

Capacity and Energy Cost Allocation to Facilitate the Construction of New Generation and to Implement the Ratepayer Protection Pledge

**Powering Reliability Through Market Design
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The Need For Proactive Generation Planning To Ensure Reliability

An adequate supply of generating capacity and associated energy is essential to reliably serve the 13 PJM states and District of Columbia. Reliability is too important to be left to the “market”. The PJM RPM capacity process is a highly regulated administrative construct, not a traditional market. Simple market forces that work for most commodities do not work for electricity because:

- Energy cannot be economically stored at scale;
- There is no substitute for electricity;
- Energy supply and demand must be maintained in instantaneous balance within a certain frequency;
- The demand for electricity is highly inelastic;
- The barriers to entry for new generation supply are very high;
- A reliable electric supply is necessary to maintain public health, economic competitiveness, and national security.

Summary

OEG's¹ proposal has two goals: 1) to provide long-term price certainty in order to facilitate the financing and construction of the new generation that PJM determines is needed to reliably serve New Data Centers; and 2) to reasonably price the capacity and energy costs paid by Existing Load to implement the Ratepayer Protection Pledge.

To achieve these goals, this proposal divides PJM into two wholesale rate classes: 1) New Data Center Load; and 2) Existing Load. These two classes would be used for purposes of allocating both capacity and energy costs.

With respect to capacity, PJM would first conduct competitively bid long-term capacity auctions with no price caps for the amount and type of New Generation it determines is needed for reliability.

Legacy Generation and a proportional share of New Generation would then be allocated to Existing Load. The remaining amount of New Generation would be allocated to New Data Center Load.

Least-cost generation resource planning would allow the system to expeditiously get back into supply/demand balance, thus eliminating the need for Interim Resource Adequacy Service (IRAS). PJM-supplied firm service from New Generation will allow New Data Centers to grow their businesses by paying their own way through an appropriate cost allocation.

With respect to energy, establishing two rate classes would shield Existing Load from Data Center-caused energy price increases. 24x7/365 Data Center usage is driving up energy costs by pushing the marginal clearing unit higher up the PJM dispatch stack. For accounting purposes only, the lowest energy costs needed to serve Existing Load should be allocated to that rate class (stacking). New Data Center Load would then be allocated the remaining (higher) energy costs. There would be no operational change to how the system is dispatched. This energy cost allocation would be revenue-neutral to the generators. It aims to be a proxy for the energy costs that Existing Load would pay, but for the New Data Centers.

¹ The members of OEG are: Air Products and Chemicals, Inc., Amsted Rail Company, Inc., ArcelorMittal Tubular Products Shelby, Cargill, Incorporated, Charter Steel, Cleveland-Cliffs Inc., Ford Motor Company, GE Aerospace, General Motors LLC, Howmet Aerospace, Inc., Intel Corporation, JSW Steel USA Ohio, Inc., Linde Inc., Martin Marietta Magnesia Specialties, LLC, Materion Corporation, Messer, LLC, Metallus, Inc., Molson Coors Beverage Company, Nature Fresh Farms USA Inc., North Star BlueScope Steel LLC, One MWHub, POET – Bioprocessing, PTC Alliance Holding Corp., Stellantis, The Worthington Steel Company and Three Rivers Energy LLC.

Two Wholesale Rate Classes

PJM would be divided into two wholesale rate classes: 1) New Data Center Load 50 MW or larger not in-service by June 1, 2027; and 2) Existing Load. Existing Load is all load except New Data Center Load.

Instead of treating New Data Centers as foreign entities that cannot be served through the PJM capacity market, this cost allocation proposal better accommodates Data Center development consistent with national priorities, while at the same time protecting Existing Load consistent with the Ratepayer Protection Pledge. States across PJM are placing Data Centers into a separate rate class for these same reasons.

