Project Finance and PJM

Market View: Auction repercussions for investors

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noreva

The $150 Billion Question

How can investors most effectively navigate the backstop auction?

With 15 years of capacity revenue upside at stake, PJM's planning for a long-term auction process later this year has outsized stakes for project finance in the largest US power market.

The 2027/28 PJM capacity auction did not just clear at the cap, it cleared in a way that fundamentally reframed the region's entire energy debate.

The price collar in that auction limited clearing to $333.44/MW-day, which avoided what the ISO says would have been an estimated ~$10 billion incremental cost to consumers in that single delivery year.

Over a 15-year horizon, that delta compounds toward ~$150 billion. In other words, the cap did not merely temper volatility; it materially reshaped economic outcomes.

Against that backdrop, the January 2026 call – from the White House, 13 PJM-state governors, and PJM's Board – for an "emergency" 15-year Reliability Backstop Auction (RBA) takes on greater significance. .

The proposal would procure new generation outside the traditional Base Residual Auction (BRA), funded primarily by large incremental loads such as data centers and structured around long-dated capacity contracts.

Rather than relying exclusively on market-clearing price signals, PJM would order direct underwriting of incremental supply. The intent is clear: accelerate buildout timelines while shielding legacy ratepayers from hyperscaler-driven cost shocks.

Alignment with Our Capacity Forecast

Our modeled outlook shows near term capacity clearing at the cost of new entry (CONE) under uncapped conditions, consistent with the 2027/28 outcome.

CONE prices set the upper limit of pricing bounds in the capacity auctions, though individual unit valuations and bilateral capacity deals can burst through CONE's parameters.

Across our base and high cases, CONE-level pricing persists throughout the forward horizon. Only in a structurally high-supply environment does clearing diverge meaningfully below CONE within the medium term.

In fact, there is no scenario in which the system clears below CONE in the next 5 years. Thus, the only way to lower prices will be to a) continue to manipulate the market using the already implemented price collar, or b) manipulate the auction inputs (CONE, accreditation, etc.) meaningfully.

The backstop framework reinforces this trajectory rather than contradicting it. By procuring incremental supply ahead of the standard auction cadence and allocating costs directly to new load, the mechanism dampens forward scarcity risk and narrows the probability of sustained pricing anywhere above CONE.

As envisioned, the backstop effectively reduces the system's exposure to upside volatility while preserving investment signals at the cost-of-new-entry threshold.

This leads to a critical structural point:

When auctions repeatedly clear at an administratively defined ceiling, and when out-of-market interventions stand ready to prevent further escalation, CONE begins to function less as a market outcome and more as a policy-determined equilibrium.

In the absence of truly unconstrained price discovery, the reference point itself becomes increasingly central to stakeholder strategy, regulatory negotiation, and capital formation. That dynamic warrants careful attention.

Market Structure Implications:

The Reliability Backstop subtly reshapes incentives across the ecosystem.

1. Scarcity conditions persist in the near term, supporting CONE-level pricing, but the likelihood of outcomes above that level narrows materially.
2. Developers gain improved revenue certainty through long-term contracting mechanisms – yet surrender some exposure to merchant upside.
3. Large-load customers become direct underwriters of incremental reliability, effectively bifurcating the capacity market between contracted new-build supply and residual merchant clearing.
4. At the same time, political tolerance emerges as an implicit pricing constraint: while CONE-level outcomes may be defensible, sustained outcomes materially above CONE invite intervention.

Investment Takeaways

For developers and investors, the message is nuanced: In the near term it is CONE pricing remains the base case; downside divergence requires structurally higher supply additions, while sustained upside beyond CONE likely triggers structural intervention.

In short, the Reliability Backstop Auction does not invalidate the merchant framework, it places guardrails around it.

Noreva's modeling indicates that CONE-level pricing is durable under current supply-demand trajectories.

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