

The economics of PJM and energy efficiency in Ohio

August 12, 2014

Electric consumers in Ohio will increasingly feel the impact of higher capacity costs as a result of the increase in capacity prices from the PJM Interconnection's ("PJM") Base Residual Auction ("BRA") from the 2013/2014 delivery year to the 2014/2015 delivery year. The PJM delivery year runs from June 1 – May 31. The chart below shows the increase in capacity prices in coming delivery years.

In northern Ohio, in an area known as the "ATSI Zone," consumers will face significantly higher price increases. There, the price for annual resources will jump to \$357.00/MW-day, compared to \$136.00/MW-day in the rest of PJM, for the 2015/2016 delivery year. This increase in price is largely attributed to a large number of planned coal-fired generation retirements, as well as transmission congestion.

Delivery Year	Capacity Price	Capacity Price in ATSI Zone*
2013/2014	\$27.73/MW-day	NA
2014/2015	\$125.99/MW-day	NA
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.

The BRA sets prices for wholesale generation capacity resources needed to serve the anticipated load during the Delivery Year. 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 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.

The cost of capacity is typically passed along to consumers in the generation portion of their overall electric bill. Capacity prices determine roughly 10 to 15 percent of customers' electric bills. The generation portion of the bill — about half of the total — includes capacity, as well as the energy prices for electricity when it is actually produced.

As capacity prices begin to increase, Ohio will soon begin its two-year pause of its energy efficiency standards. Senate Bill 310 ("SB 310"), freezing Ohio's renewable energy and energy efficiency standards for two years will come into effect September 2014 (for more, read our May 12, 2014 blog post). During the two-year freeze, a committee will study the 2008 law that required electric utilities to obtain 12.5% of their electricity from renewable sources and reduce energy consumption by 22% by 2025, among other conditions. Supporters of the bill, including many utility companies, argue that the bill will prevent higher costs due to the

renewable and energy efficiency standards. Opponents state that SB 310 will reduce investment within Ohio and make it harder for Ohio to meet the EPA's recently proposed standards (for more on this, read our June 5, 2014 blog post).

Efficiency Resources ("EER") may be offered into the BRA and receive capacity payments. An EER is a project that involves the installation of more efficient devices or equipment or the implementation of more efficient processes or systems exceeding then-current building codes, appliance standards, or other relevant standards at the time of installation. For the EER to participate in the BRA, the EER must achieve a permanent, continuous reduction in electricity consumption that is not reflected in the peak load forecast used for the BRA for the delivery year in which the EER is proposed. Further, the EER must be fully implemented at all times during the delivery year, without any requirement of notice, dispatch, or operator intervention. The impact of a reduction in energy efficiency investment due to SB 310 on long term PJM prices remains unclear.

For more information about PJM, capacity prices, or SB 310, contact [Dylan Borchers](mailto:dborchers@bricker.com) at dborchers@bricker.com or 614.227.4914.

Authors



Dylan F. Borchers

Partner

Columbus

614.227.4914

dborchers@bricker.com

Copyright © 2023 Bricker & Eckler LLP. All rights reserved.