Decentralized and Centralized LSE Hedging Options

PJM Powering Reliability Through Market Design (PRTMD) Workshops

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Defining the problem shapes the solution

Apparent problem definition	Alternative problem definition
New large loads overwhelming available capacity	Some LSEs are signing up new loads without enough capacity to meet their resource adequacy requirements
New loads should be required to meet their own resource adequacy needs	LSEs and other wholesale loads are required to meet resource adequacy needs to serve additional loads and respond to resource retirements
Centralized capacity market cannot provide the certainty of entry that the regulated utility model provides	One year capacity market should ideally be a residual forum for LSEs to refine positions; but the mechanisms for LSE hedging may depend on state regulatory decisions

A durable market design solution should be guided by five principles

1) Promote efficient entry and exit;
2) Allow LSEs to manage their positions within existing state retail procurement constructs;
3) Reduce the volatility of capacity costs without artificially suppressing them;
4) Assign costs to the LSEs that cause them;
5) Durably address all potential resource adequacy challenges.

Decentralized and Centralized LSE Hedging Options

Approach: encourage physical hedging by LSEs

- Decentralized: evolution of Vistra's original LSE Obligation proposal
  - Require short LSEs to designate load for curtailment when PJM is short
  - Evolution is to require designation of load to curtail rather than penalty for LSEs that are generation deficient in an emergency
  - Critique: may be challenging for entities that win state default service auctions and small competitive suppliers

- Centralized: Multi-period Capacity Contract (MPCC)
  - New multi-period, laddered product cleared in conjunction with the annual BRA product using a laddered approach
  - A physically-backed contract settled on the difference between the system annual capacity price and MPCC product price

LSE Obligation: Planning Assessment and Operations

- Several months before a delivery year (e.g., after the 3rd IA), LSEs would be required to show the capacity they own or control via contract.
  - PJM would determine the gap between an LSE's owned and controlled capacity and *pro rata* share of IRM.
    - Short LSEs allocated a pro rata share of the market-wide resource gap
    - For any gaps, LSE would designate load to be curtailed at the same time as emergency demand response.
- In restructured states with default service, compliance timelines could take default service auctions into account.
  - Obligation would attach to the entity that wins the default service auction which likely requires the obligation to be established closer to the delivery year.
- If there is an operational event that includes dispatch of emergency DR, LSE-designated load would be subject to curtailment at the same time.
- Path A option with elements of Path B

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Example of Reliability Gap Allocation

LSE	Capacity Position	Shortage as a % of All Shortages	DR Requirement
LSE 1	(500)	20%	200
LSE 2	1500		
LSE 3	200		
LSE 4	(2000)	80%	600
LSE 5	0		
Total	**(800)**		**800**

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LSE Obligation may be difficult to integrate with retail markets

- Unlike large commercial and industrial customers, residential and small commercial load are served through short-term contracts.
  - Default service suppliers or competitive retailers have obligations to load that extend months and may not engage in long-term arrangements for new supply.

- LSEs have incentive to pass through costs to customers rather than engage in long-term contracting
  - Retail prices are generally set after the capacity market clears.

- **Solution: add a vehicle that enables LSEs to engage in long-term contracting for new supply**
  - Combine PJM's Path A Option 1 with Option 2 – centralized long-term procurement where vast majority of load covered by long-term forward commitments.

See Appendix from Vistra's *Centrally Procured Multi-Period Capacity and Consequences for Short LSEs*. Available at https://www.pjm.com/-/media/DotCom/committees-groups/workshops/prtmdw/postings/2026/20260909-vistra-centrally-procured-multi-period-capacity-and-consequences-for-short-lses.pdf.

Components of the MPCC Design

- **Existing Centrally-Procured *Annual* Capacity Product**
  - Unchanged from the product procured through the BRA under the current design.
  - New or existing resources must clear the annual capacity product to be eligible to sell the MPCC product in the first year.

- **New Centrally-Procured *Multi-Period* Capacity Contract (MPCC)**
  - LSEs engage in long-term contracting through a centralized auction for multi-period (e.g., 5 years) for pro-rata portion of load (e.g., 20%).
  - PJM procures a high percentage (e.g., 98%) of three year forward load forecast for portion of load subject to the MPCC.
  - Open to new and existing resources.
  - Resources are not required to participate in the MPCC, but have a must-offer in the BRA.
  - Could require LSEs with new large loads to first participate in the MPCC for the amount of new large load.

