Vistra Large Load Obligation Proposal

October 14, 2025

Defining the problem shapes the solution

Apparent problem definition	Alternative problem definition
New large loads overwhelming available capacity	Some LSEs are signing up new loads without enough capacity to meet their resource adequacy requirements
Existing loads have an entitlement to existing and new capacity	Entitlement to existing and new generation is available to any entity willing to contract with the generation
New loads are required to meet their own resource adequacy needs	LSEs and other wholesale loads are required to meet resource adequacy needs to serve additional loads

The Capacity Market is an Efficient Clearinghouse When There is Sufficient Supply

The capacity market has several important efficiency enhancing objectives

- Ensures every LSE is paying its fair share to maintain resource adequacy
- Facilitates trade between short LSEs and long LSEs or long generation
  - This can facilitate load service by market participants without generation which enhances competition for retail service and default service

These objectives can be frustrated when LSEs collectively become over reliant on the capacity market to meet their load obligations

- In some traditionally regulated states, load growth has outpaced the development of generation
- In some restructured states, some competitive suppliers have chosen to serve loads without physical capacity
- New generation takes four to five years to develop so will not be able to fully address resource adequacy needs in the near-term

How do we re-balance LSE activities to encourage additional load flexibility in the near-term and adequate supply in the medium- and long-term?

Proposed solution

- To encourage physical hedging and help the capacity market return to balance, capacity deficient LSEs should ideally be curtailed first

- Given operational realities, capacity deficient LSEs cannot be curtailed before other LSEs
  - Distribution-connected loads from a variety of LSEs are co-mingled
  - Some transmission-connected loads may be discretely curtailable, but prioritizing transmission-connected loads for curtailment may be discriminatory

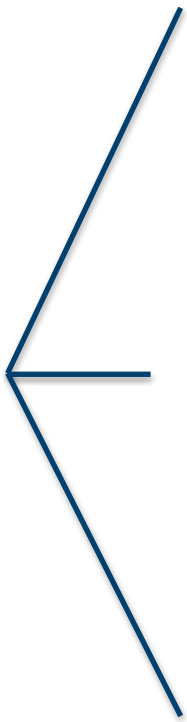
- Instead, we propose that capacity deficient LSEs pay a financial penalty
  - Flexible solution with assessment timing and penalties that depend on implementation details

What loads are subject to assessment and possible penalty for capacity deficiencies?

- All loads with resource adequacy (RA) requirements. Thus, any entity PJM assigns a resource adequacy requirement to. Defined herein as a Load Entity or "LE".

- Examples of LEs
  - –Vertically integrated utilities in traditionally regulated states
  - –Competitive suppliers in restructured states
  - –Direct access wholesale loads
  - –Winners of default service auctions
    - Assessment would **not** be on the EDC that is the default service provider but rather on the entity that wins the default service auction

Multiple Ways to Assess LEs for Capacity Deficiencies



		Implementation Options
Planning Assessment	Assess LEs for capacity deficiencies in the planning horizon (e.g., ahead of the BRA)	Require LE to have acquire capacity for some % of their RA requirement (e.g., 90%)
Operational Assessment	Assess LEs for capacity deficiencies during operational shortages	• During Performance Assessment Intervals • When Emergency DR is called
Hybrid Assessments	Assess LEs for a portion of their RA obligation in the planning horizon and for the balance during real-time operations	E.g., 80% of load forecast subject to planning assessment and assess actual capacity deficiencies in real-time

Planning Assessment – what is the LE capacity requirement?

- Several options exist
  - Closer to 100% of RA requirement when capacity market is tight and decreasing as the market returns to equilibrium
    - Want to retain a role for the capacity market to facilitate efficient trade, but create incentives to physically hedge
  - Less than 100% (e.g., 90%) RA requirement to account for errors in load forecast and changes in the LE's RA obligations

- In restructured states with default service, compliance timelines could take default service auctions into account
  - Obligation would attach to the entity that wins the default service auction which likely requires the obligation to be established closer to the delivery year

- The planning assessment under a hybrid approach would be less than 100% of an LE's RA requirement. The balance of the requirement would be assessed in real-time if the operational trigger is activated

Operational Assessment – what is the LE capacity requirement?

