

**OUTLINE OF END-USE SECTOR COMMENTS AT
FERC WHITE PAPER TECHNICAL CONFERENCE FOR PJM**

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**by
David M. Kleppinger**

- I. Description of PJM End-Use Sector Composition
 - A. Operating Agreement opens sector to any retail end-user of electricity in the PJM footprint
 - B. Sector consists primarily of state consumer advocates and large commercial and industrial customers
 - C. Other sector members include a cooperative, a municipal customer, and retail marketers

- II. SMD Compliance
 - A. Agree with Mr. Harris that PJM is compliant with basic tenants, purposes, and direction of the SMD whitepaper
 - B. Like Mr. Harris, End-Use Sector representatives recognize areas requiring further development and enhancement
 - C. Brief discussion of four primary areas of concern
 - 1. Market Power Mitigation
 - 2. Resource Adequacy
 - 3. Regional Transmission Planning
 - 4. Retail Market Integration and Coordination

- III. Market Power Mitigation
 - A. MMU State of the Market Report repeatedly references potential for market power exertion
 - B. Need for direct identification from FERC on acceptable market behavior, e.g., bidding at or about marginal cost

- C. Speed of response needs enhancement, *e.g.*, capacity market issue in early 2001 took three-four months to resolve
- D. Need region-specific mitigation due to differing marketing designs in neighboring RTOs/ISOs
- E. Must examine entire market design to address local market power and load pockets, not simply leap to proxy bids and scarcity pricing

IV. Resource Adequacy

- A. Necessary balance between reliability and cost
- B. Many critics of unforced capacity/installed capacity
- C. Nonetheless, since blip in capacity market in early 2001, price stability has prevailed, new capacity is being added, system reliability maintained
- D. End-users continue to pay stranded cost payments on same capacity for which generators are seeking higher payments; no reason to bail out corporate decisions to purchase generation at prices in excess of where market prices have materialized
- E. Prior to a change in PJM's Resource Adequacy Model, end-users must be assured that customer outcomes are preferable to the status quo

V. Regional Transmission Planning

- A. PJM compliant, but still work in progress on economic transmission; further compliance filing forthcoming
- B. Need for regulatory and RTO involvement when market fails to respond
- C. Cost recovery cannot be overly generous; base rate recovery sufficient without special recovery mechanism

VI. Retail Market Integration and Coordination

- A. Encouraged by PJM designation of Manager for Retail Market Integration
- B. Need load participation in all markets, not only demand-side capacity and energy markets
- C. Jurisdictional coordination required between state agencies and RTO; PJM's MOU has worked well
- D. For LMP to send proper signals, load serving entities must see bus/nodal price as opposed to zonal averages

- E. Need for incorporation of wholesale market design into retail market and provider of last resort obligation

VII. Summary

- A. PJM compliant with elements of standard market design, but with over 200 tariff modifications since its inception, PJM continues to evolve and improve upon its market rules. The four areas discussed required continued attention and development.