



*FOR IMMEDIATE RELEASE*

*2014 State of the Market Report for PJM: January through March Released*

## **MARKET MONITOR FINDS PJM WHOLESALE ELECTRICITY MARKETS COMPETITIVE**

(Eagleville, PA May 15, 2014) PJM Interconnection's wholesale electric energy and capacity markets produced competitive results during the first three months of 2014, according to the *2014 State of the Market Report for PJM: January through March*, 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 the first three months of 2014 were competitive," Bowring said.

Bowring also stated that "The extreme winter weather conditions in the first three months of 2014, and the resultant stress on the markets, revealed the fundamental strength of the PJM markets as well as areas that need improvement. 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 the first three months of 2014 were set, on average, by units operating at, or close to, their short run marginal costs, although this was not always the case during the high demand hours in January. This is evidence of generally competitive behavior and resulted in a competitive market outcome.

A combination of increased, weather related, demand, and higher fuel costs led to a significant increase in energy prices compared to the first three months of 2013. The load-weighted average cost of energy (LMP) increased 148.5 percent in the first three months of 2014 compared to the first three months of 2013, from \$37.41 per MWh to \$92.98 per MWh.

The price of natural gas increased significantly while the price of coal was relatively flat in the first three months of 2014 compared to the first three months of 2013. As a result of the relative changes in fuel costs, coal-fired units were more competitive with gas-fired units, coal output increased by 18.6 percent and gas output increased by 5.8 percent in the first three months of 2014.

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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. Energy net revenue for all types of units increased as a result of higher energy prices, even as gas prices rose. Energy net revenues increased by 377 percent for a new gas-fired combined cycle and 637 percent for a new coal plant in the first three months of 2014 compared to the first three months of 2013.

Energy uplift charges increased by \$472.6 million or 178.7 percent, from \$264.5 million to \$737.1 million in the first three months of 2014 compared to the first three months of 2013, primarily as a result of increases in balancing operating reserve charges for reliability and lost opportunity cost charges related to the cold weather.

Total payments for demand response programs increased by \$121.5 million or 179.2 percent, from \$67.8 million to \$189.3 million in the first three months of 2014 compared to the first three months of 2013. The capacity market is the primary source of revenue to participants in PJM demand response programs. In the first three months of 2014, payments to demand response resources in the capacity market increased \$71.8 million, or 108.8 percent, from \$66.0 million in the first three months of 2013 to \$137.8 million in the first three months of 2014.

Congestion costs increased in PJM by \$1,050.2 million or 564.8 percent, from \$185.9 million to \$1,236.1 million in the first three months of 2014 compared to the first three months of 2013. 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 and the costs of operating those units. ARRs and FTRs served as an effective, but not total, offset against congestion in the first three months of 2014. ARR and FTR revenues offset 97.5 percent of the total congestion costs in the Day-Ahead Energy Market and the balancing energy market within PJM for the first ten months of the 2013 to 2014 planning period (June 2013 through March 2014).

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](http://www.monitoringanalytics.com/reports/PJM_State_of_the_Market/2014.shtml)

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