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## FERC approval of PJM capacity performance market design could be bullish for auction prices

By [Amanda Luhalva](#)

FERC's conditional approval of the PJM Interconnection LLC capacity performance market design could be supportive to outright bullish for forward capacity auction prices in PJM, according to analysts.

In a June 11 note from Macquarie US Utilities, the analysts are projecting a clearing price at \$200/MW-day (assuming no zone separation) for the base residual auction for the 2018-2019 delivery year, which will be held the week of Aug. 10. Additionally, the analysts expect the transition incremental auctions for 2016-2017 and 2017-2018, which will take place at the end of July and early August, will clear at the caps of \$165/MW-day and \$210/MW-day, respectively.

However, analysts from Morgan Stanley are much more cautious in their pricing estimates for the upcoming PJM forward capacity auction clearing prices.

"Consensus expectations for capacity prices of \$150-175/MW-day plus current power forwards exceed new build economics in most PJM zones by 15-35%, a condition that is typically short-lived in the power sector. We instead expect retrofits of existing gas generation and new build activity to put a ceiling on capacity prices in RTO and MAAC/EMAAC. That said, we do expect price separation in ComEd, ATSI, and PS/PS-North due to local supply-demand dynamics and bidding behavior. Our forecast 2018/19 Capacity Performance pricing is \$160-170/MW-day for ComEd, \$120-140/MW-day for RTO and MAAC, and \$200-250/MW-day for PS," the analysts from Morgan Stanley wrote in a June 10 research note.

FERC on June 9 conditionally [approved](#) PJM's capacity performance proposal aimed at ensuring that resources committed as capacity to meet the region's reliability needs "will deliver the promised energy and reserves when called upon in emergencies." The new market design will reward generators that perform well and penalize those that do not supply capacity as promised.

FERC in late April gave PJM the go-ahead to delay the base residual auction for the 2018-2019 delivery year that was scheduled to take place the following month until after the capacity performance ruling was issued. With FERC's approval in hand, the RTO announced June 10 that the auction would take place the week of Aug. 10 and that generators should prepare their auction bids pursuant to the new rules.

The results of the Aug. 10-14 auction will be released at the end of the market close on Aug. 21.

*This article was amended at 10:00 a.m. ET on June 16, 2015, to correctly state the auction will take place the week of Aug. 10.*