



Federal Energy Regulatory Commission
December 21, 2006
Open Commission Meeting
Statement of
Chairman Joseph T. Kelliher

Item E-3: PJM Interconnection, LLC Settlement (ER05-1410-001 *et al.*)

"Our action today takes an important step towards assuring adequate electricity supply at just and reasonable prices in the PJM Interconnection.

There is a growing electricity supply problem in PJM. PJM has claimed reliability has been degraded in New Jersey, and reliability problems will expand to other parts of Eastern PJM.

In essence, this problem is caused by steadily increasing demand, combined with a slowdown of new entry and a surge in generator retirements. New entry is declining in the areas where supply additions are most needed.

Part of the problem is caused by a surge in retirements by generators who are unable to recover their costs under the current capacity market rules. While demand steadily increases in PJM, plant retirements have increased. As is the case with the slowdown of new entry, retirements are occurring where supply is most needed. Roughly 40 percent of the generator retirements since 2003 are located in New Jersey, the state that is presently suffering the highest number of reliability criteria violations.

As a result of declining entry and rising retirements, PJM anticipates degraded reliability will expand outside of New Jersey to other parts of Eastern PJM, such as the Delmarva Peninsula and the Baltimore Washington area.

Just as we saw in New England, this problem will not resolve itself. It requires Commission action.

The changes made by the settlement should address the problem, and should assure adequate electricity supply at just and reasonable prices. The settlement would reform PJM's existing market rules to establish a forward market, which should encourage new entry. It establishes separate locational delivery areas to reflect existing transmission constraints. It prevents the exercise of market power through physical or economic withholding. It provides utilities can satisfy their energy needs through a combination of generation, transmission, and demand response. Altogether, the settlement provides greater incentives for investment in generation, transmission, and demand response. It also strengthens the competitiveness of the PJM wholesale power market.

The settlement is broadly supported. There were 89 parties in the original proceeding. In the end, only 11 parties protested the settlement agreement.

I want to congratulate Deputy Chief Judge Lawrence Brenner on his success fostering this settlement. Judge Brenner is one of our best, and had tremendous success in this and other settlement negotiations."