



Statement of the PJM Board of Managers

in response to the
2009 *State of the Market Report* for PJM
March 15, 2010

The *State of the Market Report* is the exclusive responsibility of the PJM Independent Market Monitor (IMM). The PJM Board acknowledges this *Report* and welcomes the IMM's regular analysis of PJM's wholesale markets.

A core duty of the PJM Board is to oversee the competitiveness of PJM's markets. We note that the IMM concludes in the annual 2009 *State of the Market Report* that PJM's distinct markets – Capacity, Financial Transmission Rights (FTR), Energy, and Synchronized Reserves -- were all competitive in 2009. The IMM concluded that the Regulation Market results were not competitive.

Since 2000, every annual *State of the Market Report* either has stated the Regulation Market was competitive or it was inconclusive on the issue. This is the first time that a PJM market has been declared not competitive in a *State of the Market Report*. Accordingly, the PJM Board takes this conclusion very seriously.

It is important to recognize, however, that the IMM determined that market participant behavior was competitive in the Regulation Market in 2009 and that the market was administered within the tariff rules. These rules have been in effect since December 1, 2008; they establish the measurement of acceptable costs - costs approved by PJM, its Members and, ultimately, by FERC.

Based on careful review, the PJM Board believes the Regulation Market was operated as defined by FERC and is consistent with PJM's FERC-approved tariff. We note that since the rule changes of December 1, 2008, the Regulation Market has exhibited the following improved performance from 2008 to 2009:

- The Regulation supply eligible in each hour increased by 354 MW (16.2 percent);
- The percentage of Regulation capable units offering into the market increased from 68 to 81 percent;
- The Regulation supply-demand ratios increased from 2.39 to 2.98;
- The percentage of hours in which at least one supplier failed the Three Pivotal Supplier Test declined from 83 percent of hours to 52 percent of hours;
- Despite the ability to include a \$12/MWh adder into cost-based offers, the load-weighted average marginal offer has decreased 25 percent from \$11.94/MWh to \$8.79/MWh;
- The reduction in the load-weighted average offer resulted in an estimated \$23.4 million savings in Regulation costs; and
- The Regulation Market cost, as a percentage of total wholesale market cost, has declined from 0.8 percent to 0.6 percent.

PJM and its members thoroughly review potential market rule changes through an established stakeholder process. There is a separate FERC process that allows further input from market participants. The PJM Board recognizes that the IMM expresses his own views on PJM's market design and we encourage constructive dialogue within these forums.