

**For Presentation to FRMSTF at ~~December 17, 2019 Meeting~~  
and ~~December 19, 2019 MRC~~ January 13, 2020 Meeting**  
**Proposed Revisions to Operating Agreement, Schedule 1, section 1.4 and  
Tariff, Att. K-Appendix, section 1.4**

**1.4 Market Participants.**

**1.4.1 Qualification.**

(a) To become a Market Participant, an Applicant shall submit an application to the Office of the Interconnection, in such form as shall be established by the Office of the Interconnection, and such further information detailed in Tariff, Attachment Q.

(b) An Applicant that is a Load Serving Entity or that will purchase on behalf of or for ultimate delivery to a Load Serving Entity shall establish to the satisfaction of the Office of the Interconnection that the end-users that will be served through energy and related services purchased in the PJM Interchange Energy Market, are located electrically within the PJM Region, or will be brought within the PJM Region prior to any purchases from the PJM Interchange Energy Market. Such Applicant shall further demonstrate that:

i) The Load Serving Entity for the end users is obligated to meet the requirements of the Reliability Assurance Agreement; and

ii) The Load Serving Entity for the end users has arrangements in place for Network Transmission Service or Point-To-Point Transmission Service for all PJM Interchange Energy Market purchases.

(c) An Applicant that is not a Load Serving Entity or purchasing on behalf of or for ultimate delivery to a Load Serving Entity shall demonstrate that:

i) The Applicant has obtained or will obtain Network Transmission Service or Point-to-Point Transmission Service for all PJM Interchange Energy Market purchases; and

ii) The Applicant's PJM Interchange Energy Market purchases will ultimately be delivered to a load in another Control Area that is recognized by NERC and that complies with NERC's standards for operating and planning reliable bulk electric systems.

(d) An Applicant shall not be required to obtain transmission service for purchases from the PJM Interchange Energy Market to cover quantity deviations from its sales in the Day-ahead Energy Market.

(e) All Applicants applying to become Market Participants shall demonstrate that they:

i) are capable of complying with all applicable metering, data storage and transmission, and other reliability, operation, planning and accounting standards and requirements for the operation of the PJM Region and the PJM Markets, FTR markets and any other market operated by PJM, as applicable;

ii) meet the creditworthiness standards established by the Office of the Interconnection and/or PJMSettlement, or has provided cash, a Letter of Credit or other form of security acceptable to the Office of the Interconnection and/or PJMSettlement; and

iii) have paid all applicable fees and reimbursed the Office of the Interconnection and/or PJMSettlement for all unusual or extraordinary costs of processing and evaluating itstheir application to become a Market Participant, and hashave agreed in itstheir application to subject any disputes arising from itstheir application to the applicable PJM dispute resolution procedures.

(f) The Applicant shall become a Market Participant upon a final favorable determination on its application by the Office of the Interconnection as specified below, which determination shall be made in the sole discretion of the Office of the Interconnection in conjunction with input from PJMSettlement, and execution by the Applicant of counterparts of this Agreement.

#### **1.4.2 Submission of Information.**

The Applicant shall furnish all information reasonably requested by the Office of the Interconnection and/or PJMSettlement in order to determine the Applicant's qualification to be a Market Participant and whether the entity should be allowed to remain a Market Participant. The Office of the Interconnection and/or PJMSettlement may waive the submission of information relating to any of the foregoing criteria, to the extent the information in the Office of the Interconnection's and/or PJMSettlement's possession is sufficient to evaluate the application against such criteria.

#### **1.4.3 Fees and Costs.**

The Office of the Interconnection shall require all Applicants seeking to become a Market Participant to pay a uniform application fee, initially in the amount of \$1,500, to defray the ordinary costs of processing such applications. The application fee shall be revised from time to time as the Office of the Interconnection shall determine to be necessary to recover its ordinary costs of processing applications. Any unusual or extraordinary costs incurred by the Office of the Interconnection in processing an application shall be reimbursed by the Applicant.

