

Ohio Energy Group

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**“Bifurcated Capacity Market Under
PJM Path A Option 2”**

Bifurcated Capacity Market Under PJM Path A Option 2

July 15, 2026

Proposal to establish a bifurcated capacity market for existing and new generation for consumers not covered by the Reliability Backstop Procurement Design. New generation would be paid a long-term capacity price necessary to provide revenue certainty for financing. Existing generation would continue to be paid short-term capacity pricing with caps and floors. Goal: provide long-term revenue certainty to facilitate the financing of new generation; while avoiding excessive rates to consumers.

According to PJM's May 6, 2026 report *Powering Reliability Through Market Design*, because supply cannot keep up with demand PJM *"is in a transition from an era of managing surplus to an era of managing scarcity..."*¹ Because of compounding risks and costs, new generation cannot be economically financed without *"long-term off-take agreements or equivalent revenue certainty..."*² *"PJM must evaluate whether the foundational assumptions of the RPM design remain valid in a resource-constrained world and explore structural reforms that can ensure reliability is not just physically available, but economically and politically durable."*³

PJM has proposed three Paths to address this structural change. Path A: Stabilized Markets. Path B: Differential Reliability. Path C: Energy Market Transition. This proposal recommends changes to Path A, Option 2.

¹ PJM's May 6, 2026 report: *"Powering Reliability Through Market Design"* at 4.

² *Id.* at 10.

³ *Id.* at 9.

BACKGROUND

- The December 15, 2025 PJM Base Residual Auction for 2027/2028 cleared 134,478 MW of UCAP capacity (excluding FRR capacity) at the price cap of \$333/MW-day. This resulted in a PJM-wide capacity cost of \$16.4 billion. The BRA was 6,516 MW UCAP below the Reliability Requirement.
- The price cap and floor has been extended by FERC through the 2029/2030 BRA.
- The April 9, 2025 Sixth Review of PJM's VRR Curve by the Brattle Group recommended adopting an RTO-wide price cap of \$500-\$625/MW-day. Brattle concluded that an RTO-wide price cap in this range would manage the competing design objectives of attracting merchant capacity supply entry and mitigating customers' cost exposure. Brattle's proposed RTO-wide price cap would apply to both existing and new generation.
- PJM has concluded that even the high end of the Brattle range (\$625/MW-day) may not be sufficient to attract new generation. PJM concluded that real-world conditions for new combined cycle (CC) generation (capital cost increases, equipment shortages, longer construction schedules, skilled labor shortages, and interest rate increases) could require long-term off-take agreements or equivalent revenue certainty much higher than the administrative net CONE estimates which assume normalized market conditions. Under current scarcity conditions, the short-term reservation prices that reflect real-world developer decision-making imply a CC price of \$633-\$2,070/MW-day.⁴

⁴ Id. at 20.

PATH A

PJM has proposed two Options under Path A to address the growing supply/demand imbalance and to incentivize the construction of new generation. LSEs procure the vast majority of needed capacity through either: 1) long-term bilateral hedging contracts; or 2) a new PJM-administered long-term capacity market.

Option 1 – LSE Hedging Requirements. Under long-term bilateral hedging, LSEs would submit a *“resource plan to PJM ahead of the BRA with their owned or bilaterally contracted capacity for the future delivery year. This would be similar to resource plans required by FRR entities today, but only for the required hedging percentage of the LSE’s expected obligation.”*⁵ This could work in regulated states, but it is not clear how the Ohio SSO auctions would operate. The Ohio utilities do not know from one month to the next what their SSO supply obligations will be, let alone years in advance, and they are legally prohibited from owning generation. This supply obligation uncertainty could be addressed by limiting shopping, but that would create its own set of issues and would require a change in Ohio law.

More fundamentally, the mandatory long-term bilateral contract requirement for an LSE’s hedged expected forward capacity obligation (e.g., 90%) with no PJM approval over pricing may not be lawful under the Federal Power Act. Requiring LSEs to negotiate contracts with a limited set of generation owners whose market power will grow during a time of increasing scarcity could result in rates that are not just and reasonable. The PJM IMM Q1 2026 State of the Market Report concluded that the capacity market (under four separate measures) is not competitive. But at least the PJM capacity market is transparent; this mandatory hedging requirement would result in black-box pricing. Only the size and duration of the hedge would be approved by PJM, not the price.

