



Attachment Q Updates

Credit Subcommittee
August 19, 2016

- PJM's Law Department has undertaken an effort to update and clarify PJM's governing documents (e.g. Tariff, Operating Agreement)
- The Governing Document Enhancement & Clarification Subcommittee oversaw much of the effort
- Attachment Q (Credit Policy) is being updated on a parallel track
 - Special expertise needed for credit issues
 - Extensive updates to the organization of Att. Q
 - Additional minor changes in provisions
- PJM will request endorsement of the changes at the next Credit Subcommittee meeting

- Att. Q - Restructuring Changes
 - Reorganized sections and paragraphs
 - Grouped provisions related to credit available
 - Unsecured Credit Allowance
 - Financial Security
 - Grouped provisions related to credit required
 - Screened transactions
 - » FTR, RPM, Virtual Transactions, Export Transactions
 - General obligations
 - » PMA, Working Credit Limit

- Att. Q - Restructuring Changes (cont'd)
 - Merged/deleted duplicative language
 - Initial and ongoing credit evaluation
 - Third party best practices
 - Removed extraneous language
 - Introduction
 - L/C standard language requirements (included in standard form)
 - Markets Gateway procedures/processes
 - 3 Days notice prior to collateral replacement
 - Uncleared Bid Exposure

- Att. Q - Clarifications
 - Improved consistency and precision in wording
 - e.g. Market Participant vs. Participant
 - Enhanced explanations
 - Provisions applied at account, family, and member levels
 - Account level – Screening and credit set-asides/ allocations
 - Family level – \$50 million unsecured cap
 - Member level – most other provisions
 - Applicants must satisfy relevant credit requirements before transacting
 - Incorporated definitions with very limited use into main text

- Att. Q - Clarifications (cont'd)
 - Collateral for minimum participation requirements may be applied by PJM in event of default
 - Renamed both “Financial Security” and “collateral” as “Collateral”
 - Simplified explanation of credit requirements
 - Created definitions for some terms formerly defined in main text
 - Definitions moved from Attachment Q to new Tariff Definitions section
 - Part of overall change to entire Tariff; already implemented

- Att. Q – Updates/Corrections
 - Updated obsolete language
 - e.g. weekly update of online information (now daily)
 - Guaranty and L/C forms available online (not in credit application)
 - Corrected example using former 15% Working Credit Limit discount (now 25%)
 - Removed “Export Transactions” from definition of Credit Available for Virtual Transactions

- Att. Q - Additional modifications beyond restructuring and clarification
 - These changes have no actual effect on member credit requirements
 - PJM will request member endorsement of these changes
 1. Use FTR Undiversified multiplier of 3x for all undiversified portfolios
 - A. Instead of 2x vs. 3x depending on Geographic diversification test
 - B. Remove Geographically Undiversified test and related terms
 1. FTR Flow Undiversified participants (2x undiversified credit adder) are always also geographically undiversified (3x credit adder)
 - C. Will reduce FTR clearing delays by eliminating time consuming step
 - D. PJM is currently analyzing the undiversified adder to see if a better alternative can be designed and implemented

- Att. Q - Additional modifications (cont'd)
 2. Tax ID required to receive interest on cash collateral
 3. PJM explicitly provided reasonable time to investigate breach following identification prior to exercising remedies; delay in exercise will not preclude exercise later
 4. Collateral may not be encumbered or restricted
 5. PJM may adjust PMA credit requirement, rather than Collateral requirement, for “known, measurable and sustained changes”