Proposed Securitization of Reliability Backstop Procurement Obligations

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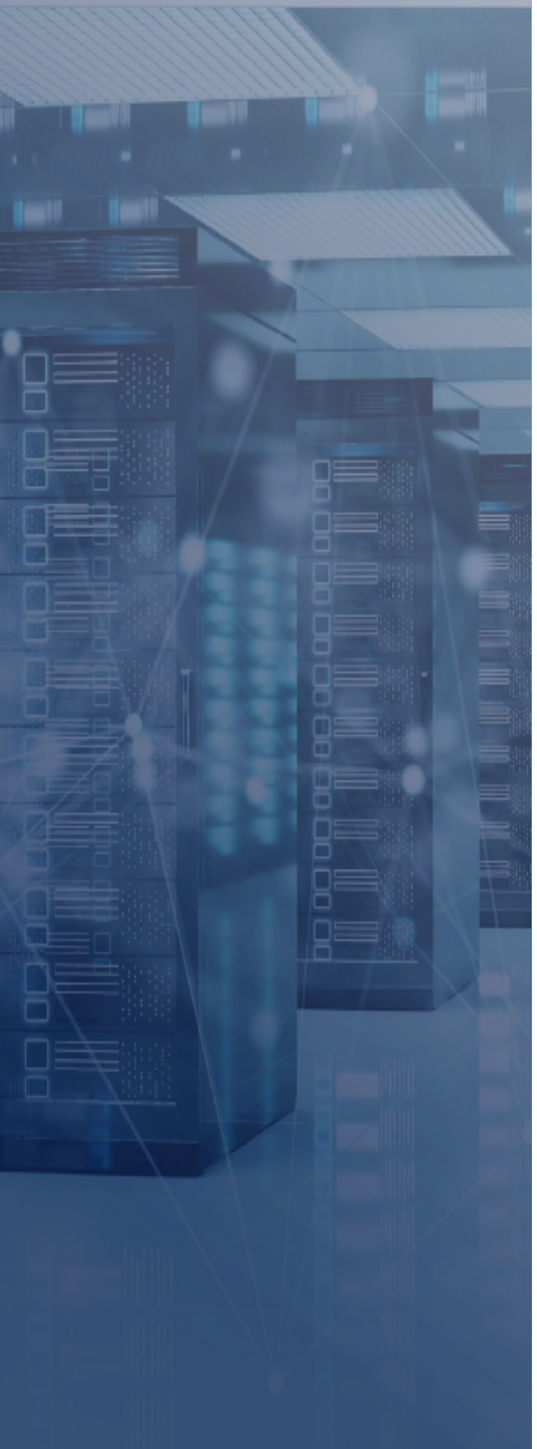
April 29, 2026



Challenge of Reliability Backstop Procurement & Managing Risk

- PJM needs 10 - 15 GW of new generation to meet *the first tranche* of Data Center load that wants to interconnect in the RTO.

- Total CAPEX for 15 GW of New Generation is $25 – 40 billion.

- Current proposal is to have EDCs hold up to 15-year contracts, which is a major risk factor for contracting entities, given the large financing quantums involved.

- Policy desire is to orient costs & risks to those specifically requiring incremental capacity demand (i.e., new Large Loads).

  - For jurisdictional reasons, PJM has proposed to use EDCs hosting large load as a proxy for direct cost allocation.

