Credit & Securitization Overview

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1. PJM Current State

The Reliability Back-Stop Auction introduces 15-year contractual durations, which current PJM credit rules were not designed to mitigate.

PJM current credit policy is governed by Attachment Q of the OATT.

It is primarily built for short-term settlement cycle and one-year capacity obligations.

Creditworthiness Criteria:

Based on audited financial statements analysis, credit ratings and a minimum tangible net worth.

Unreasonable Credit Risk

Based on the likelihood that a market participant will default on a financial obligation arising from its participation in any of the PJM Markets.

Financial Security

Market Participants (LSE) provide collateral based upon their Peak Market Activity (PMA) and Unsecured Credit Allowance (if applicable).

Capacity Market Credit

Market Participants (planned resources) must post collateral for their sell offers in the BRA, but this is typically released once the cleared resource has commenced the Interconnection Service.

1. Current Credit Policy vs. Reliability Back-Stop Auction (RBA)

Risk Factor	Current	RBA	Vulnerability
	Credit Policy (1-year)	RBA Challenge (15-Year)	Credit deterioration, change in ownership
Exposure Duration	Short term (1–3 years horizon)	1-15 Year exposure	Abandonment or renegotiation of the contract
Exposure calculation	Minimal exposure as prices are fix annually	Price volatility Undermines contract stability and may increase Buyer/Seller likelihood of non-performance	Liquidity squeeze - sizable collateral requirement- liquidly constraints, cost of capital
Failure to perform	Penalties are limited to specific delivery years	Stranded Asset Risk. Default in year 3 of 15-year contract leaves 12 years uncovered capital cost.	Current tariff does not calculate liquidated damages

1. Pre and Post Auction Collateral Requirement Scenarios - Applying Current Methodology for (1-year and 15 Years)

Scenario 1- Seller – Back Stop Auction 1 year	
Generation Capacity (UCAP MW)	1000
Capacity RBA Auction Clearing Price ($/MWD)	$400
Pre Auction Credit Requirement ($)	$44,165,000
Post Auction Credit Requirement ($)	$29,200,000
Returnable collateral	-$14,965,000

Assume the RBA clears at $400

1000MWx$242/MWD net cone UCAPx.5x365days

1000MWx$400/MWD net cone UCAPx.2x365days

Seller – Back Stop Auction Scenario – 15 years	
Generation Capacity (UCAP MW)	1000
Capacity RBA Auction Clearing Price ($/MWD)	$400
Pre Auction Credit Requirement ($)	$662,475,000
Post Auction Credit Requirement ($)	$438,000,000
Returnable collateral	-$224,475,000

1000MWx$242/MWD net cone UCAPx.5x365daysx15years

1000MWx$400/MWD net cone UCAPx.2x365daysx15years

Bilateral Structure

3. Generators & Load Serving Entities Credit Profile

	Total	Investment Grade		Sub Investment Grade		TNW < $1MM		TNW < $5MM	
		#	%	#	%	#	%	#	%
Generation Owner	321	**188**	**59%**	**133**	**41%**	**44**	**14%**	**53**	**17%**
Load Serving Entity	105	**24**	**23%**	**81**	**77%**	**31**	**30%**	**48**	**46%**

Tangible Net Worth – (Total Assets – Total Liability) metric to assess financial stability and liquidate value)

Generators:

- Are predominantly investment grade (59%)
- Are stronger capitalization as only 17% fall below $5MM TNW despite 41% being sub-investment grade
- While some generators are below investment grade, many still have meaningful balance sheet strength.

Load Serving Entities

- Are predominately sub-investment grade (77%)
- Show balance sheet weakness
  - as nearly 50% have TNW < $5MM and 30% are below $1MM
- This indicates limited financial flexibility
- 24 Investment grade LSEs, provided corporate guarantees .

3. Credit Profile – Data Center

Based upon the 45 Data Centers Coalition's member list, 80% are privately held.

None of the Data Center are Market Participants.

DCC Member*	External Rating	TA	TNW	PJM Member
Applied Digital Corporation	B+	$5.0Bn	$1.9Bn	No
CoreWeave, Inc.	B+	$26.7Bn	($2.3Bn)	No
Digital Realty Trust, Inc.	BBB	$36.4Bn	$11.9Bn	No
Equinix, Inc.	BBB+	$31.5Bn	$5.5Bn	No
Meta Platforms, Inc.	AA-	$321.1Bn	$172.3Bn	No
Microsoft Corporation	AAA	$500.3Bn	$225.9Bn	No
Oracle Corporation	BBB	$139.0Bn	($35.5Bn)	No
Prologis, Inc.	A	$98.7Bn	$57.8Bn	No
Visa Inc.	AA-	$49.1Bn	($12.6Bn)	No

