# EXECUTIVE SUMMARY

## PJM Reliability Backstop Procurement Design

*REV Renewables, LS Power, Middle River Power, and Geronimo Power Alternative Proposal vs. PJM Proposal*

## 1. Background

Following a MW UCAP shortfall in the 2027/2028 Base Residual Auction (BRA), combined with unprecedented expected load growth and slow new supply, PJM is taking measures to address an expected reliability gap. To address this gap, PJM proposed a one-time, 15-year Reliability Backstop Procurement (RBP) — a government-mandated capacity contract that would award fixed-price, long-term Contracts for Differences (CfDs) to new resources.

In advance of the June 10–11, 2026 CIFP meeting, REV Renewables, LS Power, Middle River Power, and Geronimo Power (collectively, the Proposing Companies) submitted an alternative proposal identifying four areas of concern with PJM's design. PJM also released a revised design on June 10, 2026 that incorporated certain updates, including a meaningful revision to the credit and collateral framework.

This summary compares the Proposing Companies' alternatives against PJM's June 18, 2026 proposal, drawing on both PJM's June 10 presentation and concurrent stakeholder options matrix and executive summary posted June 18.

## 2. PJM Proposal Overview (as of June 18, 2026)

PJM's RBP targets a UCAP based on the 2028/2029 BRA shortfall. The Central Auction phase of the RBP will be conducted through a sealed-bid, first-price auction with a 15-year commitment term. Key structural elements:

- Settlement: Contract for Differences (CfD): difference between the RBP commitment price and the weighted average RPM clearing price
- RPM must-offer obligation: RBP resources must offer at $0 (price taker) in RPM for the full contract term
- Technology neutrality: Open to new generation, storage, and load-serving resources meeting an approximately 2032 COD requirement
- Credit and collateral: Two-layer requirement — RBP-specific collateral (step-down added June 10) and a separate RPM Attachment Q credit requirement
- Shortfall charge: 20% of the commitment price × shortfall UCAP MW, assessed when C&M is in effect; waived after one-time C&M delivery showing
- New resource eligibility: Excludes CIR-only uprates, surplus resources, delayed retirements, re-licensing, and fuel switching

## 3. The Proposing Companies' Alternative Proposals

The Proposing Companies advanced four alternative positions targeting specific design elements viewed as disproportionately burdensome or technically flawed. All positions remain unchanged from the presentation made at the June 10–11, 2026 CIFP meeting, but are adjusted below based on PJM’s June 18 updated proposal.

## 3a. Credit and Collateral

PJM's June 18 summary and June 18 proposal matrix largely adopts the Proposing Companies proposal on credit and collateral requirements. The proposal states that planned resources taking on a RBP commitment will follow existing RPM framework (Attachment Q, VI., B) with adjustments to address RBP market design. Prior to RBP bid submission, the supplier/developer will be required to post credit equal to Max ($20, 0.2 x bid/clearing price) x MW UCAP committed x 365 x 3 (years). Collateral is required to be posted in the form of cash or letter of credit. Credit requirement for the supplier may be reduced or returned once the supplier achieves COD following PJM's assessment after the one year look back

The Proposing Companies appreciate PJM's adjusting on this component and support PJM's current credit and collateral proposal.

## 3b. ELCC Risk Allocation

**Policy Rationale: Why ELCC Risk Belongs with RPM, Not the RBP Developer**

The central question is not whether ELCC will change, because it almost certainly will over a 15-year term, but who is best positioned to bear that risk efficiently.

ELCC class ratings are set by PJM based on fleet mix, interconnection, and grid conditions. An individual RBP resource cannot control, predict, or hedge its ELCC accreditation 10 to 15 years into the future. This creates two distinct risk components for a developer bidding into the RBP auction:

(1) Expected trajectory — the decline in ELCC that PJM itself forecasts over the contract term.
This is already captured in PJM's published long-term 10-year ELCC forecast and can be priced at face value. PJM has not published a forecast out to 15 years.

(2) Forecast uncertainty — the variance above or below that expected trajectory over 15 years.
This is unhedgeable and uncontrollable. Rational developers will demand a risk premium for it.

