Comparative Price Performance: The Neglected Indicator of the Competitiveness of PJM Energy Markets

The PJM Market Monitor has prepared annual “State of the Market” reports for the past several years. One main purpose of the reports is to assess the competitiveness of PJM energy markets. Over the years the MMU has concluded that PJM energy markets are competitive in terms of structure, behavior, performance. While the MMU report acknowledges that prices are important indicators of competitiveness, it does not look beyond self-referential indicators (its price-cost mark-up analysis) and the Herfindahl-Hirschman Index (which it acknowledges has problems) to support its conclusion that energy markets are competitive.

This paper provides a brief summary of the inadequacies of the MMU’s price-cost markup analysis, and then contrasts the results of MMU analysis with prices in selected deregulated PJM states and the District of Columbia with those in regulated states in a reliability region adjacent to PJM. Data will be collected on the types, sizes, and ages of power plants, and on the relative fuels costs in order to assess the significance of these factors in explaining differences in price increases.

The data sources are the U.S. Department of Energy, Energy Information Administration, EIA Form 861 for price information, and EIA Form 860 for capacity information. Related government forms will be used to evaluate differences in fuel price increases. Among the references are: George Stigler’s paper “What Can Regulators Regulate? (J. of Law and Economics, Oct. 1962); and Paul Joskow’s “Markets for Power in the United States: An Interim Assessment.” (The Energy Journal, January 2006).