutes)

The members of the LC and I greatly appreciate your consideration of these items and look forward to our upcoming discussion.

Very truly yours,



Michael R. Borgatti
Director – RTO Services
Gabel Associates, Inc.
Liaison Committee Chair

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