



DATE: June 30, 2026, Meeting Date
TO: CIFP: Reliability Backstop
FROM: IMM
SUBJECT: Proposed reliability backstop auction design V6

The most important criterion for evaluating proposals to address how to reliably serve new data center load is the assignment of the costs and risks associated with LSEs serving data center load.¹ For example, the failure to exclude new data center load from the BRAs, as PJM proposes, would by definition impose significant costs on other customers and therefore violate the basic principle that data center costs should not be imposed on other customers. The rules must protect just and reasonable pricing for capacity that serves existing customers. To date, the capacity costs imposed on existing customers by data centers have been \$23 billion.² As another example, PJM's proposal assigns the ultimate backstop risk associated with serving data center load to other PJM customers, whether it derives from an expected data center not showing up or the matching new generation not showing up. In contrast, the IMM's proposal stipulates that LSEs require the data centers to enter into 15 year bilateral contracts with new generation resources that assign costs and risks between the two parties to the bilateral contract. The IMM proposal adds obligations to the RAA that require LSEs serving data center loads to demonstrate that the data centers have entered into bilateral contracts for new capacity that meet defined criteria. This is analogous to the requirements for FRR entities.

The preferred option for LSEs serving data centers that add load to the PJM system is for LSEs to require, as a term and condition of service for such data centers, that the data centers bring their own new generation (BYONG).³ For those LSEs serving data centers that do not bring their own new generation that meets the defined requirements, the IMM proposes that PJM run a reliability backstop auction (RBA) designed to meet all LSEs' expected data center load that has not entered into a 15 year bilateral contract with new generation.

The IMM proposes a specific reliability backstop auction design. The goal is to incorporate market forces as much as possible and to minimize planning choices by PJM or others. The

¹ The Supreme Court has recognized FERC's jurisdiction to ensure resource adequacy through the RAA and auctions conducted under the RAA, and, further, that these federal rules preempt state actions interfering with that regulatory construct. *See Hughes v. Talen Energy Mktg., LLC*, 578 U.S. 150, 155 (2016) (recognizing FERC's and RTO's authority, including through capacity market auctions, to "ensure the availability of an adequate supply of power at some point in the future.").

² See the "*Analysis of the 2027/2028 RPM Base Residual Auction – Part A*," (January 5, 2026) <https://www.monitoringanalytics.com/reports/Reports/2026/IMM_Analysis_of_the_20272028_RPM_Base_Residual_Auction_Part_A_20260105.pdf>.

³ The MW of new generation to meet data center load is in UCAP terms and includes reserves based on the system target reserve margin.

proposed IMM design does not impose data center costs or risks on LSEs or EDCs or PJM or other customers, consistent with the Principles defined by the National Energy Dominance Council and the PJM Governors and the Pledge by defined hyperscalers.⁴

The IMM design creates a dedicated mechanism for LSEs serving new large data center load designed to complement, not replace, PJM's existing RPM construct. It is intended to ensure long term resource adequacy for data center load by directly linking LSEs' service to new data center load with dedicated new generation, creating transparent investment signals based on a 15 year contract term.

Only organic load and existing data center load as of June 1, 2026, would be included in the 2028/2029 BRA and in the 2029/2030 BRA. The maximum price for these BRAs would be based on the IMM's CT net CONE calculations from the most recent quadrennial review, updated to reflect current market conditions as necessary.⁵ There would be no floor price. All forecast data center load would be removed from the 2028/2029 BRA and from the 2029/2030 BRA. All LSEs serving data center load that was not online on June 1, 2026, would be required to commit to requiring that data center loads have contracts that meet the requirements of the BYONG option, or to participating in the reliability backstop auction. LSEs serving data center load would have the option to commit to requiring a specific future BYONG plan that meets the necessary terms and conditions and not be included in the auction. If a data center load does not meet the requirement to bring new generation, the data center load would be subject to the curtailment alternative. If data center load takes the BYONG option, the IMM's proposal is that the bilateral BYONG contracts be required to have the same basic characteristics as the bilateral contracts resulting from the reliability backstop auction, e.g. a 15 year term, must offer obligation in the capacity market at zero price, must offer obligation in the energy market at cost-based offers, location in the same child LDA, and matching energy output duration with load duration on an hourly basis. All capacity resources would be treated as capacity resources under the PJM Tariff rules.

The IMM's design for the reliability backstop auction is to run a full single clearing price auction using the BRA capacity market clearing model for data center load. LSEs would require data centers to participate in the reliability backstop auction if they do not have a bilateral contract

⁴ See National Energy Dominance Council, Statement of Principles Regarding PJM (January 16, 2026) <<https://www.energy.gov/documents/statement-principles-regarding-pjm>>; see also White House, "Ratepayer Protection Pledge Proclamation," (March 4, 2026) <<https://www.whitehouse.gov/presidential-actions/2026/03/ratepayer-protection-pledge-proclamation/>>.

