Edison Mission Energy

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Edison Mission Energy

Edison Mission Energy operates six coal-fired power plants and two peaker sites in Illinois, and operates the Homer City coal-fired plant in Pennsylvania totaling approximately 7,500 MWs

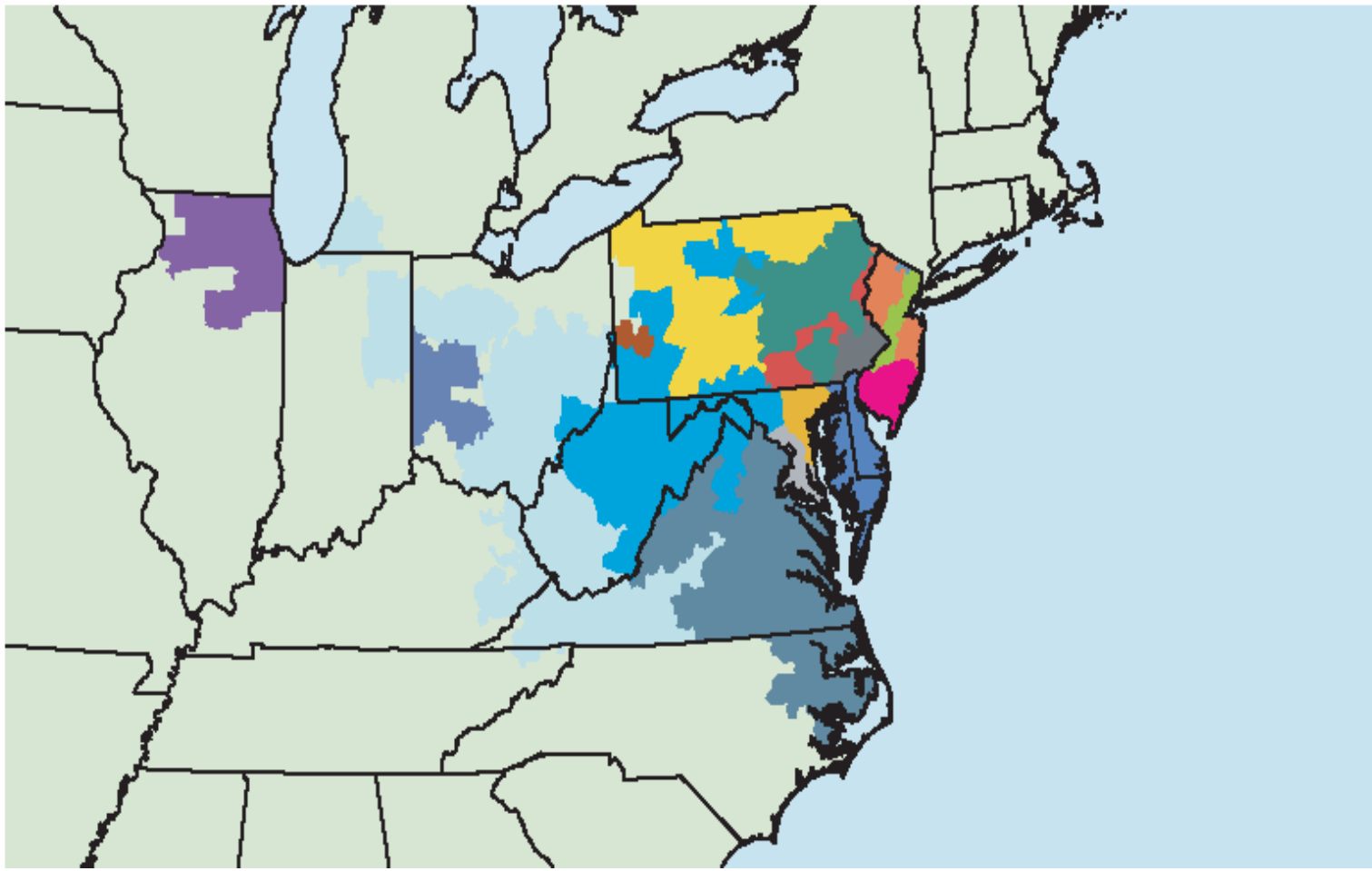
Major Expansion Accomplishment

- Successful integration of ComEd in May 2004, AEP & Dayton in October 2004, and Dominion in May 2005
- More than doubled the size of the market
- Expanded the PJM footprint to create the largest energy market in the world
  - PJM Market - 130,000 MWs
  - France (EDF) – 80,000 MWs
  - California - 43,000 MWs

