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2013 State of the Market Report for PJM Released

MARKET MONITOR FINDS PJM WHOLESALE ELECTRICITY MARKETS COMPETITIVE

(Eagleville, PA March 13, 2014) PJM Interconnection's wholesale electric energy and capacity markets produced competitive results in 2013, according to the *2013 State of the Market Report for PJM*, released today by Monitoring Analytics, LLC, the Independent Market Monitor for PJM.

The Independent Market Monitor, Joseph Bowring, announced findings of the report today. The report is the Independent Market Monitor's 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, Capacity and Regulation Markets in 2013 were competitive," Bowring said.

Bowring also stated that "The PJM markets face significant challenges and the MMU recommends specific improvements to PJM's market design in order to help PJM markets meet those challenges and to enhance the competitiveness and efficiency of PJM markets."

Energy prices in PJM in 2013 were set, on average, by units operating at, or close to, their short run marginal costs. This is evidence of competitive behavior and resulted in a competitive market outcome.

A combination of increased, weather related, demand, and higher fuel costs led to an increase in energy prices compared to 2012. The load-weighted average cost of energy (LMP) increased 9.7 percent in 2013 compared to 2012, from \$35.23 per MWh to \$38.66 per MWh. The price of capacity increased 17.8 percent in 2013, from \$6.05 to \$7.13 per MWh of load.

The price of natural gas was higher and the price of coal was relatively flat in 2013 compared to 2012. As a result of the relative changes in fuel costs, coal-fired units were more competitive with gas-fired units, coal output increased by 6.2 percent in 2013 and gas output decreased by 12.2 percent in the same period, continuing the short term reversal of the trend towards reduced coal output.

Net revenue is a key measure of overall market performance as well as a measure of the incentive to invest in new generation to serve PJM markets. In 2013, net revenues covered more than 95 percent of total costs for a new natural gas combined cycle unit in ten eastern zones of

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PJM. The higher net revenues in the eastern zones reflected higher capacity market revenues offsetting lower energy market net revenues. In the six western zones of PJM net revenues covered less than 65 but more than 33 percent of total costs for a new combined cycle unit as a result of reductions in net revenues from both capacity and energy markets. In 2013, a new coal plant would not have received sufficient net revenue to cover more than 30 percent of total costs in any zone, although coal plant net revenues increased substantially from 2012. In 2013, a new nuclear plant would not have received sufficient net revenue to cover total costs in a western zone.

Energy uplift charges increased by \$231.4 million or 35.6 percent to \$882.2 million in 2013 compared to 2012, primarily as a result of increases in charges for reactive services and charges for black start services.

Total payments for demand response programs increased by \$122.9 million or 34.6 percent to \$478.3 million in 2013 compared to 2012. The capacity market is the primary source of revenue to participants in PJM demand response programs. In 2013, payments to demand response resources in the capacity market increased \$98.8 million, or 29.9 percent, from \$331.1 million in 2012 to \$429.9 million in 2013.

Congestion costs increased in PJM by \$147.9 million or 28.0 percent in 2013 compared to 2012. Congestion reflects the underlying characteristics of the power system, including the capability of transmission facilities, the fuel cost and geographic distribution of generation facilities and the geographic distribution of load. Congestion is neither good nor bad, but is a direct measure of the extent to which there are multiple marginal generating units dispatched to serve load as a result of transmission constraints. ARRs and FTRs served as an effective, but not total, offset against congestion in 2013. ARR and FTR revenues offset 93.2 percent of the total congestion costs in the Day-Ahead Energy Market and the balancing energy market within PJM for the first seven months of the 2013 to 2014 planning period (June through December).

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, monitors compliance with and implementation of the market rules, identifies potential anticompetitive behavior by market participants and provides comprehensive market analysis critical for informed policy and 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/2014.shtml

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