



ESTIMATED PRICE IMPACTS OF INCREASED CAPACITY MARGINS

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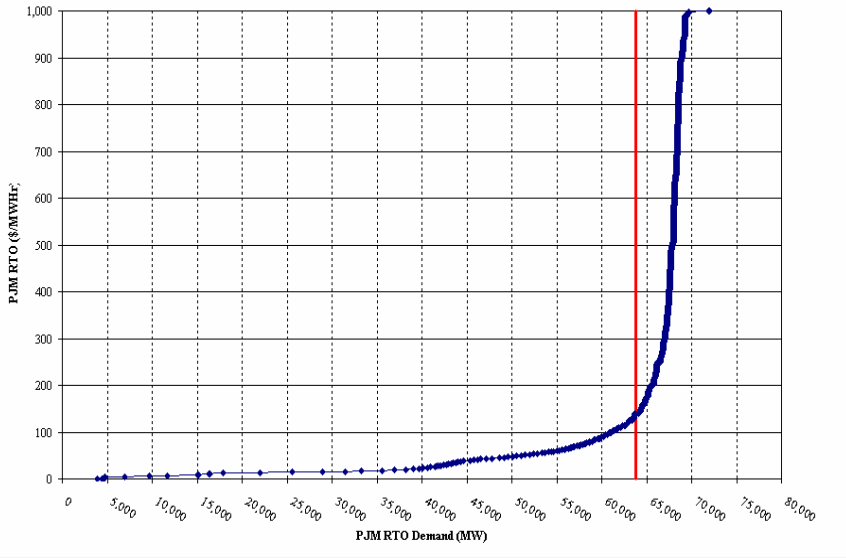
Estimated Price Impacts of Increased Reserve Margin

- Assume increased margin from 17% to 19%
- Resultant capacity increase = 1,300 MW
- Assume energy cost of new capacity = \$40/MWh
- Peak load (2002) = 63,762
- Price at peak demand level = \$140/MWh
 - Per average summer aggregate supply curve
 - Not actual maximum price
 - Price exceeded \$150/MWh for 20 hours
- Average price in 2002 = \$28.30
- Average load in 2002 = 35,551

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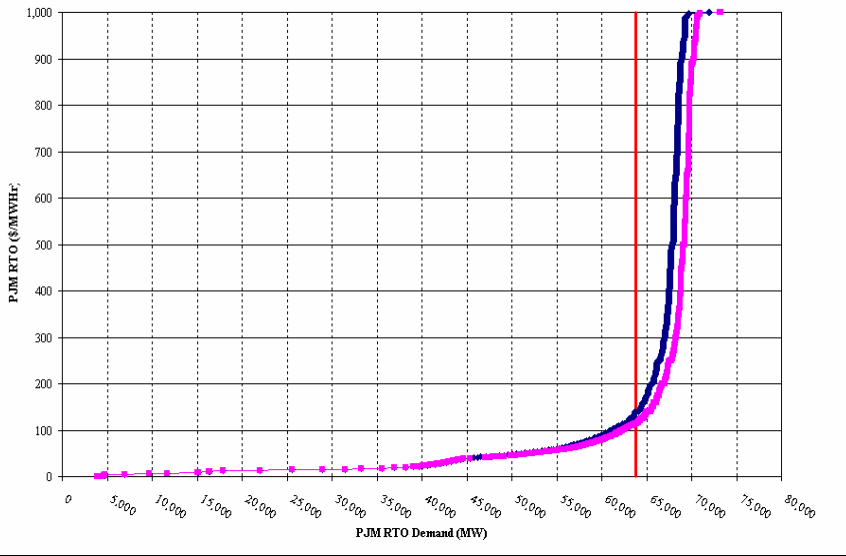
June - Sep Average PJM System Aggregate Supply Curve



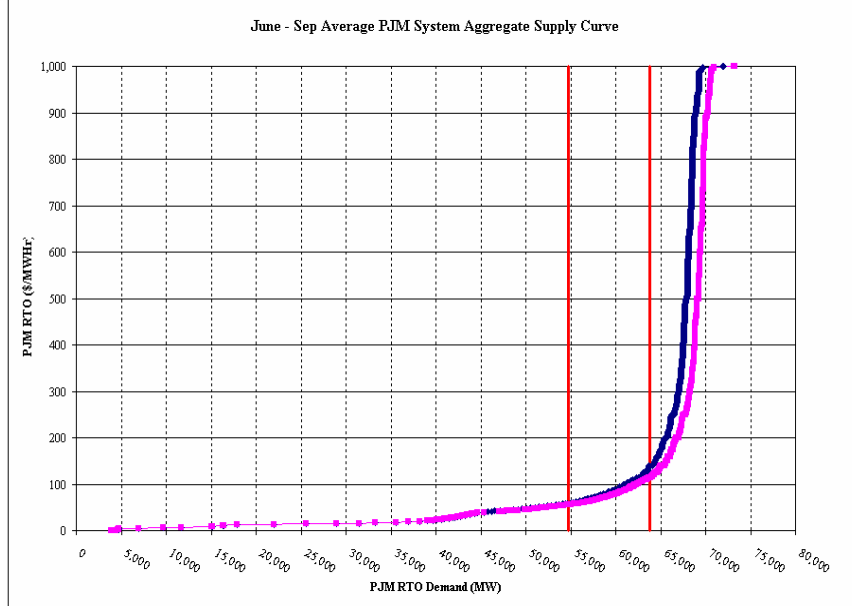
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June - Sep Average PJM System Aggregate Supply Curve



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Estimated Price Impacts of Increased Reserve Margin

- Assuming energy cost of new capacity = \$40/MWh
- Price impact at peak load = \$26/MWh
- Capacity increase = 1,300 MW
- Price impact at 45,000 = \$0/MWh
- Load exceeded 45,000 MW about 10% of hours
- Price impact at average of peak load and zero impact point (54,700 MW) = \$4/MWh
- Load exceeded 54,700 MW about 5% of hours



Estimated Price Impacts of Increased Reserve Margin

- Price impacts are a function of energy offers of added capacity
- The lower the energy offers, the larger the impact on energy market prices
- The higher the energy offers, the lower the impact on energy market prices
- Price impacts are a function of bidding behavior
- If price offers exceed the break point, the energy price impact is zero
- Results are illustrative and depend significantly on expected behavior of new generation owners