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VIA Electronic Delivery

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Commissioner David Ober
President, Organization of PJM States, Inc.
PNC Center
101 W. Washington Street, Suite 1500E
Indianapolis, IN 46204

Dear President Ober,

Thank you for your correspondence dated November 10, 2021 wherein the Organization of PJM States, Inc. (OPSI) expressed its thoughts regarding the allocation of auction and congestion surplus revenue within the ARR/FTR framework. We first want to thank OPSI for its productive engagement in this matter. OPSI was pivotal in shaping the initial scope of work performed by London Economics Inc. (LEI), and the second scope of work performed by LEI, as requested by OPSI, served to enrich the overall dialogue in the ARR/FTR Task Force.

In its report, LEI recommended a number of reforms to the ARR/FTR framework. Currently, there is a reform package that was endorsed at the October 20, 2021 Markets and Reliability Committee (MRC), referred to as the PJM/Joint Stakeholder package, that includes many substantive enhancements to the current ARR/FTR design as recommended by LEI. These enhancements relate to core tenets of LEI's suggested reform related to equity, efficiency, transparency and simplicity of the framework.

The recommendation that you referenced in your letter, that PJM and stakeholders "[e]xplore alternative allocation approaches for distributing surplus congestion" was in fact conducted within the ARR/FTR Task Force. To note, LEI did not conclude that the current allocation of FTR auction surplus was inequitable. Rather, LEI left it to the stakeholders to deliberate.

As indicated in your letter, PJM's initial proposal had components that changed the allocation of surplus from the status quo to ARR holders. PJM subsequently withdrew its original proposal to drive the process toward consensus, recognizing that there are other components of the package aimed at increasing load's opportunity to receive congestion revenue and thereby improve equity. Additionally, not allocating surplus to first cure FTR funding could result in the underfunding of FTRs, which could result in lower FTR pricing and less money being returned to load. Finally, it was discussed within the ARR/FTR Task Force that this specific issue can be revisited in the future once we have an understanding of the full impact of the package of changes being implemented.

While your advocacy is duly noted, please understand that at the upcoming Members Committee (MC) meeting on November 17th, 2021, only the PJM/Joint Stakeholder package is on the agenda to be voted upon as it is the only proposal that received an affirmative two-thirds sector-weighted vote at the MRC. It is possible that the DC OPC package (which mirrors the PJM/Joint Stakeholder package other than the surplus allocation issue) could be recommended for approval from the floor. However, that would only occur in the event that the "main motion," in this event the PJM/Joint Stakeholder proposal, fails.

We must also note that because reform to ARR/FTRs would be reflected in amendments to the PJM Operating Agreement (PJM OA), pursuant to our governance principles, PJM management will file the proposal approved by the Members at the upcoming MC meeting, as it is the Members that have Section 205 authority over the PJM OA.

Again, OPSI's input has been pivotal in reforming the ARR/FTR framework. LEI's work to examine the ARR/FTR framework was necessary and OPSI truly shaped the scope of that examination. Further, PJM and the stakeholders have performed a substantial amount of work to this point that will most certainly lead to a better overall design of the ARR/FTR framework.

For all of this, I'd like to express my appreciation to OPSI, the Members and the PJM staff for their sincere and exhaustive efforts.

Sincerely,

/s/ Manu Asthana

Manu Asthana
President and CEO, PJM Interconnection

cc: PJM Board of Managers