

Joint Stakeholder Proposal for a Reliability Backstop Auction

Constellation, Vistra, AlphaGen, and Earthrise
Reliability Backstop Procurement Workshop

March 4, 2026

Joint Stakeholder Proposal

- ▶ A one-time Reliability Backstop Auction (RBA) to be held in September 2026.
- ▶ **Quantity Procured:** The difference between 100% of the reliability requirement and the amount of capacity cleared in the 2028/29 BRA.
- ▶ **Price:** A single clearing price for both the 2028/29 BRA and the RBA; likely to be the cap set by PJM and FERC.
 - ▶ The Joint Stakeholders believe a cap of \$420 (~100% of the Reliability Requirement) for both the BRA and the RBA is an appropriate balance between incentivizing supply and protecting ratepayers; however, the Joint Stakeholder Proposal can be applied to different cap levels.
- ▶ **Clearing:** Resources will be cleared by COD and term of commitment up to 15 years.
 - ▶ Resources available in the 2028/29 Delivery Year will clear first, from shortest to longest term.
 - ▶ Resources with availability in progressively later delivery years will then clear, clearing in order of shortest to longest term, until the Reliability Requirement is met.
- ▶ **Eligible Resources:** New (including uprates) and reactivated generation, existing generation with an offer cap above the top of the VRR curve, traditional demand response committing for more than a year.
- ▶ **Reliability and Market Protection:** RBA resources will be entered into future BRAs using a proxy price.
- ▶ **Cost Allocation:** The Joint Stakeholder Proposal can be applied to virtually any cost allocation methodology; exemptions for load that has contracted for its capacity needs.

Limiting Downside Risk

PJM should refine its load forecasting methodologies to **ensure that the capacity is procured only for real and verifiable demand**. Specifically, PJM should improve large load modeling assumptions and **only include large new loads in the forecast that can demonstrate a meaningful and verifiable commitment**

White House/PJM Governors' Statement of Principles

- ▶ Significant concern has been raised about the credit and cost impacts if resources are procured through the RBA and the load does not materialize.
- ▶ Because market participants, including LSEs, are ultimately responsible for ensuring the creditworthiness of PJM, costs associated with either a default or over-procurement may ultimately fall on existing ratepayers.
- ▶ Our protection for ratepayers, although there is still potential for over-procurement, is to **procure load that is already recognized by RPM** - load that has been incorporated in the load forecast and for which the market already attempted to procure capacity in the BRA.
- ▶ The Joint Stakeholder Proposal appropriately sets the RBA procurement to the difference between the 100% of the reliability requirement and capacity that was cleared in the 2028/29 BRA.
- ▶ This limits the potential for over-procurement and minimizes the risk of needless costs being imposed on existing ratepayers.

Cost Allocation

- ▶ Cost allocation is both an important and complex issue.
 - ▶ Cost allocation impacts competitive retail and vertically integrated states differently.
 - ▶ The capacity market has always been designed to allow some areas to be net exporters and others to be net importers.
- ▶ The Joint Stakeholder Proposal addresses how supply can best be procured. It is designed to work with virtually any cost allocation methodology stakeholders and/or the FERC decide on.
- ▶ The Joint Stakeholders are open to cost allocation methodologies that align with the Statement of Principle.
 - ▶ The Joint Stakeholders seek PJM and state guidance on the best approach to address the mechanical/jurisdictional challenges associated with cost allocation.
- ▶ Exemptions should be included for load that contracts with certain new or existing supply to meet their capacity obligation (as described below).
 - ▶ Bilateral contracts allow help PJM balance the system and reduce uncertainty by matching load and generation.
 - ▶ Bilateral contracts with defined qualifying incremental supply supports those resources' operation.

