

Genscape report says 8,700 MW to retire in PJM during May and June

Firms says retirements outweigh additions

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The already significant pace of coal plant retirements in **PJM Interconnection** is about to kick into high gear over the next couple of months, according to a new study by **Genscape**.

The onslaught of coal capacity retirements in May and June could likely exert upward pressure on power prices in PJM, which have so far been running below 2014 levels, according to Genscape.

From June 2014 through the end of March 2015, more than 2.5 GW of generation has retired within the PJM footprint, and a number of retirements are planned for the next couple months, Genscape said in the white paper, which was shared with *GenerationHub*.

That first major wave of retirements was primarily coal, along with some natural gas and oil-fired capacity.

More than 1.4 GW of capacity in PJM is set to retire this month. The May retirements will be followed by another round of retirements set for June 1, 2015, when more than 7.3 GW of capacity is scheduled to be deactivated.

“Should any of the units slated to retire on June [1] come offline in May, there is significant bullish risk to prices especially during the last week of May,” Genscape said. “The retirements that are coming in June are major, baseload coal units in Western PJM including Big Sandy (800 MW), Tanners Creek (988 MW), Muskingum River (1,400 MW), and Sporn (600 MW),” according to Genscape. All four of those facilities are affiliated with **American Electric Power** (NYSE:AEP).

Between April 15 and June 15 of this year almost 10,000 MW, or 9,983 MW to be exact, are expected to have retired, according to Genscape data. The vast majority of these retirements come from coal-fired capacity - as well as some oil and natural gas capacity.

The biggest driver behind the ongoing retirements is the Environmental Protection Agency's Mercury and Air Toxics Standards (MATS), which set emission standards for hazardous air pollutants from coal- and oil- fired electric utility steam generating units of 25 MW or more.

Replacing some of the generation that is being retired, a few major gas-fired generators have been built since last May. These plants include the **Dominion** (NYSE:D) Warren County (1,400 MW), **LS Power** affiliate West Deptford (754 MW), and the **Invenergy** Nelson Energy (628 MW) projects. These last two units are in Eastern PJM, however the overall impact of the retirements is expected to overshadow the new builds, Genscape said.

Genscape examines potential impact on prices

Each of the last four years has featured at least one day in May where peak demand has been above 120 GW. “In order

to exceed this threshold, temperatures generally must reach into the mid-80s to low-90s with dew points above 60°,” the firm said. “However, each of the last [four] Mays has been warmer than average, with the 120+ GW days falling in the last week of the month,” according to Genscape.

Forecasts for the current month are calling for seasonal to slightly below average temperatures, with generally dry conditions. The peak demand day is still likely to fall in the last week of the month.

The Genscape analysis looked at May 2014 high power demand days -- and the weather conditions associated with the high demand -- in Philadelphia, Washington, D.C., Richmond, Pittsburgh, Cincinnati and Chicago.

“Heading into May, April 2015 prices have been, on average, lower than April 2014 prices,” the firm said. “As of April 23, 2015, the WHUB [West Hub] and ADHUB [AEP/Dayton Hub] RT OPA averages for the month are \$39.05 and \$32.25, respectively. The average RT OPA prices for April 2014 settled much higher at \$44.77 and \$44.49 for WHUB and ADHUB, respectively.”

Genscape said that 2014 prices in key parts of PJM were “particularly bullish with persistent congestion and slightly warmer and wetter conditions than seasonal averages.”

“Forecasts for this May are calling for seasonal to slightly below average temperatures, with generally dry conditions,” Genscape said. Natural gas is also likely to continue to be cheap and supply will not be constrained into the region, Genscape said.

Genscape is a firm that provides data and analysis across global commodity and energy markets.

ABOUT THE AUTHOR

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Wayne Barber, Chief Analyst for the GenerationHub, has been covering power generation, energy and natural resources issues at national publications for more than 20 years. Prior to joining PennWell he was editor of Generation Markets Week at SNL Financial for nine years. He has also worked as a business journalist at both McGraw-Hill and Financial Times Energy. Wayne also worked as a newspaper reporter for several years. During his career has visited nuclear reactors and coal mines as well as coal and natural gas power plants.

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