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FOR IMMEDIATE RELEASE

2011 Quarterly State of the Market Report for PJM: January through March Released

MARKET MONITOR FINDS PJM WHOLESALE ELECTRICITY MARKETS REMAIN COMPETITIVE

(Eagleville, P.A. May 16, 2011) PJM Interconnection's wholesale electric Energy and Capacity Markets produced competitive results during the first three months of 2011, according to the 2011 Quarterly State of the Market Report: January through March, released today by Monitoring Analytics, LLC, the Independent Market Monitor for PJM.

Market Monitor, Joseph Bowring, announced findings of the report today. The report is the Independent Market Monitor's quarterly 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 the first three months of 2011 were competitive," Bowring said.

Bowring also stated that "the MMU continues to recommend improvements to PJM's market design in order to enhance the competitiveness and efficiency of PJM markets."

The report found that load-weighted average energy prices increased 0.9 percent in the three months of 2011 compared to the first three months of 2010, \$46.35 per MWh versus \$45.92 per MWh, and that hourly average load decreased 0.1 percent in the first three months of 2011 compared to the first three months of 2010, 81,018 MW versus 81,121 MW. The report concluded that the increase in prices was the result of an increase fuel costs. Bowring stated 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 found that energy net revenues in all but one zone for the Combustion Turbines (CT) and in all zones for the Combined Cycle (CC) technology showed an increase compared to the same period in 2010. Energy net revenues decreased in all but three zones for the Coal (CP) technology. The results reflected the higher spread between LMP and the cost of natural gas compared to the spread between LMP and the cost of coal. In general, energy revenues are a larger proportion of total net revenues for CPs and CCs while capacity revenues are a larger proportion of total net revenues for CTs. The report explains that "Net revenue is an indicator of generation investment profitability and thus is a measure of overall market performance as

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well as a measure of the incentive to invest in new generation and in existing generation to serve PJM markets.”

Operating reserve charges increased by 14.9 percent in the first three months of 2011 compared to the first three months of 2010, reflecting both higher energy prices and dispatcher actions to maintain system reliability. RTO and Eastern deviation balancing operating reserve rates spiked during the fourth week of January 2011, reaching \$9.1035/MWh and \$2.2142/MWh as a result of the low temperatures, increased natural gas prices at Transco and Texas Eastern pipeline pricing points, and increased dispatch of units for operating reserves in the eastern regions of PJM.

Congestion costs increased in PJM by \$15.8 million or 4.6 percent in the first three months of 2011 compared to the first three months of 2010. Congestion reflects the underlying characteristics of the power system, including the nature and capability of transmission facilities, the cost and geographical distribution of generation facilities and the geographical distribution of load.

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, proposes improvements to market rules and tariff provisions when needed, 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/2011.shtml>

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