

**For Presentation to Special MRC Meeting on March 13, 2020  
Proposed Revisions to Operating Agreement, section 1 and Tariff, section 1**

**Definitions**

**[ROW 2 OF MATRIX – Def’n of Affiliate] (OA, Tariff)**

**Affiliate:**

“Affiliate” shall mean any two or more entities, one of which controls the other or that are under common control. “Control,” as that term is used in this definition, shall mean the possession, directly or indirectly, of the power to direct the management or policies of an entity. Ownership of publicly-traded equity securities of another entity shall not result in control or affiliation for purposes of the Tariff or Operating Agreement if the securities are held as an investment, the holder owns (in its name or via intermediaries) less than 10 percent (10%) of the outstanding securities of the entity, the holder does not have representation on the entity’s board of directors (or equivalent managing entity) or vice versa, and the holder does not in fact exercise influence over day-to-day management decisions. Unless the contrary is demonstrated to the satisfaction of the Members Committee, control shall be presumed to arise from the ownership of or the power to vote, directly or indirectly, ten percent or more of the voting securities of such entity.

**[ROW 14 OF MATRIX – Know Your Customer] (Tariff)**

**Applicant:**

“Applicant” shall mean an entity desiring to become a PJM Member, become a Market Participant, hold FTRs, ARRs or otherwise engage in market activities, or to take Transmission Service that has submitted the PJM Settlement credit application, PJM Settlement credit agreement and other required submittals as set forth in Tariff, Attachment Q.

**[ROW 22 OF MATRIX – Collateral Management] (Tariff)**

**Collateral:**

“Collateral” shall be a cash deposit, including any interest thereon, or a Letter of Credit issued for the benefit of PJM or PJM Settlement, in an amount and form determined by and acceptable to PJM or PJM Settlement, provided by a Participant to PJM or PJM Settlement as as-credit support security in order to participate in the PJM Markets or take Transmission Service.

**[ROW 22 OF MATRIX – Collateral Management] (Tariff)**

**Corporate Guaranty:**

“Corporate Guaranty” shall mean a legal document, in a form acceptable to PJM and/or PJM Settlement, used by an Credit Affiliate of an entity to guaranty the obligations of another entity.

**[ROW 2 OF MATRIX – Def’n of Affiliate] (Tariff)**

**Credit Affiliate:**

“Credit Affiliate” shall mean Principal, corporations, partnerships, firms, joint ventures, associations, joint stock companies, trusts, unincorporated organizations or entities, one of which directly or indirectly controls the other or that are both under common Control. “Control,” as that term is used in this definition, shall mean the possession, directly or indirectly, of the power to direct the management or policies of a person or an entity.

**[ROW 21 OF MATRIX – Event of Default Enhancements] (OA, Tariff)**

**Credit Breach:**

“Credit Breach” shall mean (a) the ~~failure status~~ of a Participant ~~to that does not currently perform, observe, meet or comply with any~~ requirements of Tariff, Attachment Q or other provisions of the Agreements, other than a Financial Default, ~~and it shall also mean~~ or (b) a determination by PJM and notice to the Participant that ~~(b)(i) a Material Adverse Change has occurred or (ii) a Participant represents an unreasonable credit risk to the PJM Markets; that, in either any event, has not been cured or remedied after any required notice has been given and any cure period has elapsed.~~

**[ROW 15 OF MATRIX – Internal Credit Score] (Tariff)**

**Credit Score:**

“Credit Score” shall mean a composite numerical score scaled from 0-100 as calculated by PJM Settlement that incorporates various predictors of creditworthiness.

**[ROW 21 OF MATRIX – Event of Default Enhancements] (Tariff)**

**Credit Support Default:**

“Credit Support Default,” shall mean (a) the failure of any Guarantor of a Market Participant to make any payment, or to perform, observe, meet or comply with any provisions of the applicable Guaranty or Credit Support Document that ~~has not been cured or remedied, after any required notice has been given and an opportunity to cure (if any) has elapsed, would result in an Event of Default,~~ (b) a representation made or deemed made by a Guarantor in any Credit Support Document that proves to be false, incorrect or misleading in any material respect when made or deemed made, (c) the failure of a Guaranty or other Credit Support Document to be in full force and effect prior to the satisfaction of all obligations of such Participant to PJM, without PJM’s consent, or (d) a Guarantor repudiating, disaffirming, disclaiming or rejecting, in whole or in part, its obligations under the Guaranty or challenging the validity of the Guaranty.

