PJM Board Proposal to FERC Establishes Parallel Paths to Backfill Capacity Shortfall

PJM's Reliability Backstop Proposal (RBP) filed at FERC July 31 is a safety net to close the reliability gap. As new large load demand continues to outpace supply, the proposal addresses the shortfall from the PJM Reliability Requirement resulting from the recent capacity auction. With this one-time action, PJM is focused on its core responsibility to preserve grid reliability as extraordinary new demand outpaces the entry of new power resources to the system.

The parallel path approach is:

A central procurement to begin in September to secure eligible new generation resources under terms of up to 15 years and a maximum willingness to pay equal to a MW-weighted average of $555/MW-day against the recent auction shortfall.

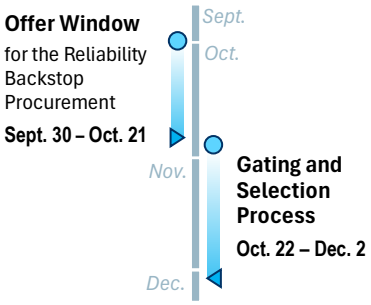
Bilateral contract matchmaking – already underway – streamlines direct voluntary arrangements between new large loads and new generation resources. To ensure PJM does not double-procure, new qualifying supply showings will offset the initial RBP procurement target.

Procurement Target

The initial procurement target is the 6,831 MW shortfall from the capacity auction for the 2028/2029 Delivery Year. This target will be reduced to account for signed bilateral contracts for new generation resources and other showings of new supply, including Integrated Resource Plans and Large Load Demand-Side arrangements. Fixed Resource Requirement (FRR) entities are excluded from the procurement and associated cost allocation. In addition, there are two limited opt-outs for those Electric Distributors that are not regulated by the states and are unable to address cost allocation associated with capacity procured in the backstop and where an Electric Distributor's zone/area addresses their capacity needs through peak shaving adjustment programs that are codified in state law.

Timing

If the Commission accepts the filing without modification, PJM plans to set the offer window for the Reliability Backstop Procurement to be Sept. 30 through Oct. 21, with the gating and selection process occuring from Oct. 22 through Dec. 2, and results announced before the Base Residual Auction for the 2029/2030 Delivery Year.



Following a Request for Proposals issued June 9, the first round of bilateral matchmaking responses from both new supply and large load parties was due July 21. First matches are expected in August with rounds continuing for six to nine months. New resources that do not secure bilateral contracts may bid into the RBP.

Eligible New Generation

Only new generation resources are eligible to participate in the procurement and bilateral matchmaking process. New Demand Response and Distributed Energy Resources are also eligible, subject to documentation. All eligible new resources must commence commercial operation no later than June 1, 2032. Resources committed through the RBP must be offered as capacity resources into RPM Auctions as price takers through the term of the relevant commitments. Resources that fail to meet commitments may incur shortfall charges for up to three Delivery Years, except for those unable to due solely to network upgrades.

Final RBP selection will take place in a two-stage process:

- Eligibility review
- Ranking based on earliest offered Delivery Year and lowest levelized cost

Cost Allocation

RBP costs will be allocated first to zones/areas based on their pro rata share of the procurement target and then further allocated to Load Serving Entities within the Electric Distributor's zone/area. Both new generation suppliers and Load Serving Entities are subject to credit requirements.

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