PJM Expansion Statistics

Key Statistics	PJM Pre-Integration 1993	PJM Post-Integration with Dominion
Millions of People Served	22	51
Peak Load (MW)	46,429	131,330
Generation Capacity (MW)	55,575	163,806
Miles of Transmission Lines	6,821	56,070
Generation Sources	540	1,082
Area Served	5 states + D.C.	13 states + D.C.

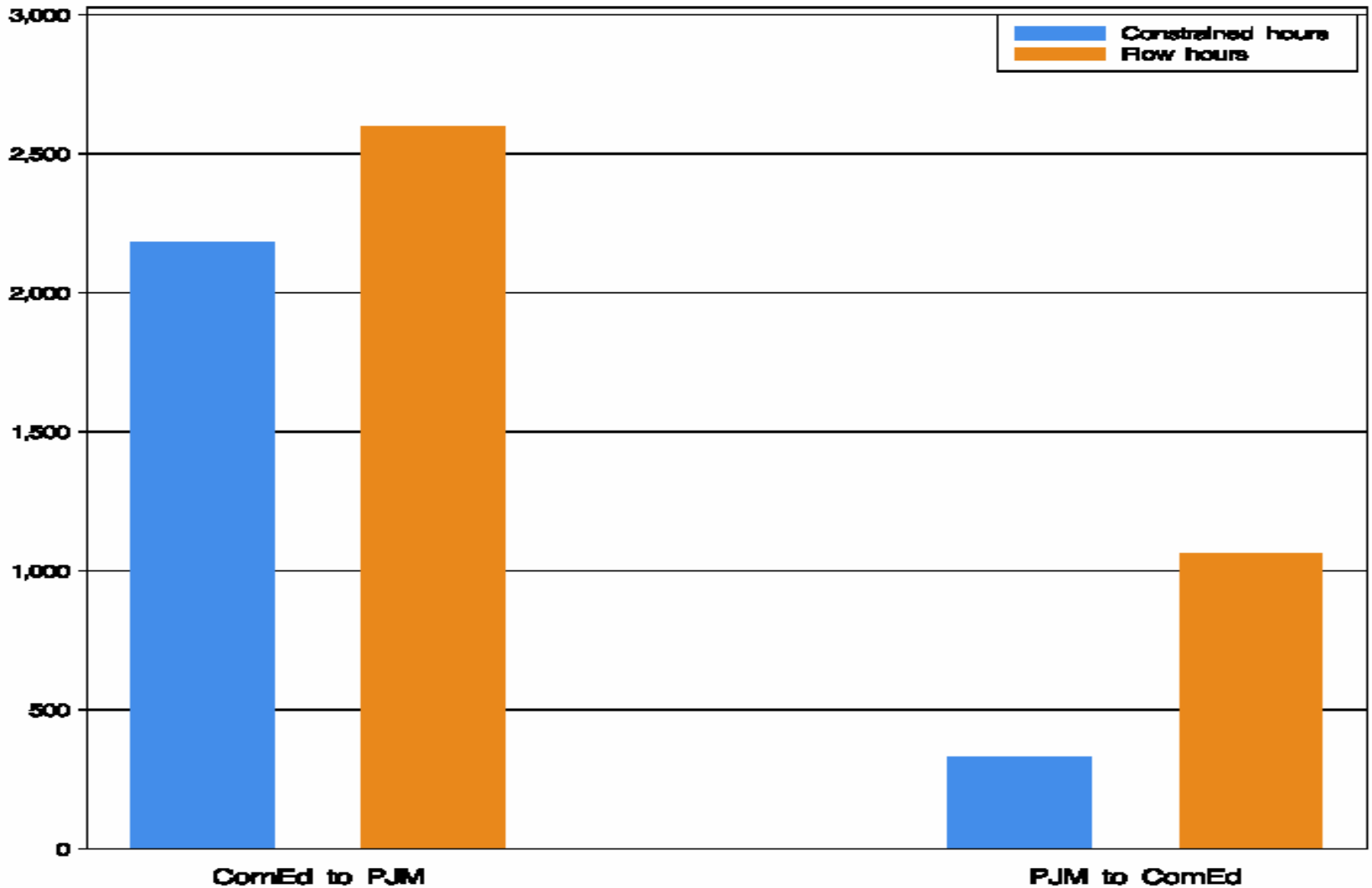
Major Expansion of the PJM Service Territory



