

PJM auction shows surge in gas-fired power plants on the way and NE Ohio prices will stabilize

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on May 23, 2014 at 9:44 PM, updated May 24, 2014 at 3:49 PM

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VALLEY FORGE, Pa -- Consumers can rest easy knowing that there will be enough electricity three years from today despite the closing of some coal-fired power plants.

But the electricity won't be cheap, judging from the results of the latest auction conducted by PJM Interconnection, the grid manager in Ohio, 12 other states and Washington, D.C.

PJM released its latest "capacity auction" results on Friday, indicating prices will be higher than today's rates in most places -- but less costly than what Northeast Ohio consumers and business will see over the next two years, beginning with an increase next week.

The auction committed winning bidders in the region to be ready to provide nearly 20 percent more power than what PJM expects peak demand to be three years from this June, that is, for a year beginning on June 1, 2017.

The auction result -- expressed as the average daily price for every million watts of generating capacity in the region -- also reflects firm commitments from large customers to lower demand as needed and permanent reductions in demand that will occur because of planned energy efficiency upgrades.

The auction's capacity prices set a portion of the price of wholesale power for 12 months at a time, three years in the future. The long lead-time gives builders the time they need to complete construction or upgrades. Other auctions determine most of the price of power, based on demand and fuel costs.

This year's capacity auction, said PJM, shows the region's power companies will have the ability, or capacity, to generate 167,000 megawatts of power, or about 20 percent more than the anticipated highest demand three years from now.

The results, which include 4,800 megawatts of new gas-fired generation and 1,100 megawatts of other new generating capacity, show there will not be draconian power shortages, said PJM, including in Northeast Ohio and other areas short of local power.

How much power is 167,000 megawatts? For perspective, a typical nuclear power plant generates between 1,000 and 1,200 megawatts. One megawatt is equal to 1 million watts, and is enough power to serve between 400 and 900 homes, depending upon the region.

"Anytime you have an auction where you have competitive entry in this kind of volume, I think we are looking at a success story," said Andrew Ott, PJM executive vice president for markets in a news teleconference.

In fact, the results are good news for Northeast Ohio because they indicate the region's power prices will probably fall -- after the price increases that are expected next week, on June 1, and again in June 2015.

These are increases set in previous PJM capacity auctions when the amount of power projected to be available here dropped and the transmission lines available to import power were determined to be inadequate.

The coming increases in part reflect FirstEnergy Corp.'s decision to shut its smaller, old power plants along Lake Erie rather than try to upgrade them to meet new air -pollution standards, leaving the area short of reserve power.

The future price decreases here reflect the company's plans to build new high-voltage power lines to push power into Northeast Ohio from power plants along the Ohio River, restoring reserves.

Independent analysts, as well as PJM, say that the capacity auction prices typically account for between 6 percent and 10 percent of the final retail price of power.

Current consumer prices for power are between 7 cents and 8 cents per kilowatt-hour (defined as 1,000 watts used in one hour). Delivery rates add roughly another 6 cents per kWh. On average, residential customers use about 750 kilowatt-hours per month, but often much more in the summer.

On June 1 consumers and small businesses can expect an increase of almost 1 cent to more than 2 cents per kilowatt-hour.

And on June 1, 2015, power prices are expected to increase by another 2 cents to 4 cents per kilowatt-hour over 2014 rates. Consumers won't be able to avoid the increases, except use less power.

Smaller businesses, whose demand does not exceed 200 kilowatts at any time during a month, won't be able to do much to avoid the increases, said Tom Sherman, president of Sustainable Energy Services, an energy consulting company based in Bay Village.

But larger companies can use strategies to reduce their power demands during times when demand is peaking across PJM, he said, and avoid exposure to the full rate increase.

Matt Brakey, president of Brakey Energy, an energy management consulting company, based in Shaker Heights, said this year's auction shows the capacity prices won't return to previous levels any time soon.

"This auction ensures that Northern Ohio is going to have relatively high capacity costs all the way out through mid 2018 -- at least relative to what we're paying now," he said. "This auction confirms the need for energy-intensive businesses in Northern Ohio to be smart in managing their electric consumption during summer grid peaks.

This article was revised on May 31 to add more specific information about expected power price increases on June 1 of this year and on June 1, 2015.