Preserve Reliability and Market Fundamentals

- ▶ Resources procured in the RBA may continue to operate under a price certainty until ~2045, depending on the requested term and when they enter service.
 - ▶ For comparison, that's longer than RPM has existed.
 - ▶ Market dynamics will almost certainly change due to changes in PJM's fleet, the load, state and federal regulations, and market rules.
- ▶ Protection of market fundamentals is thus critical to ensure that existing resources can continue to rely upon market prices to ensure reliability can be maintained.
- ▶ A significant divergence between the RPM clearing price and the RBA price could undermine reliability and market fundamentals.
- ▶ The collapse in market fundamentals would likely result in the premature retirement of existing resources (or their exit from the PJM market) and could lead to a second reliability shortfall similar to what we are currently experiencing.
 - ▶ The result be would that ratepayers would face the prospect of costly procurements of new resources with guaranteed revenue.
- ▶ Including a price mitigator will help address this risk. The mitigator could take the shape of:
 - ▶ An auction floor similar to what PJM has proposed for the next two BRAs.
 - ▶ A proxy price based on the cleared RBA offer, ACR, or another value.

Joint Stakeholder Proposal Achieves PJM and White House/Governors' Goals

PJM/SOP Goal	Joint Stakeholder Proposal
Grid Reliability	<ul style="list-style-type: none"> •Incentivize resources that can come online soon by clearing based on COD/term •Guard against over-procurement by only procuring known shortfall •Use of existing CP penalties incentivize resources meeting COD
Revenue Certainty	<ul style="list-style-type: none"> •Up to 15 years revenue certainty ensures adequate revenue certainty for resources that need it, while providing a bidding advantage to resources who need less time
Accelerated Interconnection	<ul style="list-style-type: none"> •Support PJM efforts to accelerate TC#2, implement a second round of RRI and/or reform EIT to better align with RBA; consider other interconnection reforms
Prevent premature existing generation retirements	<ul style="list-style-type: none"> •Single clearing price for BRA and RBA ensures new and existing resources are valued •Price floor or proxy price guards against premature retirements by existing resources
Transition to Market Reforms	<ul style="list-style-type: none"> •Single auction in September
Collar Extension	<ul style="list-style-type: none"> •Temporary extension of the BRA price cap at 100% of Reliability Requirement and inclusion of proxy price or floor balances the interests of incenting new supply and protecting customers
New Resources	<ul style="list-style-type: none"> •Includes greenfield projects, uprates, reactivated generation, uncleared MWs and multi-year DR
Ease of Implementation	<ul style="list-style-type: none"> •Relies closely on existing OATT and capacity market structure allowing September implementation

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Primary Components

- ▶ Create a September Reliability Backstop Auction (RBA) to provide revenue certainty for new generation in response to policymakers' desire to act promptly to address reliability, with guardrails that address:
 - ▶ Potential for over-build in the event load does not grow as expected.
 - ▶ Potential for speculative resources to participate and fail to meet COD.
- ▶ Continue a price cap in BRAs for a transition period that has been re-set at 100% of the Reliability Requirement or approximately \$420/MW-day and will progressively transition to the top of the VRR curve by the 2031/32 BRA, an approach that balances the interests of incenting new supply and protecting customers while PJM conducts a broader review of the ability of the existing market design to attract new investment.
- ▶ Design the market to encourage and support bilateral arrangements.
- ▶ Incorporate mechanisms to ensure long-term market integrity and prevent the premature retirement of existing resources.
- ▶ Support interconnection reforms that increase likelihood that new generation ⁸ will enter sooner rather than later.

Reliability Backstop

- ▶ Trigger: RPM clears below 98% of the reliability requirement.
- ▶ Quantity: Limit the quantity of capacity procured to the quantity associated with the point on the demand curve where the price cap takes effect.
- ▶ Eligible resources: New (including uprates) and reactivated generation, existing generation with an offer cap above the top of the VRR curve, traditional demand response committing for more than a year.
 - ▶ Eligible resources seeking to participate in the RBA for 2028/29 delivery year must meet same requirements as those resources participating in the BRA for 2028/29 delivery year.
 - ▶ Eligible resources for future years (after 2028/29 delivery year) must meet qualification standards [tbd] to verify that they are reasonably likely to perform in the delivery years for which they offer and clear.

