Powering Reliability Through Market Design Workshop

East Kentucky Power Cooperative,

Denise Foster Cronin, CCO & SVP

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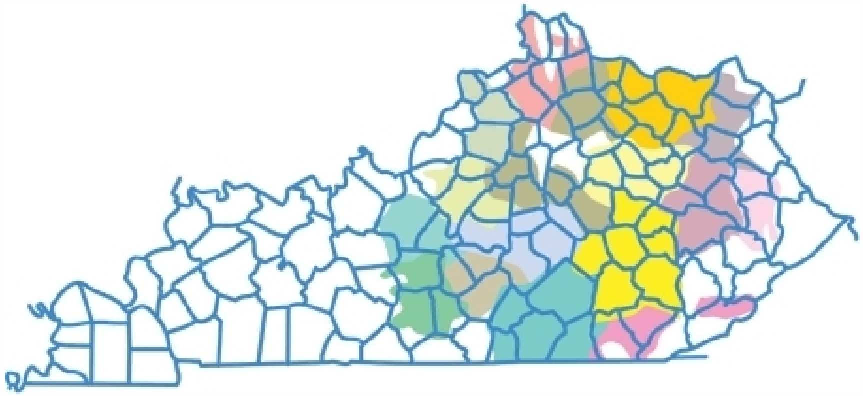
Path A: Stabilized Markets via LSE hedging requirements

Who Is East Kentucky Power Cooperative?



EKPC acts as agent for its **16 owner-member distribution cooperatives**, satisfying their PJM Load-Serving Entity (LSE) obligations under the Reliability Assurance Agreement (RAA).

EKPC owns and bilaterally contracts sufficient capacity resources to meet forecasted load plus reserves — offering all resources into the RPM Capacity Market.

EKPC’s Core Concern

> As the PJM region's supply and demand balance tightens, entities like EKPC who match their portfolio to forecasted load will face additional, unreasonable load shed risk — driven by LSEs that lean on the RPM market to serve growing load needs.

This risk becomes particularly acute as large loads like data centers come online without the resources necessary to serve them.

The Market Reliance Challenge

A Bet on Sufficiency

Fully relying on the wholesale market (i.e., no other physical hedging) assumes there will always be sufficient supplies and (low) prices — a risky assumption as demand surges.

Unequal Burden

The majority of LSE hedging activity is driven by retail regulation and business models of self-supply entities — yet those LSEs cannot avoid reliability and price risks caused by others who don't behave similarly.

Market Intervention

Intervention in the market has stymied merchant investment, making it no longer acceptable to lean on the market alone.

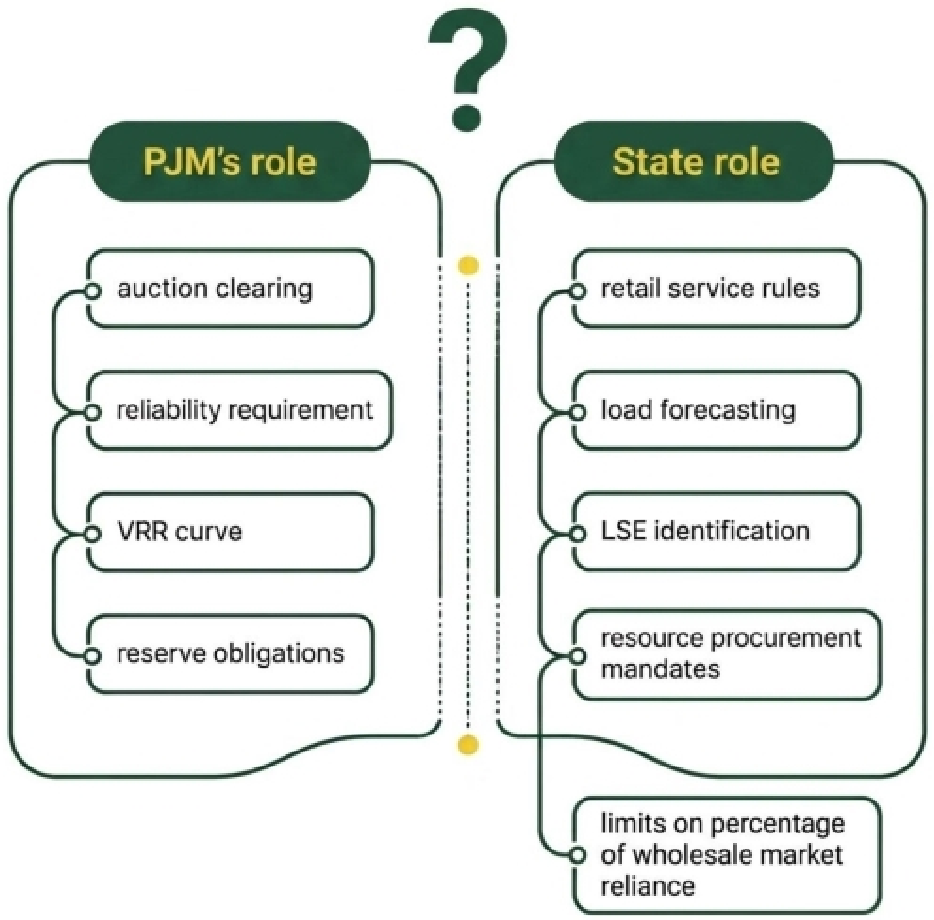
Special Backstop Procurements

Special backstop procurement auctions (likely) place the risk on the pool; the risk is not fully isolated to only those entities that did not hedge.

Unclear State vs. PJM Roles

At the FERC tech conference (7/23), it became clear that — especially for **retail choice states** — the division of resource adequacy responsibility between states and PJM remains undefined.