#### **1.4.4 Office of the Interconnection Determination.**

Upon submission of the information specified above, and such other information as shall reasonably be requested by the Office of the Interconnection and/or PJMSettlement, the Office of the Interconnection and/or PJMSettlement shall undertake an evaluation to determine whether the Applicant meets the criteria specified above, and as further detailed in accordance with Tariff, Attachment Q, and whether the Applicant poses a credit risk or other unacceptable risk to the PJM Markets, FTR markets, any other market operated by PJM, or PJM Members, if it is allowed to become a Market Participant.

As soon as practicable, but in any event not later than sixty (60) calendar days after submission of the foregoing information, or such later date as may be necessary to satisfy the requirements of the Agreements, the Office of the Interconnection shall notify the Applicant and the members-~~of the~~ Members Committee of its determination, along with a written summary of the basis for

the determination, and whether there are any actions the Applicant can take that might cause the Office of the Interconnection to change its determination, including but not limited to providing even further additional supplemental information, providing additional Restricted Collateral, the discontinuance of certain behaviors, implementing additional monitoring, and implementing of process or policy changes. The Office of the Interconnection and/or PJMSettlement shall respond promptly to any reasonable and timely request by an Applicant or a Member for additional information regarding the basis for the Office of the Interconnection's determination, and shall take such action as it shall deem appropriate in response to any request for reconsideration or other action submitted to the Office of the Interconnection not later than thirty (30) calendar days from the initial notification to the Members Committee.

An Applicant applying to become a Market Participant may appeal the determination of the Office of the Interconnection made pursuant to the foregoing procedures utilizing PJM's dispute resolution procedures set forth in Tariff, Attachment Q Operating Agreement, Schedule 5 or by filing with FERC. Notwithstanding the foregoing, an Applicant's decision to appeal the determination of the Office of the Interconnection shall not operate to stay the ability of the Office of the Interconnection and/or PJMSettlement to exercise any and all of its rights under the Agreements.

#### **1.4.5 Existing Participants.**

A Member that was previously qualified to participate as a Market Participant shall not automatically continue to be qualified to participate as a Market Participant under the Agreements. Rather, in order to retain its eligibility to continue to participate as a Market Participant in the PJM Markets, FTR markets and any other market operated by PJM, a Market Participant shall be subject to the requirements and ongoing risk evaluation described in accordance with Tariff, Attachment Q.

#### **1.4.6 Withdrawal.**

(a) An Internal Market Buyer that is a Load Serving Entity may withdraw from this Agreement by giving written notice to the Office of the Interconnection specifying an effective date of withdrawal not earlier than the effective date of (i) its withdrawal from the Reliability Assurance Agreement, or (ii) the assumption of its obligations under the Reliability Assurance Agreement by an agent that is a Market Buyer.

(b) An External Market Buyer or an Internal Market Buyer that is not a Load Serving Entity may withdraw from this Agreement by giving written notice to the Office of the Interconnection specifying an effective date of withdrawal at least one day after the date of the notice.

(c) Withdrawal from this Agreement shall not relieve a Market Participant of any obligation to pay for electric energy or related services purchased from the PJM Markets, FTR markets or any other markets operated by PJM prior to such withdrawal, to pay its share of any fees and charges incurred or assessed by the Office of the Interconnection and/or PJMSettlement prior to the date of such withdrawal, maintain and/or provide sufficient credit support until all of its transactions in PJM have been satisfied, or to fulfill any obligation to provide indemnification for the consequences of acts, omissions or events occurring prior to such withdrawal; and provided, further, that withdrawal from this Agreement shall not relieve any Market Participant of any obligations it may have under, or constitute withdrawal from, any other Related PJM Agreement.

(d) A Market Participant that has withdrawn from this Agreement may reapply to become a Market Participant in accordance with the provisions of this section 1.4, provided it is not in default of any obligation incurred under the Agreements.

