Credit Observations on Summer 2025 Demand Response Performance

Risk Management Committee

December 2, 2025

Background

- PJM's Demand Response (DR) resources played an important role in maintaining grid reliability during the several extreme heat events in the summer of 2025.
- PJM initiated load management events on six separate occasions* during the summer of 2025, totaling approximately 40 hours of activation.
- Average performance for:
  - EDC – 112%
  - Non-EDC – 61%
- Failure to achieve projected load reduction diminishes megawatt available to mitigate shortage conditions.
- Poor performance by DR participants could lead to deterioration of their credit profile.
- DR participants are subject to Load Management Test Compliance.
  - Net testing shortfall will result in charges three months after the current delivery year ends creating a credit risk for less creditworthy participants.

*Days

2025 Summer DR Participants Performance Credit Risk Profile

Type of DR Provider	S&P Equivalent	Committed MW	Performance
EDC (Median)	BBB+	57	129%
EDC (total) – 6	BBB+	479	213%
Non-EDC (Median)	B-	30	60%
Non-EDC (total) – 15	BB	5,801	70%

- Six EDCs with DR commitments are of higher credit quality, had lower DR commitments and had overall better performance.
- In comparison, the 15 Non-EDCs are of lower credit quality, had higher DR commitments and underperformed.
  - Eleven out of 15 Non-EDCs that underperformed (less than 100%)
    - Credit quality – B-
    - Total Committed megawatts – 5,623

- Majority of the Non-EDCs:
  - Are thinly capitalized and have limited access to liquidity
  - Half of the Non-EDC's megawatts were committed by participants that have earned significant revenue and grown the committed megawatts without growing the balance sheet to reflect the risk associated with the commitments.

Type of DR Provider	Tangible Net Worth $	Revenue (5-year average) $
EDC (Median)	3,127,694,925	3,400,480
EDC (total) – 6	39,052,816,612	34,878,647
Non-EDC (Median)	850,882	2,253,568
Non-EDC (total) – 15	(3,411,455,044)	321,843,339

Estimate 2025/2026 Non-EDC Load Management Test Failure Charge

Load Management results from the summer of 2025 showed an overall DR performance of 61%.

- If this level of performance, 61% were to be final the estimated shortage would be 2,333 MW and the charges would be ~$252 million.
- If the performance were to improve to 70%, the shortage megawatts would be 1,839 MW, and the charges would be ~$198 million.
- At 80%, the shortage would be 1,319 MW, and the charges would be ~$142 million.

Either one of these outcomes points to the significant and growing importance of Non-EDC DR and demonstrates the potential implications (megawatt shortage and charges) of nonperformance.

Key Takeaways

- It appears that there are two types of DR participants (EDCs and Non-EDCs).
- These two classes perform differently operationally and are structured with distinctly different financial models

EDCs:	Non-EDCs:
• Largely control load which offers high reliability (performance)	• Rely largely on their customers for performance
• Are predominately high credit quality due to their regulated status, asset base and stable revenue	• Performance may be based upon individual customer economic decision and performance can be more variable
	• Are typically smaller, less financially stable

- Timing misalignment between DR payments and charges reduces incentive to perform and increases the likelihood of default.
- Noncompliance or failure of a Non-EDC could result in: contract terminations and loss of megawatts for subsequent delivery years.

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Credit Observations on Summer 2025 Demand Response Performance

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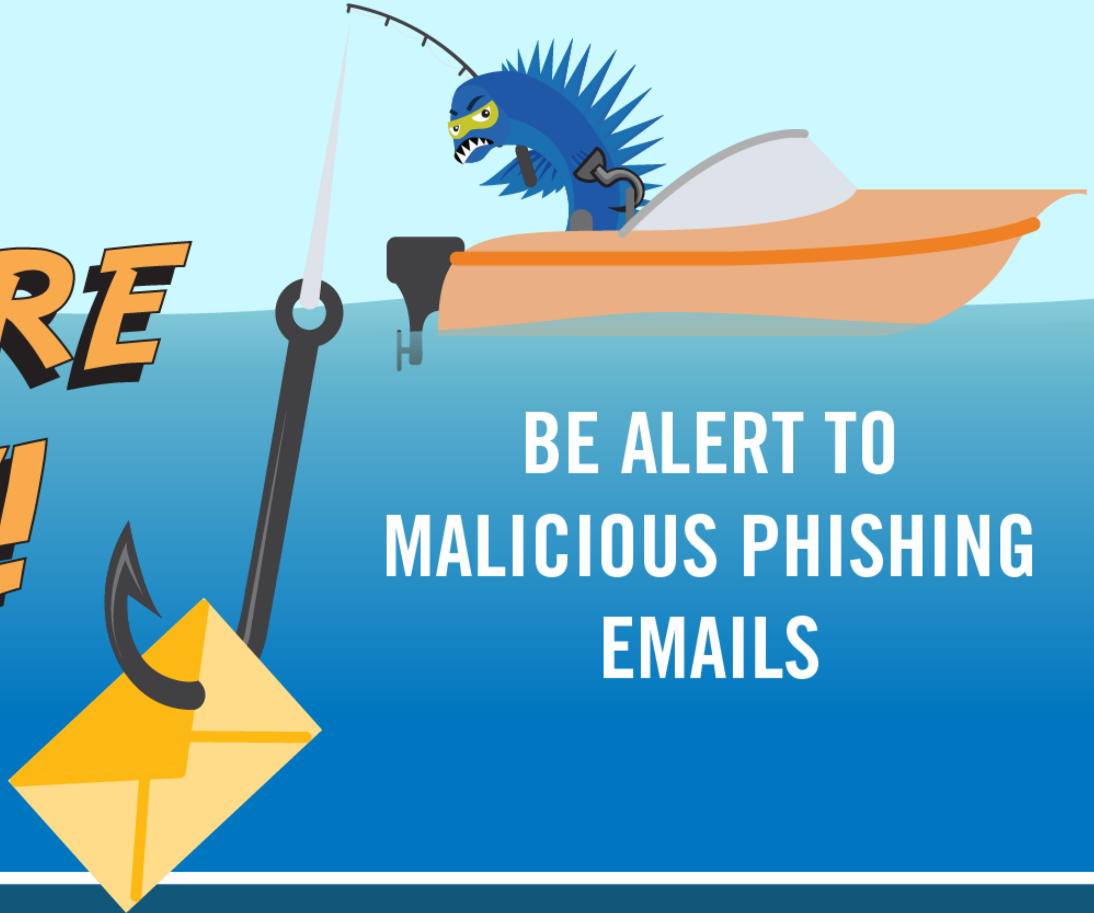

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