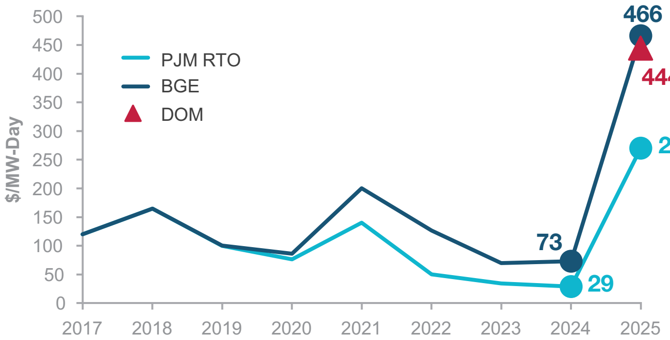
PJM capacity prices reach historic highs, reflecting the tightening supply-demand balance and recent market rule changes

The PJM capacity auction for Delivery Year 2025/26 cleared at ~9x the previous price



- Prices for the majority of PJM rose to $269.92/MW-day, compared to $28.92/MW-day for the previous auction.
- Prices were even higher for Baltimore Gas & Electric ($466.35/MW-day) and Dominion ($444.26/MW-day) zones.
- Total Cost to Load (the amount to be recovered from electricity consumers) increased from $2.2 billion to $14.7 billion.

What caused the higher prices?

6,600 MW

Reduced Supply

- Generation retirements – 6,600 MW left the supply stack
- Limited new capacity – Only 864 MW of new generation and uprates – new entry is constrained in PJM
- Demand response – 1,311 MW less offered

3,243 MW

Growing Demand

- Peak load forecast increased by 3,243 MW to 153,883 MW (2.2% increase)
- Target installed reserve margin increased from 14.7% to 17.8%
- The capacity-short Dominion zone re-entered after 3 years outside the auction

Market Rule Changes

- Changes to capacity accreditation – mostly decreases in how much each resource type can contribute
- Changes to planning parameters and more stringent requirements for new resources

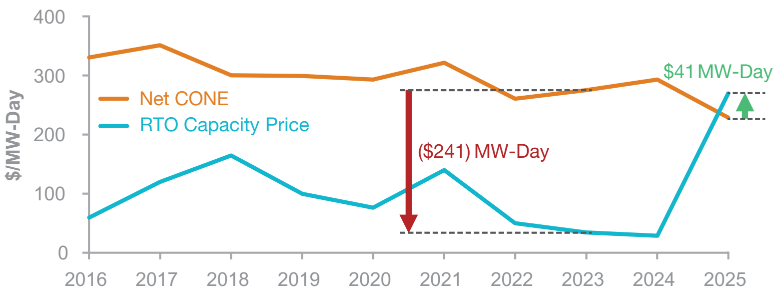
Baltimore Gas & Electric (BGE)
[target = 6,940 MW]

In-zone capacity dropped from 2,600 MW to 600 MW with the loss of the Brandon Shores and Wagner plants, which moved out of the capacity market as they transition towards retirement.

Dominion (DOM)
[target = 25,746 MW]

DOM returned to the RPM capacity market (from FRR approach) to avoid increased penalties. A higher reliability requirement in RPM vs FRR and demand growth led to a shortage.

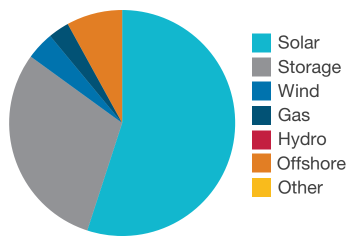
The capacity price outcome signals a capacity need…



- If capacity prices are above Net CONE*, on average, an investor would expect to be made whole for the year without other non-energy revenues.
- In BGE and DOM, the price exceeded Gross CONE – on average, a new plant could be "in the money" for the year even without energy revenues.

… but it does not guarantee new capacity.

- **Signal duration –** PJM capacity prices are for a single delivery year. New power plants must earn returns over a much longer period, so investment will depend on longer-term views and arrangements.
- **Lack of headroom –** Only 22 MW of annual resources failed to clear – capacity is not standing on the sideline waiting to enter.
- **Interconnection challenges –** Even if investors are convinced by the thesis, new entry is delayed by the significant queue. The PJM queue is dominated by resources with low accredited capacity value.



What comes next?

- **Planned reforms –** The auction result will be a major consideration in PJM's already planned deliberations on further market reforms.
- **Additional changes –** The high prices will likely drive stakeholders to advocate market changes and possibly out-of-market interventions.
- **Disputes –** When prices and costs dramatically swing, there are often challenges to contracts and finances.
- **Auctions –** PJM is off-schedule and trying to get back to 3-year forward auctions. There will be two more auctions within the next year (see schedule). This leaves minimal time for new capacity to impact outcomes or for load to respond (it continues to grow).

Delivery Year	Auction Date
2026/27	Dec 2024
2027/28	Jun 2025
2028/29	Dec 2025
2029/30	May 2026

CRA energy consultants provide expertise to utilities, regulators, investors, and developers evaluating strategies and opportunities in PJM and other regions. Our services include strategic advisory, market modeling, market and policy design, and regulatory and litigation expert testimony.

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*Sources: PJM, CRA Analysis; * Net CONE is the revenue needed beyond energy revenues to make a new generator (e.g. a gas plant) whole for a given year.*

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