#### **1.4.7 Termination.**

The Office of the Interconnection requires that Market Participants certify and provide information required and requested by the Office of the Interconnection and/or PJM Settlement at least annually as indicated in section 1.4.1, 1.4.2 and 1.4.4 above and Tariff, Attachment Q. If the Office of the Interconnection determines that the entity no longer satisfies its requirements to be a Market Participant, the Office of the Interconnection shall suspend that entity's activity in the PJM Markets, FTR markets or any other markets operated by PJM until such time as it can satisfy the requirements, and if the requirements are not satisfied the Office of the Interconnection may terminate that entity's approval to be a Market Participant. As soon as practicable, the Office of the Interconnection shall notify the entity and the Members Committee of its determination, along with a written summary of the basis for the determination, and whether there are any actions the entity can take that might cause the Office of the Interconnection to change its determination, including but not limited to providing even further additional information, providing additional Restricted Collateral, the discontinuance of certain behaviors, implementing additional monitoring, and implementing of process or policy changes. The Office of the Interconnection shall respond promptly to any reasonable and timely request by a Member for additional information regarding the basis for the Office of the Interconnection's determination, and shall take such action as it shall deem appropriate in response to any request for reconsideration or other action submitted to the Office of the Interconnection not later than thirty (30) calendar days from the initial notification to the Members Committee.

An entity whose authorization to be a Market Participant has been terminated by the Office of the Interconnection may appeal the determination of the Office of the Interconnection made pursuant to the foregoing procedures utilizing PJM's dispute resolution procedures set forth in Operating Agreement, Schedule 5 or by filing with FERC. Notwithstanding the foregoing, an entity's decision to appeal the determination of the Office of the Interconnection shall not operate to stay the ability of the Office of the Interconnection and/or PJM Settlement to exercise any and all of its rights under the Agreements.

#### **1.4.8. Re-entry of Defaulting Market Participant.**

In addition to the provisions for curing a default contained elsewhere in the Tariff, a Market Participant whose previous default resulted in a loss to the PJM Markets, FTR markets or any other markets operated by PJM must cure such default by payment to PJM of all outstanding and unpaid obligations, as well as meet all Tariff requirements for market participation. PJM will evaluate relevant factors to determine if an entity seeking to participate in the PJM Markets, FTR markets or any other markets operated by PJM under a different name, affiliation, or organization, should be treated as the same Market Participant that experienced the previous default under this provision. Such factors may include, but are not limited to, the interconnectedness of the business relationships, overlap in relevant personnel, similarity of business activities, overlap of customer base, and the business engaged in prior to the attempted re-entry.

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Proposed Revisions to PJM Operating Agreement

## 11.6 Membership Requirements.

- (a) To qualify as a Member, an Applicant shall:
- i) Be a Transmission Owner, a Generation Owner, an Other Supplier, an Electric Distributor, or an End-Use Customer;
  - ii) Accept the obligations set forth in this Agreement; and
  - iii) Cure any ~~Default~~default, including but not limited to paying all outstanding and unpaid obligations due to PJM and/or PJMSettlement by any former Member that is an Affiliate or which shares at least one Principal with the ~~applicant~~Applicant, if any, as required by PJM and/or PJMSettlement based on its evaluation of the membership application and related risk assessment.
- (b) Certain Members that are Load Serving Entities are parties to the Reliability Assurance Agreement. Upon becoming a Member, any Applicant that is a Load Serving Entity in the PJM Region and that wishes to become a Market Buyer shall also simultaneously execute the Reliability Assurance Agreement.
- (c) An Applicant that wishes to become a party to this Agreement shall apply, in writing, to the President of PJM setting forth its request, its qualifications for membership, its agreement to supply data and information as specified in this Agreement and any additional data or information reasonably requested by PJM and/or PJMSettlement, its agreement to pay all costs and expenses in accordance with Operating Agreement, Schedule 3, and providing all additional information specified pursuant to the Agreements for entities that wish to become Market Participants. Among other things, PJM will evaluate the application to determine whether the entity seeking to become a Member is qualified or presents any material risks to PJM. Such review shall include an examination of whether the Applicant is affiliated with, or has at least one Principal or key personnel in common with, a former Member that defaulted on any obligation owed to PJM and/or PJMSettlement, whether Applicant has defaulted on any obligations owed to any other Regional Transmission Organization or Independent System Operator, and other relevant factors, ~~and may reject the application for membership on that basis.~~ PJM and PJMSettlement will review applications to determine whether they satisfy applicable requirements, ~~whether the Applicant presents an unreasonable credit risk or other unacceptable risk pursuant to the process described in Tariff, Attachment Q, the intended scope of the Applicant's activity in PJM, the PJM Markets, FTR markets, and any other markets operated by PJM, the Applicant's and its Affiliates' interests in the PJM footprint, the Applicant's and its Affiliates' public statements and regulatory filings regarding its current or proposed activities in PJM, and any other relevant factors, and determine whether to recommend that the applicant be approved by the President of PJM.~~ The determination whether an application for membership is approved shall be made within a reasonable period of time after receipt of all documentation and information required by the Agreements and/or requested by

