



Alignment of PJM Authority in the Event of Market Participant Default

Colleen Hicks
Associate General Counsel

Markets & Reliability Committee
November 16, 2022

- Education provided on Operating Agreement and Attachment Q default language
- Reviewed areas of potential flexibility in PJM's exercise of remedies upon an Event of Default

**Proposal was approved
at the October 2022 RMC.**

Member Vote
122–0

-
- 1** Reconcile default language in Operating Agreement with default language in PJM Tariff Attachment Q
-
- 2** Clarify specific circumstances in which a Market Participant may be permitted to continue participating in the PJM markets notwithstanding the occurrence of an Event of Default

Overview

- During the review of Attachment Q in 2020, certain revisions to the Operating Agreement were presented as conforming but went further.
- OA 15.1.5 language uses *mandatory* language to describe the actions that PJM must take upon the occurrence of an Event of Default.
- PJM Tariff Attachment Q Section IX allows a more targeted use of the remedies that PJM may take upon the occurrence of an Event of Default.

OA Section 15 Failure To Meet Obligations

A Market Participant :

- *Shall* be precluded from buying or selling in market until default is cured – OA 15.1.5(i)
- *Shall not* be permitted to participate in Committees – OA 15.1.5(ii)
- *Shall not* be entitled to vote – OA 15.1.5(iii)

BUT the OA also says:

- PJM *may* limit, suspend or terminate rights of MP if PJM determines it does not meet its obligations – OA 15.1.1
- Defaulting MPs are obligated to take steps to mitigate the impact of a default, including scheduling its own load – OA 15.4

Operating Agreement generally uses *mandatory* language to describe consequences following an Event of Default.

PJM Tariff Attachment Q, Section IX

- If PJM determines that a Market Participant is in Credit Breach, or that a Financial Default or Credit Support Default exists, PJM *may* issue to the Market Participant a breach notice and/or a Collateral Call or demand for additional documentation or assurances.
- At such time, PJM *may* also suspend payments of any amounts due to the participant and limit, restrict or rescind the Market Participant's privileges to participate in any or all PJM Markets under the Agreements during any such cure period.
- In the Event of Default by a Participant, PJM *may* exercise any remedy or action allowed or prescribed by this Attachment Q immediately or following investigation and determination of an orderly exercise of such remedy or action.

Attachment Q allows remedies to be used strategically following an Event of Default.

Operating Agreement Change

OA 15.1.5 language would be revised to align with the Attachment Q language upon an Event of Default and provide greater authority to PJM to respond.

A defaulting Market Participant **may** ~~shall~~ be precluded from buying or selling in any market operated by PJM until the default is remedied as set forth above.

Other prohibitions upon Event of Default would remain, including committee participation and voting.

- Under certain limited circumstances, it may be legally required or in the interest of the organization to have limited flexibility to allow continued market participation following a default.
- Attachment Q provides PJM some discretion for actions or remedies to be taken upon an Event of Default.
- PJM has identified situations where a defaulted Market Participant may be permitted to continue to transact in PJM markets notwithstanding the occurrence of an Event of Default.

The application of any of the scenarios would be contingent on PJM's reasonable expectation that such action or inaction will:

- mitigate or decrease the occurrence of losses
- enable the continuation of service to certain end users until such time that PJM receives regulatory approval to terminate service
- address a system reliability condition

**Grid Reliability/
Emergencies**

**Net Market Seller/Ability
To Generate Revenues**

**Ability to Post Collateral
(Assurance of Payment)**

**Certain Transmission
Customers/Load Serving
Entities**

Grid Reliability/ Emergencies

- Situation described or contemplated in PJM Manual 13: Emergency Operations
- NERC requirement
- Reliability Must Run Agreement

Instances where the reliability or emergency has already been predetermined through stakeholder or industry rules

Ability to Post Collateral

- Market Participant with the ability to post sufficient collateral
- Example – the declaration of bankruptcy by a Market Participant

Provides an opportunity to mitigate losses while continuing participation in PJM

Net Market Seller/Ability to Generate Revenues

- Ability to generate revenues post Event of Default
- Market Participant has potential to mitigate losses.

Scenario would permit an entity generating revenues to have continued access to PJM markets.

Certain Transmission Customers/ Load Serving Entities

- Currently, under PJM's Tariff §7.3, PJM may not terminate service to certain Transmission Customers without FERC approval.
- PJM may terminate a Transmission Customer upon default if another retail access provider exists to provide continuation of retail service to affected end users.
- PJM may terminate a Transmission Customer taking service pursuant to Part II to serve load outside of PJM.

PJM proposes to clarify PJM's ability to provide service continues to ensure continuation of service to end users.

Reciprocal Provisions to Tariff Attachment Q Section (IX) and Operating Agreement 15.1.5

- (a) circumstances in support of grid reliability,
- (b) when a Market Participant is a net market seller,
- (c) when a Market Participant has the ability to post sufficient collateral, or
- (d) to enable certain Members to continue to receive service prior to PJM receiving regulatory approval to terminate.

Other prohibitions upon Event of Default would remain including committee participation and voting.

Presenter/SME:
Colleen Hicks,
Colleen.Hicks@pjm.com

Alignment of PJM Authority in the Event of Market Participant Default



Member Hotline

(610) 666 – 8980

(866) 400 – 8980

custsvc@pjm.com

**PROTECT THE
POWER GRID
THINK BEFORE
YOU CLICK!**



Be alert to
malicious
phishing emails.

Report suspicious email activity to PJM.
(610) 666-2244 / it_ops_ctr_shift@pjm.com

