

**Federal Energy Regulatory Commission
April 20, 2006 Commission Meeting
Statement of
Commissioner Suedeen Kelly**

**E-4: PJM Interconnection, L.L.C. Reliability Pricing Model
(EL05-148-00)**

"As staff's presentation summarized, this order addresses PJM's Reliability Pricing Model (RPM) proposal.

This draft order finds that the current non-locational capacity construct is no longer just and reasonable, basically because it truly is the case that not all participating generation can reach all load throughout the massive PJM region, yet they are currently all priced the same as though they can.

Prices for capacity that are set equal based on the idea that all participating generation is physically deliverable when it actually is not, are appropriately found unjust and unreasonable.

Furthermore, setting just and reasonable rates for capacity is an important effort with far-reaching effects.

If prices are too high, more generation could be built than is needed and that would be wasteful.

On the other hand, and of perhaps even more importance, if the prices are too low not enough generation will be built.

In that case we risk consequences ranging from the merely unpleasant, such as increased rates for energy, to the downright disruptive and possibly dangerous, such as brownouts and blackouts.

Obviously, the issue must be addressed and I would like to stress that this draft order proposes to address this issue in a way that is consistent with, and respects, traditional state jurisdiction over generation adequacy.

One example of this respect is the "opt-out" findings of this order, which will ultimately permit any company that can prove it can meet its own capacity needs over a reasonable period of time to opt out of PJM's capacity construct.

Our job at the Commission is to get a system in place that works and is just and reasonable for those who choose not to opt out.

This draft order is our first step toward doing so and I am pleased to vote for it on that basis.

My thanks to the staff team and to my colleagues for all of the hard work on this important order."