Pricing under the FPA can be just and reasonable if it is cost-based or market-based (assuming a competitive and transparent market). This mandatory hedging requirement would be neither.

⁵ *Id.* at 32.

Option 2 – Mandatory & Centralized Long-Term Procurement By PJM on Behalf of LSEs. A new PJM-administered long-term capacity market would “*not aim to artificially lower the cost of capacity.*”⁶ This means no cost caps. Both existing and new generation would be paid the same long-term capacity prices necessary to finance new construction. “*In a scarcity environment, equilibrium prices must remain high (above Net CONE) to attract new entry and retain existing resources that might otherwise retire or export. Instead of avoiding this outcome, we would aim to eliminate the shock of that cost*”⁷ through some form of phase-in that would “*smooth the ratepayer impact over a long period of time.*”⁸

A phase-in to mask acknowledged rate shock is misleading to consumers and does not address the fundamental economic inefficiency of paying existing generators the same capacity price necessary to finance new construction.

There is little evidence that existing generators will retire or export because of the current price cap. Exporting requires expensive firm transmission (plus line losses). Retirement or export would mean losing the historically high-capacity price at the capped level and historically high energy prices. By comparison, in MISO for its 2026-27 Planning Year, capacity prices across all 10 MISO zones averaged \$116/MW-day to \$126/MW-day (down from \$212 to \$217 the prior year). Over the first five months of 2026 energy prices in PJM averaged \$73.4/MWh, largely due to 24x7/365 data center energy usage pushing the marginal clearing unit higher up the PJM dispatch curve.

⁶ Id. at 29.

⁷ Id.

⁸ Id.

Proposal to modify PJM Path A, Option 2 for consumers not covered by the Reliability Backstop Procurement Design.

1. Continuation of the current short-term (one year) BRA with price caps and floors for existing generation (Legacy Auction); and
2. Establishment of long-term capacity auctions for new generation without price caps or floors (Reliability Auction).

- **Bifurcated Capacity Market Proposal.** To balance the competing objectives of attracting new generation to maintain reliability and protecting consumers from unreasonable rates, a modification to Path A, Option 2 for consumers not covered by the Reliability Backstop Procurement Design is suggested:
 - **Legacy Auction.** Continue the short-term (one year) BRA. Maintain the existing price floor and price cap beyond 2029/2030 on existing generation. The cap is needed for prices to consumers to remain just and reasonable and to prevent a windfall to existing generators. PJM can manage the price floor to keep older units economically viable. PJM's RMR authority to provide cost-of-service pricing can also be used to keep older units economically viable. Until the supply/demand imbalance is corrected, all dispatchable generation should be considered as reliability units. In an era of "*managing scarcity*", it would be less expensive to provide a flexible price floor and/or RMR pricing to existing generators than it would be to pay the same capacity price for old generation as for new generation.
 - **Reliability Auction.** Conduct separate long-term capacity auctions without price caps or floors on the amount, type, and timing of new generation that PJM determines is needed for reliability. This would be a form of least-cost generation resource planning through a competitive process. Long-term revenue certainty would facilitate the financing needed to attract new generation. However, the long-term pricing necessary to attract new merchant entry, if paid to existing generators, would be a windfall and would result in unreasonable rates for consumers.

- PJM cited several foreign countries where financing for “*new build*” is de-risked through long-term contracting: Great Britain, Italy, France, Japan, and Germany.⁹
- A bifurcated capacity auction is similar to the laddering (i.e., 70%) of long-term contracts over time discussed on page 33. But laddering would still require that existing generators be paid the same uncapped capacity price necessary to finance expensive new construction.
- Consumers not subject to the Reliability Backstop Procurement Design would pay a single capacity price that is a blend of the Legacy Auction and the Reliability Auction. For example, 134,478 MW Legacy (95.4%) and 6,516 MW Reliability (4.6%). A blended wholesale capacity price would not require any changes to state-administered retail markets. It would not be disruptive at the state level.
- A bifurcated capacity market could be a transitional reliability solution.
- Any capacity market reform will have unintended consequences. Maintaining the current market structure for existing generation and only changing the market structure for new generation would be less risky than a complete overhaul.
- The one-time pay-as-bid (with a \$555/MW-day price cap) Reliability Backstop Auction for new large load customers scheduled for September 2026 would not be impacted.

⁹ Id. at 33.