

Virginia CEUR Meeting – December 19, 2006
PJM Remarks – Matt LaRocque

PJM thanks the CEUR for the opportunity to provide its perspective in these important discussions. My remarks are intended to address some of the issues raised in the SCC's Report on Competition as well as some other key areas. I will discuss 4 of these.

1. PJM's Wholesale Markets are very Competitive and Transparent

- All aspects of market participation are thoroughly and constantly monitored both by the Market Monitoring Unit or MMU of PJM and FERC or the Federal Energy Regulatory Commission. Thus, there are two entities that monitor the wholesale market for such things as collusion and market power.

- The MMU produces an annual State of the Market Report. The 2006 Report will be out in a couple months but the 2005 Report is available on the PJM website. I will use the 2005 report in my comments.

- The MMU assesses the competitiveness of the Markets by analyzing measures of PJM market structure, participant behavior, and market performance, including such items as market size, concentration, residual supply index, price-cost markup, net revenue and prices. After all of these analyses, **the MMU concluded that the Day-Ahead and Real-time Energy Market performance results were competitive in 2005.**

- In regard to Transparency, PJM's Wholesale Electricity Market is extremely transparent with prices posted every 5 minutes, and they are recognized around the world as such. In the absence of open markets like PJM, wholesale pricing information is totally opaque. There is little or no basis to understand how prices are set in these closed bilateral markets which would be those of regulated states to the south of PJM for example.

- Also, new State Monthly Reports have recently been developed which will allow for the state regulators to more easily do their job. In fact, PJM recently reviewed these new reports with SCC staff.

2. Information & Data Access (Transparency)

- For **Confidential** Data, PJM can provide state commissions with the market information they require, subject to PJM's FERC-approved tariff procedures that protect the confidentiality of members' proprietary information. The SCC can sign this Confidentiality Agreement to gain access. Pennsylvania, Kentucky and Maryland have signed it but Virginia has chosen not to. As an alternative, Virginia has been offered to visit PJM to view the Confidential data but that offer has not been acted on.

- For **Non-Confidential** Data, PJM established a new process last year that has streamlined information requests from the SCC. The large majority of those requests within this new process have been acted upon within a few weeks and sometimes a few days.

3. Pricing of Wholesale Electricity

- The uniform-clearing price market with LMP, used by PJM and nearly all of the world's other organized wholesale electricity and other commodity markets, provides a built-in mechanism to produce the lowest competitive prices. Other forms of market structures include "Pay as Bid or Offered". At best a "pay-as-offered" system would only produce similar prices. A pay-as-offered market encourages generators to offer their electricity at the "expected" market price and encourages gaming. PJM's system encourages generators to offer their electricity at their margin, or their break-even point for variable costs.

- Wholesale electricity prices have increased as fuel prices have increased as the two are directly connected. **It is extremely critical to analyze wholesale prices on a fuel-cost adjusted basis to account for the volatility of the fuel commodities including Natural Gas, Coal and Rail, and Oil.** In fact the PJM MMU analyses have indicated prices falling on a fuel-adjusted basis for the past several years except for 2005 which increased by only about 1.5 %. For comparison, Nominal and Load-Weighted average prices for 2005 increased 37 % and 43 %, respectively. Also, even under regulation, higher fuel prices would and have increased prices although on a delayed basis.

4. PJM provides tremendous Benefits including:

- **(Markets)** Consulting Group LECG's Recent Report said that Coordinated markets in PJM and NY-ISO are saving consumers between \$430 MM and \$1.3 BB per year compared to consumer charges under a traditional market structure. The study examined the retail rates of a large set of municipal and cooperative utilities located in both PJM-like markets and traditional market states of North Carolina, Florida, Georgia, Alabama and Arkansas. One interesting note from the study is that since 1997, the level of natural gas dependence has declined somewhat in market states such as Delaware, New Jersey and New York while rising materially in traditional market states such as Florida. Part of the reason for this may be that Nuclear unit performance in PJM and NY rose 28 % between 1997-2004 following markets' implementations. Traditional markets Nuclear unit performance improved but not nearly as much. (In markets such as PJM you get paid only if you run so there is a strong incentive to operate and operate well.)

- **(Markets)** From a recent North Carolina Utilities Commission (NCUC) filing by Dominion related to its fuel case, Dominion modeled approximately \$114 MM in fuel savings for its first 14 months of PJM operations. This analysis was in response when asked by the NCUC about results from being in PJM thus far.

- **(Planning)** Virginia is a large net importer of electricity and there is a need for new transmission and generation infrastructure which PJM's Planning process is ideal for facilitating, especially with its expanded 15 year look from 5 years as well as improved methods of analyses. This independent process is proving quite valuable with these complex issues.

- **(Reliability & Operations are the backbone of PJM)** PJM safely set a world record with peak demand of almost 145,000 MW in 2006 after setting another record in 2005 of about 134,000 MW. These large increases in peak demand are driving the need for new infrastructure.

- **(Demand-Side Response Program)** PJM reported that its Demand Response program produced about \$650 MM in savings over just four days in early August alone on an average of about 1,445 MW's over twenty-six hours simulated. PJM's pricing scheme including LMP allows for such a program with the price transparency necessary for Demand Response to work. PJM is interested in expanding this program in Virginia.

- **(Renewables)** PJM is excited about the potential for Renewable generation resources such as Wind power. As of September, 2006 there were about 480 MW's of Wind out of a total of 770 MW's of Renewables. For the period 2006 to 2010, there are about 11,000 MW's of Wind proposed. Finally, PJM has a **Generator Attribute Tracking System (GATS)** which is an independent environmental registry and information system that will track the environmental and fuel attributes of generation. The system will provide generators, electric suppliers and states with a tool to validate environmental claims and facilitate renewable electricity standards where developed.

(PJM Future Participation)

- Thanks for the opportunity to speak and PJM looks forward to working with the Rate Cap Subcommittee on such important topics as wholesale markets.