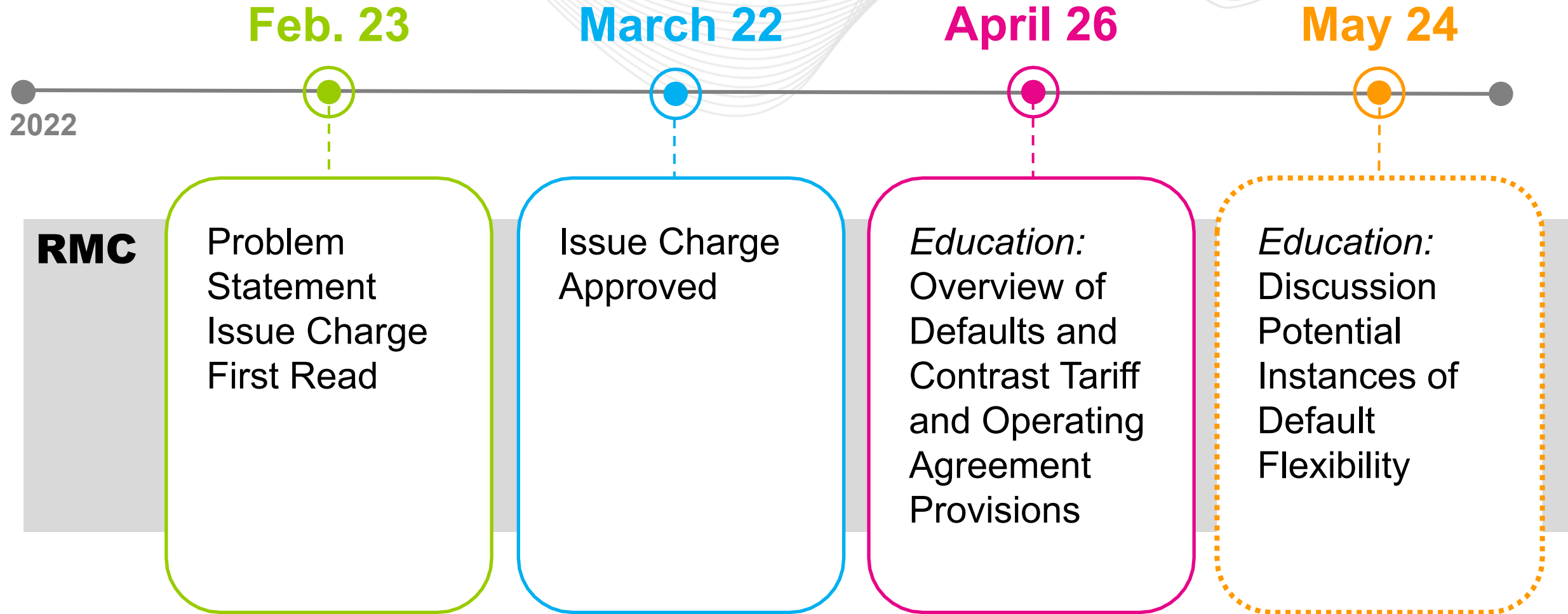# Market Participant Default Flexibility

Risk Management Committee

May 24, 2022

Operating Agreement, Section 15.1.5 specifies actions PJM must take in the case of a Member default. One such action is to limit buying or selling by a Market Participant in a PJM market. Under certain limited circumstances, PJM believes it may be beneficial to have limited flexibility to allow continued market participation in the best interest of PJM membership. These situations may include, but are not limited to, when the Member has the ability to generate revenues or has the ability to provide additional collateral.

