THE P3 GROUP

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PJM's capacity-auction results signal continuation of troubling trends

Statement from The PJM Power Providers Group on the results of PJM's annual capacity auction for the 2023/2024 Delivery Year

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MALVERN, Pa. – The PJM Power Providers (P3) Group applauds PJM's success in ensuring it will have sufficient power supply available next summer, but believes the results of the Base Residual Auction (BRA) for the 2023/2024 Delivery Year indicate the continuation of troubling trends throughout the country's organized power markets. The significance of capacity markets within the mix of revenue streams offered through each regional grid-operator is being undermined and may lead to reductions in the benefits that capacity markets provide, not the least of which is reliability.

P3 President Glen Thomas released the following statement on the issue:

"With most of the country facing significant reliability issues this summer, it's welcome news that PJM has secured commitments from enough resources to meet the projected demand next summer. However, this is the second-consecutive auction with historically-low clearing prices combined with a steady decline in new resources, which raises serious questions regarding whether the capacity market, as currently constructed, will preserve resource adequacy in PJM going forward. The auction-clearing prices are among the lowest they've ever been, so the compensation that generators will receive to commit to serving PJM's region next year is greatly reduced. However, the requirements they will commit to are more rigorous than ever. Increased obligations for decreased compensation is an incentive to leave the market rather than retain existing resources or attract new ones that will help maintain reliability going forward."

The auction, which ended on June 21, cleared at $34.13/MW-day for most of PJM's region (described as the "RTO" price), with several constrained subzones clearing higher. In its analysis of the results, PJM confirmed that the RTO price was the third-lowest ever since annual auctions through its Reliability Pricing Model (RPM) began with the 2007/2008 Delivery Year. PJM also noted that the supply curve was potentially impacted by:

- the elimination of the default market-seller offer cap (MSOC), which resulted in a lowering of unit-specific MSOCs. The removal of default MSOCs was promoted by proponents as necessary to protect against the potential to inappropriately influence prices; instead, it forced suppliers to use unit-specific calculations of anticipated revenues from the energy and ancillary-services markets to determine their necessary capacity-market revenues (the so-called "E&AS offset") while also prohibiting those calculations from accounting for the costs and risks of accepting a capacity obligation to operate when so directed by PJM.

- just seven resources representing 76 MWs being subject to the minimum offer-price rule (MOPR) — which PJM indicated were significantly fewer than the BRA for the current 2022/2023 Delivery Year — because FERC inaction last year triggered implementation of more-lenient requirements. That implicitly confirms that revisions demanded by FERC have virtually eliminated the MOPR, and it now fails in its purpose to prohibit subsidized resources from both suppressing the clearing price for resources who do not enjoy the benefit of a subsidy and preventing those otherwise-economic resources from clearing.
- the lead time to the delivery year being compressed, due to delays caused by other FERC actions, from the usual timeline of three years ahead to a single year.

A separate but salient issue involves details emerging from another PJM-stakeholder solution-development process indicating that the capacity capability provided by intermittent-renewable wind and solar generators that participated in the auction is currently overstated. PJM's proposed solution to rectify this issue is under dispute because it assumes utilization of extra room on the transmission system that should be available to all system users.

P3 has expressed concern previously with these issues, and their combination has already begun to show some of the cumulative impacts anticipated. P3 has joined others in initiating litigation to rectify the issues and foresees that subsequent impacts could include reliability risks as dependable generators needed to maintain system stability — and that rely on capacity revenues — are forced to retire. It will not be known until there is an emergency-shortage situation whether such reliability concerns are warranted, but the unsettling trend now makes it perhaps more likely than before. The assessment of the readiness of the nation's electricity grid for this summer, which NERC (the organization tasked with maintaining grid reliability in North America) published earlier this year, indicated that other regions that have experienced some of these impacts sooner than PJM are at substantially greater risk of power outages this summer. P3 urges PJM and FERC to deeply evaluate the auction results and closely monitor system conditions in the coming year to ensure that quick and effective response occurs when and if it becomes necessary to continue satisfying the energy needs of the 65 million people within PJM's service region without interruption.

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P3 is a non-profit organization that supports the development of properly-designed and well-functioning markets in PJM's operating region of the electricity grid, which encompasses 13 states and the District of Columbia. Combined, P3 members own more than 67 gigawatts of virtually all forms of electricity generation, provide demand-response services, serve end-use consumers through retail affiliates, and produce enough power to supply more than 50 million homes. For more information, visit www.p3powergroup.com and connect with us on LinkedIn and Twitter @P3_PowerGroup.