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INDEPENDENT MARKET MONITOR ONCE AGAIN FINDS PJM MARKETS COMPETITIVE

For the 16th consecutive year the PJM markets have been found to have produced competitive results for 61 million consumers currently served in 13 states and the District of Columbia. The 510-page [2014 State of the Market Report](#), released on March 12 by the RTO's Market Monitoring Unit (MMU), Monitoring Analytics, analyzed extensive data to ensure competitive outcomes. The report also listed a number of recommendations for improvements which are notable in light of broad initiatives and individual proceedings at the Federal Energy Regulatory Commission (FERC). In particular, the MMU includes recommendations related to energy offer caps, transparency and improved process related to uplift payments. In addition, the MMU proposes a consistent definition of capacity for all resources and elimination of limited and summer unlimited demand response (DR), as well as the 2.5 percent offset to demand. The 2014 report notes that PJM is addressing fundamental capacity market design issues in its Capacity Performance proposal, which is currently pending at the FERC.

Findings and recommendations in the report include:

- “The results of the energy market, the results of the capacity market and the results of the regulation market were competitive in 2014. The PJM markets work. The PJM markets bring customers the benefits of competition.” *Volume I, p. 1*
- “The state of the PJM markets in 2014 reflected the extreme winter weather conditions in January and a return to more typical weather conditions in the rest of the year. The stress on the markets during the winter weather was a reminder that markets must work during extreme conditions as well as more normal conditions. PJM markets did work during the extreme conditions but the experience highlighted areas of market design that need improvement.” *p. 1*
- “In 2014, a substantial portion of units did not achieve full recovery of avoidable costs through net revenue from energy markets alone, illustrating the critical role of the PJM capacity market in providing incentives for continued operation and investment. In 2014, RPM capacity revenues were sufficient to cover the shortfall between energy revenues and avoidable costs for the majority of units and technology types in PJM, with the exception of some coal and oil or gas steam units.” *p. 2*
- “The impact of a relatively short period of high loads on net revenues illustrates how scarcity pricing can work to address the missing money issue in wholesale power markets. The net revenue impacts of a short period of unpredictable high load were substantial. But the question is whether relying on such revenues for the incentive to invest in new and existing resources is a preferred alternative to relying on more predictable revenues from a capacity market which is tightly linked to scarcity pricing in the energy market through a functional net revenue offset.” *p. 2*
- “The price of energy must also reflect supply and demand fundamentals...PJM's reserve requirements should reflect dispatchers' actual need for reserves to maintain reliability and those reserve requirements should be reflected in prices and should trigger scarcity pricing when they are not met. Better energy market pricing will help reduce uplift and a broader allocation of uplift to all participants, including UTCs [Up To Congestion

transactions], will help reduce uplift to the level of noise rather than the significant friction on markets that it is today.” p. 3

- “The MMU recommends that generation owners be permitted to submit cost-based offers above the \$1,000/MWh energy offer cap if they are calculated in accordance with PJM’s Cost Development Guidelines excluding the ten percent adder, subject to after the fact review by the MMU. Such offers should be allowed to set LMP.” p. 21
- “The goal should be to reflect the impact of physical constraints in market prices to the maximum extent possible and thus to reduce the necessity for out of market energy uplift payments. When units receive substantial revenues through energy uplift payments, these payments are not transparent to the market because of the current confidentiality rules. As a result, other market participants, including generation and transmission developers, do not have the opportunity to compete to displace them. As a result, substantial energy uplift payments to a concentrated group of units and organizations has persisted for more than ten years.” p. 25
- “PJM’s goal should be to minimize the total level of energy uplift paid and to ensure that the associated charges are paid by all those whose market actions result in the incurrence of such charges.... The result would be to reduce the level of per MWh charges, to reduce the uncertainty associated with uplift charges and to reduce the impact of energy uplift charges on decisions about how and when to participate in PJM markets.” p. 26
- “If demand resources are to continue competing directly with generation capacity resources in the PJM Capacity Market, the product must be defined such that it can actually serve as a substitute for generation. That is a prerequisite to a functional market design.” p. 34
- “As a preferred alternative, demand response would be on the demand side of the capacity market rather than on the supply side. Rather than complex demand side programs with their attendant complex and difficult to administer rules, customers would be able to avoid capacity and energy charges by not using capacity and energy at their discretion. The long term appropriate end state for demand side resources in the PJM markets should be comparable to the demand side of any market. Customers should use energy as they wish and that usage will determine the amount of capacity and energy for which each customer pays. There would be no counterfactual measurement and verification.” pp. 34-35
- “A transition to this end state should be defined in order to ensure that appropriate levels of demand side response are incorporated in PJM’s load forecasts and thus in the demand curve in the capacity market for the next three years. That transition should be defined by the PRD rules, modified as suggested by the Market Monitor. This approach would work under the current RPM design and this approach would work under the CP design. This approach is entirely consistent with any Supreme Court decision on *EPSA* as it does not require FERC to have jurisdiction over the demand side. This approach will allow the Commission to more fully realize its overriding policy objective to create competitive and efficient wholesale energy markets.” p. 35

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EPSA is the 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

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