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VIA ELECTRONIC MAIL

The PJM Board of Managers  
c/o Ake Almgren – Chairman  
PJM Interconnection, L.L.C.  
2750 Monroe Blvd.  
Audubon, Pennsylvania 19408

Dear Mr. Almgren and the PJM Board of Managers:

I am writing to encourage you to follow through on your December 2018 letter to stakeholders and file a comprehensive reserve procurement and shortage pricing reform package. Your December 2018 letter articulately outlined why change is needed now. With over 11,000 MW of generation participating in PJM's markets, Vistra Energy is one of the largest generation companies operating in PJM. We rely on PJM's markets to send efficient price signals that support investment and performance. I am supportive of the package of reforms outlined in the Board's letter to stakeholders. The focus of my letter is on those elements of the package that were the focus of stakeholders' recent efforts to forge a consensus.

Vistra was very supportive of the efforts by broad group of stakeholders to reach consensus on a compromise proposal. While we viewed some individual elements of the compromise proposal as deviating from sound, principled market design, we were willing to support a compromise package in the spirit of reaching the stakeholder consensus you requested in your letter to stakeholders. We believe the recent discussions were productive and conducted in good faith by all parties. We further believe that PJM staff should be commended for the useful guidance they provided throughout the process. We are disappointed that a consensus could not be reached.

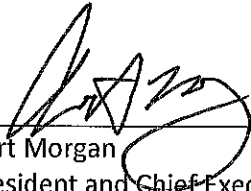
Recognizing a consensus could not be reached, I encourage the Board to make use of the discussions between stakeholders and PJM staff and file a comprehensive reform package that adheres to sound, principled market design. I submit that the capacity transition mechanism that was part of the Board's December 2018 package should not be part of the package the Board files under Section 206. Capacity market prices will naturally adjust in response to new reserve pricing as resources reflect the change in their capacity offers and as higher expected energy and ancillary services revenues affect entry and exit decisions. These adjustments will be based on market participants' business judgment about the degree to which new reserve pricing will actually materialize. PJM has used actual prior year energy and ancillary services revenues to establish the net Cost of New Entry for good reason; forecasts are inherently assumption driven and thus prone to miss important fundamental changes. A proposal that forecasts changes in shortage prices due to the proposed reforms but does not forecast other fundamental changes, like increases in zero marginal cost, state supported resources, arbitrarily

adjusts energy and ancillary services revenues in a way that cannot be supported. Further, forecasts cannot account for changes in behavior that PJM's proposal is intended to elicit. PJM's experience with Capacity Performance illustrates that the potential for high performance penalties can deliver improved performance to the point that few performance intervals materialize.

I also encourage the Board to include in the Section 206 filing aspects of the original proposal that best reflect the true value of reserves. First, the Board should adopt PJM's original proposal to set the maximum price for the Operating Reserve Demand Curve (ORDC) at \$2,000/MWh. In an effort to build a consensus, Vistra sponsored a compromise that would use \$2,000/MWh as the maximum price only during cold and hot weather alerts and would use \$1,000/MWh at all other times. However, using two different maximum prices introduces a degree of complexity to an already complicated market design. I acknowledge arguments made during stakeholder discussions that support setting the maximum price at \$1,000/MWh during "normal" conditions. That said, it is better to recognize the potential for offers greater than \$1,000/MWh during cold weather and the fact that PJM may take out of market actions that cost more than \$1,000/MWh in establishing the maximum price for the ORDC. Reserve pricing provides important price signals for performance and investment and underestimating the value of reserves has the potential to threaten short-term and long-term reliability. Second, the Section 206 filing should use PJM's original assumptions to calculate the shape of the ORDC. Specifically, the ORDCs should be based on load and renewable forecast errors 30 minutes before operation. In an effort to gain a consensus, the compromise proposal would have used forecast errors 20 minutes before operation. This concession is not consistent with how PJM commits and dispatches operating reserves and thus the Section 206 should revert to a more principled design.

In closing, I ask the Board to take full advantage of the good work stakeholders and PJM staff have done through the Energy Price Formation Senior Task Force and proceed with the principled, common sense reform outlined above. Properly reflecting the true value of operating reserves is in the long-term best interest of the PJM market.

Respectfully Submitted,



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Curt Morgan  
President and Chief Executive Officer  
Vistra Energy