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

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| PJM Interconnection, LLC | * | Docket Nos. ER05-1410-000 |
| | * | and EL05-148-000 |

# TECHNICAL CONFERENCE STATEMENT OF EDWARD D. TATUM, JR, OLD DOMINION ELECTRIC COOPERATIVE

My name is Ed Tatum and I'm the Assistant Vice President of Rates and Regulation at Old Dominion Electric Cooperative.

Old Dominion is a FERC-jurisdictional, not-for-profit electric power supply cooperative owned by 12 member distribution cooperatives all now within the PJM footprint. Old Dominion is a member of the CCR and a supporter of the EITCC that was discussed during our June 16th, 2005 technical conference. Old Dominion thanks the Commission for your attention and this opportunity to visit with you.

We strongly believe an alternative to RPM is essential to ensure continuation of a robust capacity adequacy construct in the PJM footprint.

There is adequate and compelling evidence that:

1. The current construct has attracted significant new generation investment, when there was a surplus of capacity.
2. Generation siting decisions are complex, taking into account a wide variety of variables and that an inadequate transmission grid is a high barrier to entry for new generation in local areas.
3. The majority of capacity transactions under the current construct have been long-term and bilateral (i.e. not spot).

Of course there is always room for improvement as the market evolves and experience increases. All other changes to the PJM market have been evolutionary; why is this different?

It is crucial however, that changes to the capacity construct truly enhance the construct and do not allow ourselves to be distracted from the core issue that must be addressed if we are to complete our journey into a competitive marketplace. We need transmission.

And there is a lot of activity right now at PJM and before the Commission that has the potential to address the transmission issue. Even so, unless we are resolved and committed to addressing the dearth of transmission investment, we are in peril of being sidetracked by those who will benefit from the minimalist reliability-based planning currently in place.

Reliability-based planning was appropriate in integrated resource planning. As generation and transmission were "bundled" and under the control of a single entity, there was a good level of control and certainty of outcomes. The reliability-based transmission planning that is still employed today worked very well in that paradigm.

But that transmission planning approach does not work in a competitive market. We must change our approach to planning the transmission grid recognizing that generation is now competitive and we can no longer rely on the control and certainty of their behavior to plan the grid.

So we must all keep our eye on the ball and recognize old ways of thinking that can derail us. Even PJM, with their strong commitment to revising the transmission planning paradigm must be vigilant in this regard. For example, in their filing letter for RPM, PJM correctly states, "…the current planning process is biased towards transmission solutions." But the solution is not to restrain the process. We need to set aside the myth that regulated transmission assets are "competing" with generation and move on.

We must make sure there is an adequate amount of "T" in our RTO. And PJM needs the Commission's help and resolve to ensure the transmission planning and construction issues currently before PJM and the Commission are fully and correctly resolved.

So transmission is important. Beyond that only incremental changes to the existing capacity construct are warranted.

There ***is*** a need to address local aspects of a capacity construct[1]. It is not unreasonable to expand the commitment period from one day to one year

[1] The EITCC proposal has been willing to add a reasonable local capacity element. This local element though recognizes that any resource obligation can be split into a common part (credit fungible across the footprint) and a local part based on the transmission capability into an area. This preserves the bulk of the existing market approach for the bulk of the market. This concept was even indirectly embraced by

(And we all need to agree that one year is significantly longer than one day). We need to revise the capacity adequacy assessment to set reserve margins not one, but three years into the future. And a reasonable clearing horizon should be established.

These rational, evolutionary and incremental changes will enhance the current construct and provide relief to generators who are truly unduly burdened solely due to the evolution of the market. Additional changes, however, would not be prudent, given the data to the contrary and will sidetrack us from the important task of getting sufficient transmission built to support a competitive marketplace.

The EITCC previously presented during the June 16th, 2005 Technical Conference and submitted to the Commission via the CCR October 19, 2005 filing accomplishes these goals.

In evaluating changes to the capacity construct, we believe the focus of the policy debate should be on:

1. Reasonably defined resource obligations, which markets have generally done in the past, and will in the future "clear" as opposed to some discussion of what is reasonable revenue for a narrow group of merchant assets.
2. Dealing with exceptions as exceptions and not systemic issues.

Unless we wish to consciously move from market-based to administrative solutions (which I don't think we do), then:

1. Individual participants should manage their own obligations and risk as well as decide whether a reduction in volatility is worth the cost
2. Prices should be set by the voluntary interaction of willing buyers and willing sellers.

EITCC allows this.

What EITCC doesn't have is a demand curve. For many practical and theoretical reasons, we reject the broadly applied VRR demand curve. There has been no meaningful response to the substantive issues raised in Jonathan

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Mirant-WPC-NRG as a solution in their November 23rd 2005 answer to PJM where they advocated this general approach as a temporary solution. This supports the idea that this local technique can be done as an incremental change in a timely manner. The only real difference from EITCC was their suggestion was temporary in nature and they drew the local boundary at a different spot.

Wallach's October 19th 2005 affidavit contained in the CRR protest. As near as we can tell based on the information provided, for the PJM market a VRR demand curve is NOT a good policy decision. (Individual participants that believe the supposed benefits of lower long term cost and reduced volatility/higher certainty can do so by the types of the transactions they enter into in ***today's*** market-based construct.

This is important. Load, who has the reliability obligation, already has the option to achieve the purported effects of the demand curve. Choice is all about competitive markets; application of a demand curve wrongly eliminates an important element of competitive markets.

And, for the record, Old Dominion, as do all the CRR and EITCC supporters, takes seriously its reliability obligations. For us this is not an issue of less reliability to save money. It's about the right amount of reliability at just and reasonable prices. For both load and generators. We are willing to pay our share for services and realize that one gets what one pays for. We recognize that some generators essential for transmission system reliability are facing hardship under the current capacity construct. And we want to explore ways to correct that. Regardless, we are highly resistant to throwing our money away for no improvement in markets or reliability.

I appreciate the opportunity to address you today and remain available now and in the future to address any questions or concerns you may have.

Thank you.