Source Data Center Coalition

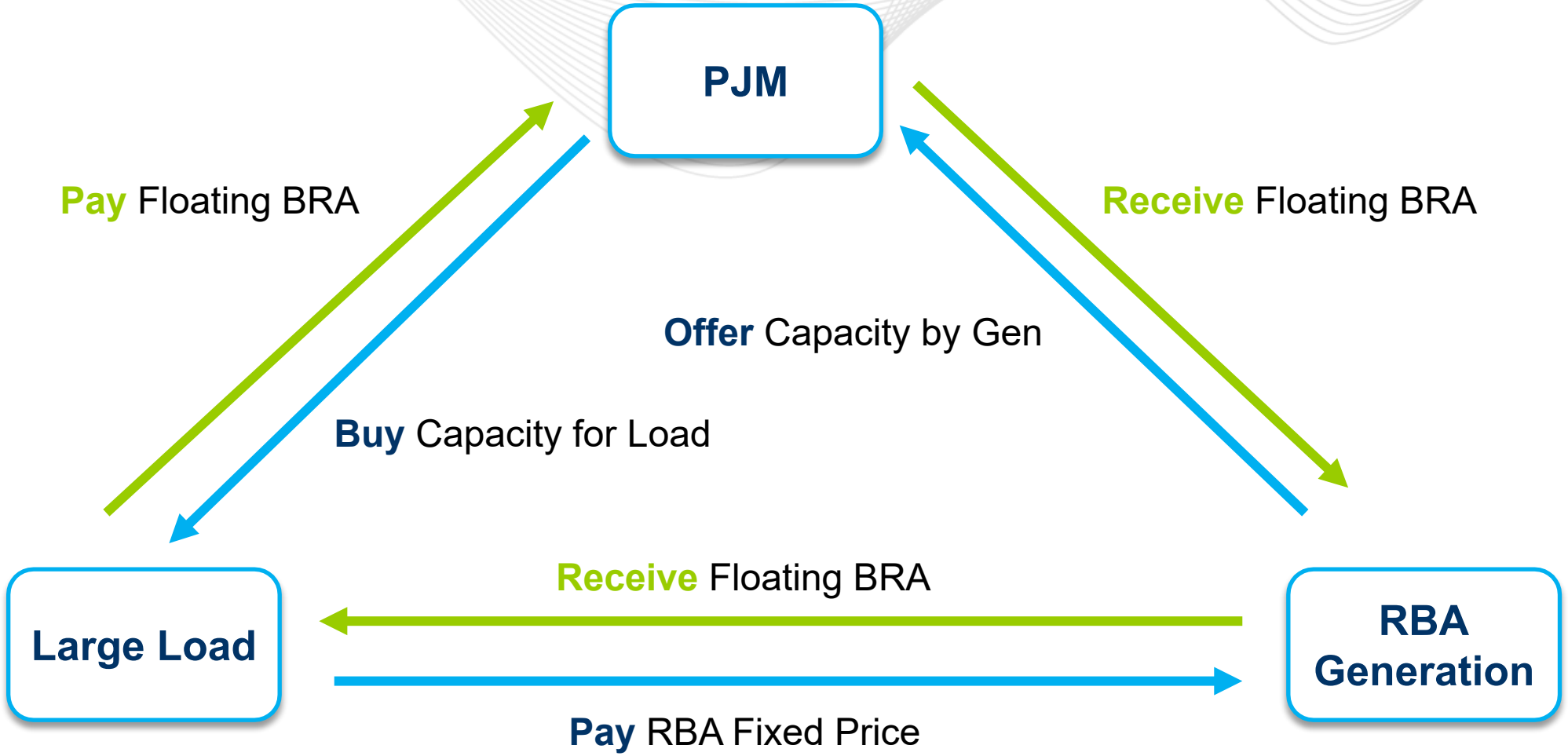
- Majority of Data Centers seek to transact with high-credit quality LSEs or EDCs
- Some EDCs shift the risk to POLR suppliers who may be unwilling to assume this risk
- EDCs are regulated, such agreements may necessitate state level involvement
- Data Center credit profile remains opaque due to lack if clarity regarding the specific contracting entity

4. Bilateral Agreements: Margining Example

	ASSUMPTIONS	
	Price Fix each year, one at a time	Price Fix each year and assumed to be for the next X years (i.e. balance of contract)
RBA clearing price	$400	$400
Volume	1000 MW	1000 MW
Fix Price increase	Seller Post	Seller Post
Fix Price decrease	Buyer Post	Buyer Post
Number Years		Balance of contract -14
Price Increase Example *1 year fix price*	$450 Seller posts $18,250,000 ($50x1000x365) $550 Seller posts $54,750,000 ($150x1000x365)	$450 Seller posts $255,500,000 ($50x1000x365x14) $550 Seller posts $766,500,000 ($150x1000x365x14)
Price Decrease Example *1 year fix price*	$350 Buyer posts $18,250,000 ($50x1000x365) $250 Buyer posts $54,750,000 ($150x1000x365)	$350 Buyer posts $255,500,000 ($50x1000x365x14) $250 Buyer posts $766,500,000 ($150x1000x365x14)