⁵ See PJM. Markets and Reliability Committee, Quadrennial Review Issues < <https://www.pjm.com/-/media/DotCom/committees-groups/committees/mrc/2025/20250925/20250925-item-05b---quadrennial-review-imm-proposal---presentation.pdf>> (September 25, 2025).

for new generation that meets the requirements of such contracts. This reliability backstop auction would be run soon after the 2028/2029 BRA. Such an auction design could be repeated in the future as needed to address additional new data center load that is not included in the first reliability backstop auction but would not be required and would not be run on a predefined schedule. The reliability backstop auction would include the location and MW of each data center that participates, the location and MW of proposed generation that participates, full PJM CETO/CETL parameters net of the impacts from the applicable BRA, and any resultant locational price separation. The only product offered would be 15 year generation capacity at a maximum offer price equal to the nominal levelized equivalent of the IMM's calculated combustion turbine Gross CONE provided in the latest quadrennial review, updated to reflect current market conditions as necessary, net of defined energy and ancillary service net revenues in each year of the contract. That equivalent, in \$/MW-day, would be higher than the calculated net CONE in year one because the product is based on a 15 year levelized gross CONE while the current cap is based on a 20 year levelized gross CONE net of net revenues for year one.

The reliability backstop auction would result in cleared generation capacity by LDA. If offers are less than demand, the demand offers would clear in order from highest to lowest. If demand is less than offers, the supply offers would clear in order from lowest to highest. After the auction, a matching algorithm would be used to match individual cleared generation resources with individual data centers subject to locational constraints such that the number of bilateral contracts are minimized.

In order to meet the intended incentive goal, the total payments received for new generation should equal Gross CONE, including both net revenue from the energy and ancillary services markets and capacity payments. The net revenues would be explicitly incorporated. The actual annual payments under the contracts would include the defined energy and ancillary service net revenues calculated annually for each year and the remaining net CONE not covered by the net revenues. The contracts would be for total payments including energy and ancillary services net revenues and the remaining net cost of capacity. The energy and ancillary services revenues could be calculated annually on a forward looking basis or on an historical basis. A single method should be selected that applies to all contracts.

In the reliability backstop auction, the demand for generation capacity would be equal to the specific demand for 15 year capacity from individual data centers, plus the required reserve margin, for each data center, to ensure reliability. There is no forecast of demand, by EDCs or by PJM. All data centers with expected demand greater than or equal to 5.0 MW would be included in the auction. A goal of the defined size is to prevent artificial segmentation of data center load to circumvent the size threshold. The maximum price for the demand bids would equal the maximum offer price for new generation.

Sellers in the reliability backstop auction would be new generation only, with clearly defined eligibility. New generation would not include upgrades to existing generation, uncleared capacity, repowered capacity, units that retired after June 1, 2025, demand side resources or relicensing. This definition ensures that all cleared capacity represents investment in new physical supply rather than redefining existing resources. The goal is to support new generation and to prevent gaming of the rules by reclassifying existing capacity resources as new. The new generation must be located within the same child LDA as the data center to help ensure long term deliverability to that load over the 15 year life of the contract. The output of the new generation must reasonably match the hour by hour load profile of the data center. (This is not capacity factor matching.) For example, a standalone solar resource would not qualify but a combined solar and battery resource could qualify. The energy output of the new generation must equal or exceed the data center load whenever the new generation is available, subject to locational constraints.

Generation selected in the reliability backstop auction would be required to comply with all requirements of the PJM capacity market. For example, new generation capacity is required to have CIRs and to be deliverable and has an RPM must offer obligation. All of this generation would also be required to have the same obligations in the energy market as committed generation capacity resources, including an energy market must offer obligation.

When the clearing process is complete and each generation offer is associated with one or more identified data center loads, the LSEs would require that generators and data center loads enter into 15 year bilateral contracts that do not permit any cost or risk shifting to other customers. The contracts would be based on a tariff defined standard contract. The risks associated with the load changing or withdrawing and generation changing or failing would be fully addressed in the bilateral contracts. New generation capacity resources clearing in the reliability backstop auction would have an initial capacity accreditation based on the recent EFORd performance of comparable generation and would, after two years of operation, have unit specific ELCC values based on actual unit performance and therefore subject to management by the generator. The risks associated with changes in capacity accreditation values would be fully addressed in the bilateral contracts.

When the bilateral contracts are final, including bilateral contracts reached under the BYONG option, the data center load plus the reserve margin has an RPM must buy obligation and the corresponding generation capacity has an RPM must offer obligation, after the capacity commercial operation date, in future BRAs as price takers for the 15 year contract term. A contract for differences would ensure that the load pays and the generation receives the contract price in the financial settlement.

The IMM's proposal addresses any potential state/federal jurisdictional issues. LSEs would be required, as a condition of service, in the RAA, to show that each data center that they serve has a bilateral contract(s) in place with a source of generation for at least 15 years that meets

the identified requirements of such contracts. The bilateral contracts would address all pricing and risk issues solely between the parties to the contract with no recourse to other customers.

Under the IMM proposal, the qualifying bilateral contracts assign all risks to the bilateral counterparties and no risks are assignable to EDCs, LSEs, PJM or any other customers. The LSEs must ensure that the data centers meet the requirement to have a bilateral contract based on the requirements of the RAA, but the LSEs are not counterparties to the capacity supply contract. LSEs that do not maintain their obligations under the RAA will face consequences defined in the RAA.⁶ The data center and the generation capacity seller are the counterparties to the capacity supply contracts. PJM and other PJM participants provide no credit support of any kind for the contracts. There is no recourse to PJM or its members. Credit issues are entirely between the parties to the bilateral contracts.

⁶ See RAA § 5.2, referencing OA § 15.1. The RAA can be amended only by action of the PJM Board and FERC approval, per RAA § 16.4.