PJM and/or PJMSettlement in the consideration of the application for membership. If an application for membership is not approved by the President of PJM, the Applicant will be provided a written notice explaining the basis for non-approval. An Applicant may appeal the non-approval of its application for membership to the Federal Energy Regulatory Commission.

(d) Nothing in this section 11 is intended to remove, in any respect, the choice of participation by other utility companies or organizations in the operation of the PJM Region through inclusion in the System of a Member.

(e) An Applicant whose application is accepted by the President of PJM pursuant to section 11.6(c) above shall execute a supplement to this Agreement in substantially the form prescribed in Operating Agreement, Schedule 4, which supplement shall be countersigned by the President of PJM or the President's authorized designee. The Applicant shall become a Member effective on the date the supplement is countersigned by the President of PJM or the President's authorized designee.

(f) Applicants whose applications contemplate expansion or rearrangement of the PJM Region may become Members promptly as described in sections 11.6(c) and 11.6(e) above, but the integration of the Applicant's system into all of the operation and accounting provisions of the Agreements, shall occur only after completion of all required installations and modifications of metering, communications, computer programming, and other necessary and appropriate facilities and procedures, as determined by the Office of the Interconnection. The Office of the Interconnection shall notify the other Members when such integration has occurred.

(g) Applicants that become Members will be listed in Operating Agreement, Schedule 12.

(h) In accordance with this Agreement, Members agree that PJMSettlement shall be the Counterparty with respect to certain transactions under the PJM Tariff and this Agreement.

**Proposed Operating Agreement Revisions for Discussion at  
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**15. ENFORCEMENT OF OBLIGATIONS**

**15.1 Failure to Meet Obligations.**

**15.1.1 ~~Limitation,~~ Suspension and Termination of Market Participant Rights.**

PJM shall ~~limit,~~ suspend and/or terminate a Market Participant's right to participate in the PJM Markets, FTR markets or any other market operated by PJM if it determines that the Market Participant does not continue to meet the obligations set forth in any of the Agreements, including but not limited to the obligation to be in compliance with the prices, terms, or operating characteristics of any of its prior scheduled transactions in the PJM Markets, FTR markets or any other market operated by PJM, PJM's and PJMSettlement's creditworthiness requirements and the obligation to make timely payment, provided that PJM and/or PJMSettlement has notified the Market Participant of any such deficiency and afforded the Market Participant a reasonable opportunity to cure pursuant to section 15.1.3 below, or Tariff, Attachment Q, as applicable. PJM shall reinstate a Market Participant's right to participate in the PJM Markets, FTR markets or any other market operated by PJM upon a determination by PJM and/or PJMSettlement that the Market Participant has satisfied the applicable requirements and is in compliance with the obligations set forth in any of the Agreements.

**15.1.2 Banning Market Participation.**

PJM shall also be authorized to permanently ban a Market Participant, and any of the Market Participant's traders and/or Principals, from participating in the PJM Markets ~~and,~~ FTR markets, ~~any other markets operated by PJM,~~ and any bilateral transactions related thereto, based upon violations of the Agreements as well as a confirmed imposition of a ban from participating in ~~Energy Markets or other energy~~ markets, including but not limited to a ban imposed by the Commodities Futures Trade Commission, Securities Exchange Commission, Federal Energy Regulatory Commission, Financial Industry Regulatory Authority or National Futures Association. Given that banning a Market Participant or party from participating in the PJM Markets ~~and,~~ FTR markets ~~and any other markets operated by PJM~~ is a severe penalty, Market Participants, Market Participant's traders and Market Participant's Principals, maintain all rights they have under the Federal Power Act, this Agreement and the PJM Tariff to appeal to the Federal Energy Regulatory Commission a determination by PJM to impose such a ban.

