



2011/2012 RPM Third Incremental Auction Results

Introduction

This document provides information for PJM stakeholders regarding the results of the 2011/2012 Reliability Pricing Model (RPM) Third Incremental Auction. The 2011/2012 Third Incremental Auction was held from February 28, 2011 to March 4, 2011.

The Third Incremental Auction

RPM Third Incremental Auctions provide capacity suppliers with a final opportunity to sell or purchase capacity for the Delivery Year through a PJM-administered auction process. Resource-specific sell offers are submitted into this auction by suppliers with excess capacity beyond what is needed to satisfy their commitments from previous auctions for the Delivery Year. All resource-specific sell offers into a Third Incremental Auction are subject to market power mitigation through the application of the Three-Pivotal Supplier Test.

Any party that desires to purchase LDA-specific replacement capacity for the Delivery Year may do so by submitting a buy bid into the Third Incremental Auction. Cleared Buy Bids purchased in a Third Incremental Auction may be used as replacement capacity to cover Delivery Year commitment and compliance shortfalls. Those parties that do not clear buy bids in a Third Incremental Auction but still desire to purchase capacity for the Delivery Year may do so bilaterally.

A Third Incremental Auction is cleared in a similar fashion to that of a Base Residual Auction with the exception that no Variable Resource Requirement curve is utilized. The demand in a Third Incremental Auction is composed of the LDA-specific buy bids submitted by participants who wish to purchase replacement capacity. The relative positions of supply and demand in each region will determine the resulting cleared MW and price quantities.

Since the purpose of the Third Incremental Auction is to allow resource owners to purchase replacement capacity, PJM does not procure additional capacity on behalf of load and the 2011/2012 Zonal UCAP obligations posted on February 1, 2011 and zonal capacity prices that LSEs in PJM pay for capacity are not affected by the results of this auction. Zonal capacity prices are only affected by the Base Residual and Second Incremental Auctions and the amount of certified ILR. Those prices are then finalized after the ILR Certification Period and Withdraw Period.



2011/2012 RPM Third Incremental Auction Results

Table 1 - 2011/2012 Third Incremental Auction Results

| LDA | Total Sell Offers (MW ICAP) | Total Sell Offers (MW UCAP***) | Total Buy Bids (MW UCAP) | Cleared Buy Bids (MW UCAP) | Cleared Sell Offers (MW UCAP) | Clearing Price (\$/MW-Day) |
|-----|-----------------------------|--------------------------------|--------------------------|----------------------------|-------------------------------|----------------------------|
| RTO | 6512.9 | 6537.8 | 8865.2 | 1557.0 | 1557.0 | \$5.00 |

***Resource offers converted to UCAP using Delivery Year EFORD for generation resources or applicable FPR and DR Factor for Demand Resources

Table 1 contains a summary of the offer, bid and clearing data for 2011/2012 Third Incremental Auction. Only the RTO was modeled as an LDA in the 2011/2012 Delivery Year, therefore the summary illustrates all resources as being located in the RTO. Each column in this table is explained in more detail in the upcoming sections of this report.

Supply in the 2011/2012 Third Incremental Auction

The 6512.9 MW of sell offers (supply) offered into the Third Incremental Auction is composed of uncleared capacity from the 2011/2012 Base Residual Auction and 2011/2012 First Incremental Auction, new capacity in the form of uprates or resources that were not previously capacity resources in PJM, and additional capacity that resulted from an improvement in resource forced outage rates (EFORD) between the Base Residual and Third Incremental Auctions. All supply offers provided by sellers are quoted in Installed Capacity (ICAP) terms.

Each generation resource sell offer was converted to UCAP using the Delivery Year EFORD and each demand resource and energy efficiency sell offer was converted to UCAP using the Delivery Year Forecast Pool Requirement (FPR) and Demand Resource (DR) Factor. As a result, 6537.8 MW of UCAP was offered into this auction.



2011/2012 RPM Third Incremental Auction Results

Demand in the 2011/2012 Third Incremental Auction

The demand in a Third Incremental Auction is composed of LDA-specific buy bids submitted by participants. The buy bids are specified in UCAP terms and, if cleared, are binding commitments to purchase capacity for the entire Delivery Year. There was a total of 8865.2 MW of buy bids submitted into this auction.

Mitigation in the 2011/2012 Third Incremental Auction

The RTO as a whole, failed the Market Structure Test. As a result, mitigation was applied to all existing generation resources in the execution of the RPM auction clearing. Therefore, in the event a generator's price-based offer exceeded the calculated offer cap, cost-based offers were utilized in the RPM auction clearing. Demand Resources or Energy Efficiency Resources are not subject to market mitigation as a result of the recent FERC Order issued on October 29, 2009.

2011/2012 Third Incremental Auction Clearing Results

In the 2011/2012 Third Incremental Auction, a total of 1557 MW of UCAP was cleared at a single clearing price of \$5.00.

Figure 1 shows the intersection of the RTO mitigated supply and demand curves. The plot below is truncated to show the intersection at \$5.00/MW-Day. The full RTO supply and demand curves are shown in Figure 2. On January 20, 2011, FERC approved the PJM filing of docket number ER09-1063-003. This order instructs PJM to utilize formulaic approach to smooth the supply curves using a statistical technique that fits a smooth curve to the underlying supply curve data while ensuring that the point of intersection between supply and demand curves is at the market clearing price. The resulting smoothed curve is displayed below.



2011/2012 RPM Third Incremental Auction Results

Figure 1 - RTO Mitigated Supply and Demand Curve

