



Review of the Default Provisions in PJM Governing Documents

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Review of Default and Remedy Provisions in PJM Governing Documents

- Comments filed in response to PJM's Alignment of PJM Authority Upon Default filing (ER23-1058) requested that PJM review the default and remedy provisions in PJM's Governing Documents.
- PJM is not aware of any required changes.
- If it is determined that changes are required, PJM will initiate stakeholder action to make changes.



Default Provisions Among PJM Governing Documents

Documents	Section
Operating Agreement	15.1 – Failure To Meet Obligations
Tariff	Section 7 – Billing & Payment Section 7.3 – Defaults Attachment Q – PJM Credit Risk Policy Section IX – Remedies
Reliability Assurance Agreement	Article 11 – Billing & Payment Section 11.3 – Failure To Pay
Consolidated Transmission Owners Agreement	Section 9.7.1 – Default

Provision	Operating Agreement	Tariff	Reliability Assurance Agreement
Section	15.1.3	Section 7.3	Section 11.3
Failure To Pay/ Noncompliance	If any Participant fails to make full and timely payment, or fails to meet financial obligation or other obligations, shall, upon expiration of cure period, be in default.	In the event a Transmission Customer or other entity fails to make payment, or fails to meet credit worthiness requirement, a default shall exist.	If any Party fails to pay its share of the costs allocated pursuant to Article 10 of the RAA, cost shall be allocated and paid by other parties in proportion to daily unforced capacity obligations.

Generally, if a Market Participant fails to meet obligations, they will be in breach. Upon failure to remedy the breach with applicable time period, they will be in default.

Provision	Operating Agreement	Tariff	Reliability Assurance Agreement
Section	15.1.4	Attachment Q Section IX	11.2
Breach Determination	PJM concludes that Member is in breach.	PJM makes determination that a Market Participant is in Credit Breach, Financial Default or Credit Support Default, PJM may issue Market Participant a breach notice and/or collateral call.	Cross-reference to Tariff provisions. Payment terms and conditions to extent practicable will be the same as those in the Tariff.

PJM makes breach determination.

Provision	Operating Agreement	Tariff	Reliability Assurance Agreement
Section	15.1.4	Attachment Q Section IX	11.2
Notice of Breach	PJM shall notify Member or Participant of breach.	PJM may issue breach notice and/or collateral call.	Cross-reference to Tariff provisions.

Generally, PJM issues the breach notice to Party who has failed to meet their obligations.

Provision	Operating Agreement	Tariff	Reliability Assurance Agreement
Section	15.1.4	Attachment Q Section IX	11.2
Right To Cure	Breaching party may remedy asserted breach by: (1) paying all amounts due and (2) demonstrating appropriate measures taken.	If Participant fails to meet obligation and remedies within the cure period, they shall be deemed not in compliance.	Cross-reference to Tariff provisions.

Governing Documents have limited opportunities to remedy a breach.

Provision	Operating Agreement	Tariff	Reliability Assurance Agreement
Section	15.1.5	Attachment Q Section IX	11.2
Time for Breach Remedy	<ul style="list-style-type: none"> Collateral call issued before 1 p.m. must be remedied by 4 p.m. on the next business day. Collateral call issued after 1 p.m. must be remedied within 2 business days by 4 p.m.. If Market Participant has not remedied breach within time frame, they shall be in default. 	Failure to remedy breach within time period described in Operating Agreement	Cross-reference to Tariff provisions.

The time period for remedy breach differs under the Governing Documents.

Provision	Operating Agreement	Tariff	Reliability Assurance Agreement
Section	15.1.5	Attachment Q Section IX	11.3
Consequences of Default	(i) May be precluded from operating in PJM markets	PJM may take following actions: (i) Suspend or terminate transmission service	Those unpaid costs shall be allocated to and paid by the other Parties hereto in proportion to the sum of the Daily Unforced Capacity Obligations of each such Party for the billing month.
	(ii) Cannot participate in committee	(ii) Limit, suspend or terminate activity in PJM markets	
	(iii) Not entitled to vote	(iii) Closeout and liquidate portfolio	
	(iv) PJM shall notify other Members		
	(v) FTR default provisions		
	(vi) PJM may permit defaulting Market Participant to continue under certain circumstances	(iv) Liquidate all, or a portion of collateral, to satisfy Total Net Obligations	

Generally, Market access will be turned off.

