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## MEMORANDUM

Date: December 4, 2014  
To: Ohio Manufacturers' Association  
From: John Seryak, PE (RunnerStone, LLC)  
RE: PJM Capacity Performance Proposal

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### **PJM Announces Final Proposed Changes to Capacity Market**

PJM this week announced final changes to its Capacity Performance proposal, which would significantly overhaul electric capacity markets. It is PJM's second major overhaul of its proposal in as many months. These markets set capacity prices, which can range from 4% to 40% of a manufacturer's electric bill. PJM's Capacity Performance initiative is rooted in generator performance issues during the 2014 polar vortex, in which 20% of PJM's electric generators failed.

Notable revisions include:

- Reversal on Demand Response - In a reversal, PJM will continue to pay for Demand Response (DR) and Energy Efficiency (EE) resources in the near term. A win for manufacturers, inclusion of DR and EE in capacity markets lowers the price of capacity for all ratepayers, and produces revenue for participating manufacturers.
- Reduced Load Forecasts Due to Efficiency - PJM has committed to changed its forward load forecast due to chronic over-forecasting of electric demand. PJM credits the impacts of energy-efficiency for reducing demand on the electric grid.
- Reduced Intermediate Capacity Procurement - PJM has reduced the amount of additional capacity it had planned to procure for the 2015/16 delivery year from 10,000 MW to 2,500 MW. The 2015/16 delivery year already has extremely high capacity prices, especially for FirstEnergy customers, and thus additional resource costs are of interest to manufacturers.
- "No Excuses" for Generators - PJM proposes to adopt a "no excuses" approach with electric generators which fail during peak demand periods.
- Longer Transition - Capacity Performance will be transitioned in over a number of years, to be fully implemented for the 2020/21 delivery year.

The OMA Energy Group previously submitted comments to PJM on the Capacity Performance proposal. A detailed report of PJM's proposal and the cost and reliability implications for manufacturers will be provided at the next OMA Energy Committee meeting.

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