Grid Reliability/ Emergencies	**Net Market Seller/Ability to Generate Revenues**
Ability to Post Collateral (Assurance of Payment)	**Load Serving Entity**

Grid Reliability/ Emergencies

- Situation described or contemplated in PJM Manual 13: Emergency Operations

- NERC Requirement

- Reliability Must Run

Ability to Post Collateral

- Market Participant with ability to post collateral

- Potential Bankruptcy Scenario

- Market Participant declares PJM a Critical Vendor and obligations are current

Net Market Seller/Ability to Generate Revenues

- Ability to Generate Revenues Post Default

- Market Participant has potential to mitigate losses

| **Load Serving Entity** | No Provider of Last Resort for service to customers exists |

Driving factor is whether load will be served

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Market Participant Default Flexibility

Member Hotline

(610) 666 – 8980

(866) 400 – 8980

custsvc@pjm.com

Appendix
(Tariff and Operating Agreement Text for Reference)

OA 15.1 Failure to Meet Obligations

15.1.5 Default Notification and Remedy

If a Member or Participant has not remedied a breach, as described in section 15.1.4 above, by 4:00 p.m. Eastern Prevailing Time on the first Business Day following PJM's or PJM Settlement's issuance of a written notice of breach or Collateral Call, the notice of which is issued before 1:00 p.m. Eastern Prevailing Time, or by 4:00 p.m. Eastern Prevailing Time on the second Business Day following PJM's or PJM Settlement's issuance to the Member or Participant of a written notice of breach or Collateral Call, the notice of which is issued at or after 1:00 p.m. Eastern Prevailing Time, or receipt of the PJM Board's decision on review, if applicable, then the Member or Participant shall be in default and, in addition to such other remedies as may be available to PJM or PJM Settlement:

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

ii. A defaulting Member shall not be entitled to participate in the activities of any committee or other body established by the Members Committee or PJM; and

iii. A defaulting Member shall not be entitled to vote on the Members Committee or any other committee or other body established pursuant to this Agreement.

iv. PJM shall notify all other Members of the default.

v. The Financial Transmission Rights positions of a Member in default shall be addressed as provided in Operating Agreement, Schedule 1, section 7.3.9 and the parallel provisions of Tariff, Attachment K-Appendix, section 7.3.9.

Type	Definition
Financial Default	"Financial Default" shall mean (a) the failure of a Member or Transmission Customer to make any payment for obligations under the Agreements when due, including but not limited to an invoice payment that has not been cured or remedied after notice has been given and any cure period has elapsed, (b) a bankruptcy proceeding filed by a Member, Transmission Customer or its Guarantor, or filed against a Member, Transmission Customer or its Guarantor and to which the Member, Transmission Customer or Guarantor, as applicable, acquiesces or that is not dismissed within 60 days, (c) a Member, Transmission Customer or its Guarantor, if any, is unable to meet its financial obligations as they become due, or (d) a Merger Without Assumption occurs in respect of the Member, Transmission Customer or any Guarantor of such Member or Transmission Customer.

Type	Definition
Credit Breach	"Credit Breach" shall mean (a) the failure of a Participant to perform, observe, meet or comply with any requirements of Tariff, Attachment Q or other provisions of the Agreements, other than a Financial Default, or (b) a determination by PJM and notice to the Participant that a Participant represents an unreasonable credit risk to the PJM Markets; that, in either event, has not been cured or remedied after any required notice has been given and any cure period has elapsed.

Type	Definition
Credit Support Default	"Credit Support Default," shall mean (a) the failure of any Guarantor of a Market Participant to make any payment, or to perform, observe, meet or comply with any provisions of the applicable Guaranty or Credit Support Document that has not been cured or remedied, after any required notice has been given and an opportunity to cure (if any) has elapsed, (b) a representation made or deemed made by a Guarantor in any Credit Support Document that proves to be false, incorrect or misleading in any material respect when made or deemed made, (c) the failure of a Guaranty or other Credit Support Document to be in full force and effect prior to the satisfaction of all obligations of such Participant to PJM, without PJM's consent, or (d) a Guarantor repudiating, disaffirming, disclaiming or rejecting, in whole or in part, its obligations under the Guaranty or challenging the validity of the Guaranty.