

# Due Diligence & Assessment Criteria Process

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FRMSTF  
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- Operating Agreement
  - Applicants must satisfy membership requirements
- Online application
  - Applicants must disclose prior or current investigations and bankruptcies
- Attachment Q – Tariff
  - Participants must disclose any known material litigation, commitments or contingencies as well as any current or prior bankruptcy declarations or material defalcations by the Participant, or its predecessors, subsidiaries or Affiliates
- Tariff
  - Participant must disclose the existence of any ongoing investigations

- New information disclosure requirements will be added to the Operating Agreement
  - List of “Principals”
    - New definition for Principal
  - Authorized signatories
  - Relevant criminal or civil litigation
  - Past or on-going investigations by any entity responsible for regulating activity in energy markets
  - Written summary of any bankruptcy, dissolution, merger or acquisition by the Applicant in the preceding five years
  - List of current retail and wholesale electricity markets-related operations in the United States

- Certificate signed by a Principal stating that the Applicant has obtained all applicable FERC licenses and approvals
  - Market-Based Rate Authority
- Certificate signed by a Principal stating that the Applicant has either established or contracted for:
  - Risk management procedures that are applicable to participation in the PJM markets
  - Appropriate training of relevant personnel that is applicable to its participation in the PJM markets unless the Applicant represents in writing that it will not participate in the PJM markets
- Additional information needed to resolve questions or deemed necessary to aid in the application approval process

- PJM may audit the information supplied
  - notice will be supplied at least 10 days in advance of the initiation of the audit
  - Any expenses incurred due to the audit will be the responsibility of the Applicant
- Any Applicant that fails to provide the required information will not be considered for membership in PJM until the required information is provided
  - If the Applicant fails to provide any additional information requested by PJM within 20 days, its application for membership will be rejected

- Existing Members to comply with the same information disclosure requirements as Applicants
- Members must notify PJM within 10 business days of any changes related to the information disclosure requirements
- On an annual basis, PJM will require Members to recertify the information by April 30 of each year
- A Member that fails to provide this information or other information requested by PJM will be prohibited from participating in the PJM markets until the information is made available

- PJM will use the information obtained from both the information disclosure and any additional information gleaned from search queries using publically available data in the determination of membership
- Criteria
  - Membership could be denied if the Applicant or any of the Principals or Affiliates of the Applicant were convicted of a felony as defined by the Commodity Exchange Act.
    - If any Principal of an Applicant was criminally convicted, the termination of employment or any affiliation of the Principal with the Applicant could be used as a justification to approve membership

- Criteria
  - Membership could be denied if there are any past or ongoing investigations against the Applicant or any of the Principals or Affiliates of the Applicant by the FERC, the SEC, the CFTC, any exchange monitored by the NFA or any entity responsible for regulating activity in energy markets and whether sanctions were imposed.
    - The following mitigating factors could be evaluated to approve membership:
      - Risk management procedures have been established or contracted for that are applicable to participation in PJM
      - Appropriate training has been established or contracted for relevant personnel, which is applicable to its participation in PJM
      - Compliance practices and internal risk controls have been implemented to prevent reoccurrence of the activities leading to the investigations
      - Corrective steps were taken, including but not limited to, disciplinary action or termination of employment of Principals or employees whose behavior were the root cause of or who participated in the activities leading to the investigations
  - Membership could be denied if the Applicant or any of the Principals or Affiliates of the Applicant have a previous PJM default or have defaulted in any other RTO or ISO
    - Justification could be made to approve membership if the default has been cured



- PJM will use the information obtained from both the information disclosure and any additional information gleaned from search queries using publically available data in the determination of membership
- The same criteria applied to Applicants will also apply to existing Members when determining the future status of membership

# **PJM Authorities and Discretion to Deny or Revoke Trading Rights**

- PJM will use the information and criteria outlined in the *Due Diligence & Assessment Criteria Process* position paper and the *Financial Criteria for Participation and Financial Surveillance Process* discussion paper to make a determination to either approve or deny membership in the case of an Applicant or continue or terminate membership in the case of a Member
  - PJM may also recommend approval with restrictions that could limit a new or existing Member's participation in PJM
- A cross-divisional PJM committee will review and approve membership applications and ongoing membership
  - Comprised of leaders from various areas of the organization, including Finance, Markets and Legal
    - chaired by the Chief Risk Officer
- This internal PJM committee will have the sole authority and discretion to determine the membership status