

# PJM: Time to BYONG

Guidance for capacity market participants and power investors

# Evaluating the new PJM RBA construct

## Executive Summary

The country's largest organized power market is crossing a structural Rubicon.

The RTO that pioneered competitive capacity markets is proposing to administer its own long-term procurement because those markets cannot move fast enough.

Whether this becomes a bridge or a permanent fixture depends on a market redesign that hasn't started yet, a FERC approval that isn't guaranteed, and a cost allocation framework that 13 states haven't agreed to.

The RFI closes May 4. The bilateral phase opens in September. The window to position is measured in weeks.

## The market is underpricing five components of the proposal

### The CfD feedback loop changes RPM price formation permanently.

This is not a side arrangement. Every RBP megawatt entering RPM at \$0 suppresses clearing prices for the entire stack.

Lower RPM prices increase the CfD payment from EDCs, which increases the cost of the backstop, which creates political pressure to cap future RPM outcomes. The circularity is structural.

Anyone modeling PJM capacity revenue as an independent variable is already wrong.

### The price cap is the entire ballgame, and it doesn't exist yet.

PJM is deliberately withholding the demand-side willingness-to-pay threshold to avoid anchoring the bilateral phase of its proposed RBA process.

But this single number determines whether the procurement attracts 5 GW or 25 GW of supply, and whether EDC cost exposure is manageable or politically explosive.

The unconstrained BRA estimate of ~\$530/MW-day over a 15-year term implies cumulative commitments that dwarf anything RPM has ever produced.

Watch for the RFI responses (due May 4) to reveal where the demand side actually is.

### Cost allocation will be the political fight of the decade.

Costs land pro-rata on EDCs based on their share of target megawatts – which concentrates exposure exactly where data center growth is densest.

Dominion's Virginia territory is the obvious flashpoint, but every state commission with large load in the queue will face the same question: who pays for reliability that primarily serves hyperscaler demand?

The EDC target-setting process introduces political discretion that will be heavily litigated. RBP obligations are tradable between EDCs via Capacity Exchange – an acknowledgment that nobody knows where this load actually materializes.

**“One time” is not a design feature, it’s a wish.**

PJM frames this structure as transitional, pending a broader market redesign under the principles laid out by the White House and PJM state governors earlier this year.

But 15-year commitments will outlast any conceivable reform timeline.

If the investment incentive review doesn't produce actionable results by 2028, the precedent for a second procurement is established.

The parallel between this and NYISO's initial capacity market interventions – also framed as temporary – is instructive (see Background section).

**Execution risk is not hypothetical. PJM says so.**

PJM explicitly states it "does not have direct experience engaging in bilateral contracts."

The 6-month matchmaking window may be insufficient for complex, multi-party negotiations.

No special interconnection track means awarded projects must navigate the standard queue – the same queue that has 57 GW of studied projects still stalled by permitting, supply chain, and financing constraints.

The June 2031 COD deadline combined with no queue acceleration creates a real probability of penalty triggers and rescissions.