**[ROW 21 OF MATRIX – Event of Default Enhancements] (Tariff)**

**Credit Support Document:**

“Credit Support Document” shall mean any agreement or instrument in any way guaranteeing or securing any or all of a Participant’s obligations under the Agreements (including, without limitation, the provisions of Tariff, Attachment Q), any agreement entered into under, pursuant to, or in connection with the Agreements or any agreement entered into under, pursuant to, or in connection with the Agreements and/or any other agreement to which PJM, PJM Settlement and the Participant are parties, including, without limitation, any Corporate Guaranty, Letter of Credit, or agreement granting PJM and PJM Settlement a security interest.

**[ROW 21 OF MATRIX – Event of Default Enhancements] (Tariff)**

**Event of Default:**

“Event of Default,” as that term is used in Tariff, Attachment Q, shall mean a Financial Default, Credit Breach, Credit Support Default, ~~or a failure to comply or with any of the terms and provisions of Tariff, Attachment Q, that has not been cured or remedied after any required notice has been given and any cure period has elapsed.~~

**[ROW 21 OF MATRIX – Event of Default Enhancements] (Tariff)**

**Financial Default:**

“Financial Default” shall mean (a) the failure of a Member or Transmission Customer to make any payment for obligations under the Agreements when due, including but not limited to an invoice payment that has not been cured or remedied after any required notice has been given and any cure period has elapsed, (b) a confirmed, undisputed financial default by the Member or Transmission Customer on a bilateral transaction to another Member or counterparty that has not been cured or remedied after any required notice has been given and any cure period has elapsed, (c) a default in any commodity exchange or any other energy, ancillary service and/or capacity markets including but not limited to those of another Regional Transmission Organization or Independent System Operator, that has not been cured or remedied after any required notice has been given and any cure period has elapsed, (bd) a bankruptcy proceeding filed by a Member, Transmission Customer or its Guarantor, or filed against a Member, Transmission Customer or its Guarantor and to which the Member, Transmission Customer or Guarantor, as applicable, acquiesces or that is not dismissed within 60 days, (ce) a Member, Transmission Customer or its Guarantor, if any, is unable to meet its financial obligations as they become due, or (df) a Merger Without Assumption occurs in respect of the Member, Transmission Customer or any Guarantor of such Member or Transmission Customer.

**[ROW 26 OF MATRIX – Market Participant Qualifications] (Tariff)**

**FTR Participant:**

“FTR Participant” shall mean any Market Participant that provides or is required to provide Collateral in order to participate in PJM’s FTR ~~auctions~~market.

**[ROW 12 OF MATRIX – Creditor Default Status and Default History] (Tariff)**

**Guarantor:**

“Guarantor” shall mean a credit support provider for a Participant that provides a Corporate Guaranty accepted by PJM and/or PJMSettlement, and for which PJM has made a determination that the Guarantor meets applicable creditworthiness requirements under Tariff, Attachment Q.

**[ROW 7 through 10 OF MATRIX – Audited Financial Statements] (Tariff)**

**Independent Auditor**

“Independent Auditor” shall mean an external accountant or external accounting firm who is not an employee of, not otherwise related to, not obligated to, has no interest in, and is independent in the performance of professional services for, the entity he/she/it is auditing, its management and/or its owners.

**[ROW 15 OF MATRIX – Internal Credit Score] (Tariff)**

**Internal Credit Score:**

“Internal Credit Score” shall mean a composite numerical score determined by PJMSettlement using quantitative and qualitative metrics to estimate various predictors of a credit event happening to a Market Participant that may trigger a credit event.

**[ROW 22 OF MATRIX – Collateral Management] (Tariff)**

**Letter of Credit:**

“Letter of Credit” shall mean a Credit Support Document acceptable to PJM and/or PJM Settlement, issued by a financial institution acceptable to PJM and/or PJM Settlement, naming PJM and/or PJMSettlement as beneficiary, in substantially ~~the~~a form posted on PJM’s website.

**[ROW 26 OF MATRIX – Market Participant Qualifications] (OA)**

**Market Buyer:**

“Market Buyer” shall mean a Member that has met reasonable creditworthiness standards established by the Office of the Interconnection and/or PJMSettlement in Tariff, Attachment Q, and that is otherwise able to make purchases in the PJM Interchange Energy Market.

