

Federal Energy Regulatory Commission
Docket No. RM 01-12-00
SMD Conference on Resource Adequacy
Exelon Corporation's Proposed Solution -
Forward Resource Procurement Method (FRPM)
November 19, 2002

Exelon supports the Standard Market Design and development of competitive markets. The Commission is absolutely correct that a resource adequacy requirement is needed to ensure reliability and to prevent excessive prices caused by resource shortages. Devising a resource adequacy criterion that meets the objectives articulated by the Commission, however, especially in regions with retail access, will require improvements in the method proposed in the NOPR. Exelon proposes an alternative mechanism that we call the Forward Resource Procurement Method ("FRPM"), the details are provided below:

The Independent Transmission Provider ("ITP") would first determine the regional load forecast for the future planning year, and then determine the reserve requirement for that load based on the method approved by the Regional State Advisory Committee. This would establish the ITP's resource requirements.

The ITP would then run an auction to identify the winning bidders' generation and demand side resources that would satisfy the ITP's requirements at the lowest clearing price. The auction would identify all resources needed to assure regional reliability, including those resources which would be self-supplied by Load Serving Entities ("LSE"). Only resources of winning bidders would be eligible to meet ITP capacity obligations for the future planning year and receive the clearing price established in this auction for capacity payments made during that future year. Other resources (non-winning bidders and resources that were not bid in) would not receive capacity payments during the future planning year unless they are later selected to replace a winning-bid resource, which becomes unavailable to meet its commitment. Replacement resources can be obtained by committed resource owners through bilateral contracts or through subsequent periodic auctions, which will be run by the ITP.

This forward auction approach will allow sufficient time for new entrants to compete in the auction, and to give the new resource developer an economic price signal upon which to make decisions. This approach also provides sufficient lead time to ensure that new resources can be in place to meet regional reliability requirements.

The ITP would not take an ownership position in the market, but would only act as a clearinghouse for the exchange of resources when LSEs must acquire them to meet their resource requirements.

The ITP would establish criteria to qualify resources as legitimate, and would assess deficiency penalties to resource providers who do not meet their commitments. New resources under construction would need to show regular progress toward

completion, and if availability of new or existing resources was determined to be unlikely for the future planning year, then additional resources would be contracted for by those providers who would otherwise be deficient, or else the deficient providers would be penalized. Bilateral contracts for these additional resources could be used or providers could enter into periodic auctions run by the ITP to acquire replacement resources.

This method supports the use of bilateral contracts or self ownership to meet resource requirements. All resources, including those under bilateral contracts, could be bid into the auction. Then any daily capacity payments collected by the ITP from LSEs during the current operating year (based on their actual load ratio shares) would be paid to the resource owners, including those under bilateral contract. Whatever the level of resource payments received from the ITP by the bilateral resources, the payments from an LSE to the resource owner that were specified in the bilateral contracts could be achieved through a contract for differences between the resource owner and the LSE.

This method facilitates retail choice load switching by first making sure the region as a whole has adequate resources, then charging a competitively set rate to LSEs who may not have sufficient resources under contract for their actual loads. The price certainty this provides to LSEs will facilitate state approved retail choice programs.

Prepared by: Regina M. Carrado, Exelon Generation, rcarrado@pwrteam.com

William Kirn, PECO Energy, william.kirn@exeloncorp.com

For questions, please contact: A. Karen Hill, Exelon Corporation,
karen.hill@exeloncorp.com, (202) 347-8092