ComEd Stand-Alone Integration

- ComEd integrated into PJM ahead of AEP
  - May 1, 2004 thru September 30, 2004
- Pathway Integration
  - 500 MWs of bidirectional transmission service through AEP
- When Pathway flow was at a directional limit, price separation occurred between ComEd and Classic PJM
- Pathway flow was predominately into PJM reflecting the fact that marginal prices were typically higher in the PJM control area than in ComEd

Pathway Flow and Congestion



ComEd Stand-Alone Integration

- Separate Capacity Market
  - ICAP versus UCAP
- Limited Ancillary Services Market
  - Regulation
  - Spinning
  - Voltage Support
- Limited number of physical players
- Fortunately, after the AEP integration, the market is contiguous, highly competitive, and the market expansion is resulting in consumer benefits across the expended PJM footprint

Impact of Expansion on Market Performance

- Energy Market Prices
- Price-Cost Mark-up
  - Measure of Market Power
- Net Revenue
  - Indicator of generation investment profitability
  - Price signal for new generation interconnection
  - Price signal to generation retirement

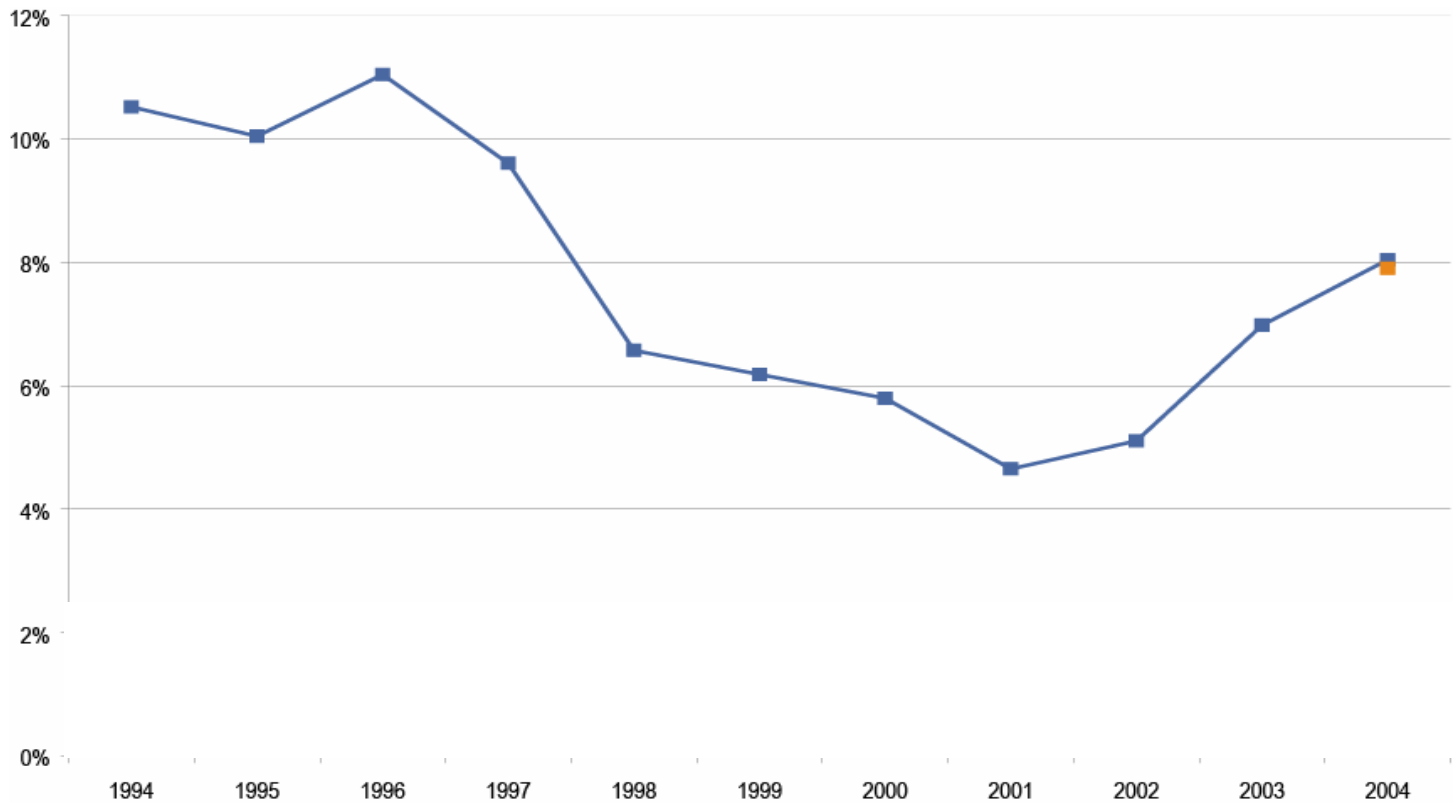
Energy Market Statistics

- There were no price spikes during 2004 due to moderate demand and the market was relatively long
  - highest price reached $180/MWh for one hour
  - price above $150/MWh for only 5 hours
- Average monthly load-weighted LMPs did not exceed $60/MWh
- Decrease of 4.2% of fuel-adjusted Load-weighted LMP
  - Fuel-adjusted Load-weighted LMP for 2004 was $39.49/MWh compared to $41.23/MWh for 2003
- Average energy bid load-weighted mark-up range : 2% to 10%
  - Average annual mark-up index for steam units decreased to 5% in 2004 from 10% in 2003

New Entry Net Revenue ($/MW)

Unit Type	20 Year Levelized Fixed Cost	Realistic Dispatch Average Net Revenue 1999 to 2004
