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Via Electronic Mail

Mr. Walter Hall
Commission Advisor
Maryland Public Service Commission
6 St. Paul Street
Baltimore, MD 21202

Dear Mr. Hall,

This letter responds to your November 27, 2012 request to me entitled "Request for Information Regarding Proposed Minimum Offer Price Rule (MOPR) Revisions". Listed below are the questions contained in your request followed by the PJM response.

Question 1. "At the November 20, 2012 MOPR Discussion Session, the NRG Representative stated, and PJM's Mr. Andy Ott appeared to agree, that the Package 1 language, as the result of the elimination of the Unit Cost Review Exemption, requires that all external generation selling into PJM on a long-term basis and all unit repowering transactions are subject to MOPR evaluation and mitigation. Please confirm: (a) whether PJM does in fact agree with these statements, and (b) what PJM's expectation is as to the effect of such mitigation (along with other MOPR modifications made in 2011 & 2012) will be on capacity prices/costs paid by Maryland citizens."

PJM Response: PJM's understanding of the amended Package 1 is that existing (in-service) external resources would not be subject to the MOPR evaluation. For repowering projects MOPR evaluation would apply only to combustion turbine, combined cycle, or integrated gasification combined cycle units. PJM notes the proposed MOPR revisions and the previous revisions made in 2011/2012 are intended to address and mitigate the exercise of market power. The primary purpose of the MOPR in the PJM tariff is to prevent market participants from submitting uneconomic offers based on the receipt of out of market payments that artificially depress RPM auction prices. The MOPR provides symmetry in market power mitigation in that the MOPR prevents the exercise of buyer-side market power to artificially reduce prices while Market Seller Offer Caps are designed to prevent the exercise of supply-side market power to artificially raise prices. The impact of such strong market power mitigation procedures to protect the market from manipulation will be to provide strong and efficient investment signals when new capacity is needed. Strong market power mitigation for both the supply side and demand side improves the



efficiency of investment signals in the market to provide robust and competitive results that lowers investment barriers, ultimately resulting in lower costs to consumers, including those in Maryland.

Question 2, “In 2011, PJM proposed and has obtained from FERC a number of significant changes in MOPR operation, and has supported Industry proposed additional revisions in 2012 (proposed in Package 1). Proposed changes include increasing the MOPR Floor Offer Price from 80 to 100%, elimination of the Impact Screen, severe restriction or elimination of State sponsored generation development, elimination of Unit Specific Review and expansion of MOPR application throughout PJM and to all lower cost natural gas fired generation units which are the unit of choice for construction at present. Separately, it is understood that Gross CONE values have increased for application in Maryland since December 31, 2010 and will increase further based on a proposed settlement of a separate proceeding on this matter in 2013, and that revenue/ancillary service reductions are expected to decline in future auctions from those available in the 2012 auction. While no one or even multiples of these factors necessarily has a direct effect upon RPM auction results which depend upon Auction participant bidding behavior, that behavior could be affected by these MOPR rule changes particularly in that increased minimum required offers and reduced participation in the auctions, would be expected to encourage higher RPM market bids. Does PJM have any expectation as to what the effects of these RPM MOPR modifications may have on Capacity Market Prices paid by Maryland citizens. Please explain that expectation.”

PJM Response: Updates to the RPM parameters, gross CONE and energy/ancillary service revenue offset, establish more accurate price levels on the variable resource requirement curve which in turn provides more accurate investment signals in the RPM auction. We believe your understanding of the gross CONE adjustment in 2013 is incorrect, the gross CONE values will reduce slightly under the proposed settlement. PJM notes the proposed MOPR revisions and the previous revisions made in 2011/2012 are intended to address and mitigate the exercise of market power. The primary purpose of the MOPR in the PJM tariff is to prevent market participants from submitting uneconomic offers based on the receipt of out of market payments that artificially depress RPM auction prices. The application of accurate VRR curve parameters and strong market power mitigation procedures to protect the market from manipulation will provide strong, efficient investment signals when new capacity is needed. The resulting improvements to the efficiency and performance of the market will provide robust and competitive results to lower investment barriers, which in turn ultimately results in lower costs to consumers, including those in Maryland.



