

Purpose

This document provides background information regarding a number of topics for the Risk Management Committee's consideration before a formal workplan for the Risk Management Committee is created. Once these topics have been vetted, the expectation is that each of these topics will be framed as one or more problem statements and issue charges at the appropriate times for consideration individually by the Risk Management Committee.

1. Capacity Credit Revisions

Tariff, Attachments DD and Q

Background

PJM believes revisions are needed to Tariff, Attachment Q and Attachment DD to incorporate a credit requirement for Buy Bids and make other RPM credit revisions including revisions to address at-risk resources and external capacity resources.

Tariff, Attachment Q, section VI: Supplemental Credit Requirements for Screened Transactions, B. RPM Auction and Responsive Demand Credit Requirements only specifically addresses Sell Offers in RPM Auctions, and thus is not applicable to Buy Bids in such auctions.

Additionally, the provisions of that section only speak to the following types of at-risk resources: (i) a Planned Generation Capacity Resource; (ii) a Planned Demand Resource or an Energy Efficiency Resource; (iii) a Qualifying Transmission Upgrade; (iv) an existing or Planned Generation Capacity Resource located outside the PJM Region that at the time it is submitted in a Sell Offer has not secured firm transmission service to the border of the PJM Region sufficient to satisfy the deliverability requirements of the Reliability Assurance Agreement; or (v) Price Responsive Demand to the extent the responsible PRD Provider has not registered PRD-eligible load at a PRD Substation level to satisfy its Nominal PRD Value commitment, in accordance with Reliability Assurance Agreement, Schedule 6.1. Existing Generation Capacity Resources whose projected PJM market revenues may be less than the default retirement avoidable costs, another type of at-risk resource, are also not addressed in the section.

Other items for potential consideration:

- Whether we need to review credit requirements for external capacity resources.

Incorporating these revisions are important because currently there exists a gap in our credit policy for (a) Buy Bids that needs to be addressed as the number of entities that submit Buy Bids but do not have a pre-existing RPM commitment increase, and (b) at-risk Existing Generation Capacity Resources that currently have no credit requirements.

The proposed timing for taking these issues through the stakeholder process is TBD.

** Related to Credit Subcommittee [issue charge](#) re: credit requirements for at-risk generators

2. FTR Bilateral Reporting Requirements and Transfers

Tariff, Attachments K-Appendix and Q, Operating Agreement, Schedule 1

Background

Currently market participants enter bilateral FTR transactions (i.e. FTR transactions that they trade between each other “over the counter” or bilateral contracts) in FTR Center, yet they are not currently required to include the accurate, actual transaction price they have agreed to in FTR Center. We should consider the following:

- incorporate revisions that allow PJM to deny an FTR bilateral transaction not only for credit reasons but also for portfolio risk reasons
- for FTR bilaterals reported in FTR Center, all information provided needs to be accurate, specifically including the price information
- all FTR bilaterals must be reported to PJM

In addition, Tariff, Attachment Q, section VI.C.5 addresses credit responsibility for bilateral transfers of FTRs. Specifically it provides as follows:

5. Credit Responsibility for Bilateral Transfers of FTRs

PJM may require that credit responsibility associated with an FTR bilaterally transferred to a new Market Participant remain with the original party (which for these purposes, means the party bearing credit responsibility for the FTR immediately prior to bilateral transfer) unless and until the receiving party independently establishes, consistent with this Attachment Q, sufficient credit with PJM and agrees through confirmation of the bilateral transfer in PJM’s FTR reporting tool that it will meet in full the credit requirements associated with the transferred FTR.

Incorporating these revisions are important to further mitigate credit risk. PJM needs to revise the appropriate Tariff and/or Operating Agreement provisions to ensure that it has specific authority to deny an FTR bilateral transaction for credit reasons as well as portfolio risk reasons.

The proposed timing for taking this issue through the stakeholder process is TBD.

3. Default Notification and Remedy

Operating Agreement, section 15

Background

Recent events have led PJM to conclude that it needs flexibility with respect to what action to take when a Member defaults on satisfying a Collateral Call, e.g. waiver request to allow Panda Stonewall to continue participating in the PJM Markets. Therefore, revisions are needed to Operating Agreement, section 15.1.5 to give PJM flexibility with regard to limiting market participation of an entity that experiences a Collateral default in certain circumstances in which allowing continued market participation is more beneficial to the PJM membership than limiting or prohibiting market participation.