PJM shall have the discretion to determine whether to impose a broad ban from participation in all of the PJM Markets, FTR markets and any other markets ~~s~~ operated by PJM, or only some of the PJM Markets, FTR markets or any other markets ~~s~~ operated by PJM, based upon the specific facts and circumstances involved, whether the Market Participant has any must-offer requirements upon which PJM or its Members rely, whether the Market Participant serves load or generates energy, and any other relevant factors, to ensure that any such ban does not create an adverse impact on the operation of the bulk power system in the PJM Region.

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**15.1.3 Payment of Bills.**

A Member shall make full and timely payment, in accordance with the terms specified by PJM, of all bills rendered in connection with or arising under or from any of the Agreements, any service or rate schedule, any tariff, or any services performed by PJM or transactions with PJMSettlement, notwithstanding any disputed amount, but any such payment shall not be deemed a waiver of any right with respect to such dispute. Any Member that fails to make full and timely payment to PJMSettlement (of amounts owed either directly to PJMSettlement or PJMSettlement as agent for PJM) or otherwise fails to meet its financial or other obligations to a Member, PJMSettlement, or PJM under any of the Agreements, shall, in addition to any requirement set forth in Operating Agreement, section 15.1 and upon expiration of the cure period specified below, be in default.

**15.1.4 Breach Notification and Remedy**

If PJM or PJMSettlement concludes, upon its own initiative or the recommendation of or complaint by the Members Committee or any Member, that a **MemberParticipant** is in breach of any of its obligation under any of the Agreements, including, but not limited to, the obligation to make timely payment and the obligation to meet PJM's creditworthiness standards and to otherwise comply with PJM's credit policies, PJM and/or PJMSettlement shall so notify such **MemberParticipant**. The notified **MemberParticipant** may remedy such asserted breach by: (i) paying all amounts assertedly due, along with interest on such amounts calculated in accordance with the methodology specified for interest on refunds in FERC's regulations at 18 C.F.R. § 35.19a(a)(2)(iii); and (ii) demonstration to the satisfaction of PJM and/or PJMSettlement that the **MemberParticipant** has taken appropriate measures to meet any other obligation of which it was deemed to be in breach; provided, however, that any such payment or demonstration may be subject to a reservation of rights, if any, to subject such matter to the PJM Dispute Resolution Procedures; and provided, further, that any such determination by PJM and/or PJMSettlement may be subject to review by the PJM Board upon request of the **MemberParticipant** involved or PJM and/or PJMSettlement.

**15.1.5 Default Notification and Remedy**

If a **MemberParticipant** 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 PJMSettlement'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 the second Business Day following PJM's or PJMSettlement's issuance to the **MemberParticipant** 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 **MemberParticipant** shall be in default and, in addition to such other remedies as may be available to PJM or PJMSettlement:

- i) A defaulting Market Participant shall be precluded from buying or selling in the PJM Markets, FTR markets, or any other market operated by PJM until the

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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.

**15.1.6 Reinstatement of Member Following Default and Remedy**

a. A Member that has been declared in default, solely of PJM's creditworthiness standards or fails to otherwise comply with PJM's credit policies, once within any 12 month period may be reinstated in full after remedying such default and satisfying any requirements imposed upon the Member as a result of the default, as more fully described in Tariff, Attachment Q.

b. A Member that has been declared in default of any of the Agreements for failing to: (i) make timely payments when due once during any prior 12 month period, or (ii) adhere to PJM's creditworthiness standards and credit policies, twice during any prior 12 month period, may be subject to the following restrictions:

