



Summary of Statement of Andrew L. Ott
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Technical Conference
Capacity Markets in the PJM Region, Docket No. PL05-7-000
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Introduction

- Long-term infrastructure investment issues must be resolved.
- Capacity market should be designed to incent long-term infrastructure investment
- PJM Board has recognized that the PJM transmission planning process must be revised to expand its focus on the longer term and toward building transmission infrastructure to support the needs of a competitive market
- However, transmission expansion alone will not be enough; the capacity market design must also integrate generation, demand response and transmission solutions
- The RPM auction process includes an integrated transmission perspective that allows transmission investment solutions to compete directly with local generation to resolve local capacity issues

PJM Capacity Market Design Efforts

- PJM stakeholders have been considering capacity redesign issue for over 4 years, through multiple stakeholder processes and forums
- Redesign efforts included PJM-specific discussion plus Northeast regional stakeholder process
- At 2004 annual meeting, PJM stakeholders expressed frustration with lack of progress on capacity market redesign efforts. Stakeholders requested PJM to develop straw proposal for capacity market reform that addressed all of the issues.
- PJM developed initial Reliability Pricing Model design and presented to stakeholders in June 2004



- RPM was discussed and modified through stakeholder process over the nine-month period from June 2004 through March 2005
 - The proposal was discussed at over 100 meetings with stakeholders
 - Substantial modifications made to original proposal (see Attachment A)
 - Many differing stakeholder views on the issues
 - Stakeholder consensus could not be achieved
- Several stakeholder conferences dedicated to capacity market design were held to solicit feedback and provide forum for debate

Fundamental Design Elements of the Reliability Pricing Model

- Overall design goal of the RPM is to align capacity pricing with system reliability requirements.
 - Design features listed below will directly address documented issues with current capacity market design
- **Locational Capacity Pricing**
 - Necessary to ensure capacity pricing is consistent with reliability requirement
 - Locational granularity must be driven by Regional Transmission planning analysis to ensure consistency
 - Provides transparent price signal and avoids over-reliance on Reliability Must Run contracts
 - Transition mechanism proposed to help stakeholders adjust existing contracts
- **Variable Resource Requirement**
 - Resolves capacity price volatility issues
 - Capacity market structure issues
 - Provides direct valuation of the reliability benefits of reserves
- **Four-year forward commitment for generation and demand**
 - Provides forward certainty for reliability planning process



- Longer-term transmission planning alone cannot resolve issues, must have forward generation commitment to address retirement uncertainty
- Provides strong incentive for generation to respond to capacity shortages
- Provides transparent forward pricing to allow market to compare alternative solutions far enough in advance for investment to occur.
 - Transmission solutions
 - Demand Response solutions
 - Generation solutions
- Allows new entry to directly compete in auction

Summary and Issues Resolution

- PJM recognizes that capacity market alone cannot resolve infrastructure issues. PJM has committed to:
 - Implementing a longer-term planning process,
 - Addressing design issues in economic planning
 - Implementing permanent demand response rules that fully integrate demand response into the market
- PJM analysis has indicated that the RPM method produces significant consumer benefits through lowering forward investment risk
- Capacity market design issues must also be resolved soon.
 - Recent retirements have highlighted design flaws
 - Stakeholder process has resulted in significant progress, however resolution of fundamental issues now requires FERC guidance
 - Need for change is acknowledged; continued uncertainty about nature/scope of that change is adversely affecting capacity markets



Attachment A
Major adaptations of RPM design as a result of stakeholder process
June, 2004 – November, 2004

1. Enhanced Interaction of RPM with RTEPP – added four year forward obligation
2. Added Incremental Auction Concept
3. Enhanced Demand Response - added Interruptible Load For Reliability Concept
4. Created targeted market power mitigation protocols
5. Added specific physical withholding rules
6. Added transition mechanism for RPM implementation to address NJ BGS and MD retail auction issues
7. Revised Variable Resource Requirement formulation to be based on Net Revenue analysis
8. Added special Demand Response rules to deal with commercial issues
9. Streamlined Operational Reliability metrics by reducing from four metrics to two based on reliability needs.
10. Reliability backstop was enhanced to include total reserve shortage.
11. Enhanced bilateral market flexibility.
12. Enhanced provisions for participation for planned Demand Resource and planned Generation and eliminated market power mitigation for planned resources

Consensus revisions to RPM as a result of February RPM stakeholder conference

1. Revised Reliability backstop to include more performance analysis
2. Added flexible Self-Scheduling Capability
3. Enhanced Bilateral transaction capability
4. Revised cost allocation for second incremental auction
5. Added ability for Transmission Project Participation directly in RPM Auction
6. Added Performance assessment