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**PJM MARKET MONITOR FINDS
WHOLESALE ELECTRICITY MARKETS REMAIN COMPETITIVE**

2007 State of the Market Report Released

(Washington, D.C. – March 11, 2008) – PJM Interconnection’s wholesale electric energy markets produced competitive results last year, according to the 2007 State of the Market Report, released today by the independent Market Monitoring Unit for PJM.

PJM Market Monitor Joseph Bowring discussed findings of the report today during a briefing in Washington, D.C. The report is the Market Monitoring Unit’s annual assessment of the competitiveness of the wholesale electricity markets managed by PJM in 13 states and the District of Columbia. It analyzes market structure, participant behavior and market performance.

“Our analysis concludes that the results of the PJM markets in 2007 were competitive and that locational prices sent appropriate signals and incentives for investment in resources,” Bowring said. “At the same time, the report recommends rules and rule changes required for continued competitive results and for continued improvements in the functioning of the markets.”

Among the recommendations are enhancements to PJM’s scarcity pricing rules to create stages of scarcity and corresponding stages of locational scarcity pricing; implementation of targeted, flexible real-time market power mitigation in the Regulation Market; and consistent application of local market power rules to all constraints and to all generating units, including those currently exempt from offer capping.

The report finds competitive results for PJM’s Energy, Capacity, Synchronized Reserve and Financial Transmission Rights Auction markets. In addition, the report says the Regulation Market results cannot be determined to have been competitive or noncompetitive. “Regulation” matches generation with very short-term changes in energy consumption by moving the output of selected generators up and down via an automatic control signal.

The report also observes that:

- The overall results support the conclusion that prices in PJM are set, on average, by generating units operating at or close to their marginal costs. This outcome is strong evidence of competitive behavior.

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- Overall, 2007 net revenue for generators showed a significant increase over 2006. The results from 2007 mark a reversal of the trend from the prior eight-year period, 1999 to 2006. The increased net revenues in 2007 were the result of higher locational energy prices and of much higher locational capacity prices. Revenues from the sale of capacity resources increased significantly in 2007 as the result of the new Reliability Pricing Model (RPM) Capacity Market.
- The fixed costs of constructing a new combustion turbine, combined-cycle or coal-fired steam generation resource were fully covered in some, but not all, PJM control zones. There was revenue adequacy in 2007 for the combined-cycle technology for more zones than for either the combustion turbine or pulverized-coal technologies.
- The new RPM Capacity Market design is better than the previous Capacity Market because it is forward looking and locational and because RPM has explicit market power mitigation rules designed to permit competitive, locational capacity prices while limiting the exercise of market power.

The Market Monitoring Unit evaluates the operation of PJM's wholesale markets to identify ineffective market rules and tariff provisions, identifies potential anticompetitive behavior by market participants and provides the comprehensive market analysis critical for informed policy decision making. Bowring, the market monitor, ensures the independence and objectivity of the monitoring program. The Market Monitoring Unit submits the State of the Market Report to the PJM Board and to the Federal Energy Regulatory Commission.

For a copy of the State of the Market Report, visit www.pjm.com > Markets > Market Monitoring > State of the Market.

PJM Interconnection ensures the reliability of the high-voltage electric power system serving 51 million people in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia. PJM coordinates and directs the operation of the region's transmission grid, which includes 6,038 substations and 56,250 miles of transmission lines; administers a competitive wholesale electricity market; and plans regional transmission expansion improvements to maintain grid reliability and relieve congestion. Visit PJM at www.pjm.com.

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