

Tariff, Section 9.2(b) Stakeholder Consultation of Upcoming 205 Filing on Reliability Backstop Procurement

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Special MC
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Disclaimer: While materials are current at the time of publishing, applicable requirements may change. PJM Governing Documents control.

Sept. 29

FERC accepted the majority of what PJM filed for the backstop but suspended the execution for five months to allow for additional paper hearing procedures on three discrete topics.

FERC order strongly encouraged PJM to file another section 205 filing that addresses the three remaining issues rather than proceeding with the paper hearing

Oct. 29

PJM submitted a motion for abeyance of the paper hearing on October 12 and notified FERC that it **plans to submit a new 205 filing to FERC on October 29th** to address these elements, and a few additional updates.

Key elements of upcoming 205 filing:

Cost Allocation	LSE Exit Responsibilities	LSE Collateral Requirement
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The Initial Target will be updated to use the most recent information available for the 2028/2029 DY.

Initial RBP Target = [the latest estimate of the PJM Region Reliability Requirement for the 2028/2029 Delivery Year, based on the latest load forecast for the 2028/2029 Delivery Year available at the commencement of the RBP and the most recent 2028/2029 Forecast Pool Requirement] minus [the UCAP-equivalent of the ICAP quantity of Capacity Resources that cleared in the 2028/2029 Base Residual Auction using the latest capacity accreditation factors for the 2028/2029 Delivery Year available at the commencement of the RBP].

Cost allocation will be based on Large Load growth between the 2026/2027 and 2028/2029 Delivery Years.

Electric Distributors (EDs) will be required to provide PJM firm customer level (service agreements) Large Loads forecasted for this time period.

The associated zone areas with Large Load growth will be pro-rata assigned based on that zone-area share (MW) of the total Large Load (MW).

Customer level offsets will still be available to determine the final allocation.

Objective: Find the optimal amount of collateral that strikes a reasonable balance between the cost of posted collateral and the cost of a socialized default payment.

The optimal collateral amount as a percent of total RBP payment obligation so that LSE's total costs are minimized (optimized).

LSE's total costs are derived from two sources:

1 – Cost of Posted Collateral 2 – Cost of Socialized Default Payment by other LSEs

1 As the percent of collateral held **increases**:

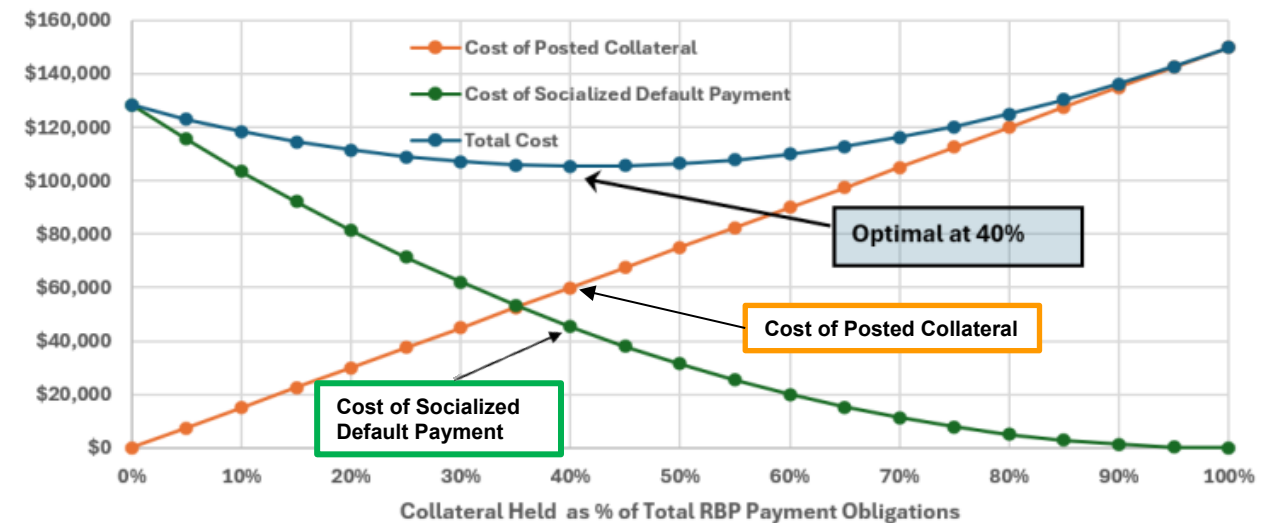
- Cost of Posted Collateral increases
- Cost of Socialized Default Payment decreases

2 As the percent of collateral held **decreases**:

- Cost of Posted Collateral decreases
- Cost of Socialized Default Payment increases

3 The balance is found at the point where the cost of collateral held and the cost of socialize default amount allocated to non-defaulting LSEs is minimized.