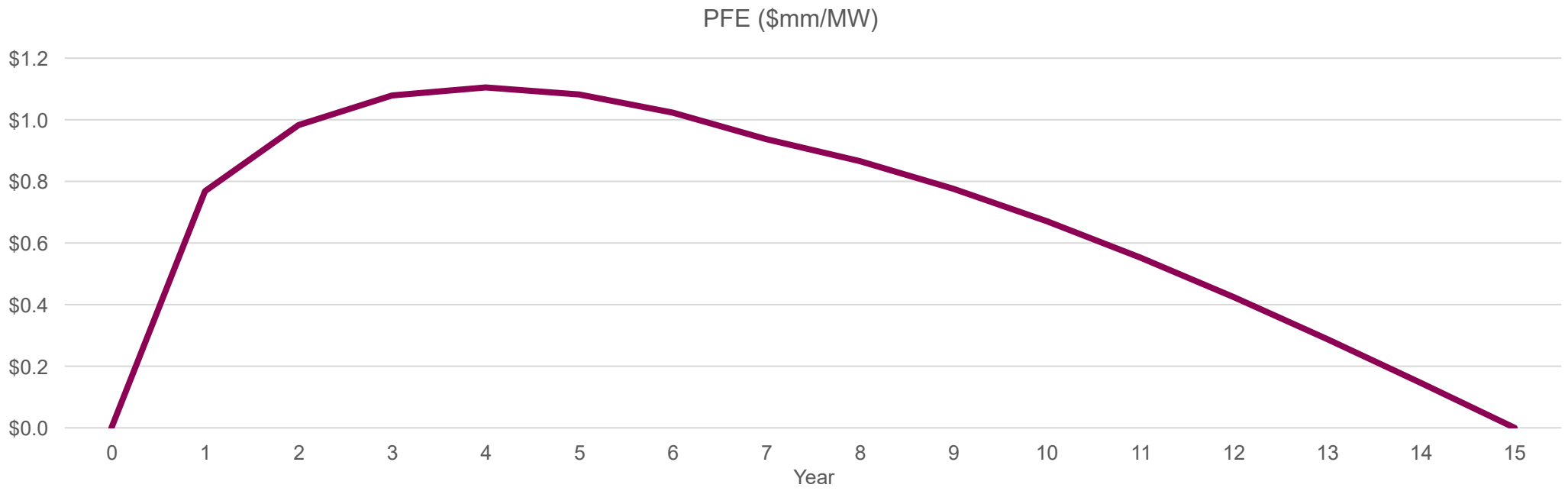
RBA as a Financial Swap & ERCOT Securitization

5. Modeling RBA as a Financial Swap



5. Modeling Backstop Auction as a Fixed-for-Float Swap

Potential Future Exposure (PFE): At a future time point, with some confidence level, e.g. 95%, the maximum exposure of economic value to a counterparty

