



Organization of PJM States, Inc. (OPSI)

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September 26, 2018

VIA ELECTRONIC DELIVERY

PJM Board of Managers
PJM Interconnection
PO Box 1525
Southeastern, PA 193399-1525

Dear PJM Board of Managers,

OPSI states have been following the PJM stakeholder discussions associated with FERC's order in Docket No. EL18-178 finding PJM's existing capacity market rules unjust and unreasonable because the existing MOPR does not prevent alleged price suppression. The Order proposes applying MOPR with few or no exemptions and a FRR Alternative as a way to accommodate state policies. OPSI requested rehearing of this order, stressing that FERC erred in finding, absent evidentiary support, that PJM's existing tariff, the status quo, is unjust and unreasonable. Our position has not changed.

The FERC order and dissents correctly acknowledge that the prospect of a FRR Alternative comes with undefined rules and unanswered questions, including what load would be removed with the applicable resource. Considering such complexities, the FRR Alternative may be limited and could be exceedingly difficult to implement. And even if achievable, just and reasonable wholesale rates for capacity would still need to be determined for each and every applicable resource and the commensurate load.

While a FRR Alternative approach may align with certain states' policies, many states never contemplated procurement of capacity from specific resources under a restructured framework. As such, many states do not currently have, and may not have time to develop, enact and implement, the enabling authority necessary to facilitate selective capacity procurements like those envisioned under the FRR Alternative approach in time for the next PJM Base Residual Auction (BRA). Since many of our state legislatures are not expected to reconvene until next year, it is uncertain if such authority would be granted in time, if at all.

OPSI Support for a Competitive Carve-out Approach

OPSI states support promoting market transparency and recognize that resources eligible to meet any one of our states' policies and receive revenues for certain attributes may be capable of providing capacity that helps meet the reliability requirements for our states and the region. As such, we recommend development of a transparent, PJM-operated, competitive carve-out auction approach for capacity, preceding the BRA, allowing resources eligible to meet state policies to submit offers with demand represented by aggregated amounts of load reflecting state policies.¹ Such an approach would address concerns with the FRR Alternative along with any concerns regarding price suppression in the BRA. It could also serve to complement or provide a transition to the FRR Alternative, should that be the preference of any state.

A competitive carve-out auction approach would provide an open, transparent, and just and reasonable method of pricing the capacity from resources eligible to receive revenues outside of PJM's markets. Furthermore, it has potential benefits in lieu of, in conjunction with, and as a transition to the proposed FRR Alternative. We view this approach to be implementable in a timely manner and for the benefit of a majority of OPSI states, and request PJM fully develop this approach in time for potential implementation by the upcoming BRA. OPSI also views this issue of critical importance to our states. PJM's support and assistance in this matter would both enable PJM to accommodate state policy decisions and facilitate OPSI's direct involvement in the stakeholder process.

OPSI Support for Traditionally Regulated States

As indicated above, OPSI states do not believe that the status quo has been demonstrated to be unjust and unreasonable. We understand that PJM concurs with this for traditionally regulated states. PJM has indicated that, subject to certain minimum and maximum capacity restrictions relative to load, it does not intend to consider power plants which self-supply or are vertically integrated with LSEs in traditionally regulated states as receiving actionable subsidies. OPSI states fully support excluding such plants from consideration as receiving actionable subsidies.

We appreciate PJM's attention to this matter and further encourage PJM to continue to apply a similar degree of support for all OPSI states.²

¹ This approach was proposed as an option in the PJM stakeholder process, as outlined in PJM's solution matrix.

² This letter was approved by the OPSI Board on September 25, 2018 with the support of the following members: Delaware PSC, PSC District of Columbia, Kentucky PSC, Maryland PSC, Michigan PSC, New Jersey BPU, North Carolina UC, Pennsylvania PUC, Tennessee PUC, Virginia SCC, West Virginia PSC; Abstaining: Illinois CC, Indiana RC and Ohio PUC.

Sincerely,

A handwritten signature in black ink, appearing to read "John R. Rosales". The signature is stylized with a large, sweeping initial "J" and "R".

John. R. Rosales
President,
OPSI Senior Commissioner,
Illinois Commerce Commission