New Generation

New Generation would be planned by PJM on a total system (Existing Load and New Data Center Load) least-cost basis. The amount, type, and timing of New Generation that PJM determines is needed for reliability would be procured via long-term (e.g., 15-year) agreements with merchant generators through competitive solicitations. Unlike the Reliability Backstop Procurement (RBP) this would not be a one-time undertaking. Long-term least-cost generation resource planning would be ongoing (for example, every two years). An ongoing process would allow PJM to adapt to changing circumstances. The PJM stakeholder process would inform whether new natural gas combined-cycle generation, solar paired with batteries, or some other resource is appropriate.

This generation resource planning would allow the system to expeditiously get back into supply/demand balance. Once in balance, the need for IRAS would be eliminated. This would support Data Center development through the provision of firm service.

Actively engaging in least-cost generation resource planning is a proven technique by many states. Telling the market what generation the system needs and then procuring it through competitive solicitations will achieve more efficient results for consumers than indirectly managing the resource mix through Effective Load Carrying Capability (ELCC) changes.

To ensure a competitive outcome, there should be no price caps. Long-term agreements will facilitate the financing of new generation. The de-risked capital costs and capital structures will be reflected in the competitive bids, directly benefiting consumers. A central purpose of the PJM White Paper is to implement reforms that facilitate long-term off-take agreements or equivalent revenue certainty necessary to finance and build new generation in an era of capital cost increases, equipment shortages, longer construction schedules, skilled labor shortages, and interest rate increases. Long-term least-cost resource planning by PJM through competitive solicitations will get new generation built.

Legacy Generation

Legacy Generators should continue to get paid for capacity on the status quo basis through one year Base Residual Auctions (BRA) with price caps and floors. A single clearing capacity price for both New Generation and Legacy Generation is economically inefficient, will unnecessarily raise rates, and will provide a windfall to existing generators. Based on the results of the most recent BRA, each \$100/MW-day increase costs consumers about \$5 billion annually.

Capped capacity prices of \$325/MW-day plus historically high energy prices will maintain the economic viability of Legacy Generation. For the first eight months of 2026, energy prices across PJM averaged \$69.26/MWh. High energy pricing benefits existing generators. Exiting the PJM market is difficult because of transmission costs and limited alternatives. For example, in MISO's 2026-27 Planning Year, capacity prices across all 10 MISO zones averaged \$116/MW-day to \$126/MW-day (down from \$212 to \$217 the prior year). Also, Reliability Must Run (RMR) agreements could be used to keep dispatchable Legacy Generation economic. Until the supply/demand imbalance is corrected, all dispatchable generation should be considered as reliability units.

This bifurcated capacity market proposal was presented in greater detail by OEG at the July 15, 2026 PJM stakeholder meeting.

Allocation of Generation Costs

All Legacy Generation costs should be allocated solely to Existing Load. The portion of New Generation needed to serve Existing Load should be allocated to that rate class on a proportional basis. For example, if 10% of New Generation is built to serve Existing Load, then Existing Load should be allocated 10% of New Generation costs. That New Generation cost would be blended with the Legacy Generation cost into a single \$/MW-day price. As Existing Load grows and/or Legacy Generation retires, the proportion of New Generation allocated to that rate class will increase. A single blended wholesale capacity price would not require any changes to state-administered retail markets.

In this example, the remaining 90% of New Generation costs would be allocated to New Data Center Load. This allocation follows cost causation. Over time, as PJM conducts ongoing long-term competitive solicitations for New Generation, there will be a natural blending and laddering of capacity prices to New Data Center Load.

Using the Registry for New Large Load proposed by PJM, PJM should “tag” the New Data Center Load class members. This will enable suppliers to charge New Generation costs to New Data Center customers at the retail level. If not “tagged” by PJM as New Data Center Load, then retail customers should be charged the generation cost applicable to Existing Load.

Allocation of Energy Costs

The same unprecedented growth of Data Centers that makes holistic capacity market reform necessary also makes changes to energy cost allocation appropriate. Both are needed to implement the Ratepayer Protection Pledge.