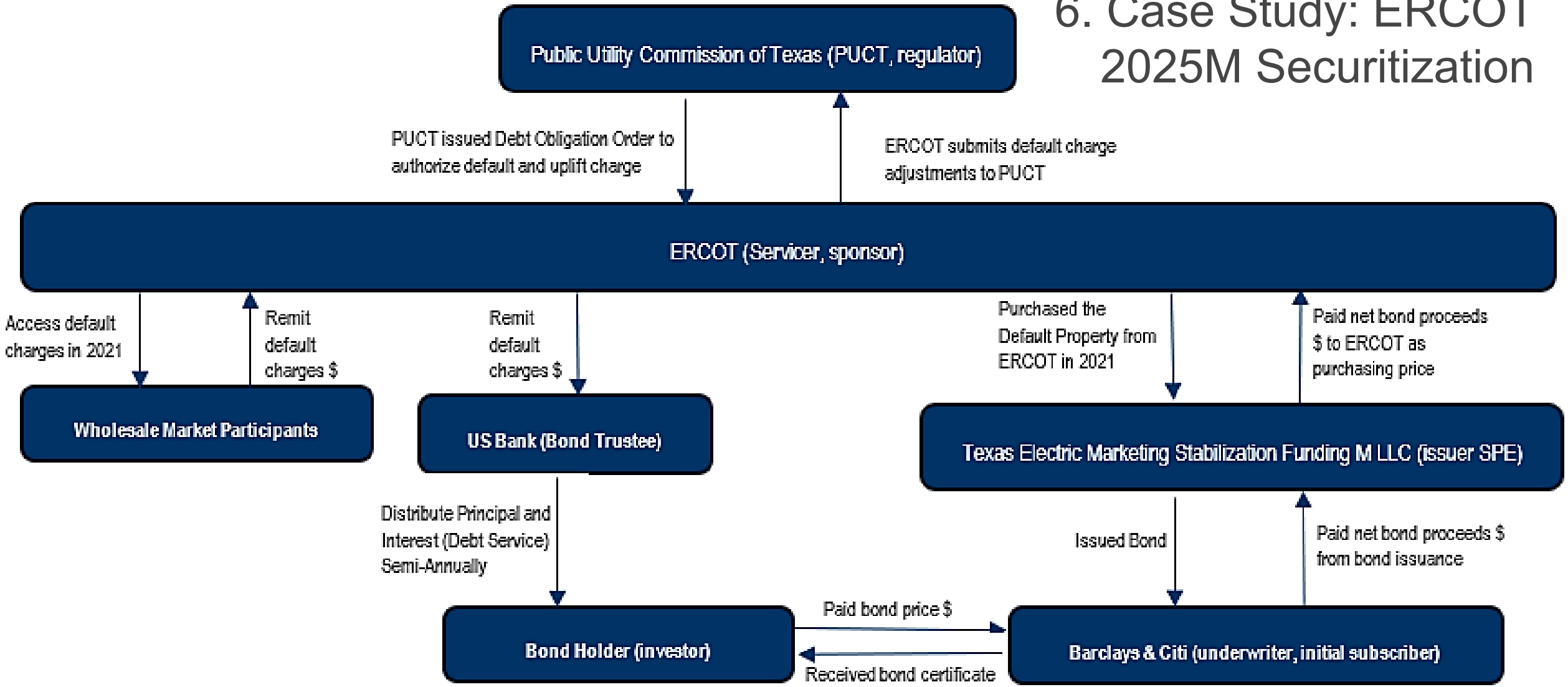


The value uncertainty goes higher deeper into the future, while quantity exposure decreases as time goes by. This makes PFE peaks at 1/3 of life.

6. Case Study: ERCOT Securitization Journey

Series / Year	Underwriters / Initial Purchasers	Verification Links
2021 M Bonds (Initial Subchapter M Default Securitization)	Texas Treasury Safekeeping Trust Company	Bond Purchase Agreement (PUCT filing; TTSTC named): https://interchange.puc.texas.gov/Documents/52709_77_1506112.PDF ERCOT Subchapter M page: https://www.ercot.com/about/hb4492securitization/subchapterm
2022 N Bonds (Subchapter N – Uplift Securitization)	NA	2022 Offering Memorandum: https://www.ercot.com/files/docs/2022/06/17/Offering%20Memorandum.pdf Subchapter N program page: https://www.ercot.com/about/hb4492securitization/subchaptern
2025 M Bonds (Refinancing 2021)	Citigroup Global Markets & Barclays Capital	2025 Offering Memorandum (underwriter section): https://www.ercot.com/files/docs/2025/09/10/Final-Offering-Memorandum.pdf Pricing Term Sheet (Trustee filing): https://www.ercot.com/files/docs/2025/09/10/Pricing-Term-Sheet.pdf

6. Case Study: ERCOT 2025M Securitization



Revised based on https://www.ercot.com/files/docs/2025/09/10/Final-Offering-Memorandum.pdf

The Galaxy of Risks

Risk Category	Root Cause of Risk	Description	Sell/Buy side
Systematic	**Data Center Growth**	Computational efficiency, New AI innovation, growth rate could be [15%-50%]	Buy
	Resource Policy	Federal policy on renewable, fossil fuel, carbon and nuke	Sell
	Geopolitical		Both
	Model Risk	ELCC/Load forecast uncertainty	Both
	Large scale catastrophe	Extreme events due to weather, and other force majeure	Both
	Counterparty Risk		Both
Idiosyncratic	**Equipment**		Both
	Interconnection		Sell
	Permitting	Local level	Sell
	Construction		Both
	Capacity Payment Default		Buy
	Capacity performance		Sell
	Market Operation	In DA/RT market	Both
	Counterparty Risk	Risk Pooling can manage this risk	Both

Risk pooling can diversify idiosyncratic risks but cannot manage systematic risk.

6. Securitization

Risk Shifting

Shift risk to capital market, which has much diverse risk appetite and unlimited capital.

Investment Enablement

WACC can be significantly reduced especially for senior tranche, and in general reduced due to risk pooling and broader investor base.

→ **Affordability**

→ **Invest-ability**

Complex Structure

PJM has to step out of comfortable zone

→ **Manageability**