Avoiding the credibility trap: a proposal to maintain resource adequacy

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Proposal Overview

- Economist with 50 years of experience in electric markets, including active participation in design of RPM since its inception.
- I am presenting my own proposal today because the Reliability Backstop Procurement ("RBP") represents a point of inflection which may determine the success or failure of PJM's resource adequacy construct going forward.
- Specifically, the representation of new supply from the RBP as price takers in RPM is the most significant and farthest-reaching of a series of market interventions by PJM to limit price increases when market prices would otherwise signal a need for new capacity. Without balancing measures, such interventions damage confidence in the robustness of the RPM going forward, limiting its ability to attract and retain the supply needed to maintain resource adequacy.
- In its recent paper from May 6th, PJM has expressed essentially the same concerns about the damaging effects of repeated one-sided market interventions, which PJM labels the "Credibility Trap," and has laid out a problem statement of alternatives for a longer horizon transition in the resource adequacy design. This echoes concerns I have expressed for years.
- PJM's proposed transition is both uncertain and likely to take several years. Today's RPM design will still be critical for maintaining resource adequacy for some time, and furthermore the credibility, or not, of PJM's interim actions as custodian of the market will carry over to whatever comes next. In that light, getting the design of the RBP right is of critical importance.
- Thus, the challenge facing PJM has two competing objectives: 1) how to maintain reliability in the face of a perceived supply shortage today, and 2) how to preserve a viable competitive auction market for capacity resources both now and in the future.
- As proposed by PJM, the RBP will fail to achieve these objectives. I propose a change to the RBP design to reduce its impact on the broader competitive market structure of RPM to preserve, as best possible, proper investment incentives and reliability going forward and to ultimately allow PJM to satisfy both objectives.

Repeated One-Sided Interventions Threaten Markets

- PJM's May 6th paper describes the "credibility trap" problem that has been building over time in PJM leading to current perceived supply shortages and lack of confidence in the RPM market construct.

The Signal: Prices rise to signal scarcity (e.g., reaching the price cap).

The Reaction: Because a significant share of PJM load is unhedged, the price spike triggers immediate consumer pain and regulatory scrutiny.

The Risk Premium: Investors, observing the backlash – including actual regulatory interventions, backstop procurement mandates and price cap proposals that have emerged in the PJM region – discount the durability of the revenue stream. Even where intervention is contemplated but not finalized, the uncertainty itself dampens investment. LSEs simultaneously become disincentivized to enter long-term contracts that could support new entry, uncertain whether today's high prices will persist or be muted before those contracts can recover their costs.

The Stagnation: The market signals "build," but the political environment signals "risk." Capital stays on the sidelines or moves to other markets, and the shortage persists.

Source: *Powering Reliability Through Market Design*, PJM, May 6th, 2026, at 26.

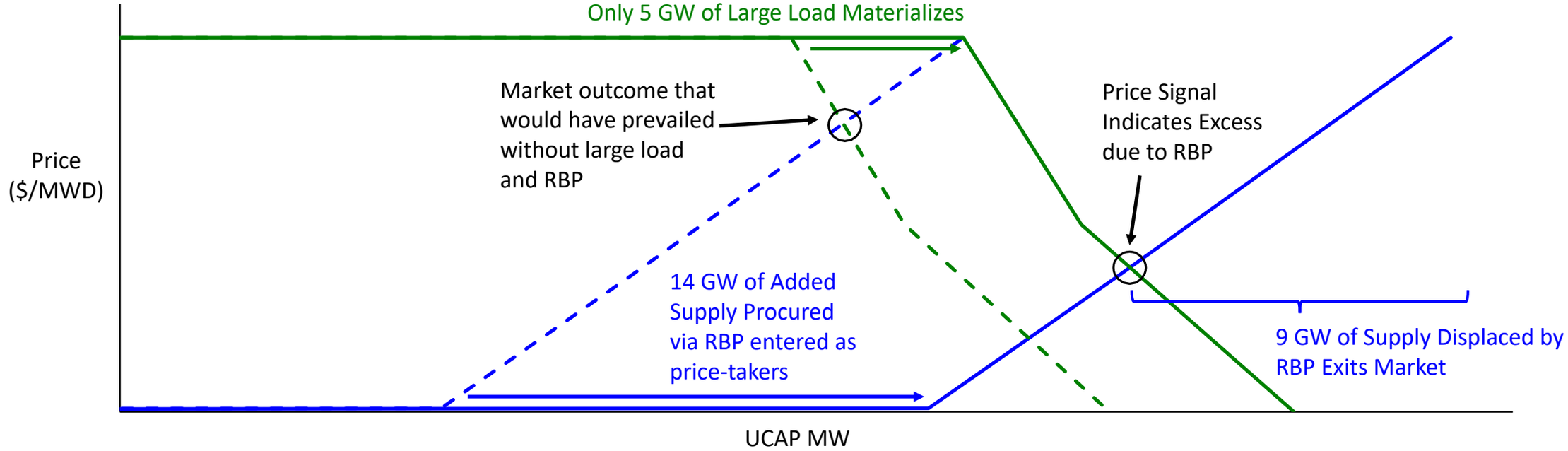
- While the facts on the ground indicate that some of the "stagnation" that PJM references may not actually be happening – e.g., 811 new generation projects totaling ~220 GWs of capacity have entered the queue – one-sided market interventions now such as the RBP risk strangling this nascent response at its inception and creating resource adequacy problems in the near term.
- As PJM puts it, "the practical consequence is that the capacity market, working as designed, will need to print prices at or above the administrative Net CONE for an extended period in order to attract entry of new supply." But it is unable to do so.
- The expectations aspect of the "credibility trap" matters today, not just for future market design. Out-of-market Interventions that PJM takes right now will inflict permanent damage to PJM's credibility, particularly now that PJM has explicitly indicated that it is well-aware of the problem.

