

UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

PJM Interconnection, L.L.C. : Docket No. EL03-236-000  
Compensation for Generating Units : Docket No. PL04-2-000  
Subject to Local Market Power Mitigation  
In Bid-Based Markets

**Summary of Position of the Joint Consumer Advocates**

The Joint Consumer Advocates (“JCA”) are a group of state offices created by statute to represent the interests of consumers of electricity.<sup>1</sup> We have been actively involved in the discussions concerning the compensation for units located in load pockets in the PJM Interconnection, L.L.C. (“PJM”) stakeholder process. The paramount interest of consumers is for reliable service at reasonable prices. It is our position that the following principles must be followed to avoid unjust or unreasonable results.

1. The existence of a competitive market with sufficiently elastic demand and supply is a condition precedent to true scarcity pricing. Attempts to institute “scarcity pricing” in a load pocket that is deemed non-competitive will certainly produce high prices; however these prices will not provide efficient price signals and will fail to provide just and reasonable rates. Administrative solutions are required here to produce a just and reasonable result.
2. True scarcity conditions exist in a load pocket when there is insufficient capacity to serve load in accordance with applicable reliability rules. Many load pockets have sufficient capacity to serve load in accordance with applicable reliability rules yet are subject to the exercise of market power by dominant suppliers. Where existing supply is adequate, there is no economic justification for prices to rise to levels sufficient to attract new investment.
3. Even under true scarcity conditions, mechanisms that attempt to reflect scarcity through short term energy prices may result in undue price volatility that can harm consumers and could prove to be an insurmountable barrier to entry.
4. The compensation scheme for incumbent monopoly suppliers should be based on the reasonable costs to provide the required service.
5. Under no circumstances is it reasonable to pay the incumbent an amount in excess of full cost of service for the provision of RMR services.

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<sup>1</sup> For the purposes of this paper, the JCA are the Maryland Office of People’s Counsel and the Pennsylvania Office of Consumer Advocate.

The JCA filed comments in Docket No. EL03-236-000 generally supporting the PJM filing that proposes to hold auctions to acquire resources to resolve long-term local scarcity issues. This approach maintains the current mitigation of local market power in the energy market. The JCA support this approach because it restrains bids to the levels expected in competitive conditions. This maintains energy market prices at levels consistent with a competitive market. If a situation of true scarcity arises, it is identified through the planning process and resolved through the auction. The prices for the resources acquired through the local auction are competitive market prices for resources necessary to maintain reliability and would be a reasonable charge for load. The “scarcity pricing” proposals we have reviewed to date would, based on the principles stated above, result in unjust and unreasonable prices, as well as economically inefficient activity, because they apply “scarcity prices” to situations where there is no true scarcity and no competitive market.