

**For Presentation to FRMSTF at January 13, 2020 MRC Meeting
Proposed Revisions to Operating Agreement, section 1 and Tariff, section 1**

FRMSTF Definitions

Adequate Assurance of Performance:

“Adequate Assurance of Performance” shall mean sufficient security in the form, amount and for the term reasonably acceptable to PJM and/or PJMSettlement, but not limited to, cash, a standby irrevocable Letter of Credit, and such other readily liquid assets with appropriate percentage reductions applied to the value of a Market Participant’s Collateral, margin and/or credit requirement that PJM and/or PJMSettlement may find acceptable from time to time. In the event that a Participant fails to provide the required Adequate Assurance of Performance in the timeframe required such failure shall be an Event of Default.

Affiliate:

“Affiliate,” except as that term is used in Tariff, Attachment Q, shall mean any two or more entities, one of which controls the other or that are under common control. “Control,” as that term is used in this definition, shall mean the possession, directly or indirectly, of the power to direct the management or policies of an entity. Ownership of publicly-traded equity securities of another entity shall not result in control or affiliation for purposes of the Tariff or Operating Agreement if the securities are held as an investment, the holder owns (in its name or via intermediaries) less than 10 percent (10%) of the outstanding securities of the entity, the holder does not have representation on the entity’s board of directors (or equivalent managing entity) or vice versa, and the holder does not in fact exercise influence over day-to-day management decisions. Unless the contrary is demonstrated to the satisfaction of the Members Committee, control shall be presumed to arise from the ownership of or the power to vote, directly or indirectly, ten percent or more of the voting securities of such entity. “Affiliate,” as that term is used in Tariff, Attachment Q, shall mean Principal, corporations, partnerships, firms, joint ventures, associations, joint stock companies, trusts, unincorporated organizations or entities, one of which directly or indirectly controls the other or that are both under common control. “Control” shall mean the possession, directly or indirectly, of the power to direct the management or policies of a person or an entity.

Applicant:

“Applicant” shall mean an entity desiring to become a PJM Member, become a Market Participant, hold FTRs, ARRs or otherwise engage in market activities, ~~or to~~ take Transmission Service, or take any other service under this Tariff, that has submitted the PJMSettlement credit application, PJMSettlement credit agreement and other required submittals as set forth in Tariff, Attachment Q.

Cash Collateral Agreement:

“Cash Collateral Agreement” shall mean a Credit Support Document naming PJM and/or PJMSettlement as beneficiary.

Cash Deposit:

“Cash Deposit” shall mean cash Collateral provided to PJM and/or PJMSettlement to secure a Participant’s performance under the terms and conditions of the Agreements and/or other agreements.

Collateral:

“Collateral” shall be a ~~C~~ash ~~D~~eposit, including any interest, or ~~L~~etter of ~~C~~redit held by PJM or PJMSettlement, in an amount and form determined by and acceptable to PJM or PJMSettlement, provided by a Participant to PJM or PJMSettlement as security ~~in order to participate in the PJM Markets or take Transmission Service.~~

Corporate Guaranty:

“Corporate Guaranty” shall mean a legal document, in a form acceptable to PJM and/or PJMSettlement, used by an Affiliate of an Applicant or Market Participant entity to guaranty the obligations of ~~another entity that Applicant or Market Participant.~~

Credit Breach:

“Credit Breach” shall mean the status of a Participant that does not currently meet the requirements of Tariff, Attachment Q or other provisions of the Agreements, and it shall also mean the failure of a Participant to perform, observe or comply with any term or condition of the Agreements, other than a failure to make a payment.

Credit Score:

~~“Credit Score” shall mean a composite numerical score scaled from 0-100 as calculated by PJMSettlement that incorporates various predictors of creditworthiness.~~

Credit Support Default:

“Credit Support Default,” as that term is used in the Agreements, shall mean shall mean (a) the failure of a Market Participant or any Guarantor or Guaranteed Affiliate of such Market Participant to comply with or perform any agreement or obligation to be complied with or performed by it in accordance with the provisions of Tariff, Attachment Q, or (b) a false representation or misrepresentation, intentional or unintentional, made by a Market Participant in any Credit Support Document that proves to be incorrect or misleading in any material respect.