← As displayed in the graph:



Clearing Price: based on the weighted-average RBP clearing price, currently assumed at **\$555/MW-Day**

LSE Credit Rating: the weighted average for all LSEs currently serving load in PJM, which is **BBB**

Probability of Default: weighted average of LSEs currently serving the load in PJM, which is BBB and the average default rate per S&P Default, Transition and Recovery: 2025 Annual U.S. Corporate Default And Rating Transition Study, S&P Global Inc,¹ **4.05%**

Loss Given Default: the % of losses PJM will not recoup from defaulting LSEs

Cost of Collateral Rate: **4.93%**, which is the bank facility pricing based upon credit rating, SOFR plus the LSE credit rating spread

¹<https://www.spglobal.com/ratings/en/regulatory/article/default-transition-and-recovery-2025-annual-us-corporate-default-and-rating-transition-study-s101688003>

²<https://www.newyorkfed.org/markets/reference-rates/sofr#:~:text=The%20Secured%20Overnight%20Financing%20Rate,overnight%20collateralized%20by%20Treasury%20securities>

Total credit requirement = Credit Rate x Allocated RBP Obligation MW

Proposed Credit Rate The proposed Credit Rate will be 40% of the discounted total RBP payment obligations.	At 40% LSE’s total costs (cost of posted collateral + cost of a socialized default payment) are minimized.	Major Inputs Clearing price, LSE Credit Rating, Probability of Default, Loss Given Default, Cost of Collateral Rate are the major inputs.
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Example

For example, at a weighted average clearing price of **\$555/MWD** and applying the inputs the new proposed rate would be **\$0.68MM**, which is equivalent to **3.4 years** of total RBP payment obligations.

Timing

EDC notifies PJM **120 days**,
and LSE post 45 days
before the start of each
delivery year.

Forms of Collateral

Cash, Letter of Credit,
Surety Bond

PMA

RBP* will be **excluded**
from PMA calculation.

* RBP includes the associated
MWs with RPM.

Credit Requirement

Credit Rate* x RBP UCAP MW Committed

- Level of RBP UCAP MW for which an LSE is allocated cost responsibility submitted for the buyer by the EDC
- Committed RBP UCAP MW is equal to the generation that is coming online for that delivery year

Return of Collateral Upon Request of LSE

- Collateral exceeds the remaining expected payment exposure
- Transfer of load: after transferee LSE posts collateral to cover the assumed load and any unpaid invoice amounts associated with such transfer have been paid by the transfer or

* Credit Rate - based on an auction clearing price of \$555

Once all committed MWs are online, a review of the credit quality of the portfolio of LSEs with allocated RBP obligations will be conducted.

If a material change in the overall credit quality of the portfolio of LSE is identified,

- the credit rate will be reassessed, and
- recommendations will be shared with stakeholders via the Members Committee.

In the event a Load Serving Entity that is allocated RBP Charges exits from PJM (whether or not such exit is caused by the exit of Transmission Owner), such exiting Load Serving Entity will be responsible for the remainder of the RBP Charges, subject to a rate filing with the Federal Energy Regulatory Commission that details the specific terms and amounts owed.

This would not preclude such Load Serving Entity from seeking redress from the exiting Transmission Owner to the extent the Load Serving Entity's exit is caused by a Transmission Owner's exit from PJM.

Opt out of Reliability Backstop Procurement

- **Remove the opt out for muni/co-ops.**

FERC noted that this opt out appeared to be unduly discriminatory because cooperatives and municipal utilities serve Large Loads that are similarly situated to Large Loads served by other Load Serving Entities.

- **Add a requirement to the Peak Shaving Adjustment opt out that requires a Peak Shaving Adjustment plan to be submitted for a minimum period of five years.**

Aligns with the 5-year minimum term requirement for RBP offset submissions.