PJM's Proposal to Insert RBP Resources as Price Takers Threatens Reliability

- PJM's design for the RBP will disrupt the ongoing RPM structure by entering RBP capacity as price-takers. As such it is a market-damaging "reaction" that will exacerbate PJM's "credibility trap" problem.

- This creates the potential for depressed prices and exit of existing capacity if load growth does not materialize as forecast, which seems particularly likely to occur if states will be the final arbiter of RBP load forecasts

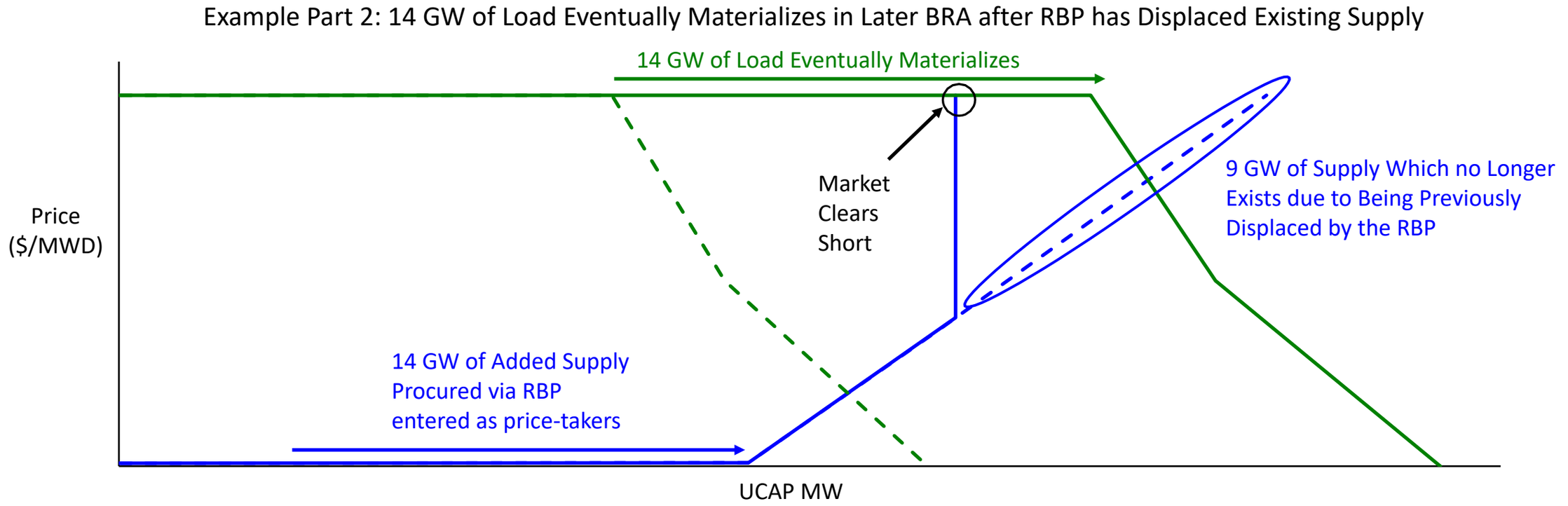
Example: PJM Procures 14 GW of Capacity via RBP but only 5 GW of Large Load Materializes



- As proposed the RBP thus creates two problems: 1) in the near-term it will drive exit of resources that will be needed if load growth ultimately materializes, and 2) it is a one-sided intervention that depresses the market below where it would clear under a competitive outcome, further driving the "credibility trap" problem leading to stagnation, shortfall, and market failure.

