# PJM Reliability Backstop Procurement: Phase II Planned Resource Credit Risk & EDC Allocation Considerations

**Critical Issue Fast Path - Reliability Backstop Procurement**

**May 4-5, 2026**

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***On behalf of*: Southern Maryland Electric Cooperative, Inc.**

# Summary: RBP Resource Credit /EDC Risk (1/6)

**Counterparty:** "PJM Settlement, Inc. is the counterparty, 'on behalf of EDCs'."

- EDC is NOT exposed to resource RBP performance risk/PAI non-payment.
- No Tariff Attachment DD section 4.6 Bilateral between EDC & RBP Resource (Good).
- But: EDC is exposed to RBP contract payments allocation when it may not be the responsible LSE; EDC is exposed to load failing to materialize, Connect and Manage risk for RBP Shortfall or Resource delay, *et al.*

| Counterparty | PJM | SMECO Credit-Risk |
|---|---|---|
| Counterparty | PJM Settlements Inc. on behalf of EDCs | • An EDC may not be the LSE serving the large load. As such, PJM's proposal to use the EDC for cost-allocation is not appropriate.<br>• In its capacity as a Distribution Utility, the EDC may not be a FERC jurisdictional entity and may not have a contractual relationship with PJM.<br>• LSE obligated to supply the Large Load– or the large load itself (as its LSE) not the EDC-- is a more appropriate entity to be allocated RBP charge. |

# Summary: RBP Resource Credit /EDC Risk (2/6)

**RBP Shortfall MW Charges:** "Shortfall Charge = RBP Shortfall MW * 20% RBP Price."

- EDC is exposed to Connect and Manage risk for RBP MW Shortfall.
- EDC may not be the LSE serving the Large Load customer*, et al.*

| Component | PJM | SMECO Credit-Risk |
|---|---|---|
| **RBP Shortfall MW impacts on Load** | **Any RBP Shortfall MW receive the RBP Shortfall MW Charge for supply shortfalls, and collected charges are allocated pro-rata to participating EDCs and are subject to Connect and Manage provisions if applicable** | • **The 'participating EDCs' - to use PJM's proposal - are exposed to Connect and Manage if the RBP resource has an RBP Shortfall.**<br>• **The EDC -- (possibly via TO) – is to whom PJM may issue a Connect and Manage directive; PJM proposes that EDC receive deficiency charge compensation – EDC was exposed to Connect and Manage via RBP Resource shortfall for resource that PJM allocated to EDC.**<br>• **If the goal is for the EDC to subsequently curtail the Large load in Connect and Manage, EDC may not have a mechanism to allocate deficiency charges to the large load (or to curtail the customer).**<br>• **EDC, while it may be exposed to Connect and Manage, may not be the LSE serving the Large Load customer, and may not have a billing mechanism (or ability) to compensate the large load for Connect and Manage "damages".** |

# Summary: RBP Resource Credit /EDC Risk (3/6)

**[Resource] Failure to materialize:** Resource has three (3) Years to come online.

- EDC is exposed to Connect and Manage risk for RBP MW Shortfall.
- Resource that does not reach COD may cleared 31/32 DY BRA, *et al.*

| | | |
|---|---|---|
| **[Resource] Failure to materialize** | **Failure to come online for 3 years after the first applicable committed delivery year, will rescind the RBP commitment for the remainder of the term** | • **A 'Grace period' of 3 years may be too long for load – in this period of RA shortage -- to wait.**<br>• **Under PJM's proposal, if an RBP Resoruce fails "to come online for 3 years after the first applicable committed delivery year", the EDC receives the deficiency payment from the RBP resource.**<br>• **For the RBP resource – such a charge may be too costly to pay.**<br>• **May 2028 BRA for 31/32 DY is less than one year after RBP award -- meaning RBP resource would likely offer into 31/32 DY BRA.**<br>• **Current RPM Deficiency charge: Clear BRA => Short => Pay 1.2x price; "receive" Clearing price but pay it back with 20% premium.**<br>• **500 MW Resource, $660 MW-day that does not come online for 3 years pays, under current rules: 500 * 660 * 1.2 * 3 years: $433 MM.**<br>• **At a "20% charge", deficiency charge alone is $72 MM.** |

# Summary: RBP Resource Credit /EDC Risk (4/6)

**<u>Default Allocation</u>:** RBP Resource failure to pay "RBP penalty"; EDC failure to pay RBP charge allocated by PJM even though EDC may not be LSE *et al.*

| Component | PJM | SMECO Credit-Risk |
|---|---|---|
| **Default Allocation:** | **If default occurs as a result of a supplier's non-payment of a RBP penalty or deficiency charge, the EDCs will be short those corresponding credits.**<br><br>**If a default occurs as a result of an EDC's non-payment of a RBP charge, that amount would be handled as a default allocation assessment under the existing OA Section 15.2.2 This is consistent with the RPM market today.** | **The "Default Allocation" text may need clarification.**<br><br>**For example, if the RBP 'supplier'; default is due to non-payment of "RBP penalty or deficiency charge", and the resource's posted collateral was used to satisfy "RBP penalty" amounts (as distinct from 'deficiency charge') then the 20% deficiency charge credit baseline may be inadequate.**<br><br>**As to EDC non-payment of RBP charge, EDCs are exposed to significant risk that large load will fail to materialize -- or that the EDC will not have a billing nexus to collect RBP charge. Accordingly, use of EDC as the 'effective' counterparty should be revisited.** |

