

PEAK MARKET ACTIVITY CREDIT REQUIREMENT

Problem / Opportunity Statement

PJM's Credit Risk Management Policy, defined in the PJM Open Access Transmission Tariff (OATT), Attachment Q (Attachment Q), sets forth the manner in which PJM determines the collateral requirements for each Participant and the methods by which Participants may satisfy and manage the requirements established by PJM. Collateral requirements are not static. They are reassessed for various reasons, including to account for the market activity of the Participant, as that market activity changes throughout the year (52 week period). The current provisions of Attachment Q strike a balance of protecting the PJM membership against socialized defaults and the cost associated with that protection.

Attachment Q requires constant evaluation of Participants' market activity to determine if additional collateral must be secured. PJM calculates Participants' Peak Market Activity (PMA) semi-annually, establishing an 'initial PMA' for each 6-month, semi-annual period. PMA is calculated as the three highest consecutive weeks of total PJM bills ending in that semi-annual period and does not consider any forward price movement.

PJM obtains additional collateral from Participants whose PMA increases beyond the security held (including assessed Unsecured Credit) for that Participant. Additional collateral may be held up to 6 months, even if the PMA decreases during the semi-annual period.

The electric industry is facing unprecedented changes which are putting upward pressure on the cost to serve load including both higher prices and higher demand. Peak Market Activity values historically rise exponentially between April and August. From summer 2022 through winter 2023, higher demand and extremely high gas prices are forecasted to further exacerbate the problem resulting in periods of under-collateralization using PMA. It is timely to consider enhancements to the PMA credit requirement to better protect Participants, particularly during times of stress, to ensure effective collateralization.