Question 3, “In early October, PJM advised the MD PSC and other State Regulators and Consumer Advocates that a User Group/Partial Stakeholder process had been initiated upon the MOPR in June 2012 and was subsequently continued up until late September 2012. As the result of comments at the October 17 PJM MOPR Education Session, it was learned that this process involved up to 4 User Group/Partial Stakeholder Face-to-Face Meetings and an equal number of Conference Calls, with exchanges of data and proposals for modification of the MOPR, and further that PJM participated in or facilitated these Meetings pursuant to an agreement that the existence of this process or its contents would not be shared with State Regulators or Consumer Advocates. Please identify the dates, length, subjects discussed and general character of the participants in each such meeting or conference call in which PJM participated and provide any official summaries or reports prepared by PJM as a part of its Stakeholder facilitation process of such meetings or Conference Calls.”

PJM Response: The summaries of the results of stakeholder meetings to develop proposed solutions to identified problems with the current MOPR are posted on the PJM website at the following links: <http://www.pjm.com/~media/committees-groups/committees/mrc/20121004/20121004-mopr-education-materials.ashx> and <http://www.pjm.com/~media/committees-groups/committees/mrc/20121012/20121012-proposed-mopr-summary.ashx>.

PJM does not recall advising the Maryland PSC or any other state regulators and consumer advocates that a User Group or partial stakeholder process had been initiated to discuss MOPR from June 2012 to September 2012. The discussion between stakeholders was ad hoc and more informal than the question assumes. Beyond the meetings described by PJM in the MOPR Education Session, there were numerous informal discussions (telephone calls, hallway meetings and the like) between PJM and various stakeholder interests, including the IMM, bilaterally, multilaterally and unilaterally during the months of July - September, as is typically the case in the development of proposals for rule changes to be considered in the stakeholder process.

On September 27, 2012, PJM did advise all stakeholders that it had been included in discussions convened by a number of stakeholders, generally representative of PJM’s voting sectors, to discuss their concerns with application of the MOPR in the May 2012 Base Residual Auction. PJM further advised that it attended several meetings in-person and participated in several conference calls with these stakeholders during which they discussed their various proposals to revise the MOPR to provide tests that were more “bright line” in application and transparent in outcome than the current MOPR. PJM made clear that it did not introduce or design the proposal presently described as Package 1. Rather, the



proposal was the result of compromise and consensus reached by the ad hoc group of stakeholders that convened discussions.

Further, PJM does not recall stating or implying that there were “up to 4 User Group/Partial Stakeholder Face-to-Face Meetings and an equal number of Conference Calls, with exchanges of data and proposals for modification of the MOPR, and further that PJM participated in or facilitated these Meetings pursuant to an agreement that the existence of this process or its contents would not be shared with State Regulators or Consumer Advocates.” In that regard, PJM advises that it does not know how many face-to-face meetings or conference calls were held by the group of stakeholders who convened the discussions since PJM was not invited to participate in all of the group’s meetings or calls.

Finally, PJM understood that the ad hoc group of stakeholders who convened the discussions wanted to maintain the discussions as confidential understanding the distinct potential they would be unable to come to agreement on a mutually acceptable proposal. That said, this was an understanding and not memorialized in an agreement. Moreover, there was never, to PJM’s knowledge, discussion of confidentiality specific to State Regulators or Offices of Consumer Advocates.

Sincerely,

A handwritten signature in black ink, appearing to read "Andrew Ott", written in a cursive style.

Andrew Ott
Senior Vice President, Markets

cc: Miles Mitchell
David Anders
Denies Foster
Jacqulynn Hugee
Matt LaRocque