Under PJM's proposal, developers must price in both components. Because the risk is unhedgeable over a long horizon, the risk premium will be disproportionately large relative to the actual expected ELCC change — this is a standard result in risk pricing: unhedgeable uncertainty commands a premium above expected loss.

Under the Proposing Companies' proposal, developers bid against the PJM-published 15-year ELCC forecast. The expected trajectory is embedded in the price at face value, with no risk premium required. Year-over-year variance from the forecast flows into RPM — where ELCC variability for all resources already manifests annually. The marginal cost to RPM buyers of absorbing ELCC variance on RBP MW is small and already part of the market's existing clearing mechanism.

There is also a direct regulatory precedent: in 2025, PJM removed the deficiency penalty for ELCC-related MW shortages in RPM. The Proposing Companies argue the RBP should be consistent with this policy — it would be anomalous to impose a shortfall charge on ELCC-driven RBP shortfalls that RPM itself no longer assesses for the same category of shortfall.

Finally, there is a physical reliability basis: the RBP was designed to procure capacity to fill a physical reliability gap today. It is the ICAP — the installed physical capacity — that addresses that gap. ELCC is an accreditation construct applied ex post by PJM. Penalizing or withholding compensation from an RBP unit for an ELCC change in the future that it did not cause and cannot prevent is inconsistent with the reliability purpose for which the contract was awarded.

Discrepancy — ELCC risk treatment for Shortfall and Revenue are not equal:

The June 10 presentation (Slide 22) states that after the RBP resource delivers its first DY UCAP (one-time C&M showing), no shortfall charge will be assessed going forward — this implicitly eliminates the penalty for ELCC-driven shortfalls post-delivery. It also states no shortfall charge applies once the C&M posture concludes entirely.

In the revenue settlement for supply, this ELCC risk still remains, with suppliers bearing the full burden of ELCC changes. Resources that maintain the same ICAP, but receive a lower UCAP due to PJM's ELCC changes, are paid less than bid into the RBP. This maintains an unhedgeable risk for suppliers that is solely due to changes in the ELCC model, not due to physical changes in the resource.

Under PJM's proposal, once a resource achieves its one-time C&M showing (delivery of first DY UCAP), shortfall charges are no longer assessed — including for subsequent ELCC-driven UCAP erosion. After C&M concludes entirely, no shortfall charge applies regardless of cause.

However, PJM's settlement formula (RBP Credits = Daily Owned MW × (RBP Price − RPM Price)) means the resource is compensated only on UCAP actually owned. If ELCC has reduced UCAP below the contracted level, the resource is NOT paid for the difference between its original contracted UCAP and its ELCC-adjusted UCAP — even when the shortfall penalty has been removed.

The Proposing Companies address both the penalty and the revenue side of ELCC risk. Resources and C&M load are shielded from shortfall charges when UCAP declines solely due to ELCC changes (with ICAP maintained) — including in the first year of COD. Separately, the Proposing Companies propose that resources be paid based on the original contracted UCAP amount — not the ELCC-reduced UCAP — for the ELCC-attributable MW difference. If ICAP falls below committed levels, replacement MW is allowed.

This two-part distinction is the most material gap: PJM (in its presentation) ultimately removes the shortfall penalty after the C&M milestone, but the resource still loses revenue for ELCC-eroded MW. The Proposing Companies propose making the resource financially whole on both the penalty and the revenue side when ICAP is maintained.

