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## **REPORT FINDS PJM CAPACITY MARKET RELIABLY MEETING DEMAND; EXPLORES IMPROVEMENTS**

PJM's Reliability Pricing Model (RPM) capacity market has performed well since beginning seven years ago. That is the conclusion of an [independent report](#) released by the Brattle Group in which they find that RPM is meeting consumer demand reliably and is operating competitively. The report goes on to warn against subsidizing out of market generation that is not economically justified, not needed for reliability and would greatly disrupt the competitive marketplace. The report notes that a number of improvements should be explored so that RPM continues to meet its objectives, including addressing excess volatility caused by administrative decisions. The report also encourages exploring potential barriers to voluntary long-term contracts entered into by willing supply and demand side participants. EPSA looks forward to continuing to participate in the dialogue on capacity market issues to ensure that RPM continues to deliver efficient reliability results for consumers.

### **RPM Provides Competitive and Reliable Results**

- “Our primary finding is that RPM is performing well. Despite concerns by some stakeholders, RPM has been successful in attracting and retaining cost-effective capacity sufficient to meet resource adequacy requirements. Resource adequacy requirements have been met or exceeded in both the Regional Transmission Organization (“RTO”) and, during the last four BRAs, in all of the individual Locational Deliverability Areas (“LDAs”) at capacity prices below the net cost of new entry (“Net CONE”).” *Second Performance Assessment of PJM’s Reliability Pricing Model, Page I (emphasis added)*
- “Clearing prices in the base auctions have been consistent with market fundamentals—clearing at levels below Net CONE during times and locations of capacity excess and above Net CONE at times and locations of relative scarcity. Large quantities of relatively low-cost capacity additions from [demand response (DR)], uprates, and increased net imports have kept prices below Net CONE most of the time in most locations. These increases in low-cost resources have reduced system costs by postponing the need for expensive additions of new generation and allowing for the retirement of uneconomic existing capacity.” *Page 49*
- “RPM has greatly facilitated competition among various types of capacity resources. The capacity market has attracted commitments from new generation. But it has attracted even larger amounts of new DR resources, retained existing generation, and supported the upgrade of existing plants at prices below the cost of new generation.” *Page iii*
- “The main reason for the low activity of new power plant construction in eastern PJM is the fact that new plants are not needed for several more years due to a combination of low load growth on the demand side of the market, and lower cost supply options such as deferred retirements, transmission upgrades, demand response penetration, and upgrades to existing units. That is, RPM has been able to retain or attract the lowest-cost set of resources to maintain resource adequacy. In other words, the lack of feasible long-term contract offers for new generation is explained by market prices for capacity that are below the cost of new plants.” *Page 58 (emphasis added)*
- “It is important to note that every auction attracted more offers than were needed, resulting in some capacity offers not clearing. The uncleared capacity *could* have been procured at higher prices if market conditions were tighter and the capacity was needed. The amount of uncleared capacity was quite low in the initial auctions but has been between 3.7% and 6.8% of cleared supplies in the most recent four BRAs.” *Page 17*

## Out of Market Contracts Are a Mistake

- “We believe the underlying fact that new generation is simply not cost-competitive with lower cost options such as uprates, deferred retirements, and demand response under these market fundamentals is the primary reason that there has not been more new construction of generating plants in eastern PJM. That capacity prices will remain below the cost of new plants through 2014/15 and possibly for several more years is likely also the primary reason that some developers’ new generation projects cannot be financed without long-term contracts. Current market conditions do not support long-term contracts at prices high enough to finance new plants because rational buyers prefer to satisfy their capacity requirements at market prices that are below the contract cost of a new plant. Under these market conditions, when few or no new plants are needed, the only way to finance additional new generation would be through above-market long-term contracts.” *Page 59*
- “In short, the lack of long-term contracts and financing for new plant construction is a consequence of the fact that investments in new generation are at present inherently unprofitable and not part of the least-cost solution to resource adequacy. Currently, new generation is not a cost effective way to meet anticipated load growth. Under these circumstances we do not expect a well-functioning market to reward investments in new generation. In other words, the absence of new construction is a sign that the market is working.” *Page 59*

## Improvements to RPM That Should Be Explored

- “However, price uncertainty remains high due to non-transparent, and possibly excessive, fluctuations in modeled transmission limits and other administratively defined parameters in RPM. We thus recommend a number of refinements to make the determination of transmission limits and administrative parameters more stable and transparent. To increase forward price transparency and facilitate long-term contracting, we also support the development of voluntary auctions or an over-the-counter trading platform for long-term capacity products.” *Page i*
- “The greatest concern expressed by stakeholders from all sectors is that capacity prices under RPM are highly volatile and very difficult to predict. Stakeholders express that this uncertainty imposes additional costs and creates difficulty hedging and making investment decisions. Some stakeholders have expressed a lack of transparency about the underlying causes of major price changes, or have attributed various price changes to causes that they view as arbitrary or inefficient.” *Page 53*
- “We stress caution in considering these options, however, because we believe that it should not be the role of an RTO to offer or force long-term contracting for capacity resources when load-serving entities do not see the risk management benefit of entering into such contracts bilaterally. Nor would an RTO be able to readily determine the amount of long-term contracting or contract terms that optimally balance risks.” *Page 58*

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*EPSA is the national trade association representing competitive power suppliers, including generators and marketers. These suppliers, who account for nearly 40 percent of the installed generating capacity in the United States, provide reliable and competitively priced electricity from environmentally responsible facilities. EPSA seeks to bring the benefits of competition to all power customers. For more information, go to [www.epsa.org](http://www.epsa.org).*