Connect and Manage Reliability Backstop Auction

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Summary

This Connect and Manage proposal modifies PJM's so that:

- States can put load under connect and manage to avoid producing capacity.
- C&M assignments are broken down by state so that retail regulators can properly assign curtailments.
- More flexibility around BYONC

C&M: Background and Motivation

State authority over retail service reasonably includes deciding what customers are offered what level of firm or interruptible service.

This is consistent with PJM's observation that this is not primarily an engineering or market design issue:

> They are choices about what consumers owe each other, what investors can rely on and what the "shared reliability compact" means in an era of scarcity. Those choices belong to the people and institutions with democratic accountability for their consequences – to state regulators and legislatures…

This proposal aims to support decision makers by recognizing state regulators control over retail service and providing clarity at the retail-wholesale interface.

C&M: Inclusion of Interruptible Loads

To fully integrate state interruptible tariffs into RPM, we propose:

- At the time EDCs provide their large load adjustments to the load forecast, the EDCs may also specify a quantity of load to be placed in Connect and Manage
- That quantity of load will not be included in the load forecast used to develop RPM planning parameters.
- If that quantity is greater than zero, Connect and Manage is triggered.
- The Connect and Manage quantity for the delivery year is increased by the amount of designed load.
- When an EDC notifies PJM of BYONC, the EDC shall also notify PJM if this is offsetting state designated C&M load. If so, that load will be placed back into RPM planning parameters as of the first auction the BYONC offers.

C&M: More flexible BYO treatment

Eliminate PJM requirement for BYONC to offer as price-taker for 10 years:

- New capacity still potentially has non-zero ACR
- No reason to prevent new generation from replacing BYNOC in the future
- Keep prohibition on external sales

C&M: State level cost assignment

Zonal C&M cost allocation this creates problems for multi-state zones:

- Unclear how to divide the zonal quantity to the different EDCs
- EDCs within a zone may be under different regulators

Proposed modification is to track Connect and Manage by zone and state.

- For zones entirely in one state, nothing changes.
- For large zones, C&M is tracked separately for each state: AEP-OH, DOM-NC, etc.
- As the load forecast is developed, EDCs/LSEs provided adjustments must be broken down by state.
- PJM assigns C&M quantities to EDCs by zone/state.
- TO/EDC/LSE coordination and emergency procedures unchanged from PJM proposal.

Reliability Backstop

This proposal addresses several concerns with PJMs.

- Eliminates mandatory purchases.
- Flexible on term of contract to reward projects with shorter requirements.
- Timed to match queue cycles.
- Locational

Ratepayer Protection

The RBA must protect ratepayers from:

- Direct costs associated with new supply to serve large loads
- The risk of stranded assets or private defaults.

But that is not enough. Because the capacity market is now past VRR Point A, capacity prices will only go down if the RBA also includes a way to bring on new supply to serve native load, not just new large loads.

- PJM should never assign costs for RBA transactions to non-participating load. Entities with captive ratepayers that purchase capacity in the RBA may allocate costs to load as approved by their regulators.
- The RBA should not transfer forecast or project risk to the public through PJM.
- Capacity procured through RBA must flow into RPM.
- RBA should also allow buyers to procure capacity for native load growth.

Buyers and Sellers

To protect ratepayers, the RBA will match voluntary buyers and sellers.

- PJM will not purchase capacity backed by the pool.
- Procurement target is simply the amount of buy bids placed in the auction.
- We are specifically proposing that PJM **not** take on responsibility to procure capacity for new large loads. Rather, this auction becomes a tool for other parties to support long-term resource adequacy.
- Buyers are any PJM member eligible to purchase capacity in an Incremental auction or bilateral transaction. Likely buyers include, but are not limited to:

  Large Loads, to secure capacity and exit connect-and-manage status

  Competitive LSEs, to be able to offer firm service to future customers

  Regulated Utilities and Public Power, to address expected capacity shortfalls.

Timing

A September auction that may not be optimal.

- There is no opportunity for new supply that is not already in the queue. A September auction will still be mostly for a supply stack from 2020.
- Only new information will be that TC2 will have passed Decision Point II, but a September auction will be too late to inform drop/stay decisions.

We propose that the RBA be held during the Decision Point III phase of every queue cycle, after PJM has issued GIAs but before the signing deadline.

- First RBA would be held in November-December 2026, two months later than PJM proposes.
- Supply offering into the RBA would know their interconnection timeline and costs. Interconnection costs can be reflected in RBA offers. This is huge, and probably the single biggest factor that could make the RBA a success.
- The RBA becomes a consistent, market-based, non-discriminatory way for developers to make new entry decisions.

Product

The RBA will procure UCAP by LDA for a forward period of up to 15 years.

- Auction must be zonal, same as RPM. That raises deliverability issues: the RBA needs to respect CETL, but shouldn’t consume all the import capacity into and LDA and force BRAs to bind. We propose that the RBA can use transfer capability:
    - For years in which the BRA has not taken place, until remaining CETL is 1.15 * CETO + 1 MW. i.e., until just before the point where an LDA is treated as possibly separating in RPM.
    - For years in which the BRA has taken place, all available CETL.

Eligible Resources

Some additional types of resources are eligible.

- Additional UCAP from fuel switching that increases ELCC
- Additional UCAP from adding new ICAP via SIS
- Imports that have qualified to offer but have never cleared an RPM auction
- For mass market demand response and DER, an increase in UCAP without needing to have identified customers at the time of the RBP

Term

The RBA will procure UCAP by LDA for a forward period of up to 15 years. Preference for shorter term procurement avoids lock-in and stranded assets

- Resources that will have an RPM must-offer requirement may specify any contract length.
  - After RBP award ends, resources is still in RPM
  - Same BYONC restrictions as C&M still apply, so no external sales for five years
- Resources without an RPM must-offer requirement must offer a term of at least 5 years.
- Selection based on levelized cost of capacity for:
  - 15 years for must offer resources, with years outside offered term priced at zero. Resources requiring shorter-term guarantees have an advantage.
  - Offer term for resources without RPM must offer.

Supply Obligations

Stricter than PJM's proposal on end of obligations.

- RBP shortfall charge in effect for duration of contract.
- RBP commitment never rescinded in years when RPM clearing price is greater than RBP price.
- Delayed network upgrade exception only applies for network upgrade delays not known at the time of the auction.
    - TC2 projects that are currently contingent on network upgrades scheduled to be complete after June 1, 2032 are not eligible for RBP.