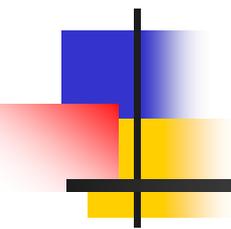
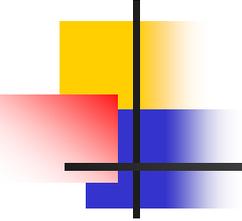


FERC CONFERENCE
on
WHOLESALE MARKET PLATFORM:
WHITE PAPER

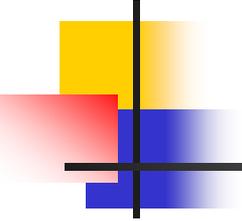


Bruce Bleiweis, Reliant Energy
On Behalf of
PJM Generation Owner Sector
August 28, 2003



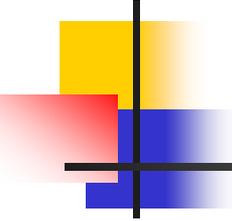
OVERVIEW

- The Generation Owner Sector believes that PJM's continuing market design evolution has, in the past, been effective in the Mid-Atlantic Region and can serve as a model for other regions.
- The Generation Owner Sector believes PJM conforms with *almost all* aspects of the White Paper's elements for well functioning wholesale markets.



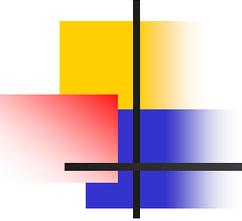
LMP

- The Generation Owner Sector are strong supporters of LMP use for congestion management.
- One of LMP's strengths is its implicit ability to establish price signals for continued and new investments in the right locations.



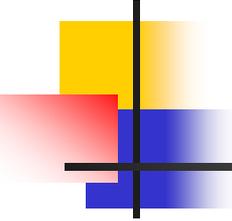
LMP Strengths

- LMP provides an operational tool for management of congestion that is much more efficient than TLRs
- Another LMP strength is its flexibility to accommodate a wide variety of State Retail regimes
 - Competitive Retail Access
 - Bundled Regulated Retail
 - State coordinated retail supply auctions (New Jersey)



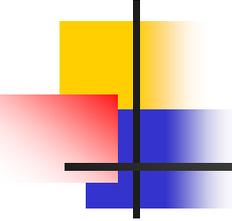
LMP

- An important feature (i.e., appropriate price signals) is at risk in PJM due to:
 - Market Expansion is Beneficial – However need to balance efforts with continued evolution of PJM market design
 - Exclusive congestion relief by regulated transmission expansion.
 - The continued use of simplistic and outmoded Local Market Power Mitigation rules. We are encouraged by recent FERC action (i.e., formation of internal FERC working group) on *locational* constraint mitigation.



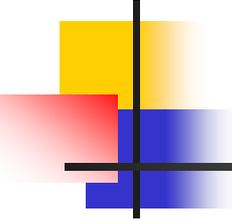
LMP Challenges

- FERC has a role to play in two critical areas:
 - Establishing local market power mitigation rules
 - Scarcity Issues
- These critical areas are created not because LMP doesn't work, but because some participants don't trust it to work.



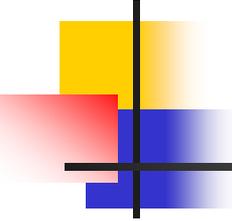
LMP Challenges

- The Mitigation Challenge
 - Mitigation rules must work *with* LMP to provide appropriate and fair price signals
 - No mitigation rule will be perfect
 - BUT, excessive mitigation rules will eliminate the “Locational” aspect of LMP
 - Sound mitigation rules will provide market efficient, least cost solutions in the long run



LMP Challenges

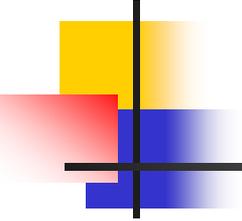
- Scarcity pricing is critical for both long term resource adequacy and locational pricing
 - Demand Response should set LMP
 - Reserves should participate in setting LMP
 - Locational Scarcity should be reflected in local mitigated pricing



Long Term Adequacy

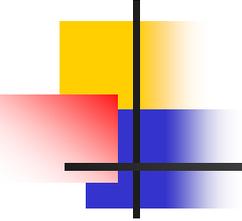
- Market Design

- Mandatory capacity markets including set levels of reserves
- Need to couple with short term solution, entitlement to payments in excess of marginal production costs during scarcity
- Options Currently Debated include:
 - Multiple Year Central Procurement Auction
 - Demand Curve



OVERALL

- As Phil Harris indicated PJM is compliant in all 8 White Paper elements
 - Next Step – Improvements Required
- PJM's MOU with States is the model for the White Paper RSAC and should be maintained.



CONCLUSION

- PJM's talented and creative staff should re-focus on the issues discussed herein.
- These efforts will result in PJM becoming fully compliant and maintaining its reputation of managing the leading efficient electricity market in North America.