



**PJM Interconnection  
Strategic Planning Questionnaire  
Response of the  
Electricity Consumers Resource Council (ELCON)  
November 17, 2006**

Thank you for providing the Electricity Consumers Resource Council (ELCON) the opportunity to comment on PJM's strategic planning process.

We have carefully reviewed the questions you provided us in your request for comments. We work very closely with the PJMICC and, in fact, share many common members. We participated in the development of the PJMICC comments that we understand were filed with PJM last week.

**We unequivocally support the PJMICC filing.** We are convinced that the implementation of the recommendations of the PJMICC would go far in developing the PJM structure in a manner that would be more competitive and produce substantial benefits for all consumers.

Overall, ELCON member companies are very concerned about the current conditions of the so-called “organized markets” including PJM. We do not believe that these markets are in fact competitive. Truly competitive electricity markets require at least the following which are not present in today’s “markets”:

- An interaction of supply and demand – generators should actually interact with consumers. Suppliers then would have to at least attempt to discover what consumers really want and try to provide that product or service.
- Capacity “incented” through market forces – not with administratively-determined capacity payments
- Freedom of entry **and exit** – Failing generating units should not be propped up with new revenue streams
- Reliance on bilateral contracts – With only a very small balancing market
- An adequate transmission infrastructure – With congestion mitigated
- Mitigation of market power – Market monitors must not be held captive to the markets they are asked to monitor.
- Finally, and in conjunction with all the above conditions necessary for competitive markets being met, wholesale price caps and bid mitigation measures may be relaxed (not eliminated)

These are not new comments. In fact, ELCON issued a report in April 2005 titled: *Problems in the Organized Markets*. That report can be found at:

<http://www.elcon.org/Documents/Publications/ELCONSpecialReportApril2005.pdf> . We incorporate the responses and recommendations of that report in these comments.

To ELCON, the bottom line is simply that today's organized markets (including PJM) simply are not providing real benefits to consumers. Further, the problems are not self-correcting. The governance simply is stacked against consumers in favor of suppliers. The stakeholders process results in recommendations that are satisfactory to the supply side – but not to consumers. These markets must be fixed – more than likely over the objection of the majority of today's stakeholders.

As a national organization with members throughout the country, we are particularly interest in the potential for alternatives to the LMP construct and “capacity markets” – which we believe are the cause of many of today's problems. ELCON plans to have specific recommendations very soon on alternatives to these procedures.

In this regard, we point out that ERCOT is implementing some very innovative features including an “energy-only” market design with heavy reliance on demand response. Additionally, the Midwest ISO (MISO) is on record in support of this alternative form of an LMP-based market. The central features of these market designs are a small spot "balancing" market, some form of scarcity pricing in the spot market that may require raising the offer caps, greater role of demand response (than currently envisioned in the Northeast ISOs and RTOs), and a liquid forward market for financing new baseload generation. We urge PJM to follow the lead of ERCOT and MISO in such efforts.

However, we go one step further. If (or when) it becomes clear that a truly competitive wholesale market cannot be established in PJM or elsewhere, we are now ready to explore all options -- including a return to cost of service. We believe that the problems in today's organized markets are so flawed that traditional regulation is preferred to today's “market” structure.

Again, thank you for the opportunity to comment. Please do not hesitate to contact ELCON if you have any comments or questions.