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**CONTACT: John Shelk
(202) 628-8200**

PJM CAPACITY AUCTION RESULTS IMPROVE RELIABILITY AT COMPETITIVE PRICES

On August 21, 2015, PJM Interconnection announced that there will be sufficient supplies of electricity capacity at competitive prices to meet its region's projected needs for the delivery year ending on May 31, 2019. The PJM regional power grid covers all or parts of 13 States and the District of Columbia. The recent auction procured a mix of capacity resources including new and existing generation from a variety of fuel sources including natural gas, nuclear, coal, wind and solar.

This was the first PJM auction held under rules adopted on a bipartisan basis by the Federal Energy Regulatory Commission on June 9, 2015, by a 4 to 1 vote, phasing in a new Capacity Performance ("CP") product to improve reliability in PJM based on lessons learned from recent winter weather events. Per PJM's August 21, 2015, auction results report, "CP Resources must be capable of sustained, predictable operation, and are expected to be available and capable of providing energy and reserves when needed throughout the Delivery Year; whereas, Base Capacity Resources may not be capable of sustained, predictable operation and/or may not be expected to provide energy and reserves outside of the summer period."

CP Resources face more stringent reliability requirements and far heavier penalties for non-performance than under prior auction rules. At the same time, PJM expects the new CP product will enhance reliability going forward by incenting power generators to make significant investments in winter time access to fuel (both dual fuel capability and firmer fuel delivery), weatherization of physical power plant infrastructure, and higher maintenance spending to minimize the risk of forced outages at times of peak demand due to equipment failures.

PJM, as the independent grid operator, declared the recent auction to be a success. PJM's Executive Vice President told a UBS analyst conference call on August 24, 2015, per the UBS transcript, "So all in all in summary, it looks to us like a very successful outcome because I think it properly valued capacity ... people feared that the market wouldn't be competitive and people would just bid at the cap, and obviously that didn't happen. So, again, we see this as a pretty good indicator." Another PJM representative on the same call said, "This was a very competitively offered auction. And so this is one of those areas where competitive markets really made a difference in satisfying the reliability requirement."

In the auction, PJM procured total resources for a reliability reserve margin of 19.8 percent compared to a target of 15.7 percent. As in prior years, more resources were offered than cleared, showing the results reflect the least cost mix of available and eligible resources. PJM's auction report stressed that over the first 12 years of annual base capacity auctions, the PJM capacity market has added resources to more than offset retirements, doing so in a least cost manner through a mix of new generation capacity, reactivated units, and uprates to existing units.

For more information, see PJM's website at www.pjm.com and EPSA's *PowerFact*, "Primer On Capacity Procurement, Electric Reliability and PJM's New Capacity Performance Product" available at www.epsa.org.

EPSA is the leading national trade association representing leading competitive power suppliers, including generators and marketers. Competitive suppliers, which collectively account for 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.