EPSA vs. FERC Threat Already Moving (Capacity) Markets
Upside risk to third incremental auction.

PJM Revises Forecast Down, No Capacity Release
When PJM revised its load forecast down 4,716 megawatts for RTO peak load in January, it triggered a tariff requirement for PJM to release 1,852 MW of peak load capacity that it had procured in the upcoming third incremental auction (clearing Friday). As a result of the high uncertainty regarding the Supreme Court decision on Electric Power Supply Association versus Federal Energy Regulatory Commission, PJM realized that reserve margins could be ratcheted down to 13.2% from the current 20.5% if 11,257 MW of demand response were not allowed to participate in the 2015-16 delivery year. PJM filed with FERC Docket No. ER15-738-000 to ask for a one-time waiver on the release of this capacity in the third incremental market. The commission granted this waiver Feb. 20, but responded that PJM must "procure" this capacity through the third incremental auction and not through reliability must-run agreements as PJM requested. PJM will procure this capacity simply by not releasing the previously cleared capacity.

It is peculiar that PJM would lower its load forecast and then immediately file a grievance with FERC because it forced itself to release this capacity, but these decisions are made by independent committees within PJM, and therefore one arm could force the other to react. PJM said the load forecast change was due to the implementation of a new binary variable that captures behind-the-meter generation and energy efficiency. This one-time waiver conveniently allows PJM to swap some uneviable demand response for physical generation in the upcoming auction before the unprecedented wave of retirements in June.

To view the full article, please contact commodity-research@morningstar.com