Market Path and Interface Pricing Alignment

Brookfield Solution Package

Executive Summary

December 13, 2017




Brookfield

Market Path and Interface Pricing Alignment

Proposal Summary:

1. Paths would be “monitored” but not prohibited or banned

2. Intentionally breaking a transaction into separate components to conceal the true source and sink should be defined as “Illegitimate” activity and be resettled

3. Transactions on “monitored” paths that are defined as “Legitimate” should NOT be resettled

4. “Legitimate” transactions on “monitored” paths should be clearly defined to include any of the following:
    - Transactions that are independent, separate, unrelated, and/or based on their own economic rationale;

    - Transactions that have different temporal characteristics (i.e., Hourly vs Daily vs Weekly vs Monthly vs Annual, etc.); or

    - Transactions that have independent strategies and products, that have different intent and/or that respond to different price signals (i.e., Hedged transactions, Capacity, RECs, etc.).

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Proposal Summary (cont’d):

5. PJM to provide a list of potential resettled transactions [10] business days prior to actual resettlement, so that the participants have the opportunity to provide explanation that the transactions are “Legitimate” and should not be resettled

6. PJM and the IMM should discuss with participants prior to referral any transactions to FERC so that the participants have the opportunity to provide explanation that the transactions are “Legitimate”

7. Transactions on “monitored” paths should be evaluated at the “Company” level that has actual management oversight and/or control over transaction.

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Rationale - Prohibiting "Legitimate" Activity has Unintended, Negative Consequences:

1. Discriminates against certain market participants:
   - Market participants that have already executed an independent, long term transaction are prevented from entering into another independent short term transaction that may complete a prohibited path while another unrelated participant is permitted to enter into this transaction.

2. Deprives the wholesale market of "Legitimate" transactions:
   - Transactions that are separate and independent could be viewed on a combined basis and falsely appear to complete a prohibited path ("false positives"):

     a. Transactions that have independent strategies or product (Hedged transactions, Capacity, RECs)

     b. Transactions that respond to different regional price signals

     c. Transactions that have different temporal characteristics (i.e., Hourly vs Daily vs Weekly vs Monthly vs Annual, etc.)

   - Harms "Legitimate" transactions when PJM resettles independent transactions because settlement will no longer correlate with the market prices received in adjacent markets

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Rationale - Prohibiting "Legitimate" Activity has Unintended, Negative Consequences (cont'd):

3. Could negatively impact the wholesale market:
    - Could unjustly prevent market participants from responding to regional price signals
    - Could unintentionally reduce supply during scarcity and shortage conditions
    - Could unintentionally reduce wholesale market competition which could increase prices to load
4. Fails to provide Regulatory certainty:
    - Continued threat of referral to FERC
    - Monthly report to FERC could include "Legitimate" transactions
    - Referral to FERC based on "false positives" can result in significant time and legal expenses
    - What if something slips through the cracks or a mistake occurs?

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Rationale - Prohibiting "Legitimate" Activity has Unintended, Negative Consequences (cont'd):

5. Overly burdensome and onerous:
   - For a Parent company that has many independent corporate affiliates it could be logistically challenging to ascertain what each independent affiliate's position is on a real time basis

Conclusion:

Brookfield's proposal will allow legitimate activities in PJM and in adjacent markets to continue without causing the negative consequences set forth above, while still addressing the concerns raised by the IMM that result from unjust and illegitimate circuitous transactions.