

# **Joint EDCs & Data Center Coalition (“Coalition”)**

## **Reliability Backstop Procurement Package**

### **Executive Summary**

**Joint EDCs** = Buckeye Power, Dominion Energy, Duke Energy Ohio, Duke Energy Kentucky, Duquesne Light Company, East Kentucky Power Cooperative, Exelon, Old Dominion Electric Cooperative, PPL Electric Utilities Corp., Southern Maryland Electric Cooperative

The Coalition supports and include PJM’s bilateral matching phase in our package. The process provides opportunities for large loads and suppliers to directly contract to add needed capacity to the RTO system while allowing for negotiated terms and conditions to be decided among the parties. A strong bilateral contracting phase will improve the likelihood of success of the central procurement proposed by the Coalition.

The Coalition supports PJM implementing a centralized procurement to address the capacity needs of Large Loads, a Reliability Backstop Procurement (RBP), centered on two core principles:

1. Establishing a subscription-based procurement target which recognizes the benefit of Large Loads continuing to secure bilateral contracts that manage risk within contract terms outside of PJM’s markets, and
2. Ensuring that RBP costs and credit/collateral obligations are assigned to the appropriate cost-causing parties at the time RBP commitments are made.

A Load Serving Entity (LSE) is the entity legally or contractually obligated to supply a Large Load’s capacity and energy needs. LSEs, therefore, should be responsible for both determining the procurement target for the Large Loads they serve and bearing associated financial and credit obligations associated with those loads.

The Coalition’s proposal is grounded in PJM’s existing legal and operational framework. Under PJM’s governing documents, LSEs that rely on PJM markets must be parties to the Reliability Assurance Agreement (RAA) and are responsible for financial obligations arising from RPM capacity auctions. LSEs work with the loads they serve to determine how best to satisfy capacity obligations, including making resource build, demand response, and bilateral contracting decisions. A central RBP must accommodate the ability of the LSE to determine how best to meet the capacity needs of its customers, including respecting

RERRA directives for how those needs should be satisfied. Any RBP should respect LSE decisions that may transfer cost and financial risk outside of the PJM market by allowing the LSEs to opt-into the procurement. There simply is insufficient time to ensure all bilateral contracting that that can be completed before PJM intends to conduct the RBP.

The Coalition proposes that the LSEs who wish to participate in the central procurement (or Large Loads themselves if they so desire) would indicate the MW quantity PJM should procure on their behalf through the RBP. This may be referred to as a subscription model. The decision to subscribe is based on the legal arrangement between the LSE and the relevant Large Load. In subscribing, the LSE commits to satisfying the credit/collateral requirements at the time the RBP commits supply resources and through the duration of the RBP resource commitment period. An LSE that cannot satisfy the credit requirements described below is not permitted to subscribe MW to be procured through the RBP. This protects other LSEs and PJM market participants more broadly from assuming obligations should a default of an RBP obligation occur or the RBP obligation were to occur. This approach also should accommodate Large Load switching to new LSEs, with their subscribed RBP commitment following them to their new LSE.

The registry-based subscription model proposed by the Coalition simultaneously addresses concerns related to over procurement, cost allocation and cost shifting.

### **LL LSE Registry**

To establish the procurement target, the Coalition proposes the creation of a Large Load Registry, maintained by PJM, through which either the Large Load or its designated LSE would report:

- The MW quantity of Large Load assigned to a specific LSE (or assigned directly to the Large Load should it be able and willing directly to take on the obligation) in a specific zone, and
- Identity of the Large Load (not necessarily meter level data at time of procurement)

Below is a flow chart conceptualizing how the information would flow to determine the RBP procurement target via LSE subscription.

At the start of each Delivery Year, the registry would confidentially capture the Large Load meter level information (or other unique identifier information as appropriate under state law) to facilitate appropriate billing and collateral tracking to accommodate Large Load switching LSEs in retail choice states and any Large Load corporate ownership changes.

## **Settlement**

The RBP commitment is fixed at the time of the procurement. LSEs who subscribed receive their MW allocation of committed resources. Although the MW quantity may vary over time to account for the varying in-service dates of the resources committed, the obligation to pay for the committed resources is fixed at the time of procurement. This obligation can be transferred to a different LSE should the Large Load change suppliers, subject to any PJM credit requirements associated with such transfers.

