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Independent evaluator finds PJM wholesale electricity markets are competitive

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Capacity prices for New Jersey, Delaware, eastern Maryland and eastern Pennsylvania fell by about 40 percent in PJM Interconnection’s annual auction, conducted May 13. The results further demonstrate how competitive wholesale energy markets are benefitting consumers and states.

PJM, which covers parts of 13 states in the East and Midwest, gives all 54 million customers in the area it covers access to a regional market and diverse electricity supply solutions, including new power plants, upgrades to existing plants, transmission lines, demand-response and energy-efficiency programs, and renewable energy.

“With access to a large and diverse regional market, individual states do not have to go it alone in meeting the energy supply needs of their residents and businesses,” said Gene Alessandrini, senior vice president-Marketing for PPL EnergyPlus®. “That also means states do not have to burden consumers with uneconomical choices, such as building new power plants where they are not needed and would be more costly for consumers than other options.”

The competitive wholesale energy market works best when PJM, states and market participants work together, the market rules are well-defined and the market is properly regulated.

Benefits to consumers from the competitive market include more options, new products and lower prices. These benefits can be seen in the increasing number of customers who are choosing alternative suppliers, and the increasing number of suppliers entering markets.

Even customers who remain on default service from electric distribution companies that has been competitively purchased are benefitting, as lower wholesale prices have reduced default rates.

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— Gene Alessandrini, senior vice president-Marketing
PPL EnergyPlus

Economics prevail in PJM markets

Economical solutions, driven by all market participants, resulted in capacity prices that are much lower than the cost to build new generation

Lower forecasted demand for electricity is the major factor in the 40 percent drop in capacity prices that cleared in the recent auction conducted by PJM Interconnection. A major driver of reduced demand is an upsurge in demand-response programs.

Demand-response programs enable customers to get paid for voluntarily agreeing to cut back on electricity use when the demand for power in PJM is high. These programs provide an economical alternative to building new power plants.

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PJM Mid-Atlantic region capacity prices

Region	2013-14 Clearing Price	2014-15 Clearing Price
Eastern Mid-Atlantic	\$226.15 per megawatt-day	\$136.50 per megawatt-day
Northern New Jersey	\$245 per megawatt-day	\$225 per megawatt-day

Contact

 **Gene Alessandrini**
Sr. Vice President-Marketing
lgalesandrini@pplweb.com

Bob Barkanic
Sr. Director-Energy Policy
rjbarkanic@pplweb.com

Christine Martin
Vice President-State
Government Relations
cmmartin@pplweb.com

PPL ENERGYPLUS
www.pplenergyplus.com

New Jersey BPU plans hearings on new generating capacity

The New Jersey Board of Public Utilities is planning to conduct hearings this summer on the need for new generating capacity in the state, and why few new power plants have been built in the state under the current PJM Interconnection market model.

In a brief filed with the Federal Energy Regulatory Commission on May 12, the BPU asked FERC to reconsider its decision on a state law that would subsidize the development of 2,000 megawatts of new electric generating capacity in New Jersey.

New Jersey BGS Rates

Utility	Electricity use	Current bill	Bill as of 6/1/11	Change
PSE&G	650 kwh	\$122.57	\$118.30	- 3.5%
JCP&L	650 kwh	\$119.32	\$113.79	- 4.6%
Atlantic Electric	650 kwh	\$126.16	\$120.52	- 4.5%
Rockland Electric	650 kwh	\$127.73	\$123.39	- 3.4%

Source: New Jersey Board of Public Utilities

of zero dollars, artificially depressing capacity prices across the region and raising electricity prices for New Jersey consumers, who would be stuck paying for the new plants.

PPL EnergyPlus opposes government subsidies for new generation that would be funded by New Jersey ratepayers.

“Competitive electricity markets work,” said Gene Alessandrini, senior vice president of Marketing for PPL EnergyPlus. “New Jersey has benefitted from competitive markets, proper regulation of Basic Generation Service, and investment in generation, transmission, demand response, energy efficiency and renewable resources.

“The balance between market price signals, well defined market structures and properly developed government programs is essential to control costs for consumers. The legislation requiring New Jersey residents and businesses to subsidize power plant development upsets that balance,” he said.

State government is seeking to develop new power plants through legislation that have not been developed by the free market because market participants know that new power plants are unnecessary and uneconomical, he explained.

“The companies bidding to build the 2,000 megawatts of new gas-fired generation in New Jersey are not willing to place their own money at risk, but are more than willing to place consumers’ money at risk,” Alessandrini said.

Electricity shopping figures by state

State	Customers Shopping	Percentage of Total
Pennsylvania (5/18/11)	1,115,034	19.7%
New Jersey (3/31/11)	306,054	7.9%
Maryland (3/31/11)	395,897	17.7%

Source: Pennsylvania Public Utility Commission, New Jersey Board of Public Utilities, Maryland Public Service Commission

Economics prevail *(Continued from front)*

A key feature of the PJM market model is that demand response and energy efficiency improvements are able to compete with — and be paid the same as — generation resources.

Capacity prices provide a signal to market participants when and where new resources are needed to meet electricity demand. Those resources are not limited to new power plants. They also include upgrades to existing power plants, transmission lines that carry power to where it’s needed, programs that limit demand for power, or energy-efficiency programs that reduce electricity use.

The recent auction results demonstrate the benefits of a large and diverse regional power market like PJM. Demand-response programs and transmission improvements offer economical solutions across the entire market area.

Economical solutions, driven by all market participants, resulted in capacity prices that are much lower than the cost to build new generation. At current market prices, the cost of building 2,000 megawatts of new generation, as New Jersey has proposed, would result in about \$1 billion in higher capacity costs.

Independent evaluator finds PJM wholesale electricity markets are competitive

PJM Interconnection’s electric energy and capacity markets produced competitive results in the first quarter of 2011, according to a quarterly report issued May 16 by the Independent Market Monitor.

Joseph Bowring, market monitor, said the increase in price was a result of higher costs for fuel, and that prices in PJM are set, on average, by marginal generating units operating at or close to their marginal costs, which is evidence of competitive market behavior and results.

The Independent Market Monitor evaluates the competitiveness of PJM wholesale electricity markets, identifies potentially anti-competitive behavior by participants in the markets, and suggests revisions to market rules. For more information, visit www.marketinganalytics.com.

FERC partially approved PJM tariff revisions and a complaint filed by the PJM Power Providers Group (P3), an organization whose members include PPL EnergyPlus®. In its complaint, P3 argued that New Jersey’s attempt to subsidize new generation would allow developers of the new plants to bid capacity into PJM’s annual capacity auction at a price