| Design Element | PJM Proposal (June 18) | The Proposing Companies' Alternative (June 10) |
|---|---|---|
| **Shortfall Charge for ELCC-Driven UCAP Decline (ICAP maintained)** | Presentation: Shortfall charge applies during C&M period including first year of COD; waived after one-time C&M delivery showing; waived entirely once C&M concludes. Matrix: Standard shortfall formula; no ELCC exception. | No shortfall charge for ELCC-driven UCAP decline when ICAP is maintained — including in first year of COD. Physical underperformance (ICAP decline) remains penalized. Consistent with 2025 RPM policy change eliminating deficiency penalties for ELCC-related shortfalls. |
| **Revenue / Compensation for ELCC-Reduced MW** | Resource is NOT compensated for ELCC-reduced MW in any scenario. Settlement is based on Daily Owned UCAP (the reduced ELCC-adjusted value). PJM's proposal does not address the revenue side of ELCC risk. | Resource is paid based on the original contracted UCAP amount for the ELCC-attributable MW difference — compensation is not reduced by ELCC erosion when ICAP is maintained. |
| **ELCC Forecast Publication** | No specific commitment to publish a 15-year ELCC forecast in advance of the auction. Suppliers need to offer expected UCAP by delivery year (Slide 14). | Publish an official long-term year-by-year ELCC accreditation forecast prior to Central Procurement. Resource UCAP bids use the ELCC forecast as the benchmark for RBP UCAP values. |
| **Regulatory Precedent** | No reference to 2025 RPM policy in PJM's proposal. | 2025 RPM change eliminated deficiency penalties for ELCC-related MW shortages in RPM (replacement MW only). RBP design should be consistent with this precedent. |

| Design Element | PJM Proposal (June 18) | The Proposing Companies' Alternative (June 10) |
|---|---|---|
| **Net ELCC Risk Position (Presentation)** | During C&M: full UCAP risk including penalty. Post-C&M showing: no penalty, but still no compensation for ELCC-reduced MW. Developer bears full revenue risk from ELCC erosion for entire term. Unhedgeable long-duration ELCC risk premium will be embedded in bid prices. | No penalty for ELCC-driven shortfalls (when ICAP maintained). Compensation based on original contracted UCAP, not ELCC-reduced UCAP. ELCC variance risk borne by RPM/load at actual cost, not at a risk-premium-inflated rate. |

## 3c. New Resource Eligibility

PJM's design categorically excludes CIR-only uprates and Surplus Interconnection Service (SIS) arrangements, where an existing resource adds a new component (such as a battery collocated with a solar generation plant) to better utilize its existing Capacity Interconnection Rights (CIRs). The Proposing Companies propose allowing CIR-only uprates and surplus resources where the additional UCAP is attributable to a demonstrated technology upgrade or addition at the site, not to annual ELCC fluctuations.

| Design Element | PJM Proposal (June 18) | The Proposing Companies' Alternative (June 10) |
|---|---|---|
| **CIR-Only Uprates** | Excluded. PJM categorically excludes resources that would use existing CIRs to add capacity | Allow where the additional UCAP reflects a demonstrated technology upgrade or addition at the site — not merely an ELCC fluctuation. Leverages existing interconnection infrastructure without requiring new CIR acquisition. |
| **SIS Resources** | Excluded. | Allow where the surplus UCAP is attributable to a demonstrated technology upgrade, not annual ELCC change. |
| **Test / Rationale** | Clean eligibility boundary minimizes disputes over what qualifies as 'new.' | New UCAP eligible only if due to demonstrated technology upgrade or site addition — not ELCC fluctuations. CIR-only uprates and surplus resources driven by technology change add real demonstrated UCAP and should be treated as new resources for RBP purposes. |

## 3d. Offer Price Cap

PJM's June 18 proposal on Offer Price Cap removes the mean + 2 standard deviations maximum willingness to pay and now sets the maximum willingness to pay at Point 1 (absent the collar) of the RTO VRR Curve for the BRA ($555/MW-Day UCAP). The Proposing Companies adjust their proposal on this topic, and request that PJM update cost of new entry data to reflect current market conditions to determine a revised VRR Curve, and include ELCC adjustment over time to include in the maximum willingness to pay.

The Quadrennial Review was completed in 2025, but stakeholders at that time were already raising concerns that the cost of new entry data was outdated and did not reflect current market conditions. Since that time, the market has tightened even further and continued to drive up costs. If PJM sets an offer cap at $555/MW-day UCAP, it risks setting an unreasonable price that new resources are unable to meet.

Additionally, the Proposing Companies highlight that, if ELCC risk is included in the UCAP bid, this creates further pressure on the PJM proposed offer cap (as discussed in 3b). The Proposing Companies request PJM to include an ELCC adjustment over time into the requested updated offer cap.

