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September 10, 2014

**RE: TRIENNIAL REVIEW FILING TO FERC**

**PJM Members Committee**

Dear Members:

The PJM Board appreciates the stakeholder effort to review the RPM parameters according to the mandate of the triennial review process outlined in the PJM tariff. The Board carefully considered the thoughtful letters from stakeholders as well as the debate during the MRC meetings. The Board has also consulted with the Independent Market Monitor regarding these issues.

On behalf of the Board, allow me to express appreciation to the members who attended over 15 stakeholder meetings and spent so much time working on these issues while maintaining a respectful and thoughtful process.

Given the importance of the RPM parameters in maintaining investment in infrastructure to sustain reliability over the long term, the Board believes updates to these parameters are required. The report presented by the Brattle consulting firm indicates the current Variable Resource Requirement (VRR) curve shape does not properly reflect the varying importance of procuring capacity as the system becomes shorter or longer and that a more responsive curve shape is required. It is also clear that the Cost of New Entry (CONE) values are outdated and require updates. We appreciate stakeholder concerns regarding the pending Capacity Performance discussion, but it is important to recognize that the Installed Reserve Margin (IRM) calculations and the Brattle analysis already assume a higher standard of resource performance than was observed last winter. Additionally, the PJM tariff requires action on the triennial review issues by October 1, 2014.

The PJM Board has directed staff to file a modified version of the PJM staff proposal for the triennial review parameters. The modifications are: 1) retain the existing historic price-based Energy and Ancillary Service offset methodology, and 2) utilize the IMM's proposed labor cost estimates in the CONE calculation instead of Brattle's recommended labor cost estimates. The Board has directed staff to file these proposed tariff revisions by the October 1<sup>st</sup> deadline specified in the PJM tariff.

All of us at PJM recognize that this has been a complex and, at times, contentious set of issues with strong feelings on all sides. The Board thanks stakeholders for their engagement on these issues as we strive to ensure long term reliability at a reasonable cost.

Sincerely,

A handwritten signature in black ink that reads "Terry Boston". The signature is written in a cursive, flowing style.

Terry Boston