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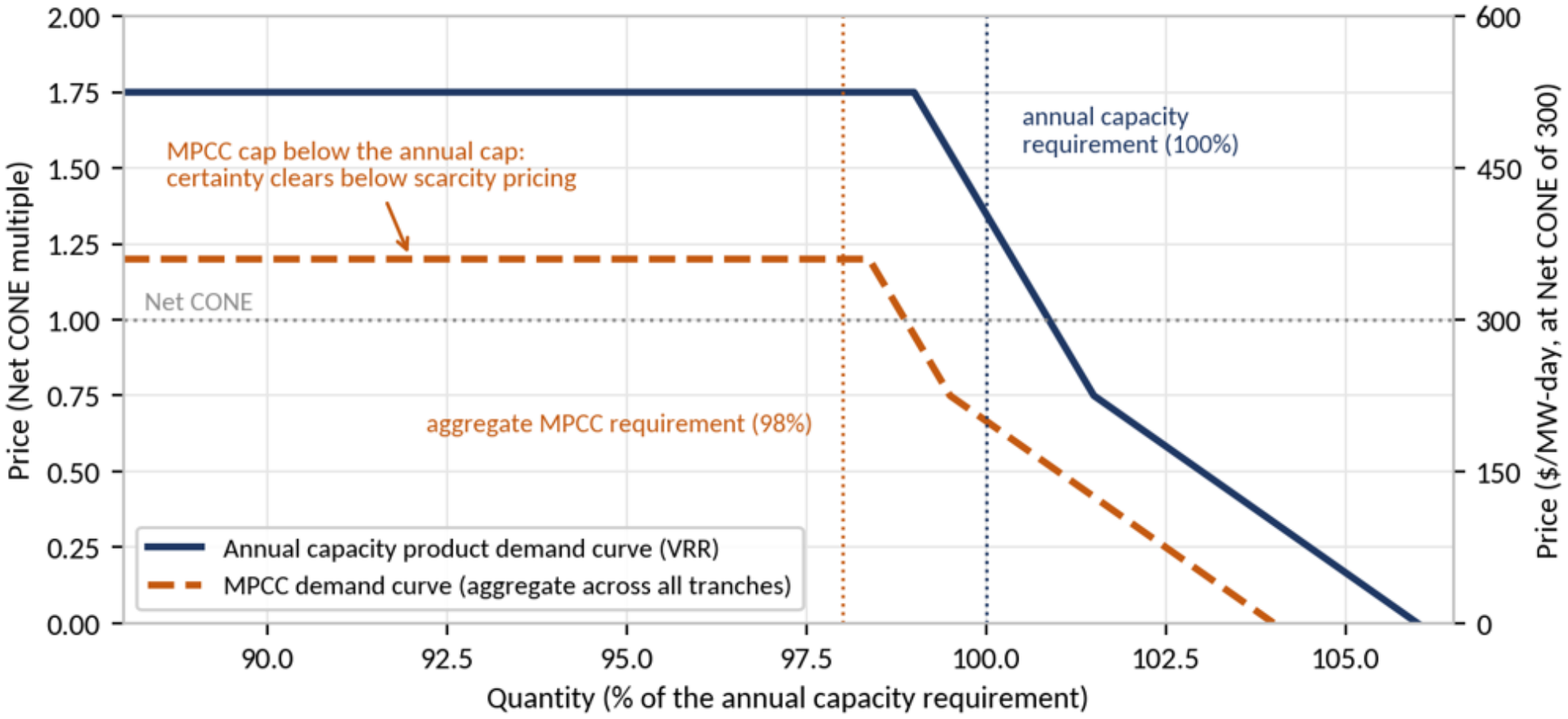
MPCC Illustrated



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Benefits of MPCC

- Promotes efficient entry and exit
- Builds on existing market
  - Limited change to existing retail structures
- Price Volatility
  - Because the MPCC is procured as a ladder, only a fraction of the requirement reprices in any period, and load pays a blend of prices rather than just the annual capacity price.
- Assign costs to the LSEs that cause them
  - MPCC costs and credits are allocated on existing billing determinants,
  - New large load could be cleared first in MPCC so the cost of large load is specifically charged to that load through the MPCC product.