# 4. Summary Comparison

The table below reflects PJM's June 18, 2026 position. Where the presentation and matrix diverge, both are noted.

| Issue Area | PJM (June 18) | The Proposing Companies (June 22) | Status |
|---|---|---|---|
| **ELCC Shortfall Penalty** | Presentation: Waived post-C&M showing and after C&M concludes. Matrix: Standard formula applies; no ELCC exception. | Shielded from shortfall charge when ICAP maintained (incl. first year COD). Consistent with 2025 RPM policy precedent. | PARTIALLY CONVERGED (presentation); DIVERGENT (matrix). Clarification needed. |
| **ELCC Revenue / Compensation** | Resource NOT paid for ELCC-reduced MW in any scenario. No compensation | Resource paid at original contracted UCAP when ELCC has reduced UCAP (ICAP | DIVERGENT — compensation gap regardless of penalty treatment |

| Issue Area | PJM (June 18) | The Proposing Companies (June 22) | Status |
|---|---|---|---|
| | for ELCC erosion below contracted UCAP. | maintained). Replacement MW if ICAP falls. | |
| **ELCC Forecast Publication** | No commitment to 15-year ELCC forecast | Publish official long-term year-by-year ELCC forecast prior to auction | DIVERGENT |
| **New Resource Eligibility** | Excludes CIR-only uprates, surplus resources, delayed retirements, re-licensing, and fuel switching | Allow CIR-only uprates and surplus resources when additional UCAP is due to a demonstrated technology upgrade — not ELCC fluctuations | DIVERGENT |
| **Offer Price Cap** | Point 1 on RTO VRR Curve | Cost of New Entry data should be updated to revise VRR curve, and offer cap should reflect ELCC adjustment over time | ADJUSTMENT NEEDED – cost of new entry data does not reflect current market conditions or ELCC risk |

# 5. Conclusion

PJM's June 18, 2026 revision incorporated two important updates relative to its May 27 design: a credit requirement step-down mechanism and, through the supply obligations framework, effective elimination of the shortfall charge for future ELCC-driven UCAP reductions once the resource achieves its one-time C&M delivery showing. While the credit requirement addresses the Proposing Companies concerns, the ELCC update only partially address the concerns the Proposing Companies raised.

The most significant unresolved ELCC issue is not the shortfall penalty (assuming PJM's presentation which ultimately removes it after the C&M delivery milestone) but the compensation gap. Under PJM's proposal, a resource whose UCAP has declined due to ELCC erosion is simply not paid for that difference, for the full 15-year term. The Proposing Companies would pay resources at the original contracted UCAP when ICAP is maintained, fully insulating revenue from ELCC variability that is outside the developer's control. This is also consistent with PJM's own 2025 decision to remove deficiency penalties for ELCC-related shortfalls in RPM — it would be anomalous to impose a more punitive regime on RBP resources for the same category of shortfall.

The economic case for the Proposing Companies' approach is that ELCC variability risk is best borne by the RPM, not by RBP developers. Because ELCC is a system-level accreditation construct set by PJM based on fleet conditions that no individual resource can influence or hedge, developers bidding into a 15-year RBP auction must charge a risk premium to absorb long-duration, unhedgeable ELCC uncertainty. That risk premium will structurally exceed the expected value of actual ELCC changes. Shifting ELCC variance to RPM, where it already manifests annually for all resources, costs ratepayers only the actual ELCC change, not a risk-premium-inflated version of it. The expected result is lower, more competitive RBP bid prices at equivalent or lower total ratepayer cost.

The Proposing Companies also emphasize that PJM's cost of new entry, and therefore VRR curve, is based on outdated data that does not reflect current market conditions. PJM must update this information before setting the price cap number, and should include an adjustment for ELCC.

The principal remaining gaps between PJM and the Proposing Companies are: (1) ELCC compensation — the Proposing Companies would pay resources at original contracted UCAP when ICAP is maintained, PJM would not; (2) ELCC forecast publication; (3) new resource eligibility (CIR-only uprates, and surplus resources driven by demonstrated technology upgrades); and (4) update cost of new entry data to reflect current market conditions to determine a revised VRR Curve, and include ELCC adjustment over time to include in the maximum willingness to pay. These items warrant Board of Managers scrutiny before the RBP design is finalized.