Executive Summary & Introduction

At the end of 2024, we stated that 2024 marked a *"dramatic inflection point for the electricity market where supply and demand diverge and a secular period of 'scarcity' has formally commenced."* By December 2025, we were proven correct with the capacity auction for 2027/2028 resulting in the RTO being 6.6 GWs short. During Winter Storm Fern this January, PJM has posted quite possibly the highest energy prices the RTO has ever recorded. We are now witnessing the manifestation of the unsustainable supply/demand imbalance resulting in high volatility and extreme energy prices. Now is the time to work with your Calpine representative to hedge your energy needs *longer term*, as the period of 'scarcity' will remain for the foreseeable future. In this month's Regulatory Bulletin, read more about **PJM**:

- Trump administration officials and thirteen PJM state governors issued a Statement of Principles Regarding PJM asking the RTO to act on six directives, the most impactful of which is to hold a Reliability Backstop Auction to procure $15 billion in new capacity resources to supply data centers.
- Just a few hours after the federal/state statement on PJM, its board issued a letter stating it would immediately initiate a "reliability backstop" capacity procurement to secure more power supplies after its last auction hit record prices but fell short of its reliability target by 6.6 GW.
- PJM also published its 2026 Load Forecast Report in which the ISO scaled back its forecast compared to its 2025 projections, reducing the forecast for summer peak in 2027 and 2028 by 4 GW and 4.4 GW, respectively. The lower near-term load forecasts were primarily driven by stricter vetting of planned data centers. Despite lower forecasts, PJM is likely to fall short of its reliability requirement for at least the next two delivery years.

New England is taking a different tack.

The New England ISO is planning major changes to its capacity market construct, beginning with the proposal filed at FERC to convert its auction to a "prompt" schedule just a few months before the delivery year begins. Moving forward, the ISO is working with its stakeholders to devise further changes to make the capacity market seasonal, as well as making changes to its resource accreditation methodology. Though New England does not face the massive load growth from data centers like PJM, the combined effect of its proposed changes could have a significant bullish impact to capacity prices in the region, beginning DY 2028/2029.

1.1 Risk Assessment Approach

Our analysis of the regulatory risk(s) to our customers is summarized in the rating(s) categories defined below:

Potential Financial Impact to Customers:

$+ Signifies potential increase in costs

$– Signifies potential decrease in costs

Magnitude of Risk to Customer(s):

Symbol	Impact	Description
	Major Impact	Represents a regulatory or policy change that is in the process of being enacted by Regulators (i.e., PUC, ISO, FERC, EDC) and is expected to result in a meaningful increase in cost(s) to load; likely require immediate action.
	Medium Impact	Represents a regulatory or policy change that is in the proposal process and being sponsored by one or more ISO stakeholders. Most of these Risk's will likely be elevated to RED. Medium Impact issues will require involvement but we expect to have time to coordinate load on these type(s) of issues.
	Actively Monitor	Represents regulatory or policy discussions or trends that may evolve to either RED or ORANGE categories. No immediate action item for load.
	For Your Information	Industry developments or information, while not directly impacting the customer, may be of interest or import to the customer.

We have identified various issues that coalesce with the ratings categories described above. Notwithstanding, these are the Regulatory or Policy issues we consider extremely relevant to our retail customers*. With respect to this Bulletin, the six categories which appear to represent the most significant impacts to retail customers are identified below and categorized according to ISO:

Section 2.1 – Policy
Section 2.2 – Capacity / System Reliability
Section 2.3 – Transmission
Section 2.4 – Ancillary Services
Section 2.5 – Energy
Section 2.6 – Industry Development

*Where appropriate, we have provided links to articles and other relevant information for reference purposes.