Provision	Operating Agreement	Tariff	Reliability Assurance Agreement
Section	15.1.6a	N/A	N/A
Reinstatement After Creditworthiness Default	If Member is in default solely due to creditworthiness standards once within a 12-month period, the Member may be reinstated after remedying default and any other requirements.	N/A	N/A

There are limited options for reinstatement after default.

Provision	Operating Agreement	Tariff	Reliability Assurance Agreement
Section	15.1.6b	N/A	N/A
Reinstatement After First Payment Default	Member may be reinstated if defaulted on failure to make timely payment or creditworthiness issues twice within 12-month period.	N/A	N/A

Limited options for reinstatement after default. Loss of stakeholder privileges and loss of unsecured credit for 12 months following default.

Provision	Operating Agreement 15.1 Failure To Meet Obligations	Tariff	Reliability Assurance Agreement
Section	15.1.6c	N/A	N/A
Reinstatement After Second Payment Default	Member is not eligible for reinstatement upon second payment default or third creditworthiness default within 12 months.	N/A	N/A

Terminated party shall comply with obligations of withdrawing party.

Provision	Operating Agreement	Tariff	Reliability Assurance Agreement
Section	15.2	Attachment Q Section IX	11.3
Enforcement of Obligation	<ul style="list-style-type: none"> • PJM Board, upon notice, may initiate action as deemed appropriate. • PJM may assess default allocation against Members not in default. • Defaulting Member liable for reasonable costs. 	N/A	The Office of the Interconnection shall enforce the collection of a Party's share of the costs.

PJM is authorized under Tariff to enforce obligations.

- Not all Participants are PJM Members and are signatories to the Operating Agreement.
- Certain transmission customers and interconnection service customers are not required to be Members.
- Only PJM Members sign the Operating Agreement.
- PJM Governing Documents are tailored to PJM's structure.

Valid reasons exist for the various default provisions.

Appendix



Consolidated Transmission Owner's Agreement

Section	9.7.1
Failure To Pay/ Noncompliance	If a Party fails to meet financial or other obligations under CTOA to PJM, or another party under the CTOA, the Party shall be deemed in breach.
Breach Determination	Administrative Committee must conclude party is in breach based on report or another party complaint.
Notice of Breach	Administrative Committee notifies breaching Party and other Parties of breach.
Right To Cure	Breaching Party has right to cure by (1) paying amounts due with interest and (2) presenting satisfactory evidence it can meet any other obligation.
Time for Breach Remedy	30th day after breach notice, Party is in default if it has not remedied the breach.
Consequences of Default – 9.7.1(a)	Party is not entitled to vote as long as default exists.
Reinstatement After First Payment Default	N/A
Reinstatement After Second Payment Default	If 2nd default within 24 hours or default imperils the safety or reliability of the PJM region, AC can vote to terminate Party status to CTOA.
Enforcement of Obligation	N/A



Default Provisions in PJM's Governing Documents

Governing Document	Section	Parties	Default	Remedy
Operating Agreement	15.1 Failure To Meet Obligation	PJM Members	Upon failure to meet obligations, PJM will issue a breach notice. 15.1.4.	If breach is not remedied, PJM may preclude Member from further participation in PJM markets. 15.1.5
Tariff	Section 7. Attachment Q, Section IX Remedies for Credit Breach, Financial Default or Credit Support Default	Governs PJM's Operations	Failure to remedy a Credit Breach, Financial Default or satisfy Collateral Default shall be an Event of Default.	Remedies include: <ul style="list-style-type: none"> • Suspension • Limited participation closeout • Liquidation of positions
Reliability Assurance Agreement (RAA)	Article 11	All organizations that sell electricity to end-use customers	If Party fails to pay their share of cost, any unpaid cost is allocated to other Parties of the RAA.	N/A
Consolidated Transmission Owners Agreement	Section 9.7.1 Default	Transmission Owners	Breach may evolve in default. Administrative Committee procedures are initiated after an Administrative Committee Notice.	Administrative Committee may vote to terminate after second default or if safety or reliability is imperiled.

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Review of Default Provisions



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