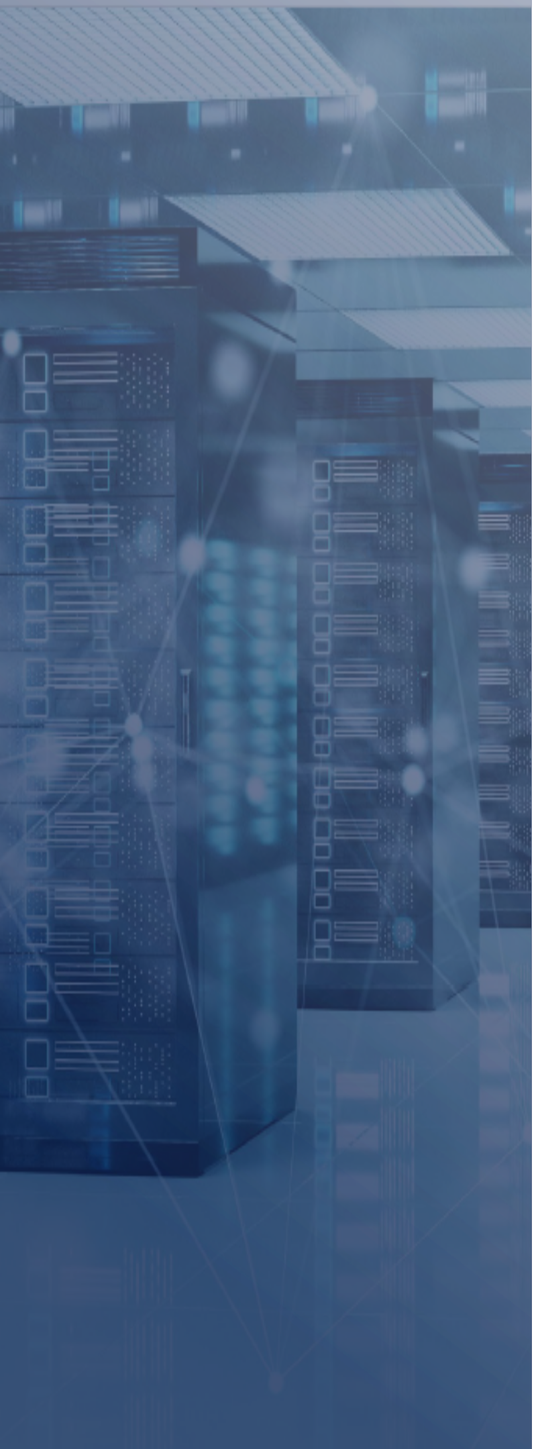
Assigning risk Electric Distribution Companies, who then establish collateralization under state law, merely transfers risk from PJM to state regulators with less experience in managing large sums.

PJM Highlighted Potential Concerns with Today's Risk Management Process

1. Current Credit Policy vs. Reliability Back-Stop Auction (RBA)

Risk Factor	Current	RBA	Vulnerability
	Credit Policy (1-year)	RBA Challenge (15-Year)	Credit deterioration, change in ownership
Exposure Duration	Short term (1–3 years horizon)	1-15 Year exposure	Abandonment or renegotiation of the contract
Exposure calculation	Minimal exposure as prices are fix annually	Price volatility Undermines contract stability and may increase Buyer/Seller likelihood of non-performance	Liquidity squeeze - sizable collateral requirement- liquidly constraints, cost of capital
Failure to perform	Penalties are limited to specific delivery years	Stranded Asset Risk. Default in year 3 of 15-year contract leaves 12 years uncovered capital cost.	Current tariff does not calculate liquidated damages

https://www.pjm.com/-/media/DotCom/committees-groups/workshops/rbpw/2026/20260304/20260304-item-03---credit-and-securitization-overview---pjm-presentation.pdf



Generators, Large Loads & EDCs are Directionally Incented to Create Strong Financing Opportunities

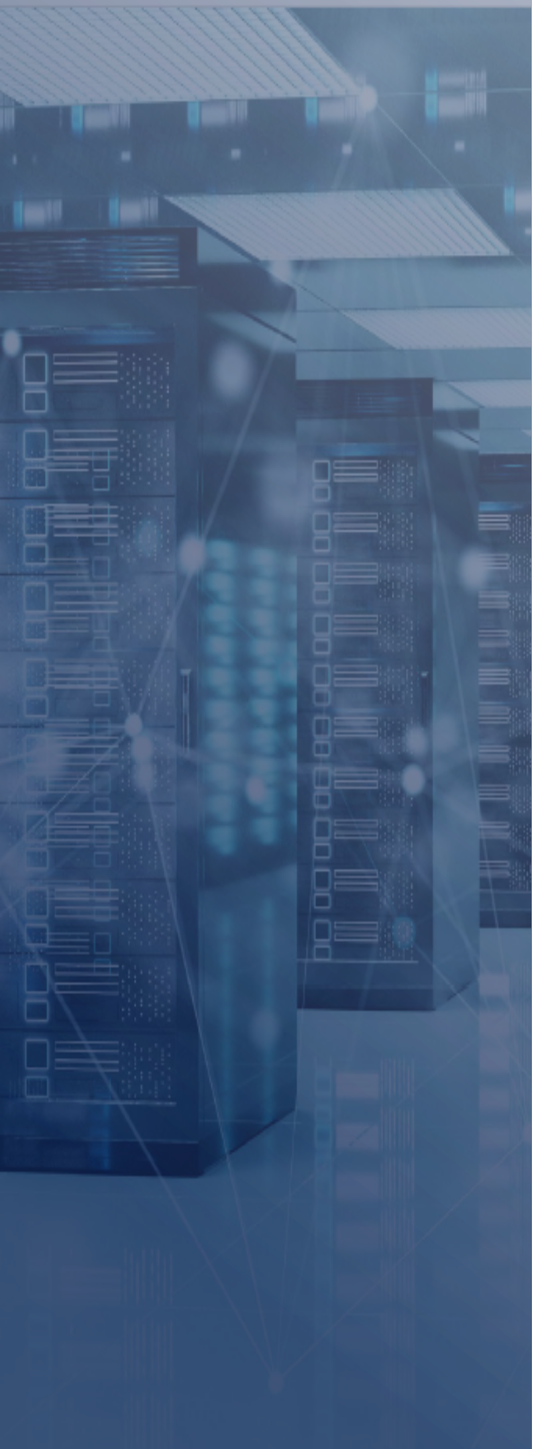
- Large loads have strong incentive to drive successful contracting, since data centers seeking to interconnect in PJM in the coming months/years will not be supplied with Firm power until enough Resource Adequacy is contracted / financed / constructed / operational.