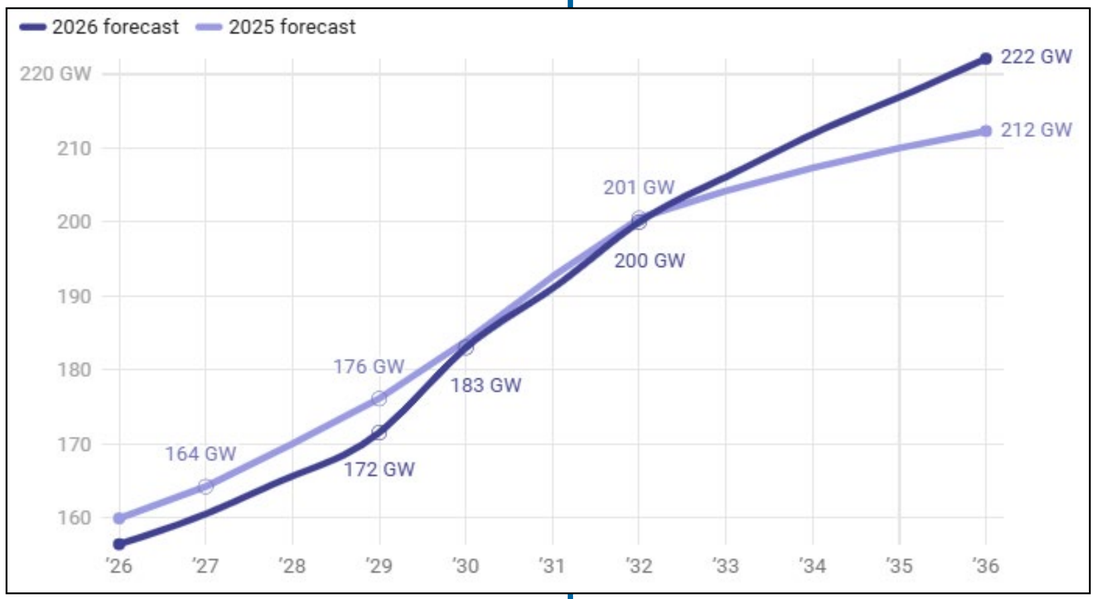
2.1 Policy

Issue #	Rating	Issue	Impact	Action/Result
2.1a PJM		**On January 16, the secretaries of Energy and Interior, representing the White House National Energy Dominance Council, and the governors of PJM's thirteen states met and released a Statement of Principles Regarding PJM, asking the RTO to act on six directives as follows:** 1. Hold a Reliability Backstop Auction to procure $15 billion in new capacity resources (according to a U.S. Department of Energy fact sheet) backed by 15-year contracts, commencing no later than September 2026 2. Allocate the cost of the procurement to new data centers and any remaining costs to LSEs based on their net short positions 3. Extend the existing capacity auction price collar to the next two Base Residual Auctions (BRAs), DYs 2028/29 and 2029/30, at the "current rate level" 4. Improve load forecasting 5. Accelerate ongoing generator interconnection studies 6. Reform the capacity market to "ensure long-term viability and prevent consumers from bearing excessive ongoing costs" in time for the BRA scheduled for May 2027 UD: Trump administration pushes PJM to hold 'emergency' auction to supply data centers	Any new auction would need to be approved by the FERC. Capstone, an energy research firm, noted that the statement from the governors and the federal officials lacks binding authority and that it is rather "policy signaling, not an imminent market reform," suggesting that PJM would need at least six months, if not twelve, before an auction could be held. Parts of the PJM footprint, such as northern Virginia, have seen massive data center development, leading to unprecedented demand for electricity. Some of that demand is based on existing or confirmed load, but much of it is based on projections. This mismatch between the sudden increase in demand, both real and forecasted, and power supply has caused capacity prices to spike in the last three auctions PJM held. According to PJM's Independent Market Monitor (IMM), existing and planned data centers accounted for $23.1 billion, or nearly half, of the $47.2 billion in cost from the RTO's last three capacity auctions.	The IMM has called for PJM to require data centers to only get electricity from new sources of power so they don't reduce existing supplies. The IMM contends that unfettered data center development threatens grid reliability. He has also voiced concern over the speculative and uncertain nature of the load forecasts. Thus far, the proposal is supported by the Edison Electric Institute and some environmental groups. PJM is reviewing the proposal and said it will work with its stakeholders to see how the proposal aligns with its own plan which was released just a few hours after the federal/state group's statement of principles. *See Sec. 2.2a of this Regulatory Bulletin for more on the PJM board's plan.* PJM operates the grid and wholesale power markets in 13 states and the District of Columbia with about 67 million people. PJM ensures it has enough power supplies to meet its needs through capacity auctions normally held three years in advance of when the power is needed.

