

PPL: Actions in Capacity Market Legal and Ethical

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No PPL company had, exercised or abused market power in the Pennsylvania-New Jersey-Maryland Interconnection capacity market, PPL Corporation (NYSE: PPL) said Thursday (6/13).

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"We are convinced that all transactions in the PJM capacity market by PPL companies were legal and ethical, and in compliance with applicable laws and regulations," said Paul T. Champagne, president of PPL EnergyPlus, PPL's marketing company. "We are confident that any fair investigation of our actions will confirm this fact."

Champagne pointed out that the PJM Market Monitor's report expressly acknowledged that PJM's standards and rules did not prohibit PPL EnergyPlus' activities. The Market Monitor also said that his comments on PPL EnergyPlus' market behavior applied criteria broader than the antitrust laws.

Following an investigation of PPL's activities in the capacity market, the Pennsylvania Public Utility Commission Thursday (6/13) referred an investigation report to the U.S. Department of Justice, the Federal Energy Regulatory Commission and the Pennsylvania Attorney General.

Companies that sell electricity through the PJM are required to have capacity credits to ensure the reliability of electricity service.

Champagne said that price increases in the PJM daily capacity market were the result of a readily foreseeable increase in the capacity requirements based on the previous year's peak demand that became effective Jan. 1, 2001, combined with increased reliance on the daily capacity market by some companies.

PPL, he said, had no corner on the capacity market. It simply showed foresight in having a temporary long position at a time when market conditions were forecast to tighten.

"In fact, PPL EnergyPlus had offered longer-term contracts at very moderate prices in late 2000, but a number of Load Serving Entities opted to wait and to rely on the post-Jan. 1 spot market to meet their obligations," said Champagne. "So, any parties that were negatively affected by price swings in the daily capacity market had voluntarily undertaken the risk of that market rather than availing themselves of earlier long-term opportunities."

Prices declined in April 2001 as additional capacity became available and as parties turned again to longer-term markets to cover their capacity obligations, Champagne said. And, since that time, PJM has changed the rules for capacity credit sales.

Champagne said that PJM capacity prices did not cause a decline in retail competition. "Rather, such decline resulted from the mismatch of a fixed shopping credit and varying wholesale energy prices which have made cost-effective retail competition difficult under current cost conditions," said Champagne.

PPL Corporation, headquartered in Allentown, Pa., controls or owns more than 10,000 megawatts of generating capacity in the United States, sells energy in key U.S. markets, and delivers electricity to nearly 6 million customers in Pennsylvania, the United Kingdom and Latin America.

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SOURCE: PPL Corporation

CONTACT: Dan McCarthy of PPL, +1-610-774-5758, or fax: +1-610-774-5281

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