PJM should continue to dispatch the entire system (Legacy Generation and New Generation) on a least-energy cost basis (renewables first, then nuclear, then Combined Cycle, etc.) However, the allocation of energy costs should change to follow cost causation and to address affordability.

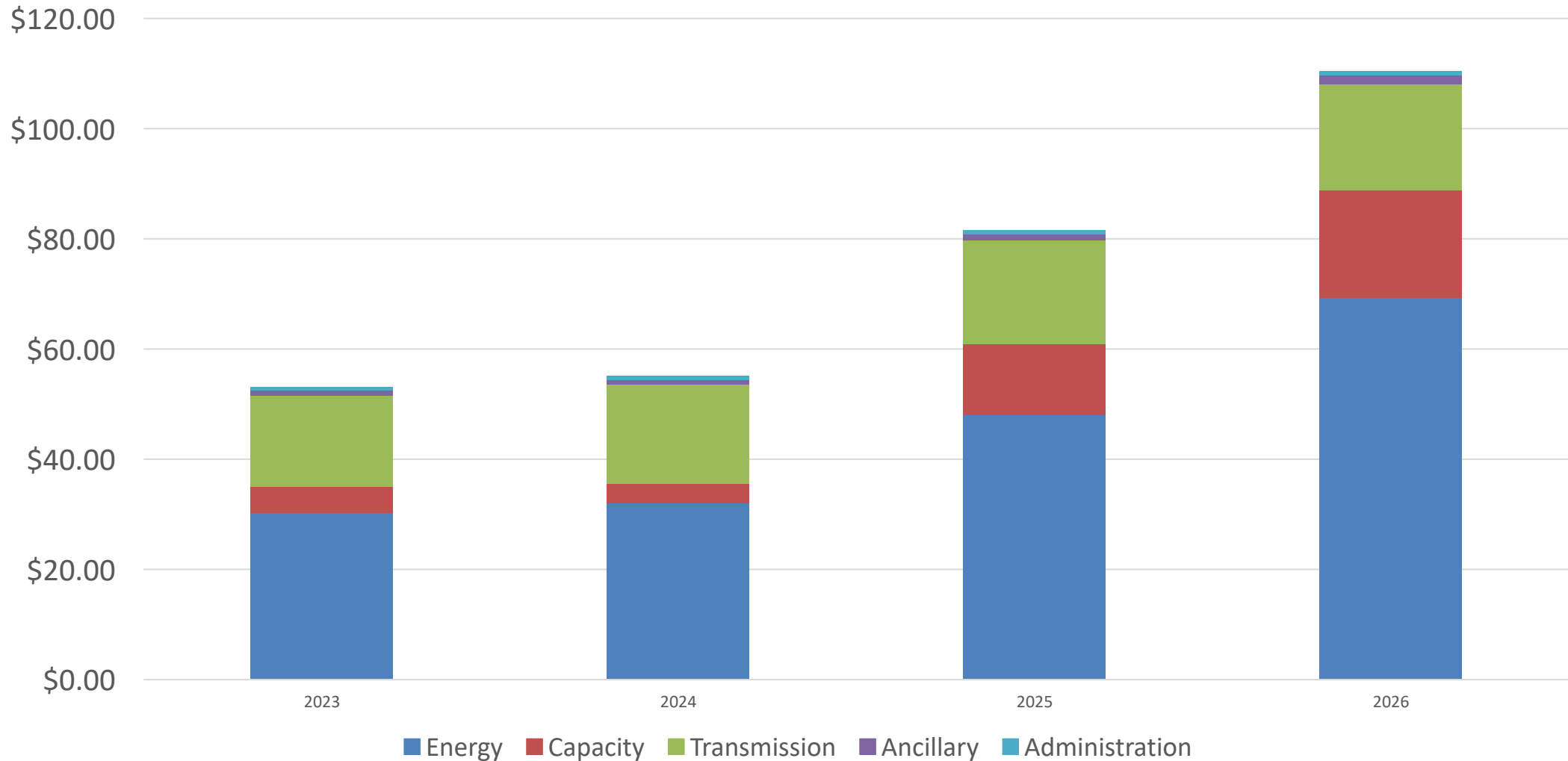
Energy prices in PJM have significantly increased, largely due to 24x7/365 Data Center energy usage pushing the marginal clearing unit higher up the PJM dispatch stack. In 2023, energy costs across PJM averaged \$30.23/MWh. In 2024, it was \$31.98/MWh. In 2025, it was \$48.32. During the first eight months of 2026, energy costs across PJM averaged \$69.26/MWh (attached). Higher fuel costs were not the cause. High load factor Data Center energy consumption was.