- The PJM Reliability Assurance Agreement assumes all LSEs bring resources to the table but only requires LSEs to pay the clearing prices.
- In retail choice states, load can switch between suppliers, complicating the view of what LSEs should do in advance of a future Delivery Year.



Evolving Risks for LSEs

Regulatory Complexity

LSE hedging faces increasing complications from frequent rule changes and litigation within the RPM Capacity Market.

ELCC Accreditation Impact

The adoption of the ELCC accreditation methodology introduced significant risk to bilateral contracting and the valuation of capacity resources.

Asset Volatility

Even owned assets are not immune to the risk of ELCC volatility, impacting their long-term capacity value and reliability contributions.

Persistent Charges

Despite modifications to limit deficiency charges, LSEs still face financial penalties when a resource's accreditation changes between the Base Residual Auction (BRA) and the Incremental Auction (IA).

Three Concepts EKPC Advocates

1. Guardrails on Market Leaning

Put limits on LSEs who take on retail service obligations and rely solely/largely on the RPM wholesale market to satisfy them.

2. State Partnership

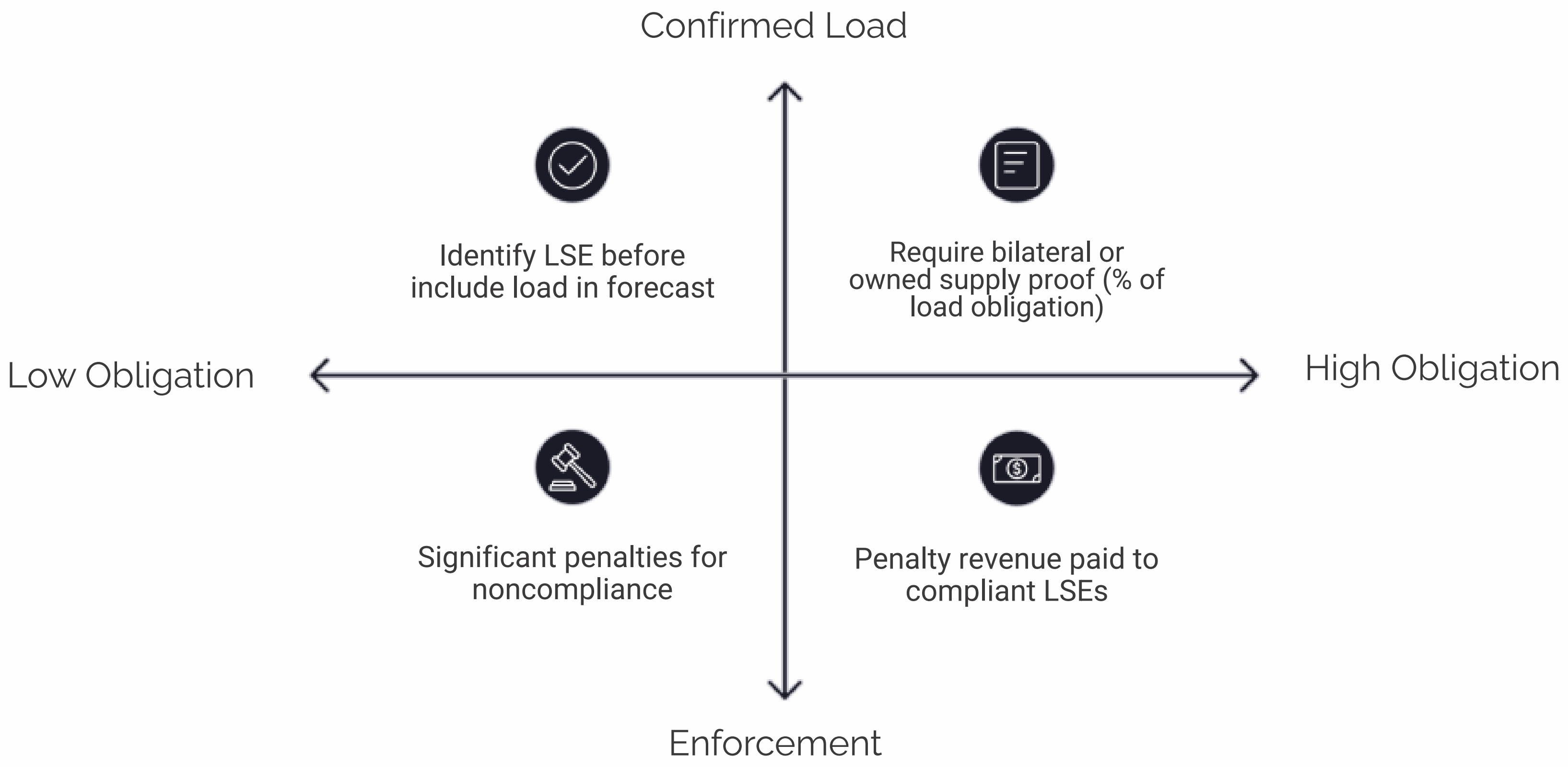
Define a clear role for states in PJM as we evolve the resource adequacy rules; ensure they understand what is needed and do their part to ensure the wholesale markets continue to deliver cost-savings benefits.

3. Bilateral Hedging

Hedging outside the wholesale market places cost and risk between the parties most able to negotiate them, rather than socializing it across the pool.

A fundamental change is needed: restore LSE obligations and return RPM to its original **residual** design.

Re-Establishing the LSE Obligation: Two Conceptual Parts



Although there are several details to consider, EKPC urges PJM, the states, PJM members and stakeholders to discuss how this framework could be advanced.   Together, these requirements confirm load is real, reduce duplication in the forecast, and discipline entry to prevent unreasonable price pressure and load shed risk on other LSEs.