



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*

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

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

(Eagleville, PA August 14, 2014) PJM Interconnection's wholesale electric energy and capacity markets produced competitive results during the first six months of 2014, according to the *2014 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 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 six 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."

A combination of increased, weather related, demand, and higher fuel costs led to a significant increase in energy prices compared to the first six months of 2013. The load-weighted average cost of energy (LMP) increased 84.2 percent in the first six months of 2014 compared to the first six months of 2013, from \$37.96 per MWh to \$69.92 per MWh.

The price of natural gas increased significantly while the price of coal was relatively flat in the first six months of 2014 compared to the first six months of 2013. If fuel costs in the first six months of 2014 had been the same as in the first six months of 2013, holding everything else constant, the load-weighted LMP would have been lower, \$57.71 per MWh instead of the observed \$69.92 per MWh in the first six months of 2014. If fuel costs had not increased from the first six months of 2013, the increase in LMP would have been 52.0 percent rather than 84.2 percent.

Energy prices in PJM in the first six 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

-MORE-

## Page 2 of 3 MARKET MONITOR FINDS PJM WHOLESALE ELECTRICITY MARKETS COMPETITIVE

demand hours in January. This is evidence of generally competitive behavior and resulted in a competitive market outcome.

As a result of the relative changes in fuel costs, coal-fired units were more competitive with gas-fired units, coal-fired output increased by 9.1 percent and gas-fired output increased by 5.4 percent in the first six months of 2014. 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. Although higher energy prices increase net revenues and higher fuel costs decrease net revenues, the net result was substantial increases in net revenues for all technology types in the first six months of 2014 compared to the first six months of 2013, primarily as a result of the extremely high increases in net revenues in the first three months of 2014. Energy net revenues increased by an average of 730 percent for a new combustion turbine peaking unit, 202 percent for a new combined cycle, 338 percent for a new coal plant, 96 percent for a new nuclear plant, 32 percent for a new wind installation, and 14 percent for a new solar installation.

Energy uplift charges increased by \$394.8 million or 90.8 percent, from \$434.6 million to \$829.5 million in the first six months of 2014 compared to the first six months of 2013. This increase occurred almost entirely in the first three months of the year, primarily as a result of the cold weather. Energy uplift charges in the months of April through June decreased by \$86.9 million from 2013 to 2014.

Total payments for demand response programs increased by \$188.1 million or 117.4 percent, from \$160.2 million to \$348.3 million in the first six months of 2014 compared to the first six months of 2013. The capacity market is the primary source of revenue to participants in PJM demand response programs. In the first six months of 2014, payments to demand response resources in the capacity market increased \$130.8 million, or 83.6 percent, from \$156.6 million in the first six months of 2013 to \$287.4 million in the first six months of 2014.

Congestion costs increased in PJM by \$1,136.2 million or 371.2 percent, from \$306.0 million to \$1,442.2 million in the first six months of 2014 compared to the first six 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 six months of 2014. ARR and FTR revenues offset 98.2 percent of the total congestion costs in the Day-Ahead Energy Market and the balancing energy market within PJM for the 2013 to 2014 planning.

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

**Page 3 of 3 MARKET MONITOR FINDS PJM WHOLESALE ELECTRICITY MARKETS  
COMPETITIVE**

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)

###