- Large-scale new generation requires credit-worthy offtake arrangements.

- EDCs want to encourage growth, but may be reluctant to hold sizeable notional contracts as a pass-through.

- PJM risks losing large load interest to other U.S. power market regions without amicable solution, jeopardizing shareholder valuations of PJM member companies.

- Requiring states to operationalize credit and collateral obligations is going to be challenging, and regulators may find EDCs holding long-term obligations objectionable.



Potential Solution: Create a Securitized Funding Pool for RBP

- Create a new PJM sub-entity, holding company, or Special Purpose Vehicle (SPV) of some kind to hold the >$25 billion obligation.
  - PJM would allocate the contract associated with the up to 15 year receivables to the new securitization pool.
  - Pool would collect payments directly from creditworthy hyperscalers and balance with regularized capacity payments to new generation facilities.
  - Capacity contracts entered into by this Pool will help make new construction financeable.
  - It would be expected that this Pool will be supported with reasonable collateral on both sides.
  - This Pool will need to be capitalized as to satisfy creditworthiness requirements & be attractive to a broad investor base across the private capital markets.

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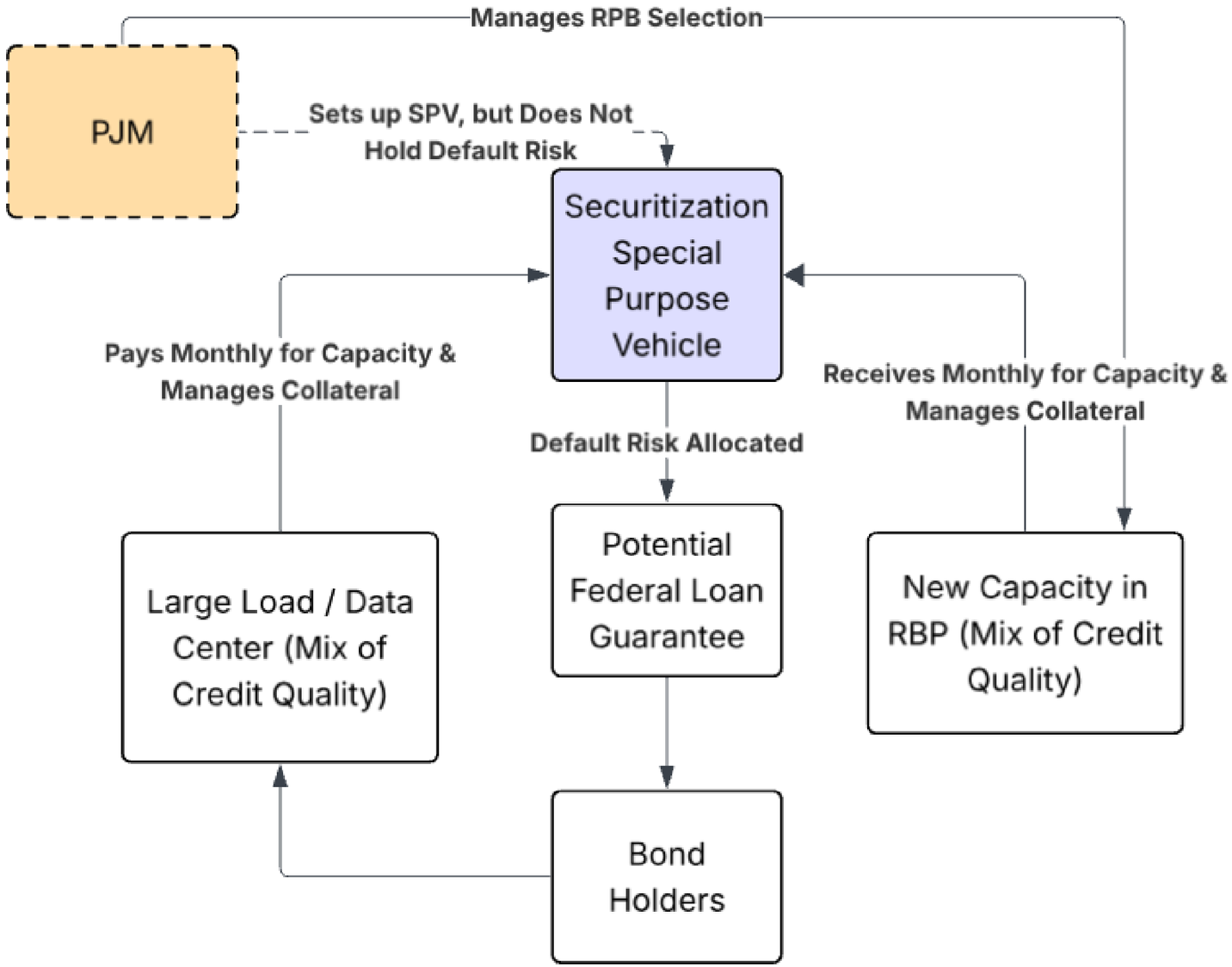
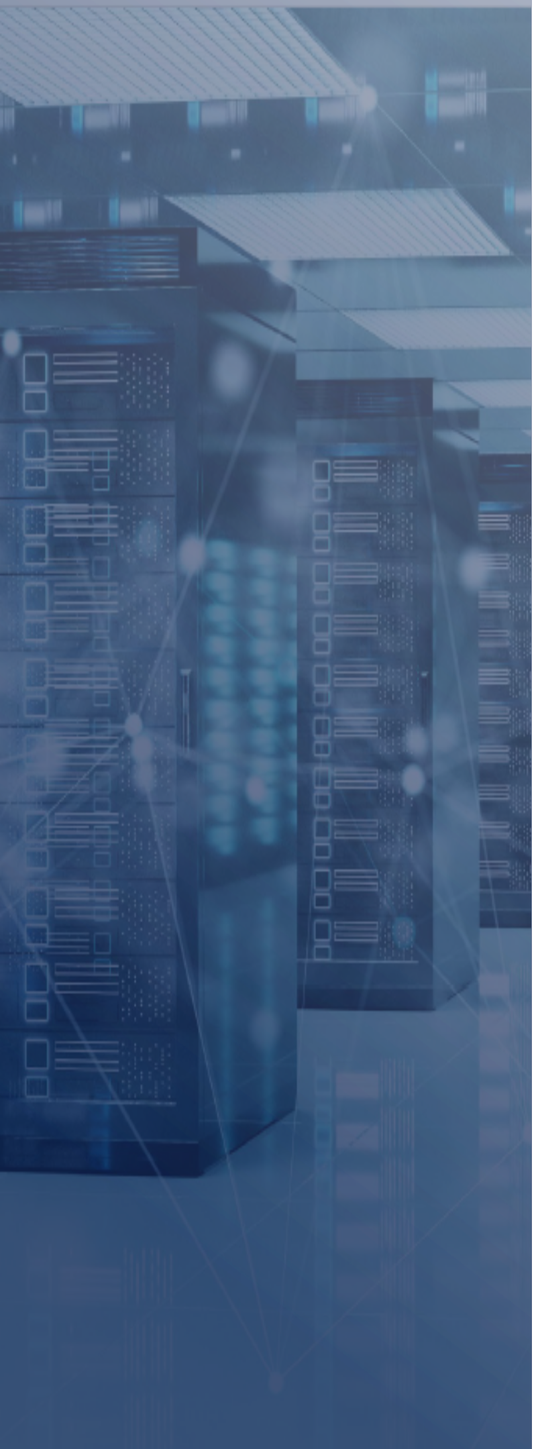
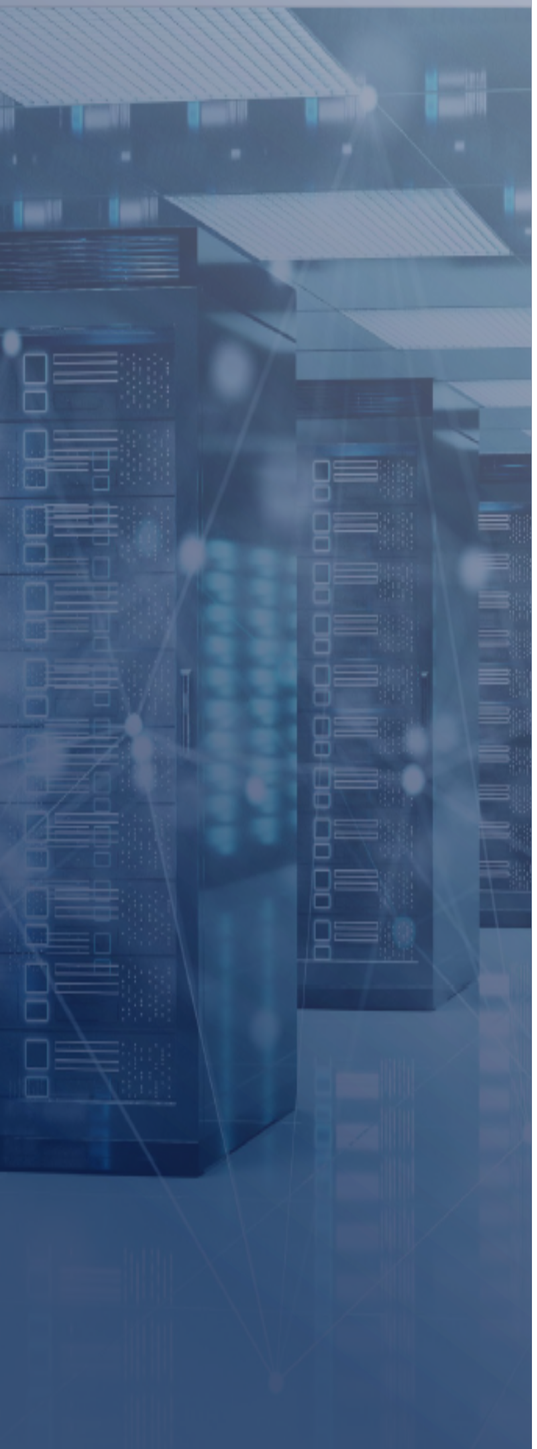




