

# Joint EDC Proposal



## PJM CIFP- Reliability Backstop Procurement: Procurement Quantity and Credit/Financial Settlement Components

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# Introduction

We prefer a **voluntary, bilateral Reliability Backstop Procurement** where PJM plays a match-making role only. Should PJM pursue a central procurement structure, we propose a framework addressing:

## **Procurement Target**

How to establish the correct quantity for Large Load capacity needs

## **Cost Causation**

Ensuring the cost-causer is allocated costs and held responsible for credit/collateral

## **Correct Entity**

The LSE obligated to supply the Large Load – not the EDC – bears these responsibilities

# Legal Foundation

## RAA & RPM Framework

PJM's Operating Agreement requires all LSEs relying on PJM markets to become parties to the **Reliability Assurance Agreement (RAA)**, obligating them to pay RPM auction capacity commitments for each Delivery Year.

The RBP creates up to **15 years** of capacity purchase obligations — a product only LSEs sell to end-consumers. EKPC's and Exelon's proposal builds upon existing PJM Tariff and RAA capacity market rules.

# EDC Role Is Administrative Only

PJM's governing documents contain **no definition of EDC**, and EDCs execute no PJM governing document to take on a financial obligation by virtue of being an EDC. Their functions in the PJM space are strictly administrative:

## **Peak Load Contribution**

EDCs identify LSE PLCs so PJM can bill capacity and transmission charges – financial obligations fall on LSEs.

## **Large Load Adjustments**

Both EDCs and LSEs provide load forecasting inputs per Manual 19; LSEs bear the resulting financial obligations.

## **DR/DER Registration**


EDCs facilitate opt-in/opt-out rules and registration validation – again, no affirmative financial responsibility.

# FERC Jurisdiction Limits EDC Role

## Outside FERC's Reach

Distribution utilities and local distribution facilities are **excluded from FERC jurisdiction** under Federal Power Act Section 201.

FERC's "affecting" jurisdiction (FPA §205) does not extend to directly assigning financial obligations and credit assurance for wholesale market products to EDCs.

 Only via contract – the RAA – has PJM established legally binding relationships with entities outside FERC jurisdiction. EDCs, in their role as EDC, are not RAA signatories.

# Proposal: Procurement Target

The current Manual 19 Large Load Adjustment process looks to EDCs – who typically are **not responsible for supplying capacity** – creating a "skin in the game" gap. PJM's RBP proposal addresses this but unnecessarily places EDCs in a **middle-man role**, requiring them to obtain commercially sensitive information and creating potential conflicts of interest.

## → Problem

EDC load forecasts are not directly used by PJM for capacity markets, and EDCs do not bear capacity supply obligations

## → Solution

PJM should obtain information **directly and confidentially** from LSEs and Large Loads – the entities that actually possess it

# LSE as the Right Counterparty

## Why the LSE?

- Large Loads (>50 MW) likely are working with an LSE to address capacity and energy needs
- LSE knows what load is covered by outside-PJM procurement vs. what load may need to be represented in RBP to avoid "connect and manage"
- LSE holds tariff or contractual responsibility to supply Large Loads
- In retail choice states and in rate regulated states, the LSE may be entirely separate from the EDC that PJM's proposal may be considering "EDC" for RBP purposes.
- Could consider allowing the Large Load itself directly to take on RBP responsibility (without needing to be an LSE)

☐ "Connect and manage"\* avoidance incentivizes Large Loads to identify their responsible LSE proactively.

