

# PJM Capacity Auction Forecast

Market View: Why PJM Isn't Ready to Let Capacity Prices Run

# Scarcity, Stabilized: PJM Price Controls

*How long can price controls work in the largest US power and capacity market?*

*Noreva's updated PJM auction forecast highlight the tradeoffs for the grid operator, the 15 states pressing for a long-term backstop capacity auction, and a White House balancing AI dominance with energy cost inflation.*

PJM's recent Base Residual Auction (BRA) for Delivery Year 2027/28 clearing at the Cost of New Entry (CONE) was not a market anomaly, it was a signal that structural tightness, accreditation compression, and queue uncertainty have pushed capacity pricing to the upper boundary of PJM's regulatory framework.

That is probably why regulators and PJM's Board have recommended extending the existing capacity auction price collar – currently set at a ~\$333/MW-day cap and a \$175 floor – for two additional BRA cycles through 2028/29 and 2029/30.

Our modeling supports this extension decision.

## CONE as the Near-Term Clearing Regime

Noreva's PJM auction forecast indicates that near-term uncapped auctions would likely clear at CONE and remain there for several cycles. In both our base and high cases, CONE-level pricing persists for multiple years, reflecting a structurally tight reserve margin and a supply stack that remains sensitive to accreditation and project execution risk.

In this context, the collar is not a distortion, it is an alignment mechanism.

By maintaining a price cap, PJM protects load from further upside volatility at a time when affordability remains a political and regulatory flashpoint.

By preserving a corresponding price floor, the construct prevents price collapse that could otherwise undermine investment signals even more during a period when dispatchable capacity remains essential. Both cap and floor are preventing volatility, but it's worth noting that even the floor is considerably higher than previous BRA clearing prices, signaling sustained tightness.

## Where the Divergence Could Emerge

The longer-term picture is more nuanced.

In our low-price case we see eventual divergence from CONE as incremental generation enters the stack and catches up with expected load growth. Under that scenario, prices ease below CONE only in 2030/31, rendering the cap progressively less binding.

However, even in that case, the divergence does not occur immediately. The near term remains structurally firm.

In our base case, meaningful deviation from CONE is deferred further into the horizon, while our high case maintains CONE-level clearing across the modeled timeframe. The implication is clear: over the next several auctions, CONE is not simply a regulatory construct - it is the market-clearing equilibrium.

## Investment and Regulatory Implications

For asset developers and capital providers, the extension of the collar introduces a defined earnings band during a period of elevated capital formation.

Predictable clearing outcomes support financing assumptions, particularly for new thermal, uprate, and life-extension projects that rely on forward capacity revenue visibility. But is that enough to incentivize capital deployment?

For utilities and load-serving entities, the cap offers a measure of consumer protection at a time when capacity costs are already materially higher than historical averages.

## Strategic Takeaway

Extending the collar for two additional BRAs aligns regulatory posture with modeled fundamentals.

It preserves investment signals without amplifying consumer exposure and stabilizes expectations during a period of constrained supply growth and accreditation recalibration.

In a market where near-term equilibrium is defined by CONE, the greater risk lies not in over-disciplining prices, but in destabilizing them prematurely.

Noreva's PJM auction modeling provides forward visibility into when and how that equilibrium may shift; equipping developers, investors, utilities, and traders with a clearer lens on risk, timing, and capital deployment.

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