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DATE: **June 30, 2026, Meeting Date**

TO: **CIFP: Connect and Manage**

FROM: **IMM**

SUBJECT: **Proposed Limited Curtailment Alternative V2**

The preferred option for data centers adding load to the PJM system is that LSEs serving data centers require such data centers to bring their own new generation via a bilateral contract between the load and the generation based on the addition of such LSE requirement to the RAA.[1] For LSEs with data centers that did not bring their own new generation, the IMM proposes that PJM run a reliability backstop auction that would facilitate data centers' procurement of the new generation resources needed to satisfy the LSEs' requirements. The reliability backstop auction is designed to allow data centers to purchase generation capacity with the intent to sign bilateral contracts with generation resources that offer in the auction. The data centers would, in consultation with the LSE, identify the amount and location of the capacity they need. This reliability backstop auction would include associated rules for an interconnection process for large new data center loads that bring their own new generation with locational and temporal characteristics reasonably matched to their load profile. The IMM addresses the requirements for new generation brought by data centers and relied on by the LSEs serving such data centers in the IMM's reliability backstop auction design proposal.

The IMM defines an additional part of a comprehensive approach to reliably serving data center load while ensuring that data centers pay all of their own costs, which the IMM terms the limited curtailment alternative. The limited curtailment alternative would obligate LSEs serving data centers that do not bring their own new generation, either directly through bilateral contracts or through the reliability backstop auction, to require that such data centers have agreed as a condition of service from the LSE to be curtailable under defined conditions. This limited curtailment alternative is not the same as the pretense that the data centers are providing demand response for which they should be paid.[2] Data centers do not want to be curtailable. Data centers are already critical loads in many applications because they are embedded in the workings of the economy and society. Given the level of data center load growth, this limited curtailability alternative, if correctly designed and enforced for each individual data center served, would provide an incentive for data centers to bring new generation to the market either through bilateral contracts or through the reliability backstop auction. As the curtailment alternative is to serve its intended goal as only a bridge allowing

1 *See* RAA § 5.2, referencing OA § 15.1. The RAA can be amended only by action of the PJM Board and FERC approval, per RAA § 16.4.

2 The Supreme Court has recognized FERC jurisdictional "wholesale demand response," involving "consumers … commitments [through LSEs] to curtail their use of power, so as to … prevent grid breakdowns." EPSA v. FERC, 577 U.S. 260, 270 (2016).

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data centers that LSEs cannot serve reliably to receive service while waiting to buy or build new capacity, there must be a strong incentive to not remain under the limited curtailment alternative for any longer than necessary. If an LSE does not show that its data center load brings new generation, the LSE must show that the data center load is curtailable if that load comes on line. The IMM proposes that there be a maximum term of three years on the ability of the LSE and the data center to rely on the limited curtailment alternative instead of bringing their own new generation.

Under the proposed associated RAA revisions, LSEs would bear only the risk that they fail to require data centers to use one of the two available options: bring your own new generation and enter into a bilateral; or participate in the reliability backstop auction and enter into a bilateral. The risk for the LSE is as currently defined in the RAA.[3] LSEs do not bear any risk associated with the bilateral contracts or with the failure of a data center to curtail when directed. The bilateral contract risks are entirely between the two parties to the contract.

PJM's modified (June 18, 2026) connect and manage proposal includes the fundamental and fatal flaw that there is no clear link between identifying the data centers that do not have capacity and curtailment rules and mechanisms. PJM appropriately removed its prior proposal that relied on PJM's broad authority to request curtailments to manage extreme conditions including blackouts. Under that approach, PJM did not have the authority or the ability to curtail specific customers. There was no clearly established link between the behavior (no capacity) and the consequence (curtailment). There are no clear PJM rules governing detailed curtailment priorities and order by customer. This type of curtailments are managed by TOs/EDCs. That broad brush approach cannot be targeted in the manner necessary to implement curtailments of specific data centers that have not met the LSE requirement to bring your own new generation and that are subject to the curtailment alternative.

