



## **Organization of PJM States, Inc. (OPSI)**

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December 3, 2009  
(As email attachment only)

W. Terry Boston  
President and CEO  
PJM Interconnection, L.L.C.  
955 Jefferson Avenue  
Norristown, PA 19403

### Re: Long-Term Capacity Issues Symposium

Dear Terry:

The Board of the Organization of PJM States, Inc. (OPSI Board) understands the PJM staff and stakeholders are currently planning the program for the Long-Term Capacity Issues (LTCI) Symposium to be held at the BWI Westin Hotel on January 26-27, 2010. The OPSI Board commends the PJM Board of Managers and its management for organizing this timely event.

As your management is aware, several staff members from OPSI's Member Regulatory Agencies (commissions) are participating in the LTCI program planning phase during PJM's Capacity Market Evolution Committee meetings. Notwithstanding staff participation, the OPSI Board believes there are several issues related to a successful capacity market that need to be considered in this upcoming symposium. For your consideration in determining the topics for the LTCI Symposium, we have provided in Attachment A to this letter a list of various issues of concern to at least some OPSI members. Each issue is not necessarily viewed the same by all members.

We look forward to participating in a successful symposium. If your staff has any questions regarding this letter and the attachment, please feel free to contact OPSI's Executive Director, Raj Barua, at 302-757-2441.

On behalf of the OPSI Board,

*/s/ Doug Nazarian*

Douglas R. M. Nazarian  
President of OPSI, and  
Chairman, Maryland Public Service Commission

Attachment

cc: Andy Ott, Sr. VP – Markets, PJM  
Denise Foster, State & Govt. Relations, PJM

## ATTACHMENT A

### OPSI BOARD OF DIRECTORS' LETTER TO PJM's PRESIDENT & CEO

#### RE: LONG-TERM CAPACITY ISSUES SYMPOSIUM, JAN. 26-27, 2010

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#### [1] Changes to RPM

- (a) **Whether fundamental changes to RPM are necessary in order to bring new generation capacity to the areas where it is needed most. RPM has not sent the appropriate price signals to provide incentives to construct facilities necessary for regional reliability.**
- (i) New vs. Existing: Does RPM as it is currently designed favor existing capacity? If so, what revisions are necessary to enable new generation and new demand response resources?
  - (ii) Timeframe: Is RPM's one-year commitment three years in advance a viable model in light of the sea of changes in the economic environment in the years since RPM was initiated? Severely tightened credit markets and other fundamental changes in the economy require increased commitments for new capacity, which RPM does not provide.
  - (iii) New Entrants: Whether the new entry pricing provisions are meeting expectations. If FERC precludes the type of long/medium-term contracts for new entrants envisioned when RPM was developed, is that grounds for whatever degree of overhaul is necessary to give new entrants the certainty required for a 30+ year investment?
  - (iv) To produce an appropriate price signal for new generation, would bifurcation of RPM better achieve the goals of a forward capacity market?
- (b) **Consider using target reliability requirement instead of administratively determined VRR.**
- (i) Due to the use of an administratively determined VRR curve, the RPM 2012/2013 BRA procured 2,411 MWs in excess of the reliability requirement in PJM (note that the reliability requirement already includes a 16.2% installed reserve margin).
  - (ii) The IMM has noted "that the use of downward sloping demand curves for the RTO and the individual LDAs had a significant impact on the clearing prices and quantities." Ratepayers bear the cost of this price impact as well as the cost of the additional MWs procured.

#### [2] RPM Requirements and Penalties

- [a] **RPM resources should be required to make economic offers in the day-ahead market.** Capacity resources are paid to be available every hour of the year, and to the extent a resource is not available for a legitimate reason there should be a mechanism for allowing this other than economic withholding.

[b] **How should max-emergency capacity be treated:** as a capacity resource or as a scarcity resource?

[c] **RPM Capacity Performance Penalties.** A bedrock purpose of RPM is to create economic incentives to meet peak demand/reliability goals. Given this fact, it is counterintuitive to pay capacity resources that are unavailable when needed. Today's rules nevertheless overly compensate resources whose outages exceed expectations. OPSI supports the IMM's proposal that RPM capacity that fails to perform lose a proportional amount of capacity revenue and that the RPM payments at risk not be limited to the current 50% even for complete non-performance.

**[3] Investigate methods to improve RPM**

Reliability: Is PJM best situated to forecast and calculate reliability requirements? Can we improve the process by which PJM forecasts load and calculates reliability requirements? OPSI desires to have the load forecasting process be more transparent for the purpose of facilitating examination of the calculations and assumptions used in arriving at the various forecasts. Only by knowing exactly how the forecast is derived, including full transparency of all underlying assumptions and factors, can a robust discussion of the pros and cons of various approaches take place. As support for this request, OPSI points out the significant cost of altering the forecast by even a small amount. For example, a two percent reduction in the 2012/2013 reliability requirement for SWMAAC alone would have resulted in the 2009 BRA clearing price being \$25/MW-day lower, at a cost savings of \$88.7 million.

**[4] The cost effectiveness of RPM relative to alternative approaches**

- (a) Does RPM strike the right balance between reliability and cost?
- (b) Does RPM obtain the chosen level of reliability at least cost?
- (c) Does RPM produce value for consumers at least equal to its cost?
- (d) Does RPM constitute a regional solution to what are, in effect, local or zonal reliability problems?
- (e) Is the underlying RPM philosophy of returning the Cost of New Entry to all capacity resources over time overly costly?
- (f) Would a program more closely targeted toward adding or retaining capacity where it is needed be more cost effective?

**[5] Seasonal Capacity**

Whether seasonal capacity would create opportunity for resources that are unable to commit for an entire delivery year (DY) to participate in RPM without adverse unintended consequences. The Brattle Report estimates about 400 MW, cumulatively from 2007/2008 to 2011/2012 (or 33, 31, 224, 195, and 65 MW in each respective BRA) due to partial-year ownership and availability rules, and increased supply is likely to reduce costs and increase system reliability in the short-term. What benefits might seasonal capacity requirements bring to the market?

**[6] Short-Term Resource Procurement (2.5% Holdback)**

Should the short-term resource procurement be increased above the 2.5 percent? States need an opportunity to complement PJM's work to preserve reliability. States across the PJM footprint have various programs that are investing millions of dollars in efforts such as energy efficiency and demand response. Most of these efforts can be implemented with significantly less lead time than the three years used in RPM. A larger holdback, with active involvement by the states, will maximize opportunities to preserve reliability with all of the tools that PJM and the states collectively have at their disposal.