



PJM's Capacity Strategy: Putting a Band-Aid on a Bullet Wound

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By Brendan Boyle, Director, Market Intelligence, [Transparent Energy](#), May 2025

Over the course of the last six months, Transparent Energy has worked to educate large commercial and industrial (C&I) customers on the [seismic changes](#) that have occurred in PJM capacity charges – and the impact of those [large price increases](#) on their monthly energy bills, beginning June 1, 2025. In more recent news, the Federal Energy Regulatory Commission (FERC) has approved a “collar” (i.e., a floor and ceiling) for capacity prices resulting from future PJM capacity auctions. Establishing such a floor and ceiling may sound helpful, but it actually cements the 800+% capacity-cost increase initiated by last year’s capacity auction for the next three years. This article digs into the details and how we got here.

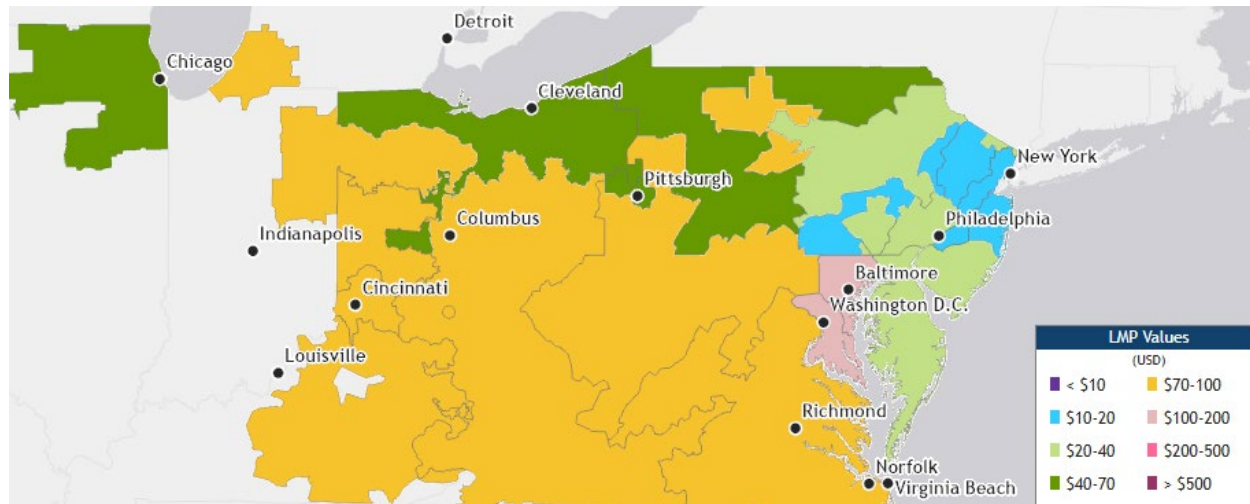
Introduction

Since the formation of the Federal Energy Regulatory Commission (FERC) in 1977, the American energy industry has benefited from deregulation. Opening the markets has increased competition, lowered costs, fostered technological breakthroughs, and led to a steep decline in the inefficiencies that brought about the energy crisis of the 1970’s and the near bankruptcy of utility companies.

In the late 1990s, FERC made a series of rulings to restructure the American electric industry. These changes were implemented at the Independent System Operator (ISO) level, with the country separated by geographic region. The PJM Interconnection is the ISO serving most end-

users in the Mid-Atlantic region from Chicago to Newark to North Carolina and nearly everywhere in between. PJM’s mission is to provide customers with safe, reliable electricity at the lowest possible price, but no lower. For the most part PJM has done that, using two primary mechanisms:

- 1) **Energy Market** – sets electric price, paid to power generators (supply) by end-users (demand) for kilowatt hours delivered using locational marginal prices (LMPs). These costs change constantly throughout the day as PJM manages an economic balancing act. Below is a map of LMP price ranges (in \$/MWh) from last Thursday at 4:00 PM EDT:



- 2) **Capacity Market** – designed to ensure long-term grid reliability as market participants (supply) are paid for their proven ability to generate electricity or reduce demand at a pre-determined date in the future.