Existing Load should be assigned the lowest-cost energy needed to meet its load. This is a proxy for what energy costs would be for Existing Load “but for” Data Center load growth. For example, if in an hour Existing Load was 90 GW, then the lowest-cost 90 GW of generation being dispatched by PJM in that hour should be assigned to that rate class. The incremental energy costs above Existing Load should be assigned to New Data Center Load.

This approach is similar to how regulated states assign a utility’s least-cost energy first to native load, with incremental energy costs assigned to off-system sales. After-the-fact billing is common. As with the wholesale capacity allocation proposal recommended above, PJM “tagging” of New Data Center Load would facilitate implementation of this wholesale energy allocation at the retail level.

This energy cost allocation would be revenue-neutral to the generators. Generation dispatch would not change. Total system energy costs would be the same; only the allocation would change.

Average PJM Pricing 2023 - 2026 YTD* (\$/MWh)



Source: Monitoring Analytics, Components of the Total Cost of PJM Wholesale Power,
https://www.monitoringanalytics.com/data/pjm_cost.shtml.

*2026 totals include pricing data from January-August 2026.

MAINTAIN TWO RATE CLASSES TO IMPLEMENT RATEPAYER PROTECTION PLEDGE

NEW DATA CENTER LOAD

Over 50 MW

Not in-service by June 1, 2027

EXISTING LOAD

All other load, including Data Centers
in-service before June 1, 2027

GENERATION RESOURCE PLANNING

- PJM plans the total system (New Data Center Load and Existing Load) on a least-cost basis.
- The type, amount, and timing of New Generation that PJM determines is needed for reliability is procured through ongoing (not one-time), long-term (15-year) competitive solicitations with no price caps. Long-term pricing will facilitate the financing and construction of New Generation to provide firm service to New Data Centers. Will expeditiously return to supply/demand balance and eliminate the need for IRAS. Legacy Generation continues to be paid on the status quo basis of one-year BRA with caps and floors.

ALLOCATION OF CAPACITY COSTS

NEW DATA CENTER LOAD

Allocated only New Generation costs. Follows cost causation.

EXISTING LOAD

Allocated all Legacy Generation costs and proportional share of New Generation costs. Protects Existing Load from capacity costs caused by Data Centers.

LEAST-COST ECONOMIC DISPATCH

- PJM continues to dispatch the total system on a least-cost economic dispatch basis. No operational change. Revenue neutral to generators. For accounting purposes only, lowest energy costs are allocated to Existing Load as a proxy for the energy costs they would have paid *“but for”* the New Data Centers.
- 24x7/365 Data Center energy usage is pushing the marginal clearing unit higher up the PJM dispatch curve. Energy costs: 2023 \$30.23/MWh; 2024 \$31.98/MWh; 2025 48.32/MWh; first eight months 2026 \$69.26/MWh.

ALLOCATION OF ENERGY COSTS

NEW DATA CENTER LOAD

Incremental energy costs above Existing Load allocated to New Data Center Load. Follows cost causation.

EXISTING LOAD

Allocated lowest energy costs needed to meet Existing Load each hour (stacking). Protects Existing Load from higher energy costs caused by New Data Center Load.