

## INDEPENDENT MARKET MONITOR ONCE AGAIN FINDS PJM MARKETS COMPETITIVE

For the 12<sup>th</sup> consecutive year the PJM markets have been found to have produced competitive results for 51 million consumers in 13 states and the District of Columbia. The 774-page [2010 State of the Market Report](#), released on March 10 by the RTO's independent Market Monitoring Unit (MMU), Monitoring Analytics, LLC, analyzed extensive market data to examine the PJM markets to ensure competitive outcomes for consumers. The report also listed a number of recommendations for improvements to the markets including enhancing the verification of demand response (DR) resources, requiring DR bidders to comply with the same obligations as suppliers and resolution of double counting of resources by DR providers in the capacity market. The MMU noted that adjustments to the capacity market, the reliability pricing model (RPM), are necessary to prevent offers at "less than competitive prices, including zero, which suppress the market clearing prices." Proposed changes to RPM's minimum offer price rule are currently pending at the Federal Energy Regulatory Commission.

### Findings in the report include:

- "Market design was evaluated as effective because the analysis shows that the PJM Energy Market resulted in competitive market outcomes, with prices reflecting, on average, the marginal cost to produce energy. In aggregate, PJM's Energy Market design provides incentives for competitive behavior and results in competitive outcomes. In local markets, where market power is an issue, the market design mitigates market power and causes the market to provide competitive market outcomes." *Volume I, P. 4*
- "Participant behavior was evaluated as competitive because the analysis of markup shows that marginal units generally make offers at, or close to, their marginal costs in both Day-Ahead and Real-Time Energy Markets." *P. 4*
- "Energy Market results for 2010 generally reflected supply-demand fundamentals. Higher prices in the Energy Market were the result of higher demand and higher fuel costs... In other words, if fuel costs in 2010 were the same as they had been in 2009, the 2010 load-weighted LMP would have been 3.4 percent lower, \$46.70 per MWh, than the actual \$48.35 per MWh, and 19.6 percent higher than the 2009 load-weighted average LMP. Higher loads and fuel costs contributed to upward pressure on LMP in 2010." *P. 29*
- "RPM has resulted in new resources. New generation capacity resources (5,986.1 MW), reactivated generation capacity resources (849.7 MW), updates to existing generation capacity resources (4,905.3 MW), and the net increase in capacity imports (4,126.1 MW) totaled 15,867.2 MW since the implementation of RPM." *P. 15*
- "If capacity markets are to work to provide incentives for maintaining existing generation and building new generation, capacity market prices must reflect actual, local supply and demand conditions. For example, getting the price a little too low at the margin could result in undermining the incentives exactly where they need to be clear. If the prices are too low as a result of the market design, this would mean that the capacity market is a mechanism for transferring wealth rather than a functioning market providing market based incentives." *P. 55*

- “There are significant issues with the current approach to measuring demand-side response MW, which is the basis on which program participants are paid. A substantial improvement in measurement and verification methods must be implemented in order to ensure the credibility of PJM demand-side programs. Recent changes to the settlement review process represent clear improvements, but do not go far enough.” P. 27
- “In addition, the limited definition of the DR product means that an inferior product is offered in the same auction as capacity and significantly affects the clearing prices. The DR product should be defined to require unlimited interruptions.” P. 55
- “At the end of 2010, 76,415 MW of capacity were in generation request queues for construction through 2018, compared to an average installed capacity of approximately 167,000 MW in 2010. Wind projects account for approximately 38,301 MW of capacity or 50.1 percent of the capacity in the queues and combined-cycle projects account for 16,541 MW of capacity or 21.6 percent of the capacity in the queues.” P. 14
- “While PJM has experienced price spikes, these have been limited in duration and, in general, prices in PJM have been well below the marginal cost of the highest cost unit installed on the system. The significant price spikes in PJM have been directly related to supply and demand fundamentals.” P. 28

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*EPSA is the national trade association representing competitive power suppliers, including generators and marketers. These suppliers, who account for nearly 40 percent of the installed generating capacity in the United States, provide reliable and competitively priced electricity from environmentally responsible facilities. EPSA seeks to bring the benefits of competition to all power customers. For more information, go to [www.epsa.org](http://www.epsa.org).*