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## 10/16/2024 SPECIAL REPORT

### PJM plans to delay Base Residual Auction for the 2026/2027 delivery year by six months

PJM plans to delay its upcoming base residual capacity auction (BRA) for the 2026/27 delivery year by about six months to give it time to respond to the Sierra Club's complaint<sup>1</sup> at the FERC, proposing rule changes at the RTO to allow reliability must-run power plants in its capacity auctions which would result in lower prices.

Concerns were also raised by the PJM market monitor, the Organization of PJM States, Inc. (OPSI) and the Maryland Public Service Commission. OPSI protested that not including Talen Energy's power plants designated as Reliability Must Run (RMR) in the 2026/27 capacity auction will result in billions in additional capacity costs.

The PJM Power Providers Group (P3), which represents independent power producers, also called for capacity market changes, noting that recent changes to the demand curve used to set capacity prices increase the likelihood of "boom/bust" auction results.

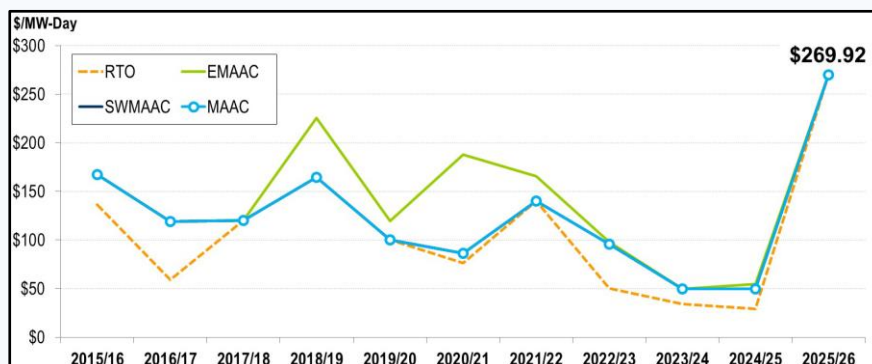
### PJM intends on addressing capacity market reform holistically instead of just the RMR issue.

PJM said that the issues raised in the Sierra Club complaint, as well as from the other stakeholders, are complex and affect other aspects of the capacity market design. The RTO said that it wants to address capacity market reform holistically and not just the RMR issue in isolation, and that the delay will give it time to devise changes to the capacity construct to improve market certainty.

### Recent capacity price trends

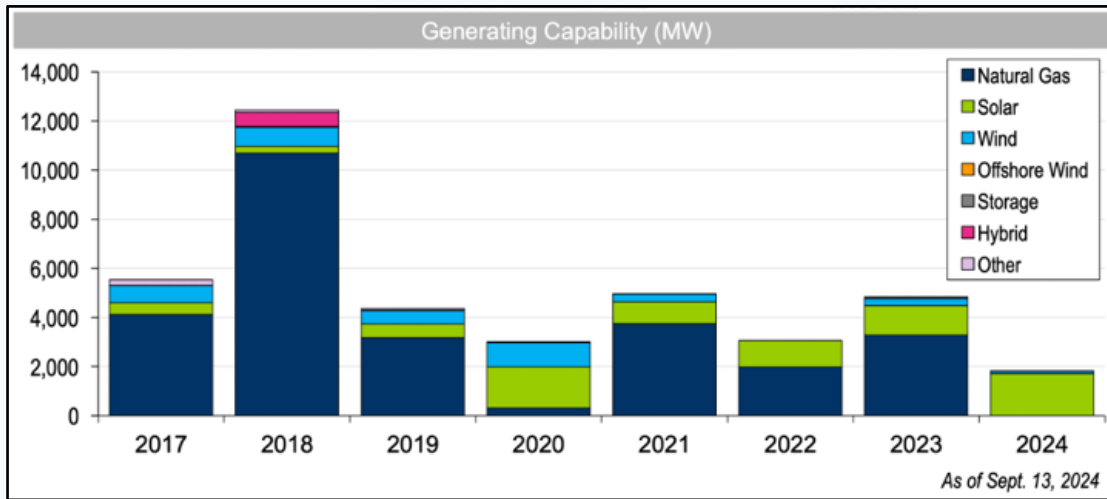
Recall that after the 2025/26 BRA cleared at \$270/MW-day for the RTO (see Figure 1 below), PJM said: *"The significantly higher prices in this auction confirm our concerns that the supply/demand balance is tightening across the RTO. The market is sending a price signal that should incent investment in resources."*

**Figure 1: BRA Clearing Prices by Delivery Year for Major LDAs (Source: PJM)**



The declining capacity auction prices over the past decade, through 2024/25, have correspondingly resulted in a reduction in new generation capacity placed in service, with less than 2 GW of mostly solar resources in 2024 (see Figure 2 below).

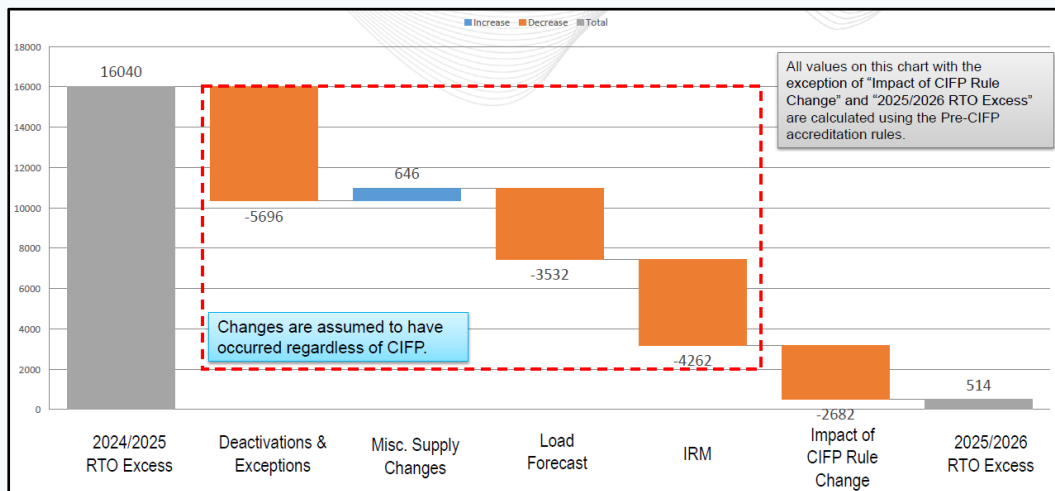
**Figure 2: Generation Projects (MW) Placed in Service by Year (Source: PJM)**



### How tight is PJM's supply/demand balance today?

According to PJM, it had 16 GW of "excess" capacity in the 2024/25 delivery year, which provided a degree of reliability cushion. However, that excess capacity has declined to just 0.5 GW for the 2025/26 delivery year for a number of reasons (see Figure 3 below).

**Figure 3: Waterfall Chart of Reduction in Excess Capacity (UCAP) from 24/25 to 25/26 (Source: PJM)**



### What are the next steps?

PJM will seek FERC approval for a delay, which upon approval, the 2026/27 BRA (currently scheduled for December 2024) will likely be delayed until June 2025, while the 2027/28 and 2028/29 BRAs, currently scheduled for June and December 2025, respectively, will be pushed back accordingly.

Calpine Energy Solutions will keep you apprised of further developments as they become available. Please contact your Calpine sales representative if you have further questions.

<sup>1</sup>Sierra Club, Natural Resources Defense Council, Public Citizen, Sustainable FERC Project and Union of Concerned Scientists filed a complaint at the FERC proposing rule changes at PJM to allow reliability must-run power plants in its capacity auctions, beginning with the 2026/27 delivery year.