



Summary of Statement of Thomas L. Welch  
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#### I. Introduction

- PJM's Reliability Pricing Model strikes an appropriate balance among the interests and imperatives of the wholesale electricity market and is also fully compatible with the various state structures and policies. In particular, RPM can successfully accommodate robust bilateral contracting; the activities of competitive Load Serving Entities; the full spectrum of the treatment of the provider of last resort obligation; self-supply of capacity by load; and the emergence of pervasive and effective demand response.

#### II. Bilateral Contracting

- Bilateral contracting is important as a hedging tool in the market, though RPM itself can serve as a hedge for some participants
- Greater forward price predictability is likely to stimulate bilateral activity; the uncertainties and structure of the current market dampen bilateral activity because risk is difficult to evaluate
- Both sellers and buyers in the bilateral market have an interest in hedging the uncertainties that remain under RPM: buyers may be uncertain about load and prices beyond the auction horizon, and sellers may want to achieve even greater revenue predictability and stability

#### III. LSE Activities

- LSEs will retain virtually all their current product portfolio opportunities
- The situation for LSEs under various forms of regulation does not change in any structural way
- By providing greater information about future prices and supply, LSEs in the competitive market may be able to offer longer term products, thus stimulating competitive activity. LSEs under traditional regulation will be able to evaluate their procurement more effectively because the future cost of supply will be more transparent

#### IV. POLR

- RPM is not a substitute for POLR, and POLR cannot by itself achieve the goals of RPM
- RPM should not create undue difficulties for existing POLR suppliers

## V. Self Supply

- The structure of RPM permits LSEs to “self supply” their capacity obligation
- RPM will provide important price information to LSEs who are considering self supply
- PJM is evaluating various ways to integrate the activities of LSEs under Integrated Resource Plan obligations into RPM

## VI. Demand Response

- RPM increases the opportunities for demand response
- PJM will continue to review the impact of the expansion of demand response on the capacity market

## VII. Conclusion

- Perfect harmony on RPM is unlikely in light of the variety of economic interests at stake; greater efficiency and predictable reliability will not affect all equally, and requires a commitment to the long term health of the system and a long term view of customer costs
- PJM is committed to continuing to work with the state commissions, the FERC and the market participants on these issues
- The RPM construct is sufficiently developed and understood by the parties to warrant formal consideration by the FERC; further delay is unlikely to raise additional issues or produce new insights, but would risk repeated episodes of shortages that could only be addressed through less efficient and more expensive solutions