Site Control

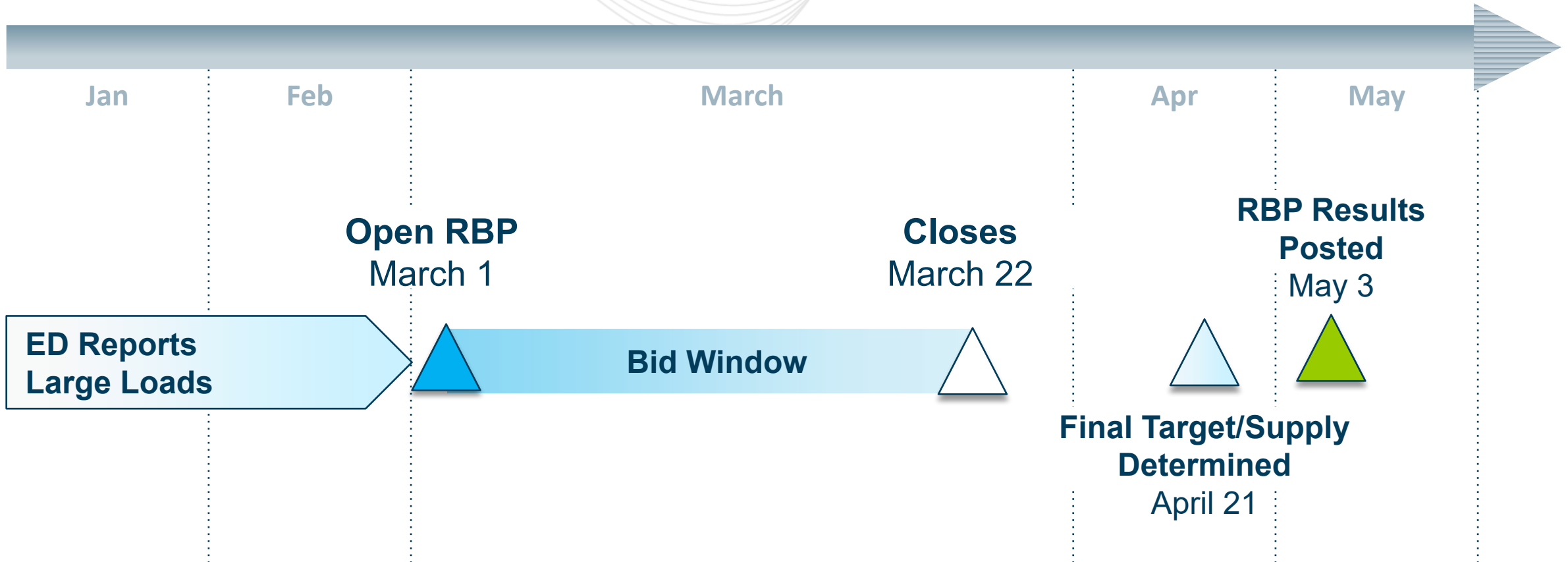
Update the site control requirements to only apply to RBP Sell Offers that are not already under study in PJM.

Cure Period

Remove the requirement that the cure period will not extend past the close of the bid submission window, to allow an opportunity to cure for all RBP Sell Offers.

- **Offset Submissions from Demand Resources** or DER must meet same requirements as DR eligibility as RBP Resource, without submitted contracts.
- **Correct reference in Tariff, Attachment DD, section 18.5(d)** for qualifying distributed energy resources.

2027 Proposed RBP Timeline:



Appendix

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$$\text{Weighted Average Clearing Price} = \frac{\sum_{yr=1}^{15} \sum_{i=1}^N \text{cleared price}_{i, yr} \times UCAP MW_{i, yr}}{\sum_{yr=1}^{15} \sum_{i=1}^N UCAP MW_{i, yr}}$$

Where N is the total number of RBP Sellers		2028/29	2029/30	2030/31	2031/32	...	2042/43
RBP Seller 1	UCAP (MW)	50	100	100	100	...	100
	Cleared Price (\$/MWD)	\$100	\$20	\$555	\$555	...	\$555
RBP Seller 2	UCAP (MW)		200	200	200	...	200
	Cleared Price (\$/MWD)		\$400	\$400	\$400	...	\$400
RBP Seller 3	UCAP (MW)			50	50	...	50
	Cleared Price (\$/MWD)			\$500	\$500	...	\$500
Total Revenue		\$2,173,500					
Total MW-Year		4,900					
Weighted Average		\$443.57					

Weighted Average Clearing Price is calculated by summing the product of cleared price and UCAP MW in each year for each seller, divided by the sum of UCAP MW in each year for each seller.