



FCM and Likely Long Range Impacts:
Clearing Dynamics in a Long Market

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Why the grim price outlook?

- Transitional period negotiated prices retained existing resources through May 2010
- Heavy penetration of DR / EE, as well as contracted gencos in FCAs # 1-4
- Imports from neighboring market areas
- Floor price has supported excess capacity
- Very low attrition to date
- New resources are not needed for reliability

Results of the First Four Forward Capacity Auctions

	FCA #1	FCA #2	FCA #3	FCA #4
Total qualified (MW)	39,165	42,777	42,746	40,411
Total cleared (MW)	34,077	37,283	36,995	37,501
NICR (MW)	32,305	32,528	31,965	32,127
Excess cleared (MW)	1,772	4,755	5,030	5,374
Clearing price (\$/kW-month)	4.5	3.6	2.95	2.95

FERC is an Administrative Body

- King Solomon-like responsibilities:
 - Agnosticism between supply and demand
 - Mechanics of Mitigation to safeguard against buyer side and seller side market power abuse
 - Tradeoffs between RPS and Price Efficiency Objective
 - Implementation of potential game changers

Discordant Vision of right and wrong (Genco)

- More effective OOM mitigation via APR is needed
 - Going forward cost benchmark gravely flawed
 - No exemption for state-sponsored OOM
 - Intent not relevant in OOM
 - Existing OOM should not be exempt
- Self-supply is a loophole
- All zones need to be modeled
- \$1/kW-mo threshold for dynamic de-list is too low
- CONE should be reset
- Changes should be in effect for FCA #5

Discordant Vision of right and wrong (load)

- Changes to APR
 - Mechanism is uncompetitive, unwieldy administrative approach
 - No benchmark offers should be used for OOM determination and repricing
 - Rule results in procuring more MW than needed
 - Two-tier pricing approach for new and existing resources is inequitable
- De-list bid rule w/o mitigation is unjust and unreasonable
- No need to model all zones in every auction
- CONE should not be reset

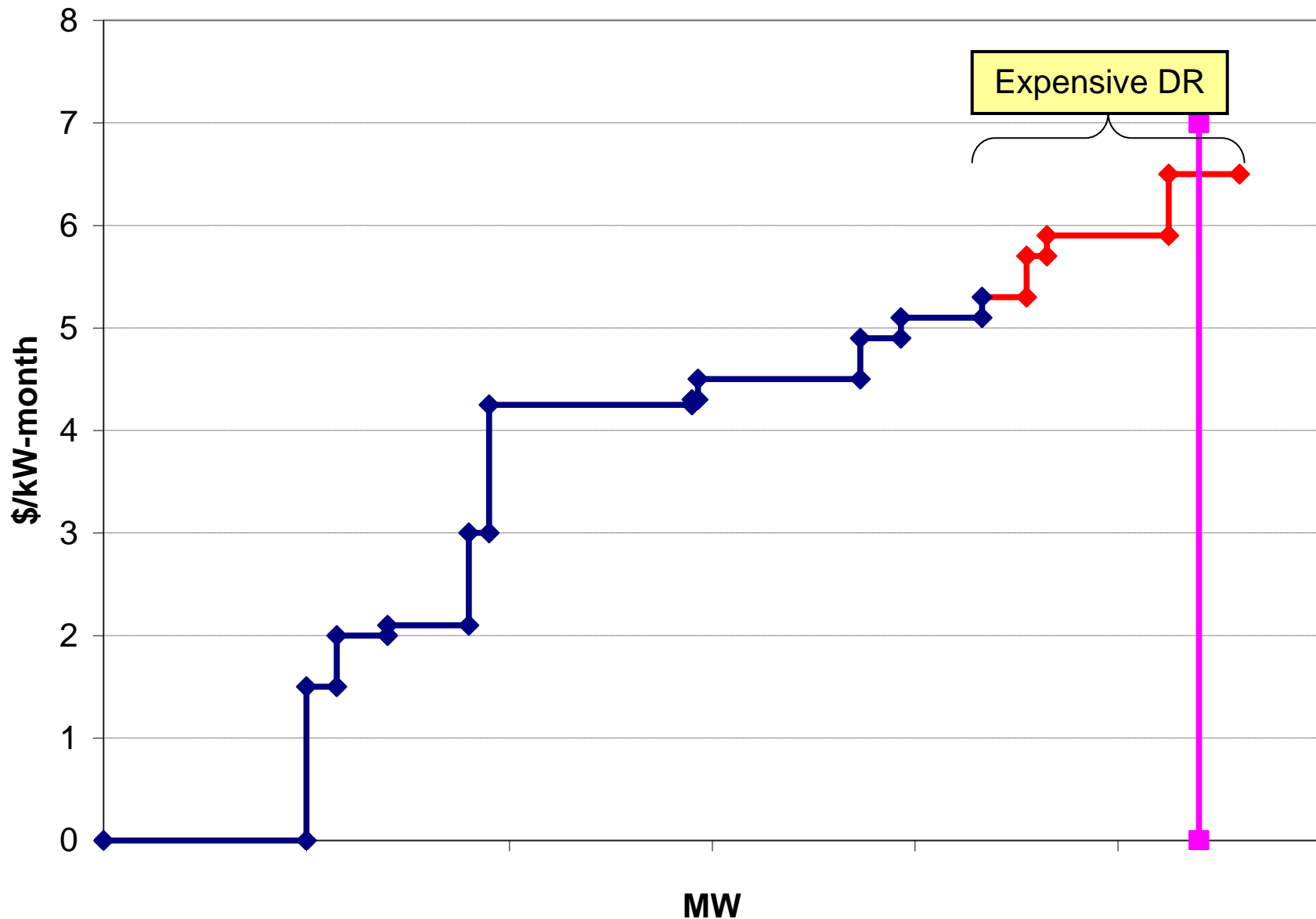
Potential Attrition - Environmental Regulation

