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December 3, 2010

Lee A. Solomon, President  
New Jersey Board of Public Utilities  
Two Gateway Center  
8<sup>th</sup> Floor  
Newark, NJ 07102

Dear President Solomon:

PJM and the PJM Market Monitor have had several conversations with staff of the New Jersey Board of Public Utilities about the applicability of the Minimum Offer Price Rule (MOPR) in the RPM capacity market to the capacity offers that would result from Senate Bill 2381. Under the pending legislation, it is expected that an effective price offer of zero would be submitted in the May 2011 Base Residual Auction for the delivery year 2014/2015 from selected "eligible generators." The primary purpose of the Minimum Offer Price Rule in the PJM tariff is to prevent market participants from submitting uneconomic offers based on the receipt of out of market payments to artificially depress RPM auction prices. While it is unclear if the MOPR would apply to the offers that would result from the legislation, those offers are not consistent with the intent of the MOPR. As a result of this ambiguity, we expect that the results of the upcoming RPM Base Residual Auction would be challenged by stakeholders whether the MOPR is applied to offers under the proposed legislation or not.

PJM and the PJM Market Monitor have reviewed the draft legislation and the proposed rules governing how an eligible generator, selected as part of the long-term capacity agreement pilot program (LCAPP) to receive a financially-settled standard offer capacity agreement (SOCA), would offer into the PJM RPM capacity market. As currently drafted, the LCAPP provisions of the Bill would require the selected eligible generators to clear in the PJM RPM Base Residual Auction that will be conducted in May 2011, for the delivery year 2014/2015 and for every year thereafter throughout the term of the contract.

The requirement to clear in the auction means that an eligible generator would be expected to submit a zero offer, or the equivalent of a zero offer, into the RPM Base Residual Auction and be indifferent to the clearing price because the generator would receive guaranteed revenue from the SOCA revenue stream under the draft legislation. The MOPR applies to Capacity Market Sellers with a net **short** capacity position (obligations to purchase capacity exceed ownership of capacity). Although an eligible generator under the legislation could be a Capacity Market Seller with a net **long** capacity position (ownership of capacity exceeds obligations to purchase capacity), the result of an offer under the legislation would be the same as an offer that violated the MOPR. The out of market SOCA revenue would



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create an incentive to make a zero offer in RPM and be indifferent to the clearing price. Such an offer violates the intent of the MOPR because the EDCs in New Jersey (who are net short) are required to purchase the capacity sold under this offer at the full contract price.

As the FERC stated in its Order dated March 26, 2009 in a docket involving PJM's RPM capacity market, "[t]he Commission has previously expressed concern that uneconomic entry can be used by certain buyers to depress market clearing capacity prices and has authorized MOPR-type rules." [126 FERC ¶ 61,275 at p. 191 (2009)] Given this situation, PJM and the Market Monitor will request that FERC clarify the applicability of the MOPR to this situation prior to the conduct of the Base Residual Auction so that market participants may have certainty and confidence in the auction results, and we will assert that MOPR should apply to this situation. If the MOPR were found to apply in this case, the subject generation resources would be required to offer at a competitive price for new entry, which would create risk the resources would not clear in the auction.

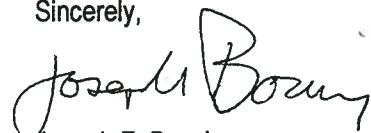
We would urge careful consideration of these issues to avoid potential unforeseen or unintended impacts resulting from enactment of the proposed legislation. We stand ready to work with you and your staff and others in the state on this important issue and are available to meet at your convenience.

Sincerely,



Andrew L. Ott  
Senior Vice President, Markets  
PJM Interconnection

Sincerely,



Joseph E. Bowering  
President  
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Copy to NJ PBU: Rhea Brekke, Kenneth Sheehan, Kristina A. Miller, Frank Perotti, Joe Sullivan