PMA Credit Policy Suggestions

Credit Subcommittee

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Current PJM Credit Requirements - Background

- PJM's current credit requirements are divided into two groups
  - Set-asides to protect against exposure from long-term screened activities
    - FTR, RPM (planned resources)
  - Remaining credit to protect against exposure from current activity
    - Load and other spot energy transactions
    - Virtual transactions
      - Credit is not set-aside, but rather in parallel with other transactions
- Current Activity requirement is the higher of
  - Current Obligations/0.75 (25% buffer for cure period, weekends, …)
  - PMA (highest three weeks in current 6-month period)

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Current PJM Credit Requirements - Background

- Fundamental concepts/realities underlying PJM's credit policy
  - All current exposure measures are inherently backward-looking
    - PJM cannot measure actual activity until after it has happened
  - Current activity-based credit requirements "chase" credit exposure as it rises
  - Credit exposure for the membership is at its greatest when PJM is chasing credit
  - PJM's PMA is meant to reduce the continual chasing that would occur if the current exposure requirement were the only requirement

- The PMA used to be a rolling 52-week measure
  - Preventing chasing except for a few individual peaks each year
- The change to semi-annual PMA resets was a trade of reduced credit requirement for more credit exposure
  - PJM now chases credit for the entire summer ramp and winter ramp periods each year
    - Extra exposure to the membership
- PJM would recommend that any change to the PMA not increase chasing beyond the current level, and ideally, reduce chasing below the current level

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- Two PMA proposals received
  - Remove all screened transactions from the PMA calculation
  - Change PMA calculation and remove prepayment option

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PMA Credit Policy Suggestions

- Remove all screened transactions from the PMA calculation
  - FTRs (currently removed)
  - Virtual Transactions (INC/DEC and Up-to)
  - Exports (once they are screened)

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PMA Credit Policy Suggestions

- Change PMA calculation and remove prepayment option
  - Shorten PMA cycle by changing PMA to be the higher of:
    - Historical indicator such as:
      - 3-week average of weekly bills for past 12 months (as with current Apr/Oct reset)
    - Leading indicator such as:
      - Past 5 days multiplied by 2
      - Weekly pricing of PJM zone on ICE (i.e. look at forward price and extrapolate potential billings over the next week or two)
      - Some other “seasonal” indicator
  - Remove prepayment option
    - Prepayment allows a subset of members to artificially reduce their measured potential exposure
    - Current potential exposure is not reduced by prepayments at some time in the past
    - Credit impact from prepayments greatly diminished when PMA cycle is shortened

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