Incorporating these revisions are important because they allow PJM to avoid having to issue a default allocation assessment or taking other action that may not be in the best interest of PJM Members.

The proposed timing for taking this issue through the stakeholder process is TBD.

4. Making Default Periods Uniform

Tariff, Attachment Q, section VI.C.9, Tariff, Part I, section 7.3

Background

There are various cure periods for different types of defaults. As an example, when PJM incorporated its mark-to-auction provisions into Tariff, Attachment Q, it incorporated a different cure period for a default on a MTA Collateral Call than what was provided in Operating Agreement, section 15.1.5. In Tariff, Attachment Q, section VI.C.9, if a Market Participant is declared in default of satisfying MTA Collateral Calls, the Market Participant will only be deemed in default when it “fails to satisfy MTA Collateral Calls for two consecutive auctions for overlapping periods, e.g. two balance of Planning Period auctions, an annual FTR auction and a balance of Planning Period auction, or two long term FTR auctions, (for this purpose the four rounds of an annual FTR auction shall be considered a single auction).”

In addition, when PJM overhauled Tariff, Attachment Q via the FRMSTF in 2020, it neglected to identify one other section that needed to be revised to ensure consistency with the default and cure provisions of Operating Agreement, section 15.1.5. Specifically, Tariff, Part I, section 7.3 still indicates that if a “Transmission Customer or other entity (a) fails, for any reason, to make payment to PJMSettlement, for the benefit of PJMSettlement or the Transmission Provider, on or before the due date as described above, or (b) fails at any time to meet the Transmission Provider’s creditworthiness requirements, and such failure is not corrected *within two Business Days* after the Transmission Provider notifies the Transmission Customer or other entity to cure such failure, a default by the Transmission Customer or other entity shall be deemed to exist.” (emphasis added) This section should have been revised, consistent with the

revisions to Operating Agreement, section 15.1.5, to reflect the applicable cure period which can be either one Business Day or two Business Days depending on the time of day the notice of default is provided.

These revisions are needed to make the referenced default periods uniform with Operating Agreement, section 15.1.5.

The proposed timing for taking these issues through the stakeholder process is TBD. We may take the revision for the Tariff, Part I, section 7.3 revision through GDECS since it should have been made with the FRMSTF revisions effective June 1, 2020.

5. Working Credit Limit Definition and Other Clean-up

Tariff, Part I, Definitions, Tariff, Attachment Q, section VII.B

Background

There are currently two slightly different definitions of Working Credit Limit that need to be addressed to eliminate confusion.

In addition, there are clean-up revisions that need to be made to correct a reference to “unlimited corporate guaranty” in the Annual Officer Certification in Tariff, Attachment Q, Appendix 1.

Incorporating these revisions are important because having clear credit provisions is essential to a properly administered credit policy.

The proposed timing for taking this issue through the stakeholder process is TBD.

6. Bankruptcy Protections

Tariff, Operating Agreement

Background

In order to protect the PJM membership in the case of Member bankruptcies, particularly those who are Market Participants, revisions are needed to the Tariff and Operating Agreement to incorporate bankruptcy protections including but not limited to strengthening the recoupment provisions, clarifying that all Agreements are part of integrated and not several transactions, clearly defining Obligations secured by Collateral, indicating that PJM/PJM Settlement have a security interest in Collateral and other money in their possession in the event of bankruptcy of a Member, making clear that upon filing bankruptcy PJM/PJM Settlement can hold pre-petition receivables to satisfy pre-petition obligations, and adding a provision stating that Collateral will be replenished within 24 hours of filing bankruptcy.

These revisions are important because they will better protect PJM and its Members from a bankruptcy debtor trying to assume only some of the Agreements and rejecting others.

The proposed timing for taking this issue through the stakeholder process is TBD.

7. Additional Suggested Items

- Develop key risk metrics for ongoing monitoring
- Look at existing rules for communicating defaults to Members
- Develop what this committee should look at generally, on an ongoing basis