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FOR IMMEDIATE RELEASE

2013 Quarterly State of the Market Report for PJM: January through June Released

MARKET MONITOR FINDS PJM WHOLESALE ELECTRICITY MARKETS REMAIN COMPETITIVE

(Eagleville, PA August 15, 2013) PJM Interconnection's wholesale electric energy and capacity markets produced competitive results in the first six months of 2013, according to the *2013 State of the Market Report for PJM: January through June*, 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 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 six months of 2013 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."

A combination of increased, weather related, demand, and higher fuel costs led to a substantial increase in energy prices compared to the first half of 2012. The hourly average load increased 2.3 percent in the first six months of 2013 compared to the first six months of 2012. The load-weighted average LMP increased 21.6 percent in the first six months of 2013 compared to the first six months of 2012, from \$31.21 per MWh to \$37.96 per MWh.

The price of natural gas, especially in the eastern part of PJM, increased in January but then decreased to the level of December, 2012. Average natural gas prices were higher in the first half of 2013 than in the first half of 2012. Coal prices were mixed but relatively unchanged in the first six months of 2013 compared to the first six months of 2012. As a result of the relative changes in fuel costs, coal-fired units were more competitive with gas-fired units, coal output increased in the first half of 2013 and gas output decreased in the same period, reversing the trend towards reduced coal output.

The results of the energy market dynamics in the first six months of 2013 were generally positive for new coal units. In a continuation from the fourth quarter of 2012, new coal units ran

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at a lower fuel-only marginal cost than new combined cycle units. The combination of higher energy prices and higher gas prices relative to coal prices resulted in significantly higher energy market net revenues for a new entrant coal plant in the first six months of 2013. Energy market net revenues for a coal plant in the first six months of 2013 exceeded the energy market net revenues for the full year of 2012 in nine zones.

Operating reserve charges increased by 55.2 percent to \$433.6 million in the first six months of 2013 compared to the first six months of 2012. Day-ahead operating reserve charges increased by \$13.1 million, or 36.3 percent, balancing operating reserve charges for reliability decreased by \$19.3 million, or 41.0 percent, balancing operating reserve charges for deviations increased by \$47.3 million, or 30.9 percent and reactive services charges increased by \$70.7 million, or 187.0 percent. PJM began categorizing the costs of operating reserves paid to black start units as black start charges in December, 2012 and these black start charges were \$47.9 million in the first six months of 2013.

Congestion costs increased in PJM by \$42.8 million or 16.3 percent in the first six months of 2013 compared to the first six months of 2012. Congestion reflects the underlying characteristics of the power system, including the nature and capability of transmission facilities, the fuel cost and geographic distribution of generation facilities and the geographic distribution of load.

The FTR payout ratio for the 2012 to 2013 planning period was 67.8 percent compared to 80.6 percent for the 2011 to 2012 planning period. Clearing prices fell significantly and cleared quantities increased. The net result was that the 2013 to 2014 Annual FTR Auction generated \$558.4 million, a decrease of \$44.5 million from the 2012 to 2013 Annual FTR Auction.

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/2013.shtml

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