

In PJM's Independent Market Monitor's Report,⁶⁴ Monitoring Analytics estimated the price impact of reducing data center load growth on prices. In tight supply conditions, reduced data center load growth would have a significant impact on prices. However, tight supply conditions were also caused by a number of factors illustrated above that were unrelated to load growth. Prior to market and programmatic developments observed in the 2025/26 capacity auction and complemented by relatively flat load growth due to energy efficiency investments, capacity prices were too low to effectively signal the need for new reliability-driven resource builds. However, PJM is now experiencing load growth driven by electrification and large loads, such as manufacturing reshoring and data centers, while new supply, constrained by long development and interconnection timelines, has struggled to keep pace. Given these market and programmatic factors, market tightening and higher prices were already forecast, with recent load growth accelerating this dynamic. E3's proprietary analysis in Figure 6 shows that ~50% of the price increases in the 25/26 auction can be attributed to the load growth in PJM, whereas the remaining ~50% can be attributed to changes in programmatic parameters (IRM, FPR, ELCC, VRR curve), supply constraints, and the assumed net cost of new entry (Net CONE) of the assumed marginal capacity resource.⁶⁵

Although data center load growth has contributed to higher capacity prices, the impact on other customers depends on how those increased costs are allocated, which is determined by utilities and regulators through rate design and cost recovery

frameworks. Key risk mitigation measures therefore include ensuring increased costs are allocated appropriately across customer classes, helping to limit potential cost shifting.

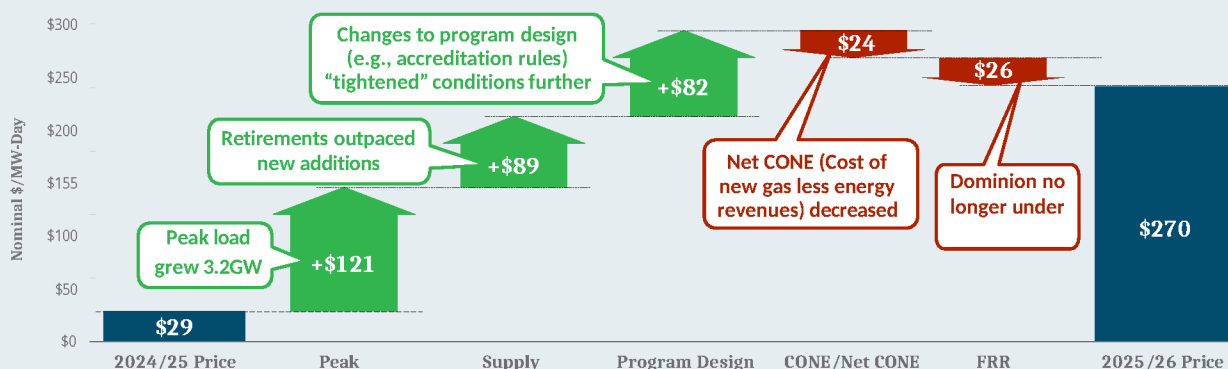
Policy Responses and Customer Risk Protection

While data centers were only one factor amongst many influencing the major capacity price increase from the 2024/2025 to the 2025/2026 auction year, going forward, future forecast data center load growth could drive further capacity price increases in PJM.⁶⁷

To mitigate further price spikes, PJM has implemented short-term emergency measures, such as:

- + Price Cap and Floor:** Following an agreement in January of 2025 with the governor of Pennsylvania, a temporary price cap and floor was approved for the next two PJM capacity auctions (2026/2027 and 2027/2028 delivery years). This was meant to ensure that customers aren't paying for elevated capacity prices while more long-term reforms are implemented.
- + Inclusion of Retiring Power Plants in Supply Calculations:** Previously, power plants that are slated for retirement but are kept operational ("reliability must run" units) were excluded from supply calculations in capacity price auctions. New PJM market reforms, which have been approved by FERC, will allow those power plants to be included in capacity price auctions.

Figure 6: E3 Analysis of the Capacity Price Auction Changes between 2024/2025 and 2025/2026⁶⁶



⁶⁴ Monitoring Analytics, LLC. (2025, October 1). Analysis of the 2026/2027 RPM base residual auction: Part A.

⁶⁵ Fixed Resource Requirement (FRR), Effective Load Carrying Capability (ELCC), Variable Resource Requirement Curve (VRR) Curve. While the case study above is focused on the 25/26 auction, E3 also conducted an analysis of the drivers contributing to the incremental capacity price increases in the 26/27 and 27/28 auction, looking at the price levels that PJM itself calculated that the auction would have cleared absent the lower negotiated price cap. Peak load increases drove much of the incremental price increase in the 26/27 auction (which was somewhat mitigated by additional offered resources); 27/28 price increase is more difficult to determine, as it is difficult to isolate whether it was limited supply growth or peak load growth that contributed to failure of meeting the reliability requirement.

⁶⁶ Graphic derived from a reconstruction of PJM capacity auctions using a simplified supply-demand framework in which ELCC-adjusted capacity supply intersects an administratively defined VRR curve to determine clearing prices. The model decomposes price changes across five primary drivers (peak load, supply CONE/Net CONE, program design, and FRR) by running counterfactual scenarios and averaging impacts across all permutations of factor ordering (i.e., a Shapley-style attribution approach). Net CONE (cost of new gas less energy revenues), in addition to Gross CONE, informs the demand curve, which impacts where capacity prices clear in the auction. Implied ICAP values and category-level adjustments are estimated from publicly reported PJM data and supplemented with structured assumptions where disclosures are incomplete, including calibration to align ICAP, UCAP, and observed auction outcomes. FRR capacity is adjusted to reflect its effective participation in auction supply. Results represent an internally consistent decomposition of observed outcomes and are intended to illustrate relative driver contributions under a controlled framework; they do not reflect unit-level bidding behavior or fully dynamic market responses to price.

⁶⁷ Mooney, M. (2024, December 9). 2025 preliminary PJM load forecast (Presentation). PJM Load Analysis Subcommittee. <https://www.pjm.com/-/media/DotCom/committees-groups/subcommittees/las/2024/20241209/20241209-item-03-2025-preliminary-pjm-load-forecast.pdf>