However, PJM's latest change to its connect and manage proposal (June 18, 2026) is to disclaim responsibility and simply impose the risk and responsibility for curtailing load on the states. PJM will allow significant amounts of new data center load to interconnect to the grid without doing transmission and capacity reliability studies. The unavoidable consequence of that will be that the new loads, without matching new generation, will result in curtailments of load at unpredictable times and for unpredictable durations. Without curtailment rules that are clear and transparent ahead of time, data centers cannot make economic decisions. Without rules that are clear and transparent ahead of time, the risk and cost of curtailments and load shedding may fall on other customers. This is another example of PJM's approach running counter to the

[3] *See* RAA § 5.2, referencing OA § 15.1. The RAA can be amended only by action of the PJM Board and FERC approval, per RAA § 16.4.

Principles and imposing risk and uncertainty on other customers. It is not reasonable for PJM to simply ignore this issue which is fundamental to the reliable operation of the PJM markets.

The IMM proposes to use the existing model for curtailing retail customers, the CSP model, currently used for demand resources. The CSP model has successfully been used to resolve the wholesale/retail jurisdictional issue, allowing PJM to direct curtailments of retail customers through the intermediary CSP. The purpose of the IMM proposal, like the CSP model, is the protection of system reliability, which is a matter subject to federal jurisdiction.[4] Because the IMM limited curtailment alternative proposal is a condition of service and the curtailments do not result in a product or sale of any kind, the curtailments do not involve a product or sale that could be subject to state regulation.[5]

The IMM's proposal falls squarely within federal jurisdiction over wholesale sales of power and the terms and conditions for such sales. LSEs would be obligated, as a condition of service, in the RAA, to require that all data centers that an LSE serves must have a bilateral contract with a new source of generation that meets the requirements to be exempt from curtailment, or to either establish themselves as curtailment coordinators (CCs) or sign up with a curtailment coordinator if they prefer not to join PJM and become wholesale market participants. The CC would receive a curtailment directive from PJM and the CC would send a corresponding directive to the data centers under the limited curtailment alternative. Curtailment would apply to each data center load individually. The behavior of the CC and its customers would be directly monitored. Appropriate penalties would be imposed for nonperformance.

The IMM's proposal is that all data center load that was not online on June 1, 2026, would be required by their LSE to participate in the reliability backstop auction or to commit to the BYONG option. LSEs would have the option to show that the data centers they serve have committed to a specific future BYONG plan and not be included in the auction. If LSEs cannot show that such data center load brings new generation either through the BYONG option or the reliability backstop auction, the LSE would have to show that the data center load would be curtailable under the CC model if that load comes online. In general, LSEs must show that data center load without new generation at the beginning of a delivery year would instead be subject to curtailment.

LSEs would have to show that data centers have agreed that the trigger for curtailment of curtailable data center load would be that, in the implementation of PJM procedures, data center curtailment would be prior to any PJM EEA1 declaration and prior to curtailment of pre-emergency or emergency demand response resources. LSEs would show that data centers

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4 *See* 577 U.S. at 270.

5 *See, e.g., In re Erving Indus., Inc.*, 432 B.R. 354 (Bankr. D. Mass. 2010) (court concludes electricity is a good rather than a service).

would also be subject to curtailment outside of emergency procedures at PJM's discretion, if such curtailment would contribute to addressing an identified reliability issue. Curtailment would last for the full duration of the emergency procedure or the amount of time necessary to resolve the identified reliability issues.

PJM would direct the curtailment of data center load on a pro rata basis if the total curtailment MW needed by PJM is less than the total data center load on the system that is under the limited curtailment alternative.

The limited curtailment alternative is intended as an incentive to bring new generation either directly or through the reliability backstop auction in a timely manner. The duration of service under the limited curtailment alternative would be limited to three years. The data centers would pay the full cost of capacity to reflect the incentive nature of the limited curtailment alternative and to reflect the fact that the data centers would be using system capacity for most hours of the year.