…Which Could Threaten Resource Adequacy in Coming Years

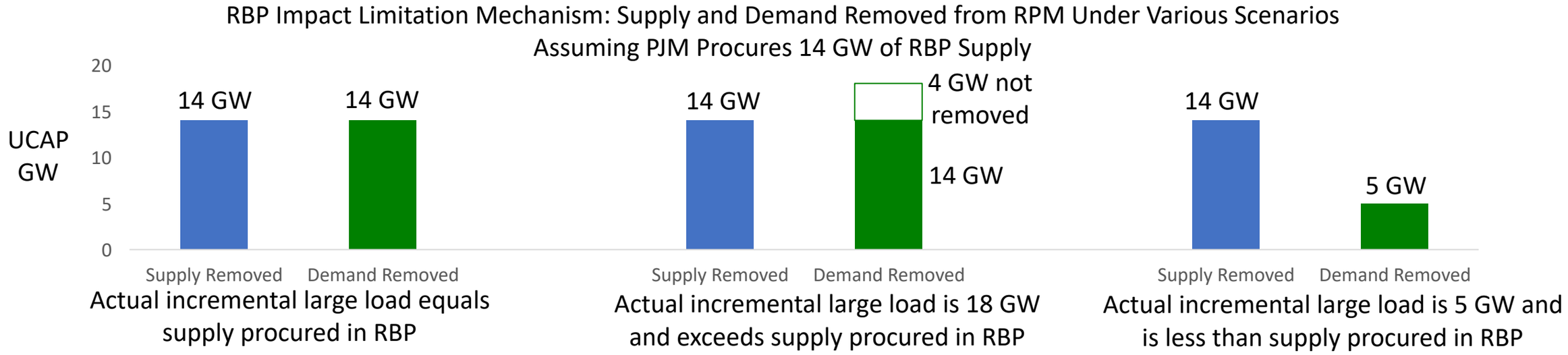
- Timing is important. PJM's RBP design could easily lead to a scenario whereby existing resources exit due to oversupply resulting from the RBP and then the market is left short if/when large load growth ultimately materializes as forecast.



- This scenario underscores the need to consider the impact of the RBP on the RPM market clearing mechanism in the present market design, regardless of the potential for long-term redesign of the market. If the displaced existing resources instead were provided a signal to remain in the market, then this scenario could be avoided.

Limiting the Impact of RBP on the Competitive Market Mitigates the Damage

- The preferred approach for market design is to adopt a design that works without the need for ad-hoc interventions and stick to that design.
- If PJM nonetheless chooses to pursue the RBP, it should incorporate protections against the resource adequacy problems that could ensue by limiting the impact of the RBP procurement from the competitive structure of the RPM.
- I propose a mechanism similar to that proposed by the Joint Stakeholders during the RBP stakeholder process to isolate the effect of the RBP and maintain investment incentives.
- The mechanism would keep the procured RBP resources out of the RPM (rather than inserting them as price-takers as PJM proposes) and remove demand from the RPM in a given RPM Base Residual Auction equal to the lesser of 1) the targeted large load in the RBP* and 2) the actual incremental large load (relative to 2026) that would otherwise be included in the reliability requirement for that BRA. All demand and supply so removed would be in UCAP terms.



* This assumes that the RBP is successful in procuring its target quantity, if not, the actual quantity procured should be substituted for the target.

While Other Approaches Could Work, Isolating RBP Impact Works Best

- Other approaches to mitigating the damage to markets caused by the RBP could potentially work, such as price floors or a proxy price formulation whereby the RBP resources are entered at an approximation of their competitive offer price absent the RBP.

- However, the isolation approach works best in my view because it:

  - Is inherently flexible with respect to uncertainty around the timing and level of new load growth

  - Avoids the need for parties to agree on a proxy price or the level of a price floor mechanism

- Ultimately leaving PJM's RBP proposal as-is would be extraordinarily damaging both in the near-term and even the long-term post any ultimate redesign of the market. My proposal mitigates this damage and gives the market a chance to continue to work.