



ENERGY INSIGHTS

Information for policy leaders

August 29, 2011

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- State subsidies for new generation debated
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Competitive market meets summer power needs

The competitive electricity market in the PJM Interconnection provided ample supply to meet record levels of electricity use in July.

PJM set a record for electricity use on July 21 of 158,450 megawatts, breaking a peak demand mark that had stood for five years. PJM serves 58 million people in 13 states and the District of Columbia.

“The summer heat wave has shown again that the competitive market works, and provides economical solutions for power supply needs that do not place unnecessary financial risk on consumers.”

— Gene Alessandrini,
senior vice president-Marketing
PPL EnergyPlus

“Our efforts in fine tuning how we forecast electricity demand and plan transmission improvements are paying big dividends,” said Michael Kormos, PJM’s senior vice president-Operations.

Suppliers such as PPL EnergyPlus® were able to meet July’s record electricity use with no supply shortages because of available generation, transmission and demand response resources.

“In extreme weather conditions, the competitive market provides the electricity supply

customers need through a variety of sources, including power plants, transmission lines and customer programs to curtail electricity use,” said Gene Alessandrini, senior vice president-Marketing for PPL EnergyPlus.

“The summer heat wave has shown again that the competitive market works, and provides economical solutions for power supply needs that do not place unnecessary financial risk on consumers,” he said.

Independent study finds PJM capacity market is meeting its objectives

An independent study of the PJM Interconnection’s capacity market has concluded that the Reliability Pricing Model is meeting the objective of providing reliable electricity supply at prices consistent with market conditions.

The report found that major criticisms of the PJM capacity market model — including concerns about capacity prices and the market’s ability to attract new generation — are not supported by the study results.

The study was conducted by The Brattle Group, a consulting firm based in Cambridge, Mass., with expertise in economics, finance and regulation. PJM is required by the Federal Energy Regulatory Commission to conduct studies of its capacity market model every three years. [Click here](#) for a copy of the Brattle Group report.

A key conclusion from the study is that the RPM market model has attracted and retained sufficient resources to meet or exceed expected demand for electricity, and has “created a level playing field” for resources other than new generation, including demand response and generating capacity increases at existing plants.

The Brattle study also found that the PJM capacity market model supports cost-effective responses to new environmental regulations.

“While there is no perfect market model, PJM’s capacity market has produced results that reflect the true cost for resources to enter the market,” said Gene Alessandrini, senior vice president of Marketing for PPL EnergyPlus. “Results of recent auctions have shown that new generation is not necessary. The market is working as designed.”

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NJ businesses say no to subsidized generation

In a letter to Gov. Chris Christie, 14 New Jersey businesses expressed their opposition to state subsidies for new generation development.

“We are concerned that energy policy in New Jersey is shifting away from the very successful competitive market embraced over the past decade to a government control model focused on subsidies for in-state supply which will ultimately lead to higher prices,” the letter said.

“There are many ways in which the state can cultivate job growth, but state control of the energy market will only make New Jersey less competitive.” The business customers said that forcing them to subsidize in-state plants will drive jobs from New Jersey.

The businesses are members of the COMPETE Coalition, a group that supports well-structured competitive electricity markets. PPL EnergyPlus is also a member of COMPETE.

To see the entire letter, [click here](#).

Shopping on the rise in New Jersey

Nearly 350,000 electricity customers in New Jersey had chosen competitive suppliers as of May, according to information on the Board of Public Utilities website.

In a recent article on electric competition, the Newark Star Ledger reported that the number of customers switching to alternative suppliers more than doubled between October 2010 and May 2011 due to a drop in wholesale electricity prices that resulted in an increase in the number of competitive suppliers making offers to New Jersey customers.

PPL EnergyPlus® offers electricity supply, demand management and renewable energy options to business customers of PSE&G, JCP&L and Atlantic City Electric, and natural gas supply and services to customers of PSE&G, Elizabethtown Gas, NJ Natural Gas and South Jersey Gas.

State subsidies for new generation debated

Policies for meeting energy supply needs were the subject of a forum hosted by the online publication “NJ Spotlight” on July 8 in Trenton.

State officials criticized the PJM Interconnection market model for failing to incent development in new power plants. They defended a state law — enacted in January and challenged in federal court by power suppliers and utilities — that subsidizes new power plant construction by adding a surcharge to the electric bills of New Jersey residents and businesses.

Representatives of power suppliers pointed out that the competitive wholesale market is providing enough supply to meet customers’ needs, and argued that ratepayer subsidies would lead to higher electricity prices in the long run in New Jersey.

PPL EnergyPlus strongly opposes government subsidies to build generation because they upset the balance between market price signals, well-defined market structures and effective government oversight.

“The power plants New Jersey is looking to build through subsidies have not been developed by the market because they simply are not needed — as confirmed during the recent heat wave and shown in the future energy prices we are seeing in the market,” said Gene Alessandrini, senior vice president-Marketing for PPL EnergyPlus®.

“No company will take on the financial risk to build new generation in New Jersey in today’s market,” he added. “Developers want to convince policymakers to shift that risk to the state’s consumers.”



PPL EnergyPlus opposes government subsidies for new generation that would shift financial risks from developers to consumers.

Pennsylvania PUC continues look into competitive market

The Pennsylvania Public Utility Commission has started the second phase of its investigation into the state’s competitive electricity market by looking to identify specific actions designed to improve competition.

“The Commission’s goal is to make Pennsylvania the most competitive electricity market in country,” said PUC Chairman Robert Powelson.

In the first phase of the investigation, a PPL EnergyPlus® executive testified at a PUC hearing in June that Pennsylvania can — and should — do more to promote choice, educate consumers and establish consistent rules.

Gene Alessandrini, senior vice president-Marketing for PPL EnergyPlus, urged PUC commissioners to look into the future, grasp the innovations that have occurred in other businesses such as telecommunications that opened to competition, and allow the creativity of the free market to bring benefits to consumers.

Alessandrini urged the PUC to give all electric distribution companies specific orders to remove barriers for competitive suppliers, and to ensure that default service rates are more closely aligned with the cost of providing competitive supply.

Default service is not a competitive supply option, he said, and should not be treated as such. It is, and always should be, a last resort for customers who cannot or do not choose a competitive supplier.

PPL EnergyPlus remains involved in the process, and provided input during a PUC technical conference Aug. 10 on retail market issues.