2.2 Capacity / System Reliability

Issue #	Rating	Issue	Impact	Action/Result
2.2a PJM		**On January 16, a few hours after the Statement of Principles published by Trump administration officials and thirteen PJM state governors, the PJM board issued a letter stating it would immediately initiate a "reliability backstop" capacity procurement to secure more power supplies after its last auctions hit record prices but fell short of its reliability target by 6.6 GW.** The board released the decision as part of a broader plan for connecting data centers and other large loads to the grid and called for six action items in its letter: 1. Significant load forecasting improvements 2. Voluntary Bring Your Own New Generation (BYONG) paired with Expedited Interconnection Track (EIT) 3. Connect and manage for new large load additions that do not BYONG and curtailment prior to emergency demand response in circumstances necessitating load shed 4. Immediate initiation of Reliability Backstop Procurement as a "transitional measure" for acquiring new power supplies 5. Holistic review of investment incentives in PJM's markets in 2026 6. Feedback request on Price Collar extension for 2028/2029 and 2029/2030 capacity auctions	The PJM board's plan is based on proposals the RTO and its stakeholders offered last year during a Critical Issue Fast Path process to incorporate Large Load Additions (CIFP-LLA) aimed at developing rules for large load additions. The board directed PJM staff to consider mechanisms that assign costs of a backstop auction to utilities and other load serving entities that are short on power supplies because of load growth in their service areas. **Specifically addressing the capacity market, the board stated that *"PJM's system of holding auctions to procure a year's worth of capacity three years ahead of time may no longer be adequate… and on its own, this structure may not provide the stable revenue streams needed to justify new investment in today's volatile and uncertain investment environment."*** The board also directed its staff to establish a fast-track interconnection process for large loads that bring their own new generation, under an Expedited Interconnection Track (EIT).	The board further called for a stakeholder process this year to consider changes to all PJM markets, including capacity, energy, and reserves and how they can *"evolve in a coordinated manner to provide appropriate incentives for both investment and performance."* Many elements of the board recommendations overlapped with a list of directives signed by secretaries of Energy and Interior and thirteen PJM state governors *(see Sec. 2.1a of this Regulatory Bulletin for more)*. The PJM Board has directed its staff and stakeholders to work together expeditiously over the next six weeks to develop a working plan to deliver on its directives. We expect many changes to the PJM markets during 2026 and will know more of their impact as the proposals are developed. Calpine Solutions will keep you posted on all developments.

2.2 Capacity / System Reliability

Issue #	Rating	Issue	Impact	Action/Result
2.2b PJM	$–	**In its 2026 PJM Load Forecast Report the ISO scaled back its load growth forecast through 2032 compared to last year's forecast but still expects electricity demand to increase by 65.7 GW over the next ten years.** The RTO cut its peak demand forecast for summer of 2027 by about 4 GW, reducing the reserve shortfall for that delivery year to about 2.6 GW, and lowered the 2028 summer forecast by 4.4 GW, or 2.6%. The reduced near-term load forecast was primarily driven by stricter vetting of planned data centers. PJM utilizes its annual load forecast for transmission planning as well as determining how much capacity to buy in its annual auctions. According to Jefferies equity analysts, despite the lower forecasts, the RTO will still fall short of procuring its reliability requirements for the 2028/2029 and 2029/2030 capacity auctions. For the longer term, PJM expects its summer peak load will grow by 3.6% a year to about 222 GW by 2036, up from its pervious 3.1% CAGR projection. *(See the 2026 versus 2025 forecasts in the graph at right.)*	PJM zones with the strongest 10-year average annual summer peak growth forecast are: 1. **PPL at 6.4%, up from 5.9% last year** 2. **Dominion at 5.4%, down from 6.3%** 3. **AEP at 5.3%, down from 5.5%** 4. **DPL at 5.2%, up from 1.2%** 5. **ComEd at 3.9%, up from 1.6%** 	Dominion and AEP zones' 10-year CAGR forecasts remain in the top five despite their forecasts being reduced as a result of stricter vetting of planned data centers. PJM's updated 20-year forecast continues to see significant long-term growth

