
FEDERAL ENERGY REGULATORY COMMISSION



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NEWS RELEASE

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COMMISSION SETS BROAD POLICY FOR COMPENSATING MUST-RUN GENERATORS IN ORGANIZED POWER MARKETS

The Federal Energy Regulatory Commission today outlined broad general principles on the pricing for must-run generating units. In taking today's action, the Commission sought to balance the need for reliable electric service, along with the need for adequate incentives to attract investment while ensuring just and reasonable electric rates for customers. The Commission has characterized such issues as "Reliability Compensation" issues.

The Commission noted that while today's order stems from a PJM Interconnection tariff, it has broader implications for all organized power markets.

Recognizing that there may be regional variations depending on market design and market differences, the Commission set a broad outline to ensure that policies governing generators needed for reliability, but subject to local market power mitigation, are consistent.

The Commission's analysis for such policies will look not only at the current market but future needs – it will review short- and long-term reliability compensation issues, and focus needed remedies on improved market design.

If an organized market indicates significant reliability compensation issues, appropriate market design improvements may offer a resolution. Market design features that may work as solutions include: locational installed capacity; locational operating reserves; locational pricing for energy when there is local operating reserves scarcity; and higher bid caps.

Where short- or long-term reliability compensation issues are identified, the solution must be such that the revenue produced by the proposed solution is adequate to solve the problem and include safeguards to prevent the unwarranted exercise of market power, the Commission said. The value of services needed for local reliability must be adequately reflected in the market and apparent to both buyers and sellers.

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In instances where these solutions may not work, the Commission would consider other specific proposals such as an RTO/ISO administered auction or generator-specific contracts entered into by the RTO/ISO. These solutions should “be viewed as backstops to the market design solutions...” the Commission said.

In today’s order, the Commission found that PJM’s market design does not present significant problems, in large part because PJM’s market design ensures construction of adequate transmission infrastructure. However, the Commission identified certain provisions of the PJM tariff that must be revised to better address certain issues. For example, the Commission required changes in the manner which generators needed for reliability can seek modification of local market power mitigation to allow for sufficient compensation.

The Commission held a two-day technical conference in February to address these issues noting that the issue of how to price must-run generating units has arisen in other markets outside of PJM and that these issues are fundamental to the efficient design and operation of electric markets (Docket No. PL04-2-000). Today’s order reflects the comments and discussion received by the Commission.

R-04-14

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