

RPM Enhancements: Problem Statement

To Be Approved by the Markets and Reliability Committee

Source of the Issue

At its December 15, 2010 PJM Markets and Reliability Committee meeting, a member recommended that PJM initiate a process to review RPM rules to see if they could be further enhanced in light of pending legislation in New Jersey. PJM agreed that it would be appropriate to consider changes. PJM and some other members expressed concern that this review be narrowly tailored, especially in light of the fact that PJM is required to FERC file by the end of the summer a report on RPM.

At that MRC meeting, Marji Philips of PSEG Energy Resources & Trade LLC and Dave Anders, PJM, were charged with developing the problem statement, which was to be brought back to the MRC for review and approval at its next meeting. Ms. Philips stated that anybody who wished to be involved in drafting the problem statement should contact her or Mr. Anders.

Following the invitation to provide input on this problem statement, Hess Corporation reached out to the representative of PSEG ER&T providing the perspective that the Interconnect Planning Process must be reviewed in conjunction with RPM in order to address the issues highlighted by the pending legislation in New Jersey.

Background

This issue relates to RPM and the Interconnect Planning Process and the perception that enhancements to its rules must be made in order to incent new investment other than in peaking units. As evidenced by the NJ legislation regarding the need to provide out of market payments to ensure investment in combined cycle units, and proposed notices by the Maryland Public Service Commission to rate base new generation, there continues to exist a lack of confidence that RPM and PJM's Interconnect Planning Process will produce needed new generation investment and a desire to insure that new generation clears below the cost of new entry.

Assigned to Which Group

The recommendation is to request the MRC to approve the creation of a "RPM and Interconnect Planning Process Task Force," and for the task force to report back directly to the MRC.

Key Areas for Activity

1) Determine (and amend as necessary) whether the Minimum Price Offer Rule ("MOPR") is adequate to protect against the exercise of monopsony power, to ensure that the prices produced by RPM are both just and reasonable and accurately reflect the cost of new entry.

2) Consider ways in which to make RPM more compatible with RTEP. Generation and demand response providers are not on equal footing with transmission providers when it comes to determining what is the most efficient solution to a reliability problem. Transmission owners are in a position to commit further forward (five years) because of the nature of RTEP.

3) Consider modifying the New Entry Pricing Adjustment (NEPA) to provide greater certainty of payment streams to encourage new investment, given that it is difficult to finance investment projects with pricing for only a single year.

4) Consider modifications to the Interconnect Planning Process that would produce more timely and credible interconnection cost estimates which are more consistent with the needs of project development, permitting and financing, particularly for areas like New Jersey, with clustered, competing queued projects.

Expected Deliverables

1) Analysis of the efficacy of MOPR, RTEP alignment and NEPA in terms of facilitating robust reliability planning and efficient market outcomes.

2) Recommend, if appropriate, enhancements to these provisions, including providing Reliability Assurance Agreement tariff language to implement revisions to these rules.

3) Recommend appropriate Tariff and or Manual language to improve the Interconnect Process in New Jersey and other high-RPM-priced areas.

Expected Overall Duration of Work:

PJM stated that realistically any recommendations that would come out of this group could not be implemented for the 2014-2015 Base Residual Auction. Therefore, the expectation is that the work of the RPM Task Force would be completed by the end of summer, 2011, so that if revisions to the RAA must be FERC filed, there will be sufficient time for FERC to rule in time for the 2015-16 auction. This may also be a topic of interest for presentation to the Liaison Committee or to the Board through another format such as the general assembly.

Immediately upon conclusion of this stakeholder process but no later than [August/September []], 2011, the stakeholders would vote, and PJM would have the ability to file any tariff changes, if appropriate.

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