February 16, 2018

Dear Members and Stakeholders of PJM:

The PJM Board sincerely appreciates receiving from stakeholders and OPSI, both through correspondence and at our recent Liaison Committee meeting, very thoughtful comments regarding state policy initiatives associated with generation and their effects on PJM’s markets. The Board has carefully considered these comments and concerns, alongside recommendations from PJM management, the PJM market monitor and the outcomes of the stakeholder process.

This week the Board took action in response to growing pressure threatening competitive outcomes in PJM’s markets. The Board has directed PJM to file both the Capacity Repricing and MOPR-Ex proposals with the Federal Energy Regulatory Commission under Section 205 of the Federal Power Act. Each approach represents a distinct, just and reasonable policy alternative to address the consequences of state intervention. Deciding between these policy options requires a balancing of federal and state interests, raising questions of federalism and comity that have already presented themselves before the courts, including the U.S. Supreme Court. Accordingly, the Board concluded that this question should fall to the Commission as the federal policymaker not to the PJM Board.

The Board further directed PJM to present the advantages and tradeoffs associated with each policy approach, while communicating that, on balance, PJM believes Capacity Repricing offers PJM’s diverse collective of jurisdictions a more accommodating path forward. That said, there can be more than one just and reasonable approach, and, should the Commission decide instead on a policy of mitigation, PJM believes MOPR-Ex would be effective in preserving competitive outcomes in PJM’s markets.

Finally, the Board believes certain elements of each proposal would benefit from further stakeholder input. For this reason, PJM’s filing will request that, once the Commission selects a policy direction, it should then direct the respective rule changes (either Capacity Repricing or MOPR-Ex) to a time-bound settlement judge proceeding, with expectation that such a process will bring refinement, compromise and more consensus support for what ultimately will be presented to the Commission later this year as a package of proposed rule changes.

The Board acknowledges that stakeholders diverge on whether change to market rules is needed, and, if so, the form such change should take. For reasons PJM will detail in future discussions with stakeholders and in its filing, the Board has decided that reform is necessary. While the Board is obligated to protect the basic market design objectives of its competitive markets, we also respect that stakeholders must have real opportunity to debate policy questions and the associated details of any proposed rule reform. The Board has chosen a path that will definitively move the policy question to FERC while proposing a process that maintains opportunities for active, continuing involvement from stakeholders. As a consequence, the May 2018 Base Residual Auction will proceed under PJM’s current rules. Much, of course, will depend on
whether the Commission agrees that action needs to be taken and whether it accepts PJM's requested approach to finalize a set of rule changes through facilitated discussion led by a settlement judge. All parties will have opportunity to persuade the Commission on these questions in response to PJM's filing.

On behalf of the Board, thank you again for your active and continued engagement in a challenging, but important, discussion for PJM, its members and states.

Sincerely,

Andrew L. Ott