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# PJM capacity auction price would have skyrocketed without DR and EE, monitor finds

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If demand response and energy efficiency had not participated in the [PJM Interconnection LLC's](#) most recent capacity auction, clearing prices would have skyrocketed but reliability would not have suffered, according to a new [analysis](#) by PJM's external market monitor, Monitoring Analytics.

The analysis follows on the heels of a federal appeals court's [landmark ruling](#) that is widely interpreted as saying FERC has no jurisdiction over demand response in real-time and day-ahead wholesale energy markets. But questions [remain](#) as to whether that ruling extends to capacity markets given that resources clearing the auctions are essentially committed to be on call for real-time services.

The answer has major financial implications for demand response providers given that they earn 90% of their PJM revenues in the capacity market.

FERC recently [asked](#) the entire U.S. Court of Appeals for the District of Columbia Circuit to review the ruling of its three-judge panel, which was a split decision. PJM also filed for [rehearing](#) en banc, describing the "considerable uncertainty this decision has engendered for the well-established regional power markets and operations throughout the country."

PJM each year holds a base residual auction in which resources that clear the auction are committed, and will be compensated, to be on call during all or some of a delivery year that begins three years hence. PJM also holds incremental auctions for each year leading up to the delivery year.

PJM in May [held](#) its base auction for the delivery period of June 1, 2017, to May 31, 2018. The RTO clearing price was \$120/MW-day.

"The inclusion of sell offers for demand resources and energy efficiency resources had a significant impact on the auction results," according to the market monitor's analysis.

If demand response and energy efficiency had not offered into the market and everything else had remained the same, the RTO clearing price would have increased by 135.1% to \$282.16/MW-day, and the clearing quantity would have decreased 2% to 163,713.2 MW, the analysis said. And yet, "reliability would have been maintained" and the market would have cleared 2% more reserves than PJM's target reserve margin.

Total market revenues for the most recent base capacity auction were \$7.51 billion. If no one had offered demand response or energy efficiency in the auction, revenues would have been about \$9.35 billion higher, or an increase of 124.4%.

The market monitor cautioned, however, that these results are a worst-case scenario and should be considered in that context as they "do not include any market response" that might have mitigated the impacts. "[I]n the absence of demand side resources, some generating resources that retired in prior years might not have retired, and some new generation resources that did not clear in prior years would have cleared and both would have affected prices in subsequent auctions."