PPL Issues Letter on Questions About PJM Capacity Credit Markets

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John Biggar, PPL Corporation's executive vice president and chief financial officer, issued a letter to financial analysts Thursday (12/6) clarifying questions about PPL's activities in the capacity credit markets of the Pennsylvania-New Jersey-Maryland Interconnection (PJM).

(Photo: http://www.newscom.com/cgi-bin/prnh/19981015/PHTH025)

Here is the text of that letter:

To: Members of the investment community
RE: Questions about PJM Capacity Credit Markets

Recently, you may have learned of a report by the Pennsylvania-New Jersey- Maryland Interconnection (PJM) Market Monitor, the individual who is employed by PJM to oversee the operation of PJM markets, regarding the capacity credit markets and of an investigation by the Pennsylvania Public Utility Commission (PUC) into that same subject. Because we at PPL Corporation have received some questions about this matter, I am writing to you to clarify some points:

-- PPL EnergyPlus, LLC, an affiliate of PPL, is the entity that the PJM Market Monitor refers to as "Entity 1" in his report.

-- PJM's Market Monitor acknowledges that PJM's standards and rules did not prohibit our conduct and that his concern about possible exercise of "market power" addressed issues that are broader than the legal standard for antitrust enforcement.

-- PJM's Market Monitor also believes that changes in market conditions and in PJM's rules for distributing capacity deficiency revenues corrected the situation as of April 1, 2001.

-- Our business plans for the remainder of 2001 and for all of 2002 reflect PJM's revised rules from the time that they became effective in June 2001. Even with this development, we are reaffirming our earnings forecast in excess of $4.00 per share for 2001. This would be the highest annual earnings in the company's history. For 2002, PPL continues to forecast little, if any, change in that level of earnings per share.

The published reports on this matter indicate that PJM's Market Monitor has raised specific questions about the operation of the capacity credit markets. PJM's Market Monitor maintains that a single company, referred to as "Entity 1," exercised "market power" during the period from January through March of 2001 in order to influence the price of installed capacity in the PJM daily capacity markets.

PPL has a long and public record of disagreement with PJM and the PJM Market Monitor about how to implement rules governing the PJM capacity markets. We also have appealed, in federal court, the adoption of the new rules by the Federal Energy Regulatory Commission.

PPL does not agree with the PJM Market Monitor's report, and we will be explaining our disagreements in the future, including a formal response to the Market Monitor's report in accordance with the PUC's investigative order by its January 15, 2002, deadline. For now, it is sufficient to state that PPL did not possess, exercise or abuse market power in the PJM capacity markets.

More importantly, PPL made all transactions in the PJM capacity markets during the time in question as part of its ongoing commitment to maximize value for our shareowners and did so legally and ethically. PPL's conduct was at all times in compliance with all applicable laws and regulations.

PPL, as an active energy market participant, acted on the basis of a projected tightening of demand and supply in the wholesale capacity markets. PJM's Market Monitor reports that a significant tightening of demand and supply for capacity did occur on January 1, 2001. It is true that PPL benefited from its market call on the direction of the prices in the capacity markets. However, these are the dynamics of a competitive wholesale energy marketplace, and as the Market Monitor's report acknowledges, additional capacity quickly came into the market to meet the additional demand.

Given the retail rate caps in place throughout much of PJM and the structure of most retail electricity contracts, electricity consumers generally are not directly affected by price swings in the PJM daily capacity markets. The only possible effect would be on those electricity providers that chose not to enter into long-term contracts for their supplies of capacity ahead of time and that, instead, chose to rely on the highly volatile, daily spot market to obtain their capacity needs. These entities voluntarily undertook the risks of not providing for their capacity requirements in advance.

This experience is one of the reasons why PPL supports PJM's effort to move toward a seasonal, or even longer-term, commitment of capacity. PPL believes that long-term capacity obligations and commitments, as opposed to daily obligations and commitments, enhance reliability. Reliability, which is crucial to domestic security and economic development, is best maintained through the use of a capacity-based system that ensures the ability to produce electric power when it is required. In order to maintain reliability, a capacity obligation should be imposed that requires electricity providers to obtain sufficient capacity to meet demand at least two years in advance, which is the approximate lead time for new construction to be placed in service. PPL believes that daily advance commitments are insufficient, and even seasonal advance commitments may be insufficient.

We look forward to participating in the ongoing discussion toward the resolution of these important issues.

Very truly yours,

(signed) John Biggar
Executive Vice President and CFO, PPL Corporation

PPL Corporation (NYSE: PPL), headquartered in Allentown, Pa., generates electricity at power plants in Pennsylvania, Maine and Montana; markets wholesale or retail energy in 42 U.S. states and Canada; and delivers energy to nearly 6 million customers in Pennsylvania, the United Kingdom and Latin America.

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