Reliability Backstop

- ▶ Term and clearing: Bidders must offer at the clearing price of the June BRA and may offer a minimum commitment term that extends up to 15 years from the 2028/29 BRA but shorter-term offers and offers with terms that begin sooner will clear first. PJM will clear offers as follows:
 - ▶ PJM will clear offers of increasing term from resources that offer availability in the 2028/29 delivery year until the quantity procured (in addition to the resources committed in the BRA) reaches the shortfall in the June BRA at 100% of the Reliability Requirement.
 - ▶ If a shortfall remains, then PJM will clear offers of increasing term from resources that offer availability for the 2029/30 delivery year until the quantity procured reaches the quantity of capacity associated with the point on the demand curve where the \$420/MW-day price cap takes effect.
 - ▶ If a shortfall remains, PJM will continue to accept offers of increasing term for availability starting in each subsequent delivery year until the quantity procured reaches the quantity of capacity associated with the point on the demand curve where the \$420/MW-day price cap takes effect or it exhausts offers.
- ▶ If the market clearing price in subsequent BRAs is different than the price at which the multi-year resource cleared the reliability backstop, the resource will receive the RBA price for the term committed plus an inflation adder (e.g., Handy-Whitman Index).

Preventing Premature Retirements

- ▶ Address cost considerations while PJM conducts a broader market construct review by extending a BRA price cap and a price floor or proxy price to protect long-term market integrity.
 - ▶ Add a time-limited price cap that starts at approximately \$420/MW-day (the price on the demand curve where the quantity is 100% of the Reliability Requirement) that could adjust and phase out over four years. By phasing out the price cap over four years, the price cap for year four would be the top of the VRR demand curve, as established by the recent FERC order approving the updated demand curve.
- ▶ Preventing Premature Retirements:
 - ▶ Single auction clearing price for both BRA and RBA.
 - ▶ Price Floor or Proxy Price
 - ▶ Add a price floor based on either percentage of Net CONE or symmetric quantity (e.g., 101.5% of Reliability Requirement) on the demand curve or a proxy price equal to the cleared offer.
 - ▶ To the extent a multi-year resource does not clear future BRAs, the resource still maintains a capacity obligation based on its commitment from the reliability backstop.
 - ▶ If load grows as expected, neither the floor nor the proxy price will affect market outcomes.

Interconnection Reforms

- ▶ Consider feasibility of accelerating Transition Cycle #2 (including RRI resources), interconnection studies to provide network upgrade cost certainty in advance of the September auction.
- ▶ Implement a second round of RRI and/or reform PJM's EIT proposal so that it better aligns with the RBA (i.e., would be open to resources that clear in the reliability backstop auction, as needed).
- ▶ Evaluate other interconnection reforms (including Eolian BIGPAL proposal) with the goal to facilitate faster interconnections without fundamentally changing load and generator capacity obligations.

Bilateral Contracting and Qualifying Incremental Supply

- ▶ To encourage bilateral contracting, adopt a definition of "Qualifying Incremental Supply" that will receive a deduction from wholesale cost allocation associated with any Reliability Backstop Alternative discussed above. "Qualifying Incremental Supply" shall include the following categories of resources that are "at risk", i.e., those that require a Power Purchase Agreement ("PPA") or similar contractual commitment to:
 - ▶ enable a new generating resource
 - ▶ enable fuel conversion of a resource that would otherwise retire
 - ▶ enable an investment in an uprate or expansion of an existing generating resource equal to or greater than \$300 per kilowatt of the facility's post-uprate/expansion output
 - ▶ enable a generator that did not clear a prior capacity auction
 - ▶ enable a license extension for a generator with a current operating license expiring, or with an application for renewal due, during the PPA period and where there has been a demonstration that the unit has been financially challenged in the past*
 - ▶ enable continued operation of a resource that would otherwise retire early/decommission due to financial constraints/environmental constraints
 - ▶ commit to provide load flexibility consistent with the new or existing DR options

*A generating unit would be deemed to have demonstrated financial challenge if has previously received a State Subsidy (as that term is currently defined in the PJM OATT, but with the sole modification that all default procurement auctions that are conducted in a non-discriminatory manner and competitive bidding process would not be a State Subsidy) or had, prior to 2026, submitted a deactivation request.

The Joint Stakeholders

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