

INSIGHTS

PJM's RPM Dodges Buyers' Bullets However Well Aimed

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FERC stopped a rebellion of PJM Interconnection power buyers in a [September 19 order](#) that rejected [their complaint](#) against PJM's reliability pricing model (RPM) capacity obligation and auction. A motley crew of buyers and their representatives "" coops, state commissions, the Department of Defense and other federal agencies, industrial and consumer advocates "" had argued that recent phase-in auctions of capacity through the 2009-2010 delivery period occurred in a non-competitive market and produced unjust and unreasonable prices for that capacity. Not so, the agency ruled, rejecting the complainants' demand that it reset the price results of the already completed auctions. The phase-in ended in May when PJM concluded the first of five RPM auctions for delivery a full three years into the future in 2011-2012.

FERC opened with an acknowledgement that RPM complainants and apologists alike had presented expert testimony on whether RPM was working. Then it proceeded to reduce the complainants' arguments to implementation angst: introducing a new system in such a hugely capital-intensive industry with long lead times will produce some surprises and some regrets, but so what? So long as PJM cleaved to the approved tariff, its regulator FERC was not going to change the auction results retroactively. And without better evidence of a problem or tariff violations, FERC is not going to make prospective changes either. FERC did, however, direct PJM to convene a conference of market participants to discuss how RPM can be improved.

FERC's decision not to reopen the completed auctions was the right decision legally. It was also sound regulatory policy. Changing the results of an approved and completed program would defeat the settled investment-backed decisions and expectations of those who bid into the auction as well as those who elected to commit their resources elsewhere. But what should not be overlooked is that a number of the RPM buyers' complaints were well founded. These include:

- PJM's dreadfully slow process for studying generator interconnection requests prevented some generators from participating in the transition auctions.
- PJM imposed on the load servers within its control area a capacity requirement equal to a gold-plated loss of load expectation of once in 25 years whereas most other control areas have traditionally used once in 10 years.
- PJM ignores local load reduction programs in developing capacity requirements, even though consumers are paying for those programs in addition to RPM capacity payments.

Additional criticisms of RPM have been leveled by the Brattle Group, a consultant that PJM hired to evaluate the effectiveness of the RPM auctions. In addition to the buyer criticisms above, Brattle and sellers of both generation

and demand resources have rightfully objected to PJM's practice of assuming in forward auctions the completion of transmission additions and expansions that can affect price even before they have been granted all need authorizations.