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FOR IMMEDIATE RELEASE

2009 State of the Market Report for PJM Released

MARKET MONITOR FINDS PJM WHOLESALE ELECTRICITY MARKETS REMAIN COMPETITIVE

(Washington, D.C.–March 11, 2010) PJM Interconnection’s wholesale electric energy and capacity markets produced competitive results last year, according to the 2009 State of the Market Report, released today by Monitoring Analytics, LLC, the Independent Market Monitor for PJM.

Market Monitor Dr. Joseph Bowring discussed findings of the report today during a briefing in Washington, D.C. The report is the Independent Market Monitor’s annual assessment of the competitiveness of the wholesale electricity markets managed by PJM in 13 states and the District of Columbia. It analyzes market structure, participant behavior and market performance for each of the PJM markets.

“Our analysis concludes that the results of the PJM energy and capacity markets in 2009 were competitive,” Bowring said. “At the same time, the report also recommends rules and rule changes required for continued competitive results and for continued improvements in the functioning of the markets.”

The report found that energy prices fell 45.1 percent in 2009, that load fell 4.4 percent in 2009 and that congestion also declined by 66 percent. The report concluded that the decrease in prices was the result of a decrease in fuel costs and in load. “The fact that declines in input costs translated directly into significant price decreases is evidence that the energy market is competitive,” Bowring observed. The report concluded that “prices in PJM are set, on average, by marginal units operating at, or close to, their marginal costs. This is evidence of competitive behavior and competitive market outcomes.”

The report finds competitive results for PJM’s Energy, Capacity, Synchronized Reserve and Day Ahead Scheduling Reserve Markets and the Financial Transmission Rights Auctions. The report concluded that the PJM Regulation Market did not produce competitive results as a consequence of changes to the rules concerning, among other things, the calculation of opportunity costs.

“The Regulation Market is a relatively small but nonetheless significant part of the overall PJM market design. The rules responsible for this outcome were flawed when implemented and their costs are now known for the full calendar year 2009.” Bowring advises that PJM should “move expeditiously to eliminate these flawed rules.”

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The report also observes that:

- Overall, 2009 net revenues for generators were lower than in 2008. The lower net revenues in 2009 were the result of lower locational energy prices that more than offset higher locational capacity prices.
- In 2009, net revenues were not adequate to cover total fixed costs for a new entrant combustion turbine, combined cycle or coal plant in any zone. While the results varied by zone, the net revenues for the combustion turbine and combined cycle technologies generally covered a larger proportion of total fixed costs, reflecting the greater significance of capacity market revenues for these technologies. For the new entrant coal plant, all zones show a significant decrease in net revenues compared to 2008, a result of lower energy prices and revenues.
- The report identified a set of coal units comprising 11,250 MW that in 2009 did not recover avoidable costs even with capacity revenues and which, therefore, must be considered at risk of retirement. Such retirements could pose a challenge to maintaining resource adequacy in PJM. The report recommends changes to the capacity market to address these issues.

Among the report's other recommendations are: implementation of scarcity pricing rules that ensure a maximum price of \$1,000 per MWh, adequate measurement of scarcity and an appropriate offset mechanism for capacity market revenues; elimination of the option to specify a minimum dispatch price under the Demand Side Emergency Response Program Full option as inefficient and unnecessary; and modifications to the capacity market rules to ensure that prices reflect complete supply and demand conditions and that local prices reflect local market conditions.

The Independent Market Monitor (also known as the Market Monitoring Unit or MMU) evaluates the operation of PJM's wholesale markets to identify ineffective market rules and tariff provisions, identifies potential anticompetitive behavior by market participants and provides the comprehensive market analysis critical for informed policy decision making. Dr. Bowring, the Market Monitor, ensures the independence and objectivity of the monitoring program.

For a copy of the State of the Market Report, visit Monitoring Analytics at: http://www.monitoringanalytics.com/reports/PJM_State_of_the_Market/2009.shtml

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