



**Monitoring
Analytics**

VIA EMAIL & FEDEX

January 20, 2012

David J. Collins
Executive Secretary
Public Service Commission of Maryland
6 Saint Paul Street, 16th Floor
Baltimore, Maryland 21202

Re: Maryland PSC Case No. 9271

Dear Secretary Collins:

Enclosed please find an original and seventeen copies of testimony in the form of a supplemental report of Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM. This report, "Review of the Potential Impact of the Proposed Capacity Additions in the State of Maryland's Joint Petition for Approval of Settlement: Maryland PSC Case No. 9271," was prepared by or under the direction of Dr. Joseph E. Bowring, President, and Dr. Howard J. Haas, Chief Economist.

Please contact the undersigned at (610) 271-8053 if you have any questions.

Sincerely,

Jeffrey W. Mayes, General Counsel

cc: All parties of record (by email).



Monitoring
Analytics

**Review of the Potential Impact of the
Proposed Capacity Additions in the
State of Maryland's Joint Petition for
Approval of Settlement:
Maryland PSC Case No. 9271**

The Independent Market Monitor for PJM

January 20, 2012

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Introduction

This supplemental testimony is provided to assist the Commission's evaluation of the impact of the terms and conditions of the Joint Petition for Settlement among certain parties to this proceeding, including the applicants, the State and Maryland Energy Administration, the Mayor and City Council of Baltimore, and the building trades, that was filed in this proceeding on December 16, 2011, ("State Settlement"). The State Settlement, if confirmed by the Commission, would obligate the applicants to build 285 to 300 MW of new capacity anywhere in Maryland and/or in what has been described as the 5004/5005 defined submarket within the state of Maryland (5004/5005 MD). At the hearing convened to address the State Settlement, the Commission raised concerns regarding the potential market power impacts of the generation additions. In particular, the Commission had questions about how the Settlement Terms and Conditions agreed to by the Market Monitor and the applicants ("IMM Settlement") would address any concerns with the State Settlement. The Commission stated:

[W]e have concerns about the type and location of potential generation and the ownership. We have questions about how it interacts altogether with the other behavioral and contractual remedies that have been proposed in the settlement you all have with the independent market monitor...

[W]e need to see and hear and have a chance to work through the supporting theory of market power underlying this settlement.¹

This report constitutes the Market Monitor response to this request.

Summary

The Market Monitor believes that the Settlement Terms and Conditions agreed to between the Market Monitor and the applicants adequately addressed the market power issues raised in this proceeding at the time it was signed. The Market Monitor believes that the Settlement Terms and Conditions agreed to between the Market Monitor and the applicants adequately addresses the market power issues raised in this proceeding including the State Settlement, with one

¹ Transcript of Status Conference, Case No. 9271 (December 16, 2011) at 31: 2-8, 17-20.

possible exception. In the case where the animal waste capacity required by the State Settlement operates as a must run capacity, the Market Monitor believes that the terms of the IMM Settlement, in combination with the nature of the capacity additions required by the State Settlement, will also adequately address any market power issues raised by capacity additions made by the applicants. In the case where the animal waste capacity required by the State Settlement operates as a dispatchable unit, the Market Monitor believes that extending the Combustion Turbine behavior rules from the IMM Settlement to the Animal Waste capacity will adequately address any market power issues raised by capacity additions made by the applicants.

Analysis

The State Settlement, if confirmed by the Commission, would obligate the applicants to build 285 to 300 MW of new capacity anywhere in Maryland and/or in what has been described as the 5004/5005 defined submarket within the state of Maryland (5004/5005 MD). The analysis assumes a worst case scenario, in terms of potential market power impact. The analysis assumes that the maximum amount of the capacity requirements contemplated in the State Settlement is added (300 MW) and that all of the capacity is added within the 5004/5005 MD submarket. The 5004/5005 MD market area overlaps another concentrated constraint defined market (Brandon Shores-Riverside) presented in the Market Monitor’s report. The proposed generation would affect the structure of both these constraint defined markets.

Table 1 provides the maximum new generation obligations by type from the State Settlement.

Table 1 State Settlement Generation Obligations

Type	Section of Agreement	Location	Type	MW
Tier 1 Generation	Section 8 a)	5004/5005 Submarket	Wind	125
New Natural Gas-Fired Generation	Section 8 b)	5004/5005 Submarket	Combustion Turbine	120
New Animal Waste Generation	Section 8 c) (3) (ii)	5004/5005 Submarket	Animal Waste	25
New Solar Generation	Section 8 d)	5004/5005 Submarket	Solar	30
Total				300

The applicants are assumed to be required to build 120 MW of CTs, 125 MW of Tier 1 renewable generation (largely limited to wind generation), 25 MW of animal waste fired generation and 30 MW of solar capacity. This constitutes 120 MW of CT peaker capacity, 25 MW of potentially dispatchable animal waste generation and 150 MW of must run wind and solar capacity. If this 300 MW of capacity were built by the Applicants in the identified markets, these generation

additions would increase the Applicants' relevant market share and increase the market concentration in the identified markets.

While having the Applicants build this generation would increase market concentration in the identified markets, the nature of the required generation additions, in combination with IMM Settlement, adequately addresses the market power issues raised in this proceeding including the State Settlement, with one possible exception. In the case where the animal waste capacity required by the State Settlement operates as a must run capacity, the Market Monitor believes that the terms of the IMM Settlement, in combination with the nature of the capacity additions required by the State Settlement, will also adequately address any market power issues raised by capacity additions made by the applicants. In the case where the animal waste capacity required by the State Settlement operates as a dispatchable unit, the Market Monitor believes that extending the Combustion Turbine behavior rules from the IMM Settlement to the Animal Waste capacity, will adequately address any market power issues raised by capacity additions made by the applicants.

The IMM Settlement provides for a number of significant enhancements to PJM's ex ante mitigation regime as applied to the Applicants' generation. These stricter market power mitigation requirements would not be applicable to other incumbents if they were to build this same capacity in the identified markets.

Further, the solar (30 MW) and wind generation (up 120 MW) is expected to be offered on must run basis based on environmental conditions, and would not be dispatchable based on prevailing hourly prices.