# Summary: RBP Resource Credit /EDC Risk (5/6)

**<u>Pre-RBP/post-RBP planned resource credit</u>:**

- Goal: Ensure that, after RBP Phase II (run March ‘27, published mid-’27), it is not attractive for a planned resource to walk away (abandon) its RBP Award.
- PJM proposes a “0.2x” [RBP Price] multiplier.
- PJM also anticipates using its current RPM credit rules for adequate credit for planned RBP resources.
- For the 2031/2032 DY BRA, an RBP resource would need to post credit by May 2028.
- It is unclear if RBP credit from period between RBP Award (~ summer 2027) -- but prior to May 2028 BRA -- is adequate to prevent RBP Award Abandonment.
  - Note: an “0.5x” RBP factor (Manual 18/4.8.3), given lack of Net CONE in RBP, may be warranted.
- Unclear if RPB resource that offers into May ‘28 BRA for 31/32 DY+ but does not reach COD for “First Three Years” is exposed to 20% charge or “1.2x” charge (if not PAI Non-performance charges).

# Summary: RBP Resource Credit /EDC Risk (6/6)

**Discount rate for resource credit purposes:**

PJM proposes a 9.5% NPV discount rate (from the Brattle ’25 Periodic Review report, where 9.5% is merchant IPP ATWACC).

- A discount rate that reflects how loads may view service interruptions (or non-service due to RBP Award abandonment) may be appropriate to consider.
- Propose using ~ 5.3% from another Brattle paper, to reflect imputed value to load of not being served. Increases collateral to ~ $24 MM (from $15.5 MM) in PJM’s 100 MW, $400 MW-day, 15-year example.

# Appendix: Planned Generation Credit

**RPM (RBP) Credit rate:** *Manual 18 -- 4.8.3 Auction Credit Rate:*

"An Auction Credit Rate is calculated ***prior to*** each RPM Auction for such Delivery Year as follows:

- Prior to the posting of the BRA results, the RPM Auction Credit Rate for planned Capacity Performance Resources is equal to the greater of (i) $20/MW-day or (ii**) 0.5 times applicable Delivery Year's Net CONE** for modeled LDA where the resource resides (in $/MW-day), times the number of days in the Delivery Year"

Sources:

- Manual 18, section 4.8: https://www.pjm.com/-/media/DotCom/documents/manuals/m18.ashx
- PJM Apri 16, 2026 RBP Proposal paper: https://www.pjm.com/-/media/DotCom/committees-groups/cifp-rbp/2026/20260416/20260416-item-05---pjm-reliability-backstop-procurement-proposal---paper.pdf

# Appendix: Planned Generation Credit

- Post BRA (RBP): "**Upon posting** the BRA clearing results, the RPM Auction Credit Rate used for planned Capacity Performance commitments in the BRA is equal to the **greater of** [(i) $20/MW-day, (ii) .2 times the Capacity Performance Resource Clearing Price for the LDA that applies to the planned Capacity Performance resource, or (iii) **the lesser of** (a) **0.5 times Net CONE for modeled LDA** where the resource resides for such Delivery Year (in $/MW-day) or (b) 1.5 times Net CONE (stated in installed capacity terms as $/MW-day) for the modeled LDA…]."

- The above formula reduces to .5 times the RBP bid/clearing price when it is recognized that RBP Phase II does not have a "Net CONE" value.

- PJM's Pre & Post RBP Phase II Credit Proposal:
  - PJM: Max ($20, **0.2** x bid/clearing price) x "year multiplier"
  - Conceptual alternative: Max ($20, **.5** x bid/clearing price) x Year multiplier.

# Appendix: RBP Discount Rate for Planned Gen Credit

**Discount rate:** PJM Discount rate, 9.5% is used to reduce an RBP resource's credit req:

- Discount rate should reflect the value to customers of not being served.
- Using a 9.5% merchant IPP after-tax weighted average cost of capital (ATWACC) may not accurately capture this value.
- Real social discount rate: Based on the current 3.3% inflation rate and a 2% real social discount rate, this results in a nominal discount rate of approximately 5.3%.
- 2022 Brattle study for Atlantic Electric:

  'When calculating the Real-Discounted benefits and costs, we use a real discount rate of 2%. This leads to a nominal discount rate of 4.35% after adding the [then applicable] 2.35% inflation rate. The 2% real discount rate was chosen to reflect the social discount rate, since this CBA focuses on benefits and costs at societal scale including those that are associated with the utility system…".

Using 5.3% vs PJM' 9.5% (PJM slide 45 showing 15-year RBP term, 100 MW, $400 MW-day RBP price) -- credit/collateral goes from $15.5 million -- to approximately $24 million.

Sources:

- 2022 Brattle study for Atlantic Electric, at page 65: https://www.brattle.com/wp-content/uploads/2024/08/Cost-Benefit-Analysis-of-Electric-Distribution-Investments.pdf
- PJM Apri 16, 2026 RBP Presentation https://www.pjm.com/-/media/DotCom/committees-groups/cifp-rbp/2026/20260416/20260416-item-05---pjm-reliability-backstop-procurement-design---pjm-presentation.pdf