Net Revenue Offset
Revised

PJM RAM Meeting

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Wilmington, DE

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Market Monitor

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Net Revenue Offset

- Input to capacity demand curve

- Based on historical data on net energy revenue

- Revised historical net energy revenue in PJM
  - Same CT unit as basis for CONE

- Historical weights reflect relative importance of historical results

- Choice of weighting method is not determined by analysis
  - Significant component of judgement

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Net Revenue Offset

- Some alternative weighting approaches to historical data
  - Simple unweighted
  - Linear weighting
    - Year 1 = 1
    - Year 2 = 2
  - Linear 6 years
    - Include all 6 years of data
  - Linear 5 years
    - Include most recent 5 years
  - Latest year = 5; 5 prior years = 1
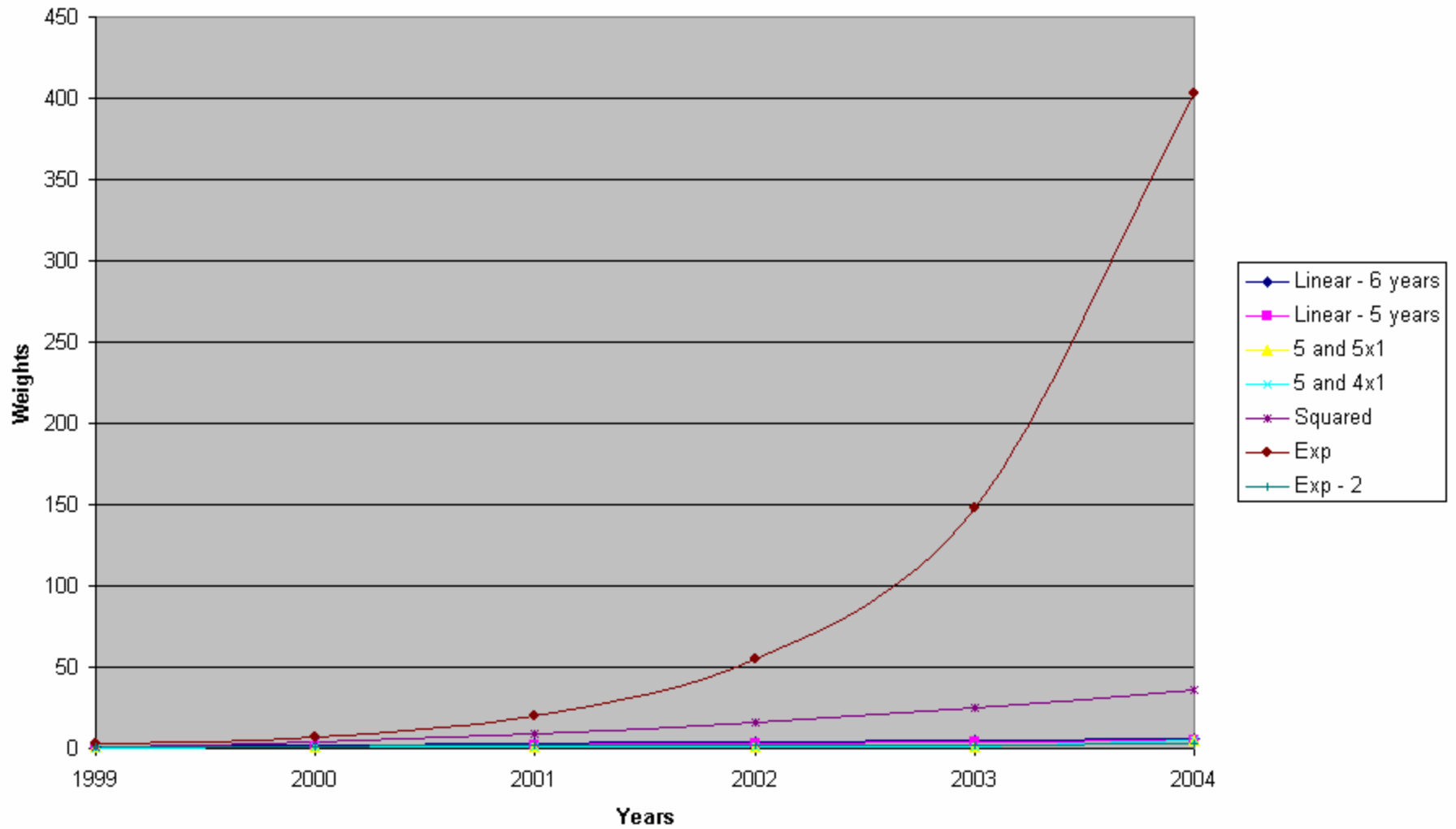
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Net Revenue Offset

