
FEDERAL ENERGY REGULATORY COMMISSION



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NEWS RELEASE

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FOR IMMEDIATE RELEASE

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Docket Nos. EL05-148, ER03-1410

COMMISSION SETS PROCESS TO RESOLVE FEATURES OF PROPOSED CAPACITY MARKET IN PJM

The Federal Energy Regulatory Commission today agreed that PJM Interconnection must replace its existing rules on generation capacity obligations, and established administrative procedures to iron out details of PJM's proposal for a new capacity construct.

The Commission found that PJM's existing capacity obligation rules are unjust and unreasonable, and determined that certain elements of the proposed alternative, the reliability pricing model (RPM), may form the basis for a just and reasonable capacity market. The Commission provided guidance on the features of RPM that must be further analyzed before the Commission can determine whether RPM is a just and reasonable capacity market, and established procedures – including a technical conference – to resolve the issues.

At the same time, the Commission encouraged parties to reach a settlement of the unresolved issues and offered settlement judge procedures or dispute resolution services to facilitate settlement discussions.

“The Commission's duty to assure just and reasonable prices does not mean a guarantee of profitability for new entrants,” said Commission Chairman Joseph T. Kelliher. “But doing nothing in the face of imminent serious reliability violations is not an option. The Commission today offers guidance on a number of core elements of a new capacity market that will assure just and reasonable rates and will protect reliability.”

The Commission made the following determinations in today's order:

- **LOCATIONAL CAPACITY MARKETS.** The Commission ordered a paper hearing to help determine the best method to ensure that the proposed locational capacity market encompasses areas that best reflect the operational characteristics of the PJM system, and that the locations reflect

- PJM's transmission constraints.
- **FORWARD PROCUREMENT.** The Commission determined that capacity should be committed four years in advance, but set for paper hearing the duration of such commitments.
 - **INTEGRATING GENERATION, DEMAND RESPONSE & TRANSMISSION.** PJM's capacity construct must provide generation, demand response and transmission with reasonable opportunities to compete in resolving reliability concerns. The Commission found that PJM's proposal adequately integrates demand response, and urged parties to make sure that expected revisions to PJM's Regional Transmission Expansion Plan coordinate with the capacity market.
 - **MECHANISM FOR ACQUIRING CAPACITY.** The Commission found it appropriate to allow a dual method of satisfying capacity obligations among which states and utilities can choose. One method would involve the RPM capacity auction approach proposed by PJM. The Commission approved the use of a downward sloping demand curve in that auction, but set for technical conference the parameters of designing the curve. The other method of satisfying the capacity obligation would be to set fixed capacity requirements for load-serving entities. Certain parameters of this approach would also be considered in the technical conference.
 - **INTEGRATING REVENUES DERIVED FROM THE ENERGY MARKET.** The Commission recognizes that if the capacity market is to provide incentives for new generation entrants, the market must be confident that the capacity construct will continue long enough for entrants to recover their investment costs. The Commission found PJM's proposal to include energy revenues in determining the slope of its demand curve is a reasonable method of ensuring that changes in the energy market will be reflected in the capacity market.

The Commission directed PJM to respond to the issues set forth for paper hearing procedures by May 19, 2006. Parties may file comments by June 2, 2006. Reply comments are due June 16, 2006. The date of the technical conference will be provided in a subsequent Commission order.