**[ROW 26 OF MATRIX – Market Participant Qualifications] (OA, Tariff)**

**Market Participant:**

“Market Participant” shall mean a Market Buyer, a Market Seller, and/or an Economic Load Response Participant, except when that term is used in or pertaining to Tariff, Attachment M, Tariff, Attachment Q, Operating Agreement, section 15, Tariff, Attachment K-Appendix, section 1.4 and Operating Agreement, Schedule 1, section 1.4. “Market Participant,” or all three, except when such term is used in or pertaining to Tariff, Attachment M, ~~in which case Market Participant~~ shall mean an entity that generates, transmits, distributes, purchases, or sells electricity, ancillary services, or any other product or service provided under the PJM Tariff or Operating Agreement within, into, out of, or through the PJM Region, but it shall not include an Authorized Government Agency that consumes energy for its own use but does not purchase or sell energy at wholesale. “Market Participant,” when such term is used in or pertaining to Tariff, Attachment Q, Operating Agreement, section 15, Tariff, Attachment K-Appendix, section 1.4 and Operating Agreement, Schedule 1, section 1.4, shall mean a Market Buyer, a Market Seller, an Economic Load Response Participant, an FTR Participant, and/or any other entity whose application to participate in the PJM Markets has been approved by PJM.

**[ROW 26 OF MATRIX – Market Participant Qualifications] (OA)**

**Market Seller:**

“Market Seller” shall mean a Member that has met reasonable creditworthiness standards established by the Office of the Interconnection and/or PJMSettlement in Tariff, Attachment Q, and that is otherwise able to make sales in the PJM Interchange Energy Market.

**[ROW 16 OF MATRIX – Material Adverse Change] (Tariff)**

**Material Adverse Change:**

“Material Adverse Change” shall mean (i) any material adverse change in the financial condition of the respective entity or (ii) any adverse change, event or occurrence which, individually or in the aggregate is likely to have a material adverse effect on the ability of the Participant to pay and perform its obligations to PJM or on the operations, business, assets, financial condition, results, or creditworthiness of a Participant-the respective entity or its credit support provider, and may include, without limitation, the items listed in Tariff, Attachment Q.

**[ROW 21 OF MATRIX – Event of Default Enhancements] (Tariff)**

**Merger Without Assumption:**

“Merger Without Assumption” shall mean when a Market Participant, or any Guarantor or other credit support provider of such Market Participant, merges with or transfers all or substantially all of its assets to, or consolidates, amalgamates, reorganizes, reincorporates or reconstitutes into or as, another entity and, at the time of such consolidation, amalgamation, merger, transfer, reorganization, reincorporation or reconstitution (a) the resulting, surviving or transferee entity does not assume all the obligations of such Market Participant, or any Guarantor or other credit support provider of such Market Participant- under the Agreements or any Credit Support

Document to which it or its predecessor was a party; or (b) the benefits of any Credit Support Document do not extend (without the consent of the other party) to the performance by such resulting, surviving or transferee entity of its obligations under the Agreements.

**[ROW 27 OF MATRIX – FTR Participants Minimum Capitalization Standard] (Tariff)**

**Minimum Participation Requirements:**

“Minimum Participation Requirements” shall mean a set of minimum training, risk management, Communication, and capital or collateral requirements required for Participants in the PJM Markets, as set forth herein Tariff, Attachment Q and in the Form of Annual Certification set forth as Tariff, Attachment Q, Appendix 1. FTR Participants, ~~transacting in FTRs,~~ in certain circumstances will be required to demonstrate additional capital and collateral requirements as set forth in Tariff, Attachment Q, and risk management procedures and controls as further set forth in the Annual Certification found in Tariff, Attachment Q, Appendix 1.

**[ROW 10 OF MATRIX – No Audited Financial Statements (Newly Formed or does not routinely prepare audited financials)] (Tariff)**

**Municipalities and Cooperatives; Municipality and Cooperative; Municipality or Cooperative:**

“Municipalities and Cooperatives,” “Municipality and Cooperative,” and “Municipality or Cooperative,” as those terms are used in Tariff, Attachment Q or elsewhere regarding credit scoring, shall mean Participants that are not-for-profit municipal electric systems, municipalities, electric cooperatives, generation cooperatives, transmission cooperatives and/or joint municipal agencies, or agents duly authorized to represent one or more of such entities and whose credit quality is directly derived from the credit quality of the entity(ies) represented through the agency relationship.

**[ROW 6 OF MATRIX – Rating Agency Reports] (Tariff)**

**Nationally Recognized Statistical Rating Organization:**

“Nationally Recognized Statistical Rating Organization” or “NRSRO” shall have the meaning as set forth in Securities Exchange Act of 1934, section 3(a)(62), 15 U.S.C. §78(a)(62).