- Alternative weighting approaches to historical data
    - Latest year = 5; 4 prior years = 1
    - Year number squared
        - 1; 4; 9; …
    - e raised to the year number
        - e^1; e^2; e^3; …
    - Alternative exponential – each year 80% of next year
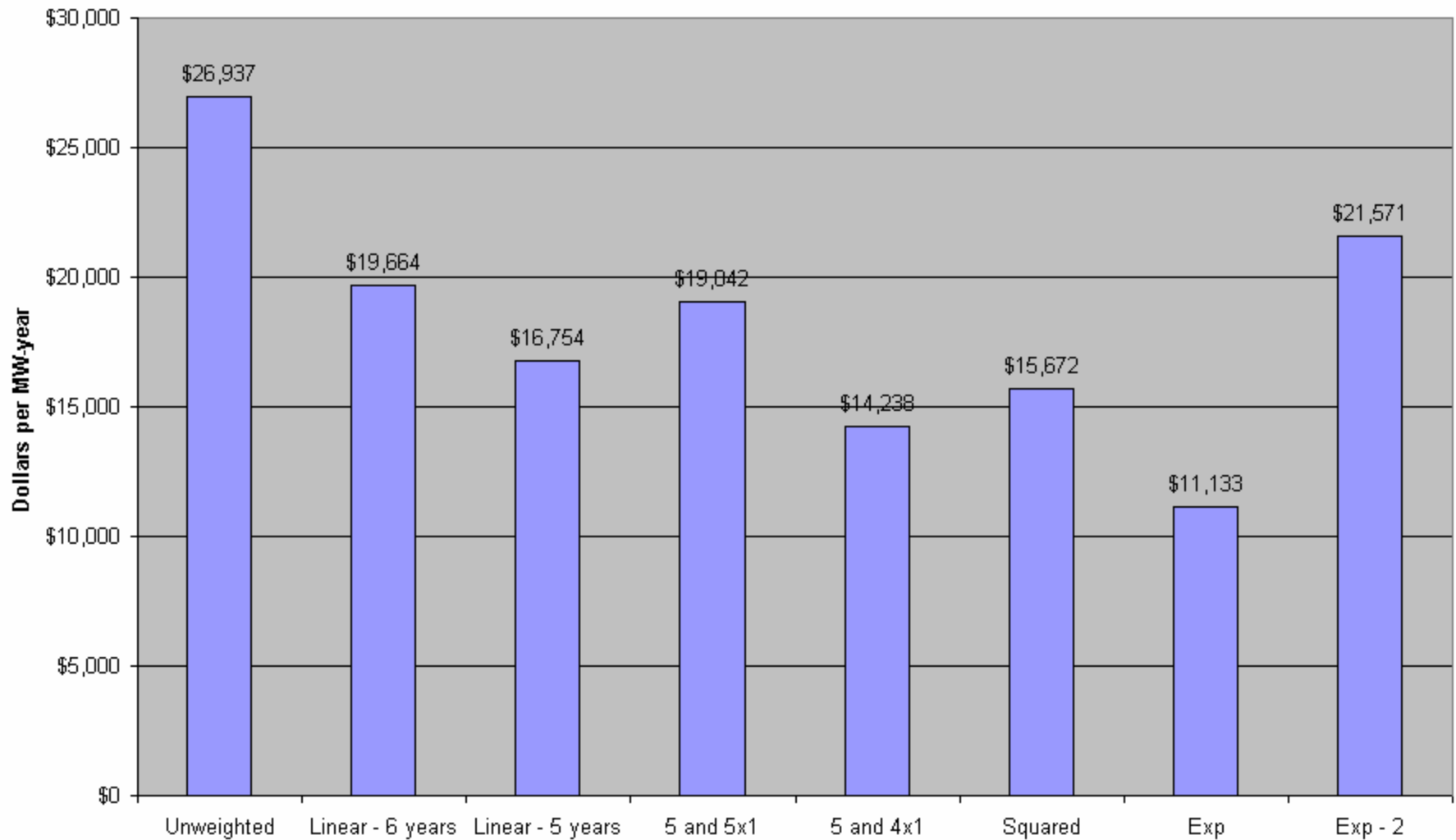
Annual CT Net Revenues

Year	CT Energy
1999	$62,286
2000	$16,899
2001	$39,505
2002	$23,535
2003	$12,200
2004	$7,200

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Historical Weights for
Energy Market Net Revenue

Average Six Year Historical Energy Market Net Revenues
By Weighting Method

Net Revenue Offset

- Recommendation:
  - Use weights based on square of years
  - Relatively heavy weight on recent years
  - Current result about $16,000 net revenues
  - Conservatively low based on historical data
  - Use same method in every year

Net Revenue Offset

- Caveats
  - 2004 net revenue data does not yet include December
  - Any method based on historical data will be incorrect
  - Any historical method will sometimes overestimate net revenues for actual operating year
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