

- The Board has reviewed evidence that demonstrates that when the system is experiencing stressed conditions, energy and reserve prices do not accurately reflect PJM operator reliability actions and, as a result, out-of-market payments increase substantially during those periods.
- PJM's current reserve market rules do not accurately align the procurement of reserves with their reliability value or incentivize consistent response when deployed.
- The lack of alignment in the reserve markets mutes price transparency, shifts costs unfairly to consumers who have prudently hedged, and limits competition to secure reserves at the least cost to consumers.

The PJM Board has determined that a comprehensive package inclusive of the components outlined below, is needed to meaningfully address the reserve procurement and pricing issues.

- 1.Consolidation of Tier 1 and Tier 2 Synchronized Reserve products
- 2.Improved utilization of existing capability for locational reserve needs
- 3.Alignment of market-based reserve products in Day-ahead and Real-time Energy Markets \*
- 4.Operating Reserve Demand Curves (ORDC) for all reserve products
- 5.Increased penalty factors to ORDCs to ensure utilization of all supply prior to a reserve shortage \*
- 6.Transitional mechanism to the RPM Energy and Ancillary Services (E&AS) Revenue Offset to reflect expected changes in revenues in the determination of the Net Cost of New Entry

\* Not previously discussed as part of short-term scope

- The Board has directed PJM management to work with the stakeholders on the components identified above regarding those on which consensus can be reached by January, 31st of 2019.
- If such timely consensus cannot be achieved on all the aforementioned principal components, the Board will direct PJM management to make a Section 206 filing to implement the remaining components to address the reserve procurement and pricing issues.