**[Clarification Consistent with Overall Att. Q Improvements] (Tariff)**

**PJM Markets:**

“PJM Markets” shall mean the PJM Interchange Energy Market, and capacity markets, including the RPM auctions, and any other market operated by PJM, together with all bilateral or other wholesale electric power and energy transactions, capacity transactions, ancillary services transactions (including black start service), transmission transactions, Financial Transmission Rights transactions, or transactions and in any other market operated under the PJM Tariff or Operating Agreements within the PJM Region, wherein Market Participants may incur Obligations to PJM and/or PJM Settlement.

**[ROW 3 OF MATRIX – Def’n of Principal] (Tariff)**

**Principal:**

“Principal” shall mean (i) the chief executive officer or senior manager that controls or directs strategy for the Participant, (ii) the chief legal officer or general counsel, (iii) the chief financial officer or senior manager that controls or directs the financial affairs and investments of the Participant, (iv) the chief risk officer or senior manager responsible for managing commodity

and derivatives market risks, and (v) the officer or senior manager responsible for or to be responsible for transactions in the applicable PJM Markets. If, due to the Participant's business enterprise, structure or otherwise, the functions attributed to any of such Principals are performed by an individual or entity separate from the Participant (such as a risk management department in an affiliate, or a director or manager at an entity that controls or invests in the Participant), then for that the Participant the term Principal shall explain mean that individual, or the senior officer or manager of that entity, that performs such function such Principal's role as part of PJM's initial and ongoing risk evaluation process.

**[ROW 6 OF MATRIX – Rating Agency Reports] (Tariff)**

**Rating Agency:**

“Rating Agency” shall mean a Nationally Recognized Statistical Rating Organization that assesses the financial condition, strength and stability of companies and governmental entities and their ability to timely make principal and interest payments on their debts and the likelihood of default, and assigns a rating that reflects its assessment of the ability of the company or governmental entity to make the debt payments.

**[ROW 23 OF MATRIX – Restricted Collateral] (Tariff)**

**Restricted Collateral:**

“Restricted Collateral” shall mean Collateral, held by PJM or PJMSettlement, which cannot be used, netted, credited or spent by the Participant to satisfy any other obligations.

**[ROW 27 OF MATRIX – FTR Participants Minimum Capitalization Standard] (Tariff)**

**Tangible Net Worth:**

“Tangible Net Worth” shall mean ~~all total~~ assets ~~less goodwill and other~~(not including any intangible assets, ~~minus total~~ such as goodwill) less all liabilities. ~~Any such calculation may be reduced by PJMSettlement upon review of the available financial information.~~

**[ROW 11 OF MATRIX – References] (Tariff)**

**Trade Reference:**

“Trade Reference” shall mean a reference from a contact or firm that had or has a material business relationship with a Participant ~~in a commodity or derivatives market.~~

**[ROW 17 OF MATRIX – Limit Market Participant Authority] (Tariff)**

**Working Credit Limit:**

“Working Credit Limit” shall mean an amount ~~that~~ is 75% of the Participant's Unsecured Credit Allowance and/or 75% of the Collateral provided by the Participant to PJMSettlement. The Working Credit Limit establishes the maximum amount of Total Net Obligation that a Participant may have outstanding at any time. The calculation of Working Credit Limit shall take into account applicable reductions for Minimum Participation Requirements, FTR participation (for which there is no Unsecured Credit Allowance available), or other credit requirement determinants as defined in Tariff, Attachment Q.

**[ROW 17 OF MATRIX – Limit Market Participant Authority] (Tariff)**

**Working Credit Limit for Virtual Transactions:**

The “Working Credit Limit for Virtual Transactions” shall be calculated as 75% of the Market Participant's Unsecured Credit Allowance and/or 75% of the Collateral provided by the Market

Participant to PJM Settlement when the Market Participant is at or below its Peak Market Activity credit requirements as specified in Tariff, Attachment Q, section V.A. When the Market Participant ~~has available~~~~provides additional~~ Unsecured Credit Allowance and/or has provided Collateral in excess of its Peak Market Activity credit requirements, such additional Unsecured Credit Allowance and/or Financial Security shall not be discounted by 25% when calculating the Working Credit Limit for Virtual Transactions. The Working Credit Limit for Virtual Transactions is a component in the calculation of Credit Available for Virtual Transactions. The calculation of Working Credit Limit for Virtual Transactions shall take into account applicable reductions for Minimum Participation Requirements, FTR, or other credit requirement determinants as defined in Tariff, Attachment Q.