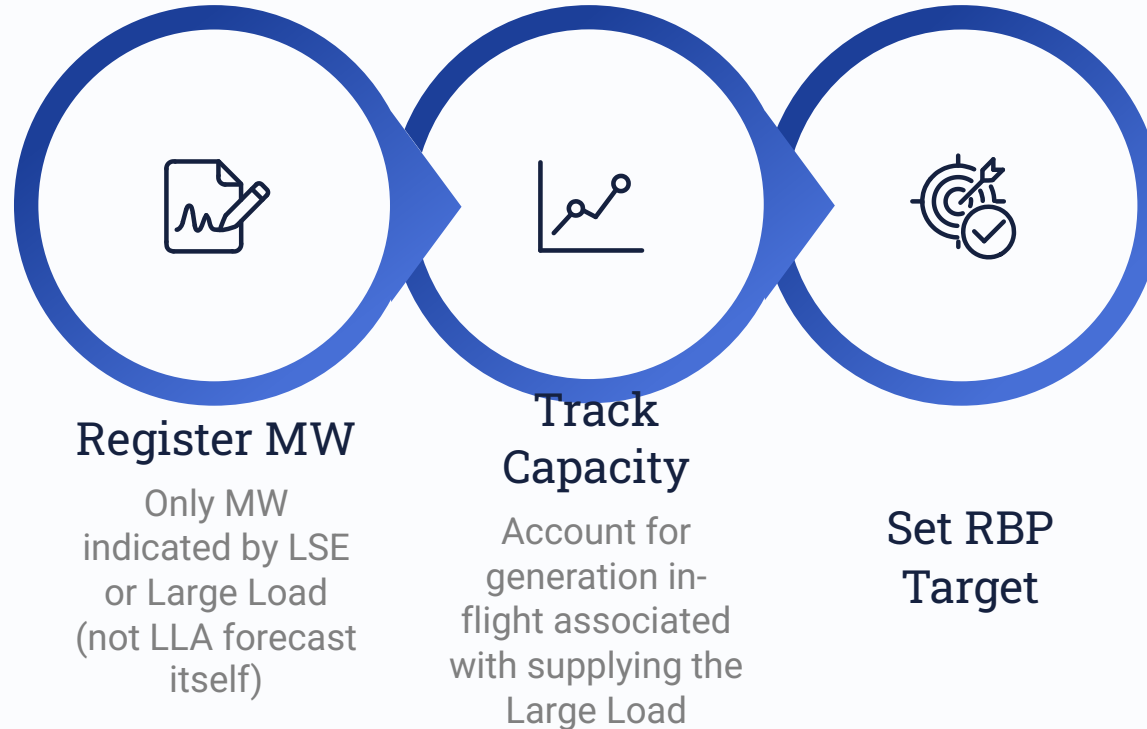
\*At this time, EKPC takes no position on "connect and manage".

## Note:

If a Large Load has no LSE arrangement addressing capacity needs, query whether that load is "real" and appropriate for inclusion in the procurement target.

Also, either the LSE or the Large Load directly taking on this role would allow the RBP and RPM costs to net and mitigate potential double billing risk.

# Procurement Target Proposal: Registry



LSEs or Large Loads wishing to be subject to "connect and manage" instead of RBP capacity procurement would so indicate in the registry. This enables EDCs to identify which specific customers may ultimately be subject to "connect and manage."

EDC would play a role to validate that the Large Load is in fact in its area.

# Settlement Mechanics: Cost-Causer Pays

PJM holds **LSEs (or Large Load directly, if it desires) identified in the registry** responsible for credit requirements and financial settlements across all RBP Delivery Years.



## LSE Billing

PJM charges the appropriate LSE for all RBP costs and credit obligations



## Cost Ring-Fencing

LSEs use tariffs or contracts to allocate costs to Large Loads only — no cross-subsidization of other consumers



## Sub-Accounts

LSEs may elect sub-accounts in PJM's settlement system to separate Large Load wholesale billing, which may facilitate appropriate retail billing downstream



## Direct Member Option

Perhaps PJM could consider establishing a special membership category to enable interested Large Loads to directly manage credit and financial responsibilities associated with their load being represented in RBP

# Settlement Mechanics: Fixed MW Quantities

## How It Works

The MW quantity is **fixed per Delivery Year** based on pro-ration of RBP-committed MWs coming online. The LSE bears financial responsibility for that quantity regardless of actual PLC in that year.

RBP financial settlement is **separate** from RPM settlement, but ultimately needs to net to ensure that an LSE does not double pay for load represented in both RBP and RPM.

- ① PJM may provide a transfer mechanism for LSEs to reassign responsibility when Large Loads switch suppliers or grow at different rates than forecasted – subject to appropriate credit requirements.

# Appendix:

## Problems with PJM's Stage 1 CIFP Proposal

PJM's proposal assigns procurement, contractual commitments, and cost/credit obligations to **EDCs** – not LSEs – creating fundamental misalignment:

### Legal Durability Risk

FERC does not regulate distribution utilities, and EDCs are not RAA signatories.

PJM's proposal is outside the Tariff and RAA framework governing the current resource adequacy construct.

### Socialized Risk for All

Reliance on downstream state law changes to enable EDC cost recovery increases default risk and creates a challenge in ensuring the correct end consumers are held responsible for the costs they cause – impacting *all* LSEs in PJM, not just those whose load is included in the RBP.

### Retail Choice Disruption

In retail choice states, EDCs provide wires delivery service only. (If they are acting as default supplier, they are the LSE for that load.) Assigning procurement to EDCs effectively re-regulates supply through a delivery entity.

### Causation Chain Broken

Under RPM, the LSE bears capacity obligation and settlement risk. RBP procurement by EDCs – who don't have an obligation to supply the Large Load nor have control over the Large Load's supply portfolios – severs this link.