



Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Valley Forge Corporate Center
Eagleville, PA 19403
Phone: 610-271-8050
Fax: 610-271-8057

FOR IMMEDIATE RELEASE

2010 State of the Market Report for PJM Released

MARKET MONITOR FINDS PJM WHOLESALE ELECTRICITY MARKETS REMAIN COMPETITIVE

(Washington, D.C.–March 10, 2011) PJM Interconnection’s wholesale electric energy and capacity markets produced competitive results last year, according to the 2010 State of the Market Report for PJM, released today by Monitoring Analytics, LLC, the Independent Market Monitor for PJM.

Market Monitor 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 2010 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 rose by 23.8 percent in 2010, that average hourly load increased by 4.7 percent in 2010 and that congestion increased by 99 percent. The report concluded that the increase in prices was the result of a increases in fuel costs and in load. The report concluded that “prices in PJM are set, on average, by marginal units operating at, or close to, their marginal costs. Markup was 0.6 percent of LMP. 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, although the behavior of market participants was competitive, 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 accounts for only 0.5 percent of the total price of wholesale power, but is nonetheless a significant part of the overall PJM market design. The rules responsible for this outcome were flawed when implemented and remain flawed, although PJM has corrected some issues.” Bowring suggested that PJM should “move expeditiously to eliminate these flawed rules.”

-MORE-

www.MonitoringAnalytics.com

The report also finds that:

- Overall, 2010 net revenues for generating units were higher than in 2009. The higher net revenues in 2010 were the result of higher locational energy prices and, in most zones, higher locational capacity prices.
- In 2010, net revenues from the capacity market were needed to make continued operation economic for a significant number of PJM generating units, because net revenues from the energy market alone did not cover annual avoidable costs.
- In 2010, net revenues, including capacity market revenues, were greater than or equal to full annual fixed cost recovery only in the Pepco and BGE zones for a new entrant combustion turbine. Net revenues in 2010 were greater than or equal to full annual fixed cost recovery only in the AECO, BGE, DPL, and Pepco zones for a new entrant combined cycle. There were no control zones with sufficient net revenue to cover the annual fixed costs of a new entrant coal plant in 2010.
- Analysis of actual 2010 net revenues shows that 6,769 MW of sub-critical and supercritical coal units did not cover their avoidable costs even after capacity revenues were considered, of which 6,021 MW were located in the MAAC region. Units accounting for 4,862 MW are recovering less than 75 percent of avoidable costs and units accounting for 2,763 MW are recovering less than 65 percent of avoidable costs.
- Analysis of units lacking the environmental controls necessary to meet likely regulatory requirements shows that between 14,345 MW and 19,068 MW of installed capacity, depending on the nature of the requirements, would require an increase in energy or capacity revenue in order to cover their avoidable costs including project investment costs and remain in operation if faced with mandatory investment in environmental controls.

Among the report's other recommendations are: modifications to the rules governing unit operating parameters to ensure that units make economic offers in PJM markets; resolution of the double counting issue in the PJM's capacity market demand side program; elimination of the option to specify a minimum dispatch price in PJM's capacity market demand side program 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. Joseph 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/2010.shtml

#####