

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

**PJM Interconnection, L.L.C. Docket No. EL03-236-000
Technical Conference on Compensation for Generating Units Subject to Local
Market Power Mitigation in Bid-Based Markets**

Comments of Gloria C. Ogenyi

My name is Gloria Ogenyi and I am Director, Energy & Market Policy at Conectiv Energy, which is headquartered in Newark, Delaware and a subsidiary of Pepco Holdings, Inc. The principles articulated below focuses on FERC's objective of ensuring adequate incentives to attract and retain needed investment as well as rates that are not excessive. The over arching goal of the principles is to assure reliability by ensuring adequacy of resources in the long term, establish clear and objective ways of determining the existence and abuse of market power, and to clarify how and when to mitigate prices in PJM. The first section sets out some general principles and the second section outlines PJM specific principles and proposals.

General Principles on Local Market Power Mitigation

- Encouraging new resources is in all market participants' best interest and provides the best long term solution to congestion, scarcity and market power.
- Mitigation mechanisms should enhance the viability of energy markets, provide appropriate market price signals and be compatible with overall market design.
- Generators that provide mandatory reliability service to support system needs should be fairly compensated.
- Mitigation based on short run marginal costs (SRMC) does not provide correct long term investment signals.
- The design of mitigation mechanisms must not eliminate long term investment signals nor prevent market forces from arriving at an economic solution to congestion
- The ultimate goal of mitigation is not to restrain prices, but to restrain abuse of market power
- RTO rules must clearly distinguish between scarcity and the abuse of market power.
- RTOs must establish and publish a clear objective standard on what constitutes abuse of market power

- A forward cost signal plus implementation of cost causation principles is necessary to incent optimal investment
- Whatever congestion solutions are developed, all resources must be able to participate equally

PJM Specific Principles and Proposals

Reliability:

- Inadequate compensation and regulatory uncertainty will lead to generation inadequacy and compromise reliability.
- To ensure the overall reliability of the system, PJM should abandon its current fragmented approach to mitigation vs. market development, and develop integrated solutions that take into account other planned or ongoing PJM programs. Fragmentation will undermine reliability and market confidence.
- Generators should be fairly compensated for providing mandatory reliability service to support system needs. PJM should either allow LMP to rise to enable recovery from the energy market, or revive the capacity market.

Determination of Market Power Abuse:

- PJM must be required to specifically identify potential and incentive to exercise market power before imposing mitigation.
- PJM must be required to establish a clear objective standard on what constitutes abuse of market power.
- A determination of insufficient competition at a specific location should be based on objective pre-published criteria, and study procedures should be known, and study results should be published.
- PJM must establish a clear objective standard on what constitutes abuse of market power.

Application of Mitigation rules:

- Inappropriate focus on low prices will distort markets, causing a reversion to cost based market mechanisms.
- PJM should eliminate “automatic” mitigation when a unit is dispatched to relieve a constraint.
- Only the amount of generation needed to relieve a constraint should be cost capped.
- Whatever mitigation methodology is developed, all resources should be able to participate equally.
- PJM should implement the Resource Adequacy Model (RAM) on a PJM stand alone basis, or some other capacity market structure that sends appropriate long term forward price signals.
- PJM could consider creating local capacity or reserve markets for load pockets.

- Units should not be able to switch between the security of RMR-type solutions and the opportunities of the market.

Cost Capping Post 96 Units:

- Moves the market backwards towards re-regulation.
- Significantly impairs the value of existing units (e.g., Hay Road, Bethlehem).
- Retroactive rule making at best, more clearly described as creeping expropriation.
- Existing compensation problem must be equitably resolved first or existing units should be grandfathered.
- Will create major barrier to investment which will lead to reliability problems.
- Can lead to reliability problems.
- Issue is outside the scope of this proceeding.