



Base Residual Auction Shows Decline in Electric Capacity Prices for 2016/2017 Delivery Year

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PJM Interconnection (PJM) recently conducted its Base Residual Auction (BRA) for the 2016/2017 Delivery Year, commencing on May 13, 2013. The BRA sets prices for wholesale generation capacity resources needed to serve the anticipated load during the Delivery Year. This cost is typically passed along to consumers in the generation portion of their overall electric bill. The results of the auction have now been posted. The price for the unconstrained regions of PJM came in at \$59.37; and the price for the constrained zone within ATSI came in at \$114.23.

The objective of each BRA is to procure capacity reserve for electricity in a least-cost manner. This reserve of generating capacity ensures that there are adequate resources to meet system electricity requirements and to prevent brownouts and blackouts.

Auctions are held three years in advance of the targeted delivery years. In addition to one BRA, up to three incremental auctions may be held per delivery year.

Results from last year's auction — procuring capacity for the 2015/2016 Delivery Year — indicated an increase in price from the previous year for wholesale electricity. In northern Ohio, in an area known as the "ATSI Zone," the price increases were significantly higher. There, the price for annual resources is \$357.00/MW-day, compared to \$136.00/MW-day in the rest of PJM. This increase in price is largely attributed to a large number of planned coal-fired generation retirements, as well as transmission congestion. Consumers, especially consumers in northern Ohio, will begin to feel the impact of these higher prices beginning in 2015.

Delivery Year	Capacity Price	Capacity Price in ATSI Zone*
2013/2014	\$27.73/MW-day	N/A
2014/2015	\$125.99/MW-day	N/A
2015/2016	\$136.00/MW-day	\$357.00/MW-day
2016/2017	\$59.37/MW-day	\$114.23/MW-day

*Beginning in the 2015/2016 Delivery Year auction, PJM established a Locational Delivery Area (LDA) for the ATSI Zone, which recognizes localized constraints.

Electric consumers of all kinds should consider how they can reduce their exposure to the higher-capacity prices. Such strategies may include improvements in energy efficiency or the use of alternative energy resources. Further, high-volume electricity users with the ability to reduce their electricity usage during hours of peak demand may be able to earn an additional revenue stream through PJM's Demand Response (DR) programs.

Authors