In the energy market, generators report to PJM on expected availability for next-day dispatch, offering to sell electricity for a specific price based on operating costs and the price of fuel (natural gas, coal, uranium, etc.). The *day-ahead market* allows buyers (demand) to purchase a set amount of electricity they expect to need the following day. The *real-time (spot) energy* market allows buyers to purchase power for immediate use, balancing actual demand and system constraints as it occurs (hence “real-time”).

While the energy market moves quickly to match buyers and sellers, the capacity market is more nuanced and forward-looking. The idea is to incentivize power generators to be available to meet the grid’s system needs during the periods of highest demand – which typically occurs on a sweltering summer day or during a winter storm.

Pricing Power: Base Residual Auctions

PJM hosts auctions for power plants and Demand Response resources to establish a price for every megawatt of electricity that they can generate or curtail during a set period in the future. In the past, these Base Residual Auctions (BRAs) would take place 3-years prior to the time when the electricity was actually generated and consumed. For example, the BRA for the 2021/2022



planning year (which ran from June 1, 2021, through May 31, 2022), occurred on May 23, 2018. Subsequent incremental auctions were held in 2020 and 2021 to adjust for changes in the supply/demand balance for the 2021/2022 planning year. **The 3-year advance notice was crucial to allow new generation to be built and connected to the grid armed with the knowledge of future capacity prices.**

In 2023 Monitoring Analytics, the Independent Market Monitor for PJM [concluded](#) that the 2022/2023 BRA “*assumed competition where it did not exist and led to noncompetitive outcomes and...customers being overcharged by a combined \$1.454 billion.*” The implication was that PJM had been purchasing capacity in excess of the forecasted load which resulted in end-users paying for more capacity than was needed, retaining older generating units which should be retired, and acquiring new power plants that were not yet needed. PJM had been too conservative in its methodology creating needlessly high reserve margins, and the capacity market responded in turn.

PJM’s BRA prices for 2023/2024 and 2024/2025 cleared lower than prior years, settling at \$41.78per MW-day and \$44.33 per MW-day respectively on a load-weighted basis. Having less financial incentive to continue operating, older coal, oil, and natural gas-fired power plants were retired in 2022 and 2023, with more departures planned in the future.

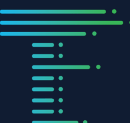
Pricing Power: A Moving Target

While some of these deactivations were economically driven, others were ushered out by renewable energy and clean air mandates issued at the state level. An example is New Jersey, which, like many other states, committed to transition to “100% clean energy use by 2035.” It remains unclear whether these goals are achievable or even still desirable as government administrations change along with the definition of the term ‘clean energy’.

Like any organization with such massive responsibility, PJM often faces criticism from politicians, ratepayers, media members, and other stakeholders. Ahead of the 2025/2026 BRA, PJM and FERC filed several motions for delay, allowing for the implementation of market reforms. Numerous components of the BRA process were adjusted, namely, how to handle energy efficiency resources, which RMR units should be included, and perhaps most significantly, how to assign capacity accreditation values.

Accreditation value (AV) refers to the number assigned to each energy generating resource based on its ability to deliver power when needed and its expected availability. A nuclear generator will have an AV close to 90% while a solar farm may only receive a 10% AV. This is because the nuke plant runs 24/7/365 except for the occasional scheduled maintenance, while a solar array depends mostly on cloud cover, location, and time of year. When regulators adjust these numbers, it has a profound impact on market dynamics.

By August 2024, PJM finally had clearance to proceed with the most recent BRA. While the system had been designed to provide a three-year notice for buyers and sellers to plan, **the 2025/2026 auction (which takes effect June 1, 2025) allowed participants less than 10 months prepare.** The results were very discouraging. Total projected annual costs for customers across the region increased from \$2.2 billion to \$14.7 billion.



A staggering, game-changing increase.

The reasons capacity costs increased so dramatically are numerous. Primarily, we are seeing substantial load growth due to the expanding need for data centers and the electrification of vehicles and other equipment. PJM also built in new rules to account for extreme weather scenarios. These factors, combined with generator retirements, and updated resource accreditation numbers meant that the supply/demand equation was out of balance.