- More stringent rules
 - Regional Haze Rule
 - Transport Rule (replaces CAIR)
 - New Ambient Air Quality Standards for ground-level ozone (postponed)
 - Clean Water Act Section 316(b) Phase II
- Dominion submitted permanent de-list bids in FCA #5 for Salem Harbor
- Oil STGs face retirement or heavy CapEx
- Who's next?

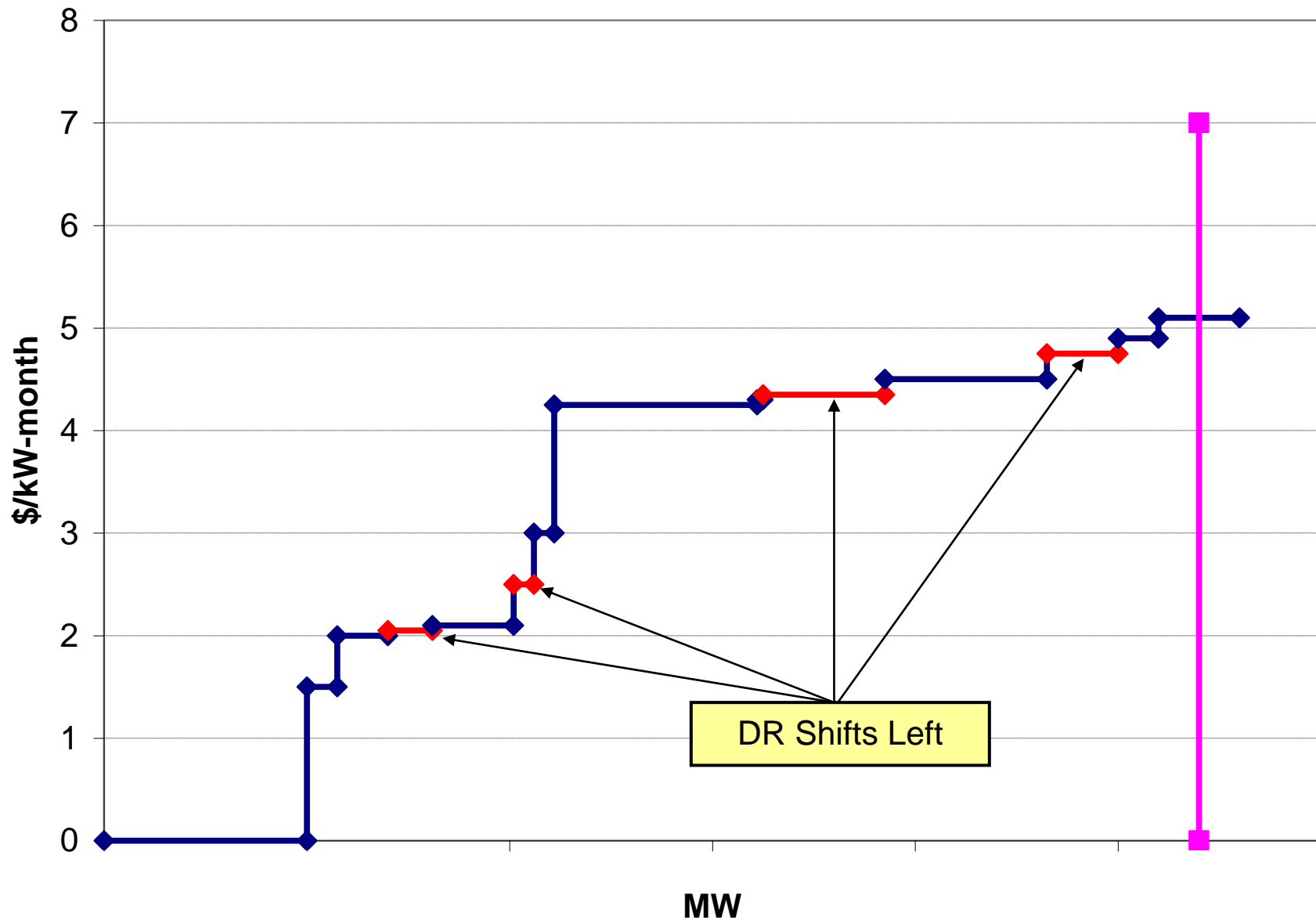
What's Next?