Credit Support Document:

“Credit Support Document” shall mean any agreement or instrument in any way guaranteeing or securing any or all of a Participant’s obligations under the Agreements (including, without limitation, the provisions of Tariff, Attachment Q), any agreement entered into under, pursuant to, or in connection with the Agreements or any agreement entered into under, pursuant to, or in connection with the Agreements and/or any other agreement to which PJM, PJMSettlement and the Participant are parties, including, without limitation, any Corporate Guaranty, Cash Collateral Agreement, Letter of Credit, Security Agreement or agreement granting PJM and PJMSettlement a security interest.

Events of Default:

“Events of Default,” as that term is used in Tariff, Attachment Q, shall mean a Default by a Market Participant under any of the terms and provisions thereof, or the occurrence of an Event of Default pursuant to the terms and provisions described in Tariff, Attachment Q, section VIII.

Financial Default:

“Financial Default,” as that term is used in Tariff, Attachment Q, means (a) the failure of a Participant to make any payment for obligations under the Agreements when due by the deadline for the applicable cure period, including but not limited to initial margin, variation margin, final invoice payment or other a Collateral Call, (b) a confirmed, undisputed financial default on a bilateral FTR transaction to another Member or counterparty, (c) a default in any commodity exchange or any other energy, ancillary service and/or capacity markets including but not limited to those of another Regional Transmission Organization or Independent System Operator, (d) insolvency or the inability of a Market Participant to meet its financial obligations as they become due to any third party, (e) failure to satisfy a payment default or Collateral Call within the applicable cure period described in Operating Agreement, section 15.1.5, or (f) when the Market Participant or any Guarantor or Guaranteed Affiliate of such Market Participant has a Merger Without Assumption.

FTR Monthly Credit Requirement Contribution:

For each FTR, for each month, “FTR Monthly Credit Requirement Contribution” shall mean the total FTR cost for the month, prorated on a daily basis, less the FTR Historical Value for the month. For cleared FTRs, this contribution may be negative; prior to clearing, FTRs with negative contribution shall be deemed to have zero contribution.

FTR Participant:

“FTR Participant” shall mean any Market Participant that ~~provides or is required to provide Collateral in order to~~ participates in PJM’s FTR ~~auctions~~markets.

Guarantor:

“Guarantor” shall mean a credit support provider under a Corporate Guaranty accepted by PJM and/or PJMSettlement for the benefit of the Market Participant.

Guaranteed Affiliate:

“Guaranteed Affiliate” shall mean each Affiliate of each Guarantor for whose benefit such Guarantor provided a Corporate Guaranty accepted by PJM and/or PJMSettlement.

Internal Credit Score:

“Internal Credit Score” shall mean a composite numerical score determined by PJMSettlement using quantitative and qualitative metrics to estimate various predictors of a credit event happening to a Market Participant that may trigger a credit event, including but not limited to bankruptcy, obligation default and/or failure to pay amounts due when due.

Letter of Credit:

“Letter of Credit” shall mean a Credit Support Document naming PJM and/or PJMSettlement as beneficiary, a form of which shall be posted on PJM’s website.

Mark-to-Auction Value:

“Mark-to-Auction Value” shall mean the net increase (or decrease) in value of a portfolio of FTRs, as further described in Tariff, Attachment Q, **section IV.C.9.**

Market Buyer: (OA only)

“Market Buyer” shall mean a Member that has met reasonable creditworthiness standards established by the Office of the Interconnection and/or PJMSettlement in Tariff, Attachment Q, and that is otherwise able to make purchases in the PJM Interchange Energy Market.

Market Participant:

“Market Participant” shall mean a Market Buyer, a Market Seller, and/or an Economic Load Response Participant, except when that term is used in or pertaining to Tariff, Attachment M, Tariff, Attachment Q, Operating Agreement, section 15, Tariff, Attachment K-Appendix, section 1.4 and Operating Agreement, Schedule 1, section 1.4. “Market Participant,” or all three, except when such term is used in or pertaining to Tariff, Attachment M, in which case Market Participant shall mean an entity that generates, transmits, distributes, purchases, or sells electricity, ancillary services, or any other product or service provided under the PJM Tariff or Operating Agreement within, into, out of, or through the PJM Region, but it shall not include an Authorized Government Agency that consumes energy for its own use but does not purchase or sell energy at wholesale. “Market Participant,” when such term is used in or pertaining to Tariff, Attachment Q, Operating Agreement, section 15, Tariff, Attachment K-Appendix, section 1.4 and Operating Agreement, Schedule 1, section 1.4, shall mean an entity that satisfies the eligibility requirements set forth in Tariff, Attachment Q, Operating Agreement, Schedule 1 and Tariff, Attachment K-Appendix that generates, transmits, distributes, purchases, or sells electricity, ancillary services, or any other product or service provided under the PJM Tariff or Operating Agreement within, into, out of, or through the PJM Region, but it shall not include an Authorized Government Agency that consumes energy for its own use but does not purchase or sell energy, ancillary services or capacity at wholesale.

Market Seller: (OA only)

“Market Seller” shall mean a Member that has met reasonable creditworthiness standards established by the Office of the Interconnection and/or PJMSettlement in Tariff, Attachment Q, and that is otherwise able to make sales in the PJM Interchange Energy Market.

Material:

“Material,” as that term is used in Tariff, Attachment Q, or elsewhere in the Agreements concerning an entity’s financial health or creditworthiness or pertaining thereto, shall mean an amount that is the lesser of: (i) the materiality standard established by the accounting firm performing the respective entity’s annual audit; (ii) an amount that equals or exceeds five percent (5%) of the entity’s Tangible Net Worth for the preceding financial year, calculated in accordance with US Generally Acceptable Accounting Principles; and/or (iii) a change, event, proceeding, occurrence that results (or if adversely determined could result) in a change of five percent (5%) or more in the entity’s Tangible Net Worth compared to the Tangible Net Worth of the entity for the preceding fiscal year, calculated in accordance with US Generally Acceptable Accounting Principles.

Material Adverse Change:

“Material Adverse Change” shall mean any Material change in the financial condition of the respective entity or any change, event or occurrence which, individually or in the aggregate could have a Material adverse effect on any current or future financial result or financial

condition or creditworthiness of the entity and includes, without limitation, the items listed in Tariff, Attachment Q.

Merger Without Assumption:

“Merger Without Assumption” shall mean when a Member or Transmission Customer, or any Guarantor or other credit support provider of such Member or Transmission Customer, merges with or transfers all or substantially all of its assets to, or consolidates, amalgamates, reorganizes, reincorporates or reconstitutes into or as, another entity and, at the time of such consolidation, amalgamation, merger, transfer, reorganization, reincorporation or reconstitution (a) the resulting, surviving or transferee entity does not assume all the obligations of such Member or Transmission Customer, or any Guarantor or other credit support provider of such Member or Transmission Customer under the Agreements or any Credit Support Document to which it or its predecessor was a party; or (b) the benefits of any Credit Support Document do not extend (without the consent of the other party) to the performance by such resulting, surviving or transferee entity of its obligations under the Agreements.

Minimum Participation Requirements:

“Minimum Participation Requirements” shall mean a set of minimum training, risk management, communication and capital or collateral requirements required for Participants in the PJM Markets, as set forth herein and in the Form of Annual Certification set forth as Tariff, Attachment Q, Appendix 1. FTR Participants transacting in FTRs in certain circumstances will be required to demonstrate additional risk management procedures and controls as further set forth in the Annual Certification found in Tariff, Attachment Q, Appendix 1.

Municipalities and Cooperatives; Municipality and Cooperative; Municipality or Cooperative:

“Municipalities and Cooperatives,” “Municipality and Cooperative,” and “Municipality or Cooperative,” as those terms are used in Tariff, Attachment Q or elsewhere regarding credit scoring, shall mean Participants that are not-for-profit municipal electric systems, municipalities, electric cooperatives, generation cooperatives, transmission cooperatives and/or joint municipal agencies, or agents representing one or more of such entities and whose credit quality is directly derived from the credit quality of the entity(ies) represented through the agency relationship.

Nationally Recognized Statistical Rating Organization:

“Nationally Recognized Statistical Rating Organization” or “NRSRO” shall have the meaning as set forth in Securities Exchange Act of 1934, section 3(a)(62), 15 U.S.C. §78(a)(62).

