



RPM Credit Reduction Clarifications

Harold Loomis
Credit Subcommittee
August 21, 2018

- PJM has identified two provisions for RPM credit requirement reductions that use language that is confusing or incomplete
 - Milestone documentation requirements for planned resources that are internally financed
 - QTU reductions when a Upgrade Construction Service Agreement (UCSA) is signed instead of an Interconnection Service Agreement (ISA)
- PJM is recommending clarifying language
 - Unanimous support received from Credit Subcommittee at its June meeting

- Planned capacity projects may receive a reduction in credit requirement for achievement of specified milestones
- Documentation for milestone achievement requires certification by an independent engineer, which typically is hired by a financing entity to help protect that entity's interests, but internally financed projects have no independent engineer
- Manual M-18 provides for a Professional Engineer (PE) or corporate officer to certify to specified milestones, but the Tariff does not match
- **Recommendation:** Tariff changes to :
 - provide for PE or Officer certification in specified situations
 - clarify the Financial Close milestone for internally funded projects in absence of formal external financing
 - clarify that Capacity Market Sellers should submit requests for reductions along with appropriate documentation

- QTU projects require signing either an ISA or a UCSA
- Original draft credit language provided for a 50% credit requirement reduction upon signing an ISA. A dollar reduction provision was added to provide for projects signing a UCSA instead of an ISA.
- Subsequent changes added the UCSA to the 50% provision but did not remove the dollar reduction provision, appearing to make the provisions additive
- Additive provisions can cause a planned QTU project to have a zero credit requirement
- **Recommendation:**
 - Make the QTU provision mirror the provision for other projects – a single 50% reduction upon executing either an ISA or UCSA

Appendix

ER08-232 Transmittal Letter

¶ E. Offsets to Credit Requirements for Qualifying Transmission Upgrades

An important principle of RPM is equal opportunity for different types of resources, including generation, transmission upgrades and demand resources to participate in the capacity market on an equal footing, including the applicable credit requirements. Under the current rules Planned Generation Capacity Resources may reduce their posted collateral when they have achieved the milestone of executing an Interconnection Service Agreement. No such reduction is available to Qualifying Transmission Upgrades (“QTU”) when these projects meet the same milestone. PJM proposed to revise Section IV.C.d of Attachment Q to the OATT in order to afford both types of resources similar relief upon reaching this milestone. The revision also affords relief for a planned QTU upon execution of an Upgrade Construction Service Agreement if no execution of Interconnection Service Agreement will occur in connection with the project. Because this milestone is comparable to an Interconnection Service Agreement, it is a reasonable alternative basis to grant such relief.

[Emphasis added]

Attachment Q § IV.B.3.g

For Qualifying Transmission Upgrades, the RPM Auction Credit requirement shall be reduced to 50% of the amount calculated under section IV.B.2 beginning as of the effective date of ~~an~~ the latest associated Interconnection Service Agreement (or, when a project will have no such agreement, an Upgrade Construction Service Agreement), and shall be reduced to zero on the date the Qualifying Transmission Upgrade is placed in service. In addition, a Qualifying Transmission Upgrade will be allowed a reduction in its RPM Auction Credit requirement equal to the amount of Collateral currently posted with PJM for the facility construction when the Qualifying Transmission Upgrade meets the following requirements: the Upgrade Construction Service Agreement has been fully executed, the full estimated cost to complete as most recently determined or updated by PJM has been fully paid or collateralized, and all regulatory and other required approvals (except those that must await construction completion) have been obtained. Such reduction in RPM Auction Credit requirement may not be transferred across different projects.