- In response to higher market prices, new resources will enter
- DR / EE entry even at low prices
- DR eligibility for LMP a game changer
- Grim capacity price forecast insufficient for new CCs or GTs
 - My be enough for some dual fuel STGs to postpone retirement
 - New MW need credit support, *i.e.*, PPA / CfD
- Prospect of re-powering under PPA / CfD
 - Mitigation rules may be in opposition to state policy

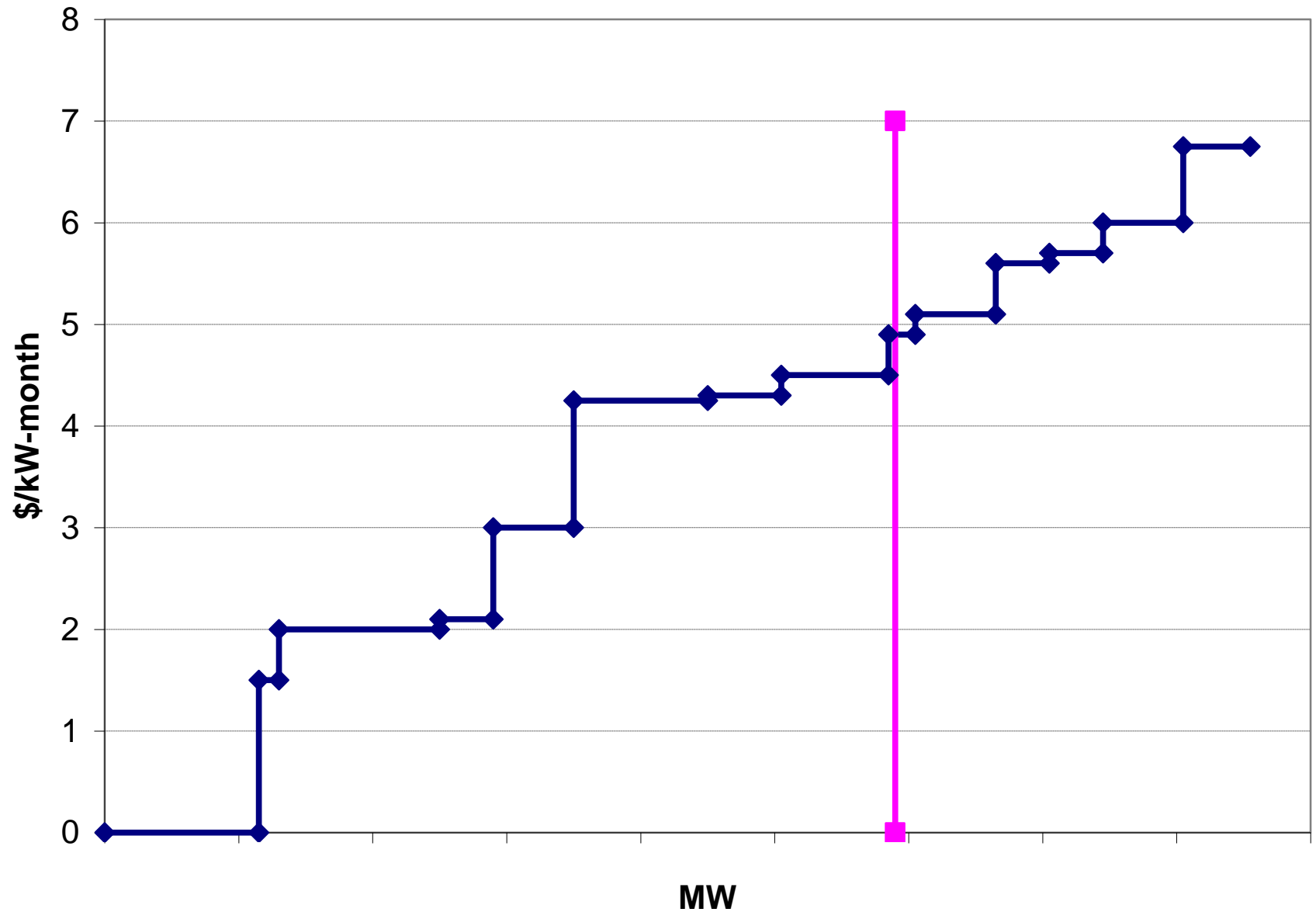
Game Changer: DR Gets LMP



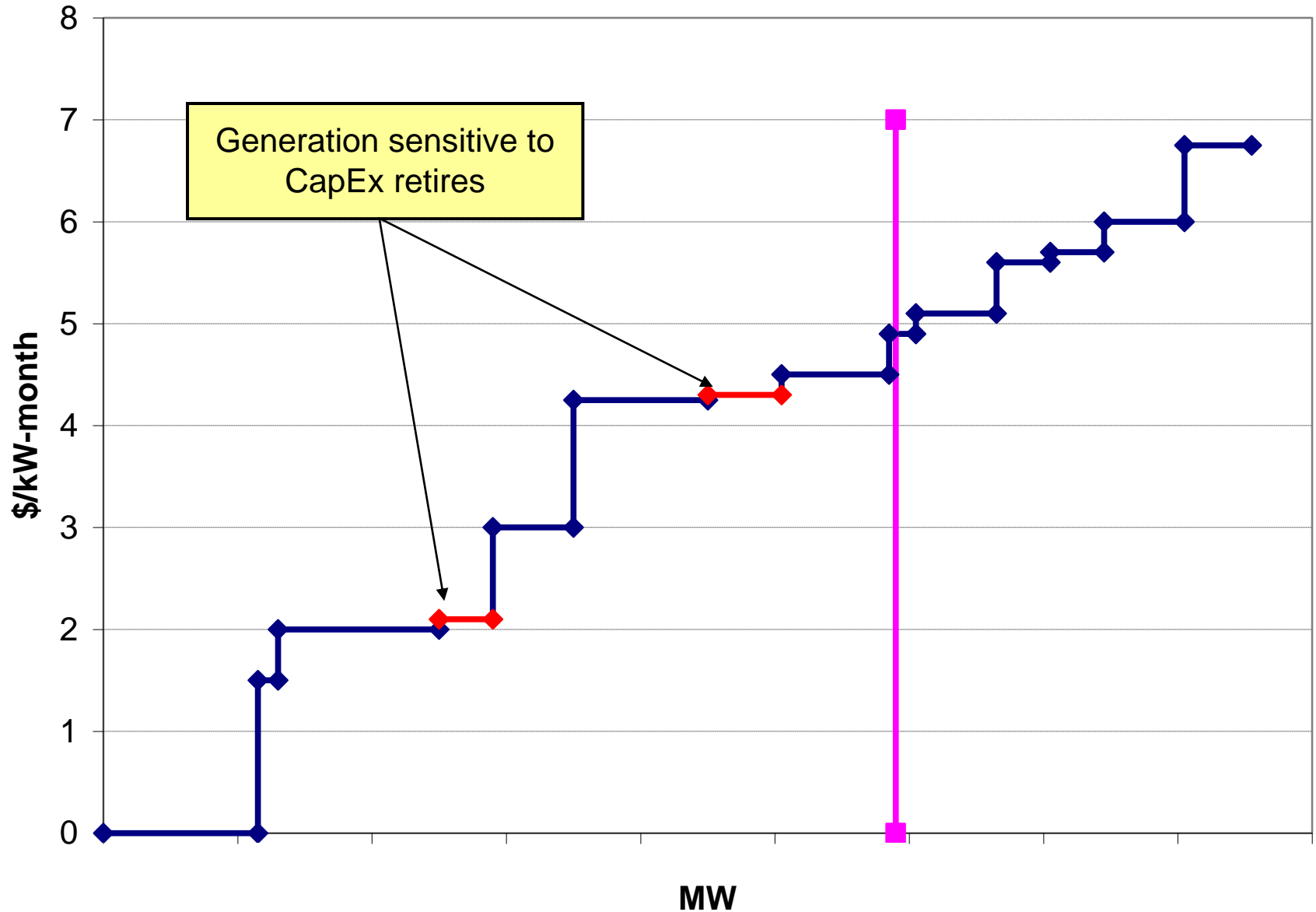
Game Changer: DR Gets LMP



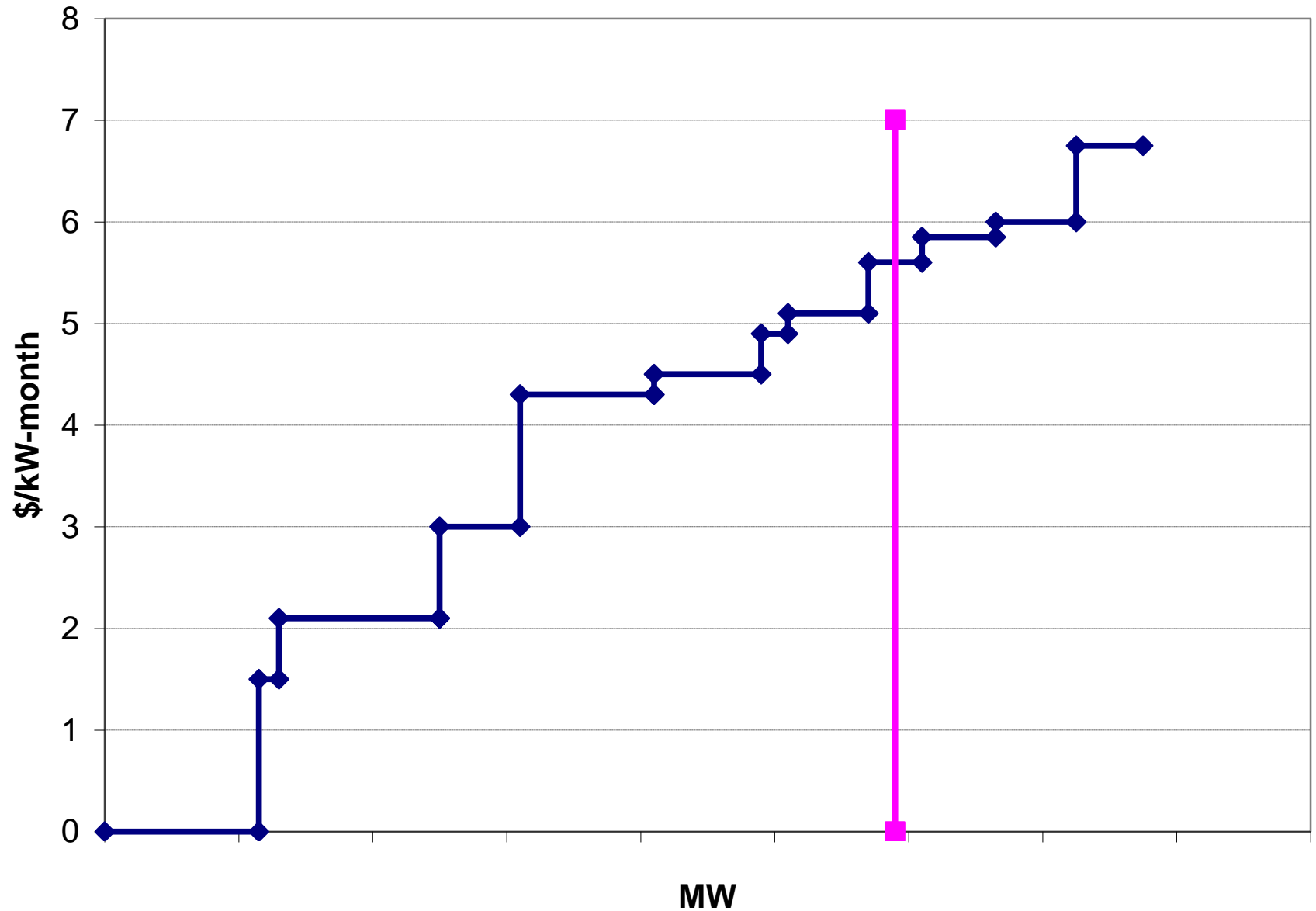
Paradigm Shift: Environmental Retirements



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Example: Environmental Retirements



Integration of Renewables

- State RPS requirement likely to support massive wind entry, but contracts needed
- Robust federal and state policies in effect
- RECs are likely to be deemed legitimate in-market source of revenue
 - Residual revenue requirements may be low
- Wind variability requires gas-fired quick start and spinning reserve to compensate for intermittency