Why a Securitized Pool?

Goal would be for financing Pool to be securitized to the private sector, shifting ratepayer/EDC credit-risks onto private capital market investors.

- Costs of securitization would be born by participants in the program, ensuring that EDCs and ratepayers are not exposed to higher costs.
- This would ensure default risks are internalized by the Pool and default risk does not flow to traditional PJM members.
- Financial obligation could be syndicated into different risk levels, with a corresponding cost of capital applied to each tranche.
- Ease state regulatory concerns associated with EDCs signing major new contracts for conventional generation.
- Meets provisions of the Ratepayer Protection Pledge and 13 Gov/NEDC Joint Principles by segregating out cost of new generation to serve large load customers.
- Entirely tech-neutral; all-sources with competitively-priced generation can/will be supported.



Challenges & Risks

Potential for a governmental or quasi-governmental entity to backstop Pool to reduce total risk and bring down cost of capital.

- New Entity will need to target an investment-grade rating from Credit Agencies (S&P “AAA to BBB-” and/or Moody’s “Aaa to Baa3”) to maximize investor interest.

- Potential for Department of Energy (DOE) to provide backstop guarantees around contract performance requirements and sources of collateral available to both sides.

- Potential for EDCs to provide some level of backstop support, with recourse to ratepayers as proposed by PJM, but in a secondary format (where securitization funders would be called on first in the event of a default).