The 833% increase in capacity costs across the region created massive shock waves across energy markets. PJM faced instant backlash from all sides. Customers were not given the opportunity to adjust their capacity tag obligation (share of the total system peak) to account for the higher prices, and new generators don't have enough time to build their facilities and reap the reward.

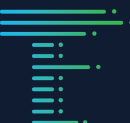
Beyond PJM's inability to host a timely auction, their interconnection process has lagged other regions. In 2024, PJM implemented an accelerated interconnection process, however, there are still more than 2,500 generation projects waiting to be connected to the grid. Essentially, the rule making and regulatory process implemented by PJM has limited the ability of free market economics to establish a fair price for electricity.

What Happens Next?

Updates to capacity prices are managed by third-party electric suppliers as a 'Change in Law', which means that the final cost of capacity is bilaterally passed along to the end-user. Beginning June 1st, customers across PJM are going to see higher costs on their electric bills. As a result of this increase, the fear that capacity prices will continue to rise, and the shortened timeframe to plan, **PJM reached an arrangement to establish a price floor and ceiling for the next two auctions.**

As of now, **the minimum value** for the BRA clearing price for the 2026/2027 and 2027/2028 auctions **has been set at \$175 per MW-day**, and **the maximum value is \$325 per MW-day**. Capacity prices from June 1, 2026, through May 31, 2028, will fall within this range. Remember that prior to the most recent auction hitting \$298 per MW-day, **the prior two auctions cleared at \$42 and \$44 per MW-day. NOTE: the \$298 per MW-day clearing price is the load-weighted average across the PJM. Most utilities within PJM cleared at \$269.92 per MW-day, while BGE (Maryland) and Dominion (Virginia) cleared over \$300 per MW-day.**

Although customers are now protected from experiencing another massive year-over-year rate increase, the potential for a return to more recent price norms has been eliminated until at least mid-2028.



Here is a look at the schedule of future BRAs in PJM:

| Auction Year | Delivery Period | Scheduled BRA Date |
|---------------------|-----------------------------|---------------------------|
| 2026/2027* | June 1, 2026 – May 31, 2027 | July 2025 |
| 2027/2028* | June 1, 2027 – May 31, 2028 | December 2025 |
| 2028/2029 | June 1, 2028 – May 31, 2029 | May 2026 |
| 2029/2030 | June 1, 2029 – May 31, 2030 | December 2026 |
| 2030/2031 | June 1, 2030 – May 31, 2031 | May 2027 |

* - BRAs for 2026/2027 and 2027/2028 will have a price floor (\$175/MW-d) and a cap (\$325/MW-d).

Conclusion

PJM is in a state of transition. Based on the schedule above, the grid operator plans to accelerate future BRA dates to get back on the 3-year-ahead schedule. This should help stabilize capacity costs; however, it does nothing to *lower* them, and more work needs to be done to prevent similar surprises in the future. It is imperative that PJM simplify its interconnection process to reduce delays. Electric generating facilities take years to plan and develop, particularly when the supply chain relies on foreign trade and connecting to the grid often requires federal, state, and local permitting.

Everyone can agree that the goal is to have clean, reliable power at a reasonable price. Delivering all three goals has proven difficult for PJM. Considering the challenges ahead, **it is imperative for businesses across PJM to understand the landscape and plan ahead to take control of future energy costs by all means available.** This includes taking an inventory of energy consumption and cost patterns and leveraging demand-side opportunities to increase operational efficiencies.

When it comes to structuring an electricity supply agreement, we implore you to collaborate with a team of experts who can help you build and implement a procurement strategy. Energy suppliers are dealing with this transformation in real-time, same as end-users. **Contracts will inevitably become more complex, as will the product offerings and rate structures.**

Transparent Energy is here to help, from building an RFP, to hosting a live online auction, and serving your energy meters with best-in-class service. Our team will provide a map to navigate these uncharted waters and execute your business's unique strategy with unmatched efficiency.

Big changes in energy pricing in PJM, and around the country, necessitate big changes in your energy-procurement approach. If you'd like to up your company's energy sourcing game, from better understanding the market to better executing the strategies that will increase your savings while reducing risk, contact us today at letstalk@transparentedge.com