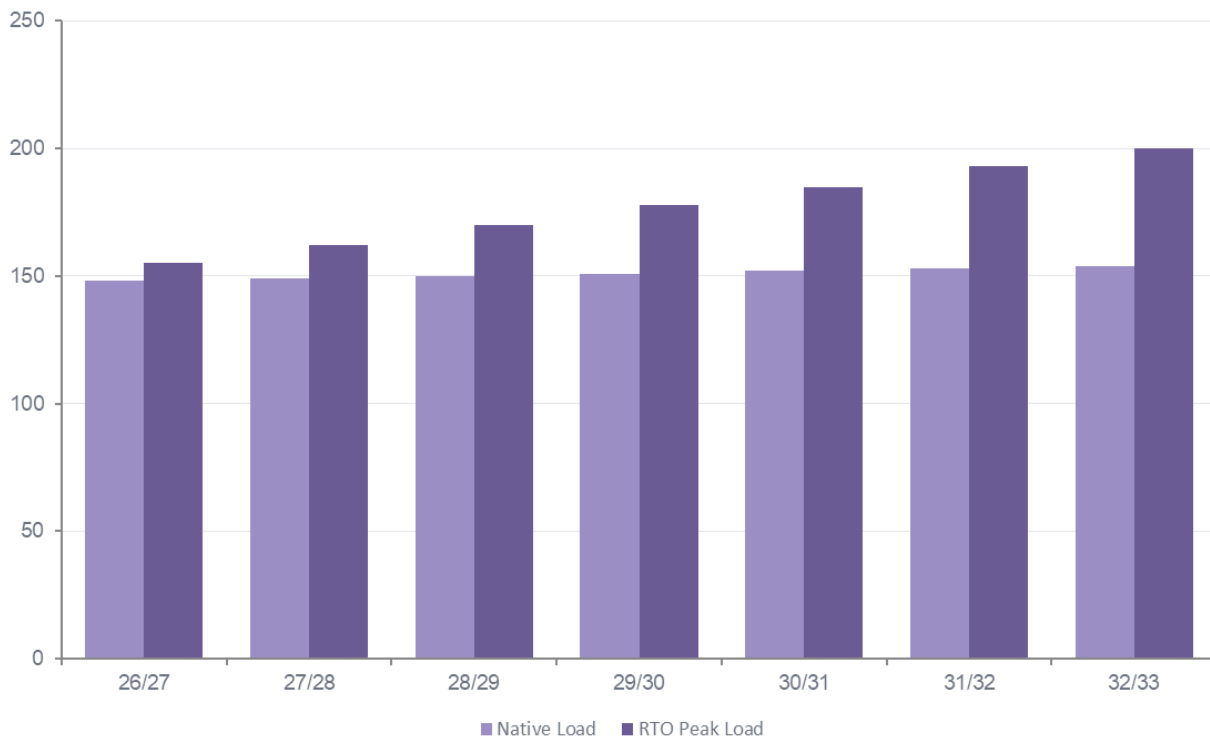


Figure 1: PJM RTO Peak Load vs Native Load (GW) – 2026/2027 to 2032/2033

## Winners, Losers and the Messy Middle

**Winners:** Well-capitalized gas developers with advanced queue positions and execution track records. Battery developers with available capacity who can COD before June 2031.

The gating criteria (site control, equipment procurement, construction schedule attestation) are designed to filter for exactly this profile.

A 15-year CfD backstopped by PJM Settlements is the most bankable capacity offtake PJM has ever offered. Demand response aggregators with identified sites also have a path.

**Losers:** Merchant generators relying on elevated RPM prices.

The \$0 must-offer requirement structurally suppresses the clearing prices that underpin their revenue.

EDCs in high-growth zones will be forced to absorb CfD costs that could exceed their RPM capacity obligations.

Undercapitalized developers are also facing new constraints, as the ~\$15.5M pre-bid credit requirement for a 100 MW, 15-year commitment at \$400/MW-day is a meaningful screen.

**The uncomfortable middle:** Renewable developers with long interconnection timelines and declining ELCC trajectories.

The June 2031 COD deadline and supplier-borne accreditation risk over 15 years make this product structurally disadvantageous for resources whose capacity value erodes with penetration.

*Noreva provides price transparency, forecasting, and market advisory across PJM capacity and energy markets. For scenario-specific modeling or capacity price analysis, contact us at [research@noreva.ai](mailto:research@noreva.ai).*

## BACKGROUND

The Reliability Backstop Procurement proposal, released April 16, creates a parallel procurement channel that bypasses RPM entirely, installs PJM as a long-term contract counterparty for the first time, and allocates billions in costs to EDCs serving data center load.

The RTO that built its identity on competitive markets is now proposing to administer a long term, pay-as-bid procurement because its own auction design cannot keep up with demand.

The reason is arithmetic. The 2027/2028 BRA cleared 6,623 MW short – the first time PJM's entire footprint failed to meet the reliability requirement.

Clearing prices pinned at the \$333.44/MW-day cap for a second consecutive auction, with PJM estimating the unconstrained price at ~\$530/MW-day. Nearly all of the 5,250 MW demand increase was data centers.

Projections now show a 50–60 GW shortfall over the next decade. At no price could RPM have built fast enough.

### **Structure: What's Actually Being Proposed**

Phase I (Sep 2026 – Mar 2027): PJM and CRA act as confidential matchmakers for bilateral contracts between load and new generation.

Phase II (Mar 2027): residual megawatts move to a centrally-administered, pay-as-bid procurement with PJM Settlements Inc. as counterparty on behalf of EDCs.

Initial target: ~15 GW. Commitment terms: 2–15 years. Product: capacity-only UCAP. Suppliers bear full ELCC risk over the term.

Settlement is a CfD against RPM clearing prices – resources must offer at \$0 into RPM and receive a true-up to their committed price.

Shortfall penalty: 20% of the commitment price, assessed daily, no replacement MW. Three years of delay triggers full rescission.

**Note on NYISO:** *New York's power market regulators identified in their market design that entities that were simultaneously buyers and sellers of capacity could suppress prices by offering new supply below cost. NYISO introduced Buyer-Side Mitigation (BSM) with the original intent of targeting and mitigating market power.*

*Over time, BSM expanded to apply to all new entrants in mitigated zones, regardless of whether they had any market power. It effectively became a barrier to entry for renewables, storage and demand response.*

*It was originally thought of as a surgical fix and ended up becoming a 14-year structural feature of NYISO's capacity market that took until May 2022 for FERC to finally approve NYISO's proposal to exempt clean energy resources.*

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