2.2 Capacity / System Reliability

Issue #	Rating	Issue	Impact	Action/Result
2.2c ISO-NE	 **$+**	**On December 30, 2025, the New England ISO filed a proposal at the FERC to change its capacity market construct by conducting a "prompt" capacity auction a few months ahead of the start of the delivery year, instead of three years in advance.** The ISO requested FERC approval effective March 31, 2026 and the new rules applicable for the 2028/2029 delivery year. **According to the ISO, a "prompt" capacity auction would bring a range of benefits to New England, including making its load forecasts and other key inputs used to set the auction's parameters more accurate, in order to improve the efficiency of capacity auction outcomes and enhance the ability of the market to meet resource adequacy requirements.** Unlike PJM, there has not been significant data center development in New England, but the ISO still expects its reserve margin to fall from 15% in 2029 to 8% in 2034. ISO-NE files 1st phase of capacity auction reforms with FERC UD: ISO-NE proposes capacity market overhaul with shift to 'prompt' auction	Reliability risk created by declining reserve margins and the uncertainty around data center development demand a capacity market design that procures capacity based on the most up-to-date and accurate data regarding supply and demand dynamics. **Resource Retirement Changes** The proposal also calls for changing ISO-NE's process for considering power plant retirements. Currently, power plant owners can retire a resource only by submitting a "de-list bid" into the capacity auction four years ahead of a planned retirement. ISO-NE plans to replace that process with a one-year advance notification requirement. The reforms to the capacity resource deactivation process will facilitate capacity suppliers' use of more accurate information about resource and economic conditions before deciding whether to proceed with a deactivation and will also improve the flexibility of deactivated resources to return to the market if conditions so warrant. The proposal received broad stakeholder support and is one part of a broader capacity market reform.	**Phase 2: Seasonal Capacity Market** The ISO is working with its stakeholders to develop a winter and summer seasonal capacity auction framework instead of its existing annual construct, which sends a price signal reflecting summer peak demand. A seasonal construct will send a price signal that reflects the value of resources toward meeting winter demand, providing incentive to ensure resources are capable of performing to meet that demand by shoring up fuel supplies and/or installing dual fuel capability. **New Resource Accreditation Method** The ISO also plans to replace its existing summer performance-based capacity accreditation process with requirements that capture the marginal reliability contribution of resources during high reliability risk periods. The new process will include provisions that reflect New England's gas pipeline constraints that can affect the region in the winter. The gas constraint will be modeled in the seasonal capacity auction, where it is anticipated to "bind" in the winter auction clearing to reflect the more limited availability of gas during the winter months. The seasonal and new accreditation proposals are part of Phase 2 of the capacity market changes, set to be filed at FERC in late 2026.

3.0 Contact Information

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Public/ISO Regulatory Contacts:

· PJM - http://pjm.com/about-pjm/who-we-are/contact-us.aspx

· MISO - https://www.misoenergy.org/AboutUs/ContactUs/Pages/ContactUs.aspx

· NEISO - http://iso-ne.com/contact/contact_us.jsp

· NYISO - http://www.nyiso.com/public/markets_operations/services/customer_support/index.jsp

· ERCOT - http://ercot.com/about/contact/

· CAISO - http://www.caiso.com/Pages/ContactUs.aspx

· Public Utilities Commission - http://www.naruc.org/commissions/