Net Obligation:

“Net Obligation” shall mean the amount owed to PJMSettlement and PJM for purchases from the PJM Markets, Transmission Service, ~~and~~ under Tariff, Parts II and III-, and other services pursuant to the Agreements, after applying a deduction for amounts owed to a Participant by PJMSettlement as it pertains to monthly market activity and services. Should other markets be formed such that Participants may incur future Obligations in those markets, then the aggregate amount of those Obligations will also be added to the Net Obligation.

Peak Market Activity:

“Peak Market Activity” shall mean a measure of exposure for which credit is required, involving

peak exposures in rolling three-week periods over a year timeframe, with two semi-annual reset points, pursuant to provisions of Tariff, Attachment Q, **section V.A.** Peak Market Activity shall exclude FTR Net Activity, Virtual Transactions Net Activity, and Export Transactions Net Activity.

PJM Markets:

“PJM Markets” shall mean the PJM Interchange Energy and capacity markets, including the RPM auctions, together with all bilateral or other wholesale electric power and energy transactions, capacity transactions, ancillary services transactions (including black start service), transmission transactions and any other market operated under the ~~PJM Tariff or Operating Agreements~~ within the PJM Region, wherein Market Participants may incur Obligations to PJM and/or PJMSettlement.

Principal:

Principal” shall mean any one or more individuals that have the ability to Control or direct the strategy for the disposition of assets and/or cash flow. “Control,” as that term is used in this definition, shall mean the possession, directly or indirectly, of the power to direct the management or policies of an entity.

Rating Agency:

“Rating Agency” shall mean a Nationally Recognized Statistical Rating Organization that assesses the financial condition, strength and stability of companies and governmental entities and their ability to timely make principal and interest payments on their debts and the likelihood of default, and assigns a rating that reflects its assessment of the ability of the company or governmental entity to make the debt payments.

Restricted Collateral:

“Restricted Collateral” shall mean Collateral, held in escrow by PJM or PJMSettlement, that is restricted for specific market or other activity or risks, held by PJM or PJMSettlement, and which cannot be used or spent to satisfy any other obligations.

RPM Seller Credit:

“RPM Seller Credit” shall mean an additional form of Unsecured Credit defined in Tariff, Attachment Q, **section IV.**

Security Agreement:

“Security Agreement” shall mean a Credit Support Document taking the form found in Tariff, Attachment Q, Attachment 2.

Trade Reference:

“Trade Reference” shall mean a reference from a contact or firm that had a business relationship of a significant nature with a Participant.

Tangible Net Worth:

“Tangible Net Worth” shall mean the net worth of all assets of a Market Participant, excluding (not including goodwill and any other intangible assets such as goodwill,) less all liabilities as determined in accordance with the United States Generally Accepted Accounting Principles. Any

~~such calculation may be reduced by PJM Settlement upon review of the available financial information.~~

Working Credit Limit:

“Working Credit Limit” shall mean an amount that is 75% of the Participant’s Unsecured Credit Allowance and/or 75% of the Collateral provided by the Participant to PJM Settlement. The Working Credit Limit establishes the maximum amount of Total Net Obligation that a Participant may have outstanding at any time. The calculation of Working Credit Limit shall take into account applicable reductions for Minimum Participation Requirements, FTR participation, or other credit requirement determinants as defined in Tariff, Attachment Q.

Working Credit Limit for Virtual Transactions:

The “Working Credit Limit for Virtual Transactions” shall be calculated as 75% of the Market Participant’s Unsecured Credit Allowance and/or 75% of the Collateral provided by the Market Participant to PJM Settlement when the Market Participant is at or below its Peak Market Activity credit requirements as specified in Tariff, Attachment Q, section V.A. When the Market Participant provides additional Unsecured Credit Allowance and/or Collateral in excess of its Peak Market Activity credit requirements, such additional Unsecured Credit Allowance and/or Financial Security shall not be discounted by 25% when calculating the Working Credit Limit for Virtual Transactions. The Working Credit Limit for Virtual Transactions is a component in the calculation of Credit Available for Virtual Transactions. The calculation of Working Credit Limit for Virtual Transactions shall take into account applicable reductions for Minimum Participation Requirements, FTR, or other credit requirement determinants as defined in Tariff, Attachment Q.