



Organization of PJM States, Inc. (OPSI)

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November 10, 2021

Mr. Manu Asthana, PJM President and CEO
PJM Interconnection L.L.C.
2750 Monroe Boulevard
Audubon, Pennsylvania 19408

Dear Mr. Asthana,

On October 20, 2021, a proposal intended to address issues raised by London Economics, Inc. (LEI), in an independent review of PJM's ARR mechanism and FTR Markets secured endorsement at the Markets and Reliability Committee Meeting. However, despite the concerns raised by London Economics regarding allocation approaches for distributing surplus congestion, this proposal maintains the status quo. OPSI unanimously requests the PJM Board correct the inequities inherent in the proposal and adopt revisions to the allocation of congestion surplus aligned with the primary responsibility of the ARR/FTR construct, which is to return congestion revenues to load.

In 2020, the Board engaged LEI to conduct an independent review of PJM's ARR mechanism and FTR markets. The purpose of this review, as LEI explained in its December 2020 report, was "to determine if the current ARR/FTR processes employed by PJM, including the ARR allocation and FTR auctions, constitute the appropriate mechanism by which to ensure that load is adequately compensated for the value of to [sic] the transmission system, which it is paying through regulated transmission access charges."¹ LEI identified four criteria for evaluating PJM's ARR/FTR construct: equity, efficiency, simplicity, and transparency.² Of these criteria, LEI gave heightened importance to equity because "equity considerations are the fundamental rationale for seeking to return congestion charges to load, given the congestion charges represent an 'overpayment' and load has already paid for the transmission system through a separate regulated tariff."³

¹ LEI Report, p. 1

² LEI Report, p. 5.

³ LEI Report, p. 5.

One of the critical equity concerns identified by LEI was the allocation of any auction and congestion surplus. In its report, LEI recommended that PJM and stakeholders “[e]xplore alternative allocation approaches for distributing surplus congestion.”⁴ Unfortunately, the proposal currently being advanced to the Members Committee leaves both auction and congestion surplus as *status quo*—thus failing to address the concerns raised by LEI. Given the clear statement by LEI that the current formula for allocating auction and congestion surplus is not equitable, it is difficult to reconcile the Joint Stakeholder proposal with FERC’s requirement for “just and reasonable” rates.

For this reason, OPSI asks the Board to advise its Membership of PJM’s preference that any proposed changes to auction and congestion surplus filed with FERC be allocated in a manner that is just and reasonable. OPSI notes that an alternative proposal was offered by the Office of the People’s Counsel for the District of Columbia (“DC OPC”) that requires that 100% of auction and congestion surplus be returned to load.⁵ This proposed requirement squarely aligns with PJM Staff’s preferred approach to ARR/FTR market reforms as proposed to stakeholders earlier this year.⁶ While PJM allows the stakeholder process to play out, we ask that the PJM Board make known its preference in this instance so that its Members receive a clear signal to endorse a just and reasonable provision that fully addresses the equity concerns raised by LEI.⁷

Sincerely,



David Ober, President
Organization of PJM States, Inc.

Cc: The PJM Board of Managers

⁴ LEI Report, Figure 12.

⁵ The DC OPC proposal provides that “100% to ARR holders pro-rata positive ARR target credits end of PP” (Design Component 7) and that “100% to ARR holders pro-rata positive ARR target credits after FTRs are fully funded end of PP” (Design Component 8).

⁶ See, Item 5 – Options & Packages Matrix, July 30, 2021 ARR/FTR Market Task Force.

⁷ Approved unanimously by the OPSI Board of Directors on November 8, 2021.