



MMU Analysis of Combined Regulation Market

MIC

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- PJM temporarily modified the regulation market on August 1, 2005
- PJM combined the PJM Regulation Market and the Western Region Regulation Market
- Final decision on combining markets is contingent on a report from the MMU and a decision by PJM members

- Combined market is better operationally than separate markets
- Combined market is more competitive than separate markets
- Combined market still exhibits structural market power in a substantial number of hours
- MMU concludes that it is preferable to retain the combined market, if appropriate mitigation can be implemented

- Prior mitigation included:
 - All cost based offers (prior to Dominion integration)
 - Cost-based offers for dominant owners (following Dominion integration)
- Proposed mitigation – flexible real time approach:
 - Real time application of three pivotal supplier test
 - Apply test using exactly the same logic applied in the energy market
 - Offer capping only in hours that fail test
 - Offer capping only for owners that fail test in hour