- No forward showing requirement

- LE would be assessed a penalty if an operational event (e.g., PAI or dispatch of emergency DR) occurs
  - Like generator performance, LE would be assessed based on
    - LE real-time load and operating reserve obligation
    - LE generation under contract

- Penalty risk may require LEs to post collateral to avoid inappropriate risk taking

Pros and cons of assessment methods

- Planning Assessment
  - –Assessing LEs in the BRA gives them more incentive to arrange for capacity before the BRA
- Operational Assessment
  - – Less penalty exposure for LEs but incentive for LEs to make advance capacity arrangements dependent on appetite for risk and individual point of view on risk
    - Thus, less certainty that resource adequacy risk is managed
  - –More time to arrange for additional load flexibility
- Hybrid Assessment
  - –Could provide a balance between certainty that most resource adequacy risk is managed with additional time to arrange for load flexibility

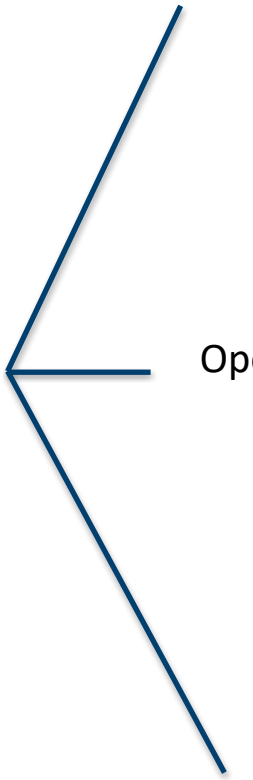
Penalty Level Philosophy

- Penalty levels (whether planning or operational) should encourage bilateral contracting to help the capacity market return to equilibrium

- Planning penalties
  - Needs to be high enough to encourage bilateral trading
  - Should not be so high that it puts undue pressure on bilateral contract prices

- Operational penalties – similar to logic for generator
  - Penalty should ensure that loads that failed to arrange for supply and were short in real-time would have been better off contracting bilaterally

Penalty Level



Planning Penalty

- Net CONE
- VRR max price
- Expected clearing price
- Similar to SPP which is tied to overall market shortage

Operational Penalty

- PAI Penalty
- Capacity clearing price / expected events
- Other (e.g., 90% of PAI, adder on top of shortage price)

Hybrid

Combination of the Planning and Operational Penalties based on assessment breakdown

Benefits of this approach

Encourages hedging that RTOs/ISOs and many states favor

- Under a planning or hybrid assessment, some amount of hedging would be required
- Under an operational assessment, physical hedging would be incentivized but each LSE could determine the amount of physical hedging desired

Encourages load flexibility

- Under an operational or hybrid assessment, LSEs would be strongly incentivized to offer retail products to flexible large load customers that will help the LSE avoid operational penalties
  - Would expect flexible loads to get a discount relative to inflexible loads, so end-users could choose the balance between reliability and cost
- Under planning assessment, LSEs would be encouraged to contract with new DR to meet mandated physical hedging amounts

Encourages new generation when supply is short

- Under a planning or hybrid assessment, short LSEs will need to seek contracts with new generation when existing generation is insufficient to meet mandated hedging amount
- Under an operational assessment, short LSEs will balance seeking additional load flexibility against the cost of new generation to manage performance risk

Rationalizes load forecasts by ensuring forecasted load is real, and thus increases planning certainty

Shares features with other RTO/ISO capacity constructs

- SPP does not administer a capacity market but imposes capacity deficiency charges on capacity deficient LSE. The penalty varies depending on the system's supply/demand balance. The penalty is calculated by multiplying the LSE's deficient capacity times CONE and a "CONE Factor". The CONE Factor is
  - 125% if the reserve margin is greater than or equal to the planning reserve margin (PRM) + 8%;
  - 150% if the reserve margin is greater than or equal to the PRM + 3%; and
  - 200% if the reserve margin is less than the PRM + 3%.

- California has a strictly bilateral resource adequacy requirement with penalties for non-compliance
  - Requires indicative forward showing immediately before delivery year and final showing ahead of each month
  - California PUC imposes financial penalties and limits new load service for LSEs that are deficient

- Proposal is arguably similar to the status quo.
  - Loads that are short in the capacity spot market are exposed to capacity prices higher than CONE if system capacity is short.
  - Short LSEs are exposed to a price as high as max{1.75xNet CONE, Gross CONE}.