During the Delivery Year, LSEs could use PJM subaccounts to enable PJM billing to separate costs for individual Large Loads to best enable the LSE to allocate costs to the right retail entity via Tariff or contract, limiting the potential for cost shifts to unrelated retail customers.

Under this subscription model, RBP obligations would be settled separately from RPM but structured to net appropriately for the correct LSE and avoid double payment for overlapping capacity obligations with the same MWs of load being represented in both RPM and RBP.

Below is a flow chart conceptualizing how, after the information flows to establish the procurement target, PJM would bill for the RBP obligation. Note the credit requirement proposed below attaches to the LSE at the time of the RBP commitment, and adjusts over time. This is not depicted in the flow chart.

## **Credit Requirement**

Subscribing LSEs (or Large Loads if they directly subscribed) are required to post collateral to ensure that, in the event of a subscribing LSE RBP commitment buyer default, other LSE subscribers and other PJM market participants are largely insulated from the costs of assuming the obligation. The Coalition proposes that a credit requirement be established that ensures that any emerging buyer default exposure is recognized early, funded continuously, and contained entirely within the LSE buyer who subscribed to the RBP MWs (or received the transferred RBP obligation) over time.

## **RBP Clearing Constraints**

The Coalition proposes two clearing constraints for the RBP: (1) a maximum volume-weighted average procurement price, and (2) locational commitment requirement.

### Maximum Volume Weighted Average Procurement Price

The RBP must appropriately compensate resources for taking on RBP commitments, including the risk associated with taking on those commitments. However, there must be reasonable boundaries placed on the overall costs arising from this procurement. Since the auction is not structured to allow load to submit buy-bids indicating their true willingness to pay, the auction clearing must contain an upper limit on LSE cost exposure to further derisk the potential for and impact of cost-shifting.

The Coalition proposes a maximum volume-weighted average procurement price cap using Point A of the VRR curve applicable for the 2028/29 Delivery Year, which is approximately \$555/MW-day. This is based on (maximum of  $(1.15 * \text{Gross CONE} \text{ minus } 75\% \text{ of the EAS offset and } 0.2 * \text{Gross CONE})$ ). PJM would commit the resources by ranking the offers by volume-weighted price (in \$/MW-day, averaged across the contract term based on the resource's in-service date) and accepting each offer sequentially until the procurement target is met or price cap is breached.

**Example:** Target = 1,000 MW.

O1: 250 MW @ \$475

O2: 250 MW @ \$500

O3: 250 MW @ \$525

O4: 250 MW @ \$600

All accepted if weighted avg  $\leq$  \$555.

If O1 instead was priced at \$500, O4 is excluded.

Under this clearing constraint approach, the procurement may fall short of the nominal target if accepting additional supply would violate the average volume-weighted price maximum. However, this approach acknowledges that resource offers, factoring in the uncertainty inherent in the RBP requirements and timing, may result in offers that exceed \$555/MW-day. Higher and lower committed offers are acceptable as long as the total procurement average cost is  $\leq$  \$555/MW-day.

### Locational Commitment Requirement

The amount of RBP capacity procured within rest-of-RTO for delivery into the combined MAAC and DOM LDAs cannot exceed a maximum threshold. The Coalition suggests a 500 MW value may be appropriate for this constraint, subject to further analysis and coordination with PJM to determine the appropriate MW value for this constraint. The purpose of this locational commitment constraint is to mitigate a scenario where supply resources procured through the RBP are located far from the large load it is intended to serve, potentially reducing the real-time reliability benefits to that area associated with the new resource. In other words, the Large Load could be located in the MAAC and DOM LDAs yet all the RBP committed supply could be in the western part of PJM. This would result in some MAAC and DOM LDA price separation in RPM auctions, exposing all load in those LDAs to higher prices. It also could result in increased RTEP costs over time as PJM planning identifies needs to address transmission reliability constraints.

### **Current Tariff Provisions for Reliability Backstop Mechanism**

The current PJM Tariff provisions for Reliability Backstop Mechanism will be adjusted to not apply until the **2030/31 Delivery Year** such that any triggering of it would occur no earlier than after PJM has cleared three consecutive BRAs where the threshold for the backstop has been met. (ie., the 2020/31 DY BRA clearing short would be the first Delivery Year that would be counted to determine if the threshold were met).

The example below is intended to illustrate conceptually how the registry could be used to facilitate the RBP. This example is illustrative, and for simplicity the MW values are small for computational ease.

### Joint EDC Proposal Example for the Reliability Backstop Procurement (RBP)

