Reliability Backstop Procurement

Alternative Proposals to Three Aspects of PJM's Proposal

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Sponsored by REV Renewables,

LS Power, and Middle River Power

Credit and Collateral Requirements

- **PJM Proposal:** NPV (Oct.2026 of penalty/deficiency charge based on tenor), collateral holds for duration of the contract.
- **Alternative:**
  - Collateral requirement of one-year nominal penalty/deficiency charge * 3-year multiplier.
  - After resource has reached full committed RBP MW online:
    - RBP collateral steps down by 1/2 once the resource has reached full committed MW COD.
    - In subsequent years, RBP collateral reduces annually pro-rata for the remaining duration of the long-term contract.
  - Note the RPM must-offer remains for the term of the contract so the RPM credit and collateral requirements apply for the contract term, and requirement remains to be online within 3-years of COD or contract terminated.

Credit and Collateral Requirements

Reasoning for Alternative:

- RBP contracts will be canceled if a resource is delayed meeting COD for three years after the first applicable committed delivery year, so first three years is the highest risk time.
- Resources must post collateral and be subject to credit requirements for the RPM, so those annual postings will also cover the annual risk of RPM performance after resource is online.
- PJM's proposed collateral requirements are very high for capacity-only contracts, and the level is more in line with capacity + E&AS contracts.
  - As a point of reference, California utilities 15-year contracts for capacity-only have pre-development security in the $60-90/kW range, equating to $6-9M for a 100 MW project, making this alternative proposal in line with the higher end of the market.

Credit and Collateral Requirements

Example Calculation:

- 100 MW - Same as PJM slide 45 from April 16-17 presentation:
  - 100 MW resource, bid clearing price $400/MWD, 20% credit rate
  - $2,920,000 one-year nominal penalty/deficiency charge ($400/MWD*100MW*365*0.2)
    - Multiply by 3 years to get total collateral
  - Total collateral = $8,760,000
    - Compared to $15,542,947 using 5.32 multiplier

ELCC Risk

- **PJM Proposal:** Resource bears the ELCC risk, can bid in different UCAP at different offers per year. Resources are not allowed to have replacement MW, and are subject to a RBP shortfall charge of 20% * RBP price for UCAP shortage.
- **Alternative:**
  - PJM to publish official long-term year by year ELCC accreditation forecast prior to Central Procurement. Resource UCAP bids will use the ELCC forecast as benchmark to establish UCAP values in RBP.
  - If there is a UCAP decrease due to ELCC change compared to PJM's published long-term forecast, but ICAP is the same as committed, then the resource is paid based on its original UCAP contract amount , is allowed to procure replacement MW, and is not be subject to the 20% shortfall charge for the ELCC-related UCAP MW difference.
- **Reasoning for Alternative:**
  - Removing the shortfall charge mirrors the change made in 2025 for ELCC related MW shortages in RPM to not be subject to a deficiency penalty and are only subject to the replacement MW.
  - ELCC changes are outside of the resource control.
  - ELCC change risk increases challenges for financing; reducing some level of risk would improve project viability.
  - Note that available MW below the committed RBP UCAP that is due to reductions in resource ICAP face Non-Delivery Charges.

New Resource Eligibility

- **PJM Proposal:** PJM is proposing to exclude delayed retirements, re-licensing, fuel switching, CIR-only uprates, surplus resources
- **Alternative:** Allow new UCAP to be eligible only if due to demonstrated technology upgrades or additions at the site, not due to annual ELCC fluctuations; therefore CIR-only uprates and surplus resources are eligible (other exclusions remain).
- **Reasoning for Alternative:** CIR-only uprates and surplus resources are adding demonstrated UCAP to the system by adding new technologies or upgrades that would not be available from normal ELCC fluctuations, therefore the incremental addition should be treated as new resources.