igsenergy
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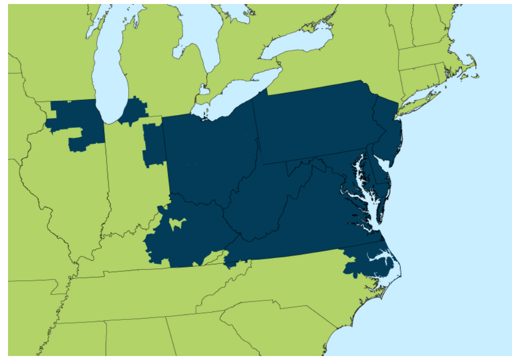
August 2024

The Pennsylvania-Jersey-Maryland Interconnection ("PJM"), our regional grid operator for 13 states and Washington D.C., announced shocking results for its latest capacity auction. Beginning June 1, 2025, capacity costs will rise sharply across the entire footprint.



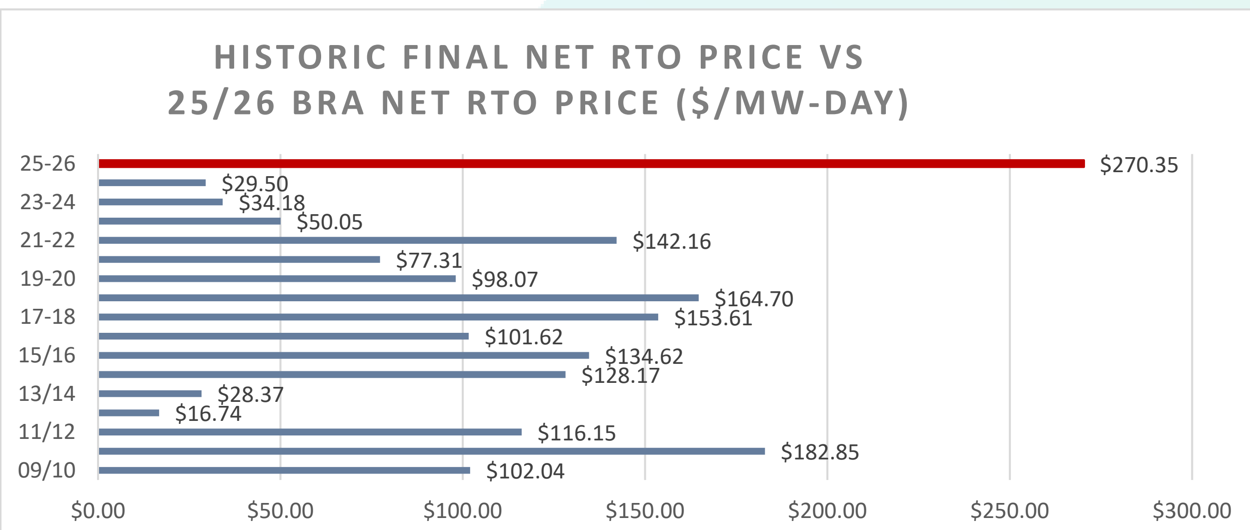
PJM Interconnection coordinates the movement of electricity through Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and D.C.

PJM's capacity auction for 2025-2026 reflected changes aimed at improving reliability. These changes led to significantly higher prices due to a reduction in available capacity coupled with a forecasted increase in demand.

We want our customers to understand why this happened, how it might affect your budget, and what we can do to help mitigate the impact.

PJM's capacity auction, known as the Reliability Pricing Model ("RPM"), pays power plants to be available to supply electricity in the future, especially during high peak demand times. This auction ensures there is always electricity available for PJM's more than 65 million customers.

Capacity Auctions: PJM's capacity auctions have always experienced fluctuations. Since its inception in 2007, the RPM's intent was to establish the value of capacity three years in advance of a Delivery Year (June 1 – May 31). This provided a clear price signal for investments in new capacity, maintenance of existing resources, as well as coordination of transmission projects and infrastructure improvements. However, the 2014 Polar Vortex changed everything, and PJM's capacity procurement methodology has evolved dramatically in pursuit of reliability.



Why the Changes?: During the Polar Vortex on January 7, 2014, about 22% of PJM's power plants failed due to extreme cold and a lack of preparedness by generators. This highlighted vulnerabilities and a need for better reliability measures, a science PJM has been trying to perfect.

Most Recent Change: The latest change, approved by the Federal Energy Regulatory Commission (FERC), is called the Effective Load Carrying Capability (ELCC) Class Rating. This

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new methodology applies a reduction factor to each MW of available capacity offered into the auction based on the type of resource.

For example, a Natural Gas Combined Cycle plant that was eligible to offer 10 MW in the 2024-2025 auction was only eligible to offer 7.9 MW this time. This forced reduction in available capacity offers was made to reflect the reliability of each resource and compensate each resource more accurately, but as a result, led to about 20% less capacity available to bid into this auction.

Capacity Clearing Price: The new ELCC method caused a mismatch in supply and demand. With 2.2% higher demand forecasts yet about 20% less available capacity to be bid into the market, the 2025/2026 auction set a record high price with capacity increasing from $29.50 to $270.35/MW-Day for the RTO. *An over 800% increase in the base cost, but the actual cost impact to each commercial and industrial customer will vary depending on your delivery zone.*

Higher Price Signals: Several years of low capacity prices led to the early retirement of many inefficient power plants, such as Vistra's 1.3GW Zimmer coal-fired plant in Ohio. Now, the significantly higher capacity prices serve as a market signal, incentivizing developers to build or upgrade power plants to meet the region's growing electricity needs.

What is your Obligation? Your annual capacity obligation is determined by your usage during peak hours, typically on the hottest days of the year in the previous summer. AES Ohio calculates this by averaging your usage during PJM's top 5 peak hours each year to arrive at your Peak Load Contribution ("PLC"). This is your capacity obligation.

How this Affects your Budget: This substantial increase impacts all 65 million customers in PJM's footprint. This change in capacity rate will take effect June 2025, and will be reflected in your next agreement.

There is one additional auction scheduled to firm up costs before June 1st, but for indicative purposes we felt it was important that you understood what happened and can forecast the unavoidable impact on your budget starting June 2025.

Opportunities to Mitigate this Impact:
While we can't control market prices for capacity, IGS can help you manage your capacity obligations and costs. As your trusted energy advisor, IGS offers custom-tailored products and services to help our customers manage their obligations and reduce overall capacity expenses. Our solutions include:

- **Peak Day Notifications**: Alerts to help you reduce usage during peak times.
- **Demand Response Payments**: Financial incentives for reducing load to balance the grid.
- **LED Lighting Solutions**: Energy-efficient lighting to cut demand and consumption.
- **Onsite Solar**: Rooftop or ground mount solutions to reduce reliance on grid power.
- **Real-Time Monitoring**: Tools to measure and manage your energy load effectively.

Let us help you take control of your energy costs and navigate these changes confidently!

Maha Kashani
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