Combustion Turbine (CT)	$72,207	$36,195
Combined Cycle (CC)	$93,549	$52,243
Pulverized Coal (CP)	$208,247	$137,015

Trends in EFOR



PJM 2005/2006 Challenges

- Address market structural flaws in the capacity market
  - Uncertainty as to implementation timing of Reliability Pricing Model (RPM)
- Implementation of PJM/MISO Joint and Common Market
- Scarcity Pricing - Mitigation

Reliability Pricing Model (RPM)

- Current capacity structure is flawed – allows for daily capacity procurement
- 7,200 MWs of generation either already retired or requested to retire (EME's share 3,200 MWs)
- Vanishing interconnection queue
  - In 2002, PJM interconnected an all time high of 5,400 MWs
  - in 2004, only 2,600 MWs interconnected
  - In 2005, PJM only expects 950 MWs to interconnect

Highlights of the RPM Proposal

- Proposal would eliminate the daily capacity market and replace it with an annual capacity procurement, four years forward
  - compensate existing generation within PJM for their contribution of capacity towards enhanced system reliability - potential premium for load following and 30 minute start capability
  - Generators would receive predictable prices for four years
  - Capacity prices will be locational to address power needs in load pockets
- Capacity revenue would be in addition to revenue realized from the energy and ancillary services markets
- RPM proposal has strong support among the generation owners and some PJM utilities and faces opposition among industrial customers, consumer advocates and certain state commissions

PJM/MISO Joint and Common Market

- Transmission Service coordination
- Daily outage coordination
- FTR coordination
- Market-to-Market coordination
- Allocation of costs for transmission upgrades that benefit load in both RTOs