

2008 State of the Market Report Summary

Independent Market Monitor Finds PJM Wholesale Electricity Markets Remain Competitive

For the 11th year in a row, the Independent Market Monitor (IMM) for PJM Interconnection found the regional grid operator's wholesale electricity markets are competitive.

The State of the Market report is the IMM's independent annual assessment of the competitiveness of the wholesale electricity markets managed by PJM in 13 states and the District of Columbia. Monitoring Analytics LLC, serves as the Market Monitor and the 2008 report assesses the competitiveness of the markets managed by PJM during the year including market structure, participant behavior and market performance.

Key Findings from the 2008 PJM State of the Market Report:

- PJM Energy Market results were **competitive**;
- PJM Capacity Market results were **competitive**;
- PJM Synchronized Reserve Markets' results were **competitive**;
- PJM Day Ahead Scheduling Reserve Market results were **competitive**; and
- PJM Financial Transmission Rights Auction Market results were **competitive**.

Energy Market

The IMM analyzed measures of market structure, participant conduct and market performance for 2008, including market size, concentration, residual supply index, price-cost markup, net revenue and price, and the IMM concluded that the PJM Energy Market results were competitive in 2008.

Among other things, the IMM found that prices in PJM fell 16% from 2007 to 2008 when adjusted for fuel costs (real prices were 15 percent higher from 2007). Had fuel prices been the same in 2008 as they were in 2007, average prices in PJM would have been \$51.79 per MWh instead of \$71.13 per MWh.

Additionally, the report stated that supply bids increased over 2007 levels while aggregate peak load decreased by 9,328 MW in 2008. As would be expected, this change in the supply-demand balance had a dampening impact on prices. Part of the decrease in demand is attributable to demand response programs from PJM and state level programs.

The IMM found that “The overall market results support the conclusion 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 [IMM] concludes that the PJM Energy Market results were competitive in 2008.”

Capacity Market

The IMM analyzed market structure, participant conduct and market performance in the PJM Capacity Market and found that it was producing competitive results while increasing the available capacity in the PJM region. The IMM found additions of new units, increases in demand response and improvements to existing units all led to improved reliability in the PJM region.

The IMM noted a significant increase in demand response participation in capacity auctions that suggests that consumers’ ability to conserve power during periods of peak demand can reduce the need for additional generation units and reduce costs for everyone. Moreover, RPM auctions are seeing increased levels of participation from renewable resources – particularly wind which increased by over 260 MW in the last four RPM auctions.

In addition to concluding that PJM’s markets were competitive in 2008, the IMM offers several suggestions for policy changes to further improve PJM’s market which will be vetted through the PJM stakeholder process.

In conclusion, the powerful findings of the IMM’s independent State of Report are that PJM’s markets in 2008 were competitive, free from the exercise of market power and consistent with the performance of well functioning market reaffirms that consumers in PJM are being served by effective markets.

P3 is a non-profit organization dedicated to advancing federal, state and regional policies that promote properly designed and well-functioning electricity markets in the PJM region. Combined, P3’s eleven member companies own over 75,000 megawatts of power and over 51,000 miles of transmission lines in the PJM region, serve nearly 12.2 million customers and employ over 55,000 people in the 13-state plus District of Columbia PJM region. For more information on P3, visit www.p3powergroup.com