- a) Loss of stakeholder privileges, including voting privileges, for 12 months following such default; and
- b) Loss of the allowance of unsecured credit for 12 months following such default

c. A Member that has been declared in default of this Agreement for failing to: (i) make timely payments when due twice during any prior 12 month period, or (ii) adhere to PJM's creditworthiness standards and credit policies, three times during any prior 12 month period, shall, except as provided for in section 15.1.6(d) below, not be eligible to be reinstated as a Member to this Agreement and its membership rights pursuant to this Agreement shall be terminated in accordance with Operating Agreement, section 4.1(c), notwithstanding whether such default has been remedied. Furthermore:

- a) PJM Settlement shall close out and liquidate all of the Member's current and forward positions in accordance with the provisions of this Agreement and the PJM Tariff; and

b) A Member terminated in accordance with these provisions, and ~~all of its~~ Principals, shall be precluded from seeking future membership in PJM under this Agreement in the name of the Member when it was terminated from PJM membership and/or through another entity or the same entity using a different name.

d. A Member may appeal a determination made pursuant to the foregoing procedures utilizing PJM's dispute resolution procedure as set forth in Operating Agreement, Schedule 5, (provided, however, that a Member's decision to utilize these procedures shall not operate to stay

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the ability of PJM to exercise any and all of its rights under this Agreement and the PJM Tariff) and may be reinstated provided that the Member can demonstrate the following:

- a) that it has otherwise consistently complied with its obligations under this Agreement and the PJM Tariff; and
- b) the failure to comply was not material; and
- c) the failure to comply was due in large part to conditions that were not in the common course of business.

**15.2 Enforcement of Obligations.**

If PJM sends a notice to the PJM Board that a Member has failed to perform an obligation under any of the Agreements, the PJM Board, on behalf of PJM and PJMSettlement, shall initiate such action against such Member to enforce such obligation as the PJM Board shall deem appropriate. Subject to the procedures specified in section 15.1 above, a Member's failure to perform such obligation shall be deemed to be a default under this Agreement. In order to remedy a default, but without limiting any rights PJM or PJMSettlement may have against the defaulting Member, the PJM Board may assess against, and collect from, the Members not in default, in proportion to their Default Allocation Assessment, an amount equal to the amount that the defaulting Member has failed to pay to PJMSettlement or PJM (less amounts covered by Collateral, held by PJMSettlement, on behalf of itself and as agent for PJM, or indemnifications paid to PJM or PJMSettlement), along with appropriate interest. Such assessment shall in no way relieve the defaulting Member of its obligations. In addition to any amounts in default, the defaulting Member shall be liable to PJM and PJMSettlement for all reasonable costs incurred in enforcing the defaulting Member's obligations.

**15.2.1 Collection by PJM.**

PJM and PJMSettlement are authorized to pursue collection through such actions, legal or otherwise, as it reasonably deems appropriate, including but not limited to the prosecution of legal actions and assertion of claims on behalf of the affected Members in the state and federal courts as well as under the United States Bankruptcy Code. Prior to initiating formal legal action in state or federal court to pursue collection, PJM and PJMSettlement shall provide to the Members Committee an explanation of its intended action. Upon the duly seconded motion of any Member, the Members Committee may conduct a vote to afford PJM and PJMSettlement a sense of the membership as regards to PJM's or PJMSettlement's intended action to pursue collection. PJM and PJMSettlement shall consider any such vote before initiating formal legal action and at all times during the course of any collection effort evaluate the expected benefits in pursuing such effort in light of any changed circumstances. After deducting the costs of collection, any amounts recovered by PJM and PJMSettlement shall be distributed to the Members who have paid their Default Allocation Assessment in proportion to the Default Allocation Assessment paid by each Member.

**15.2.2 Default Allocation Assessment.**

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(a) “Default Allocation Assessment” shall be equal to  $(0.1(1/N) + 0.9(A/Z))$ , where:

N = the total number of Members, calculated as of five o’clock p.m. eastern prevailing time on the date PJM declares a Member in default, excluding ex officio Members, State Consumer Advocates, Emergency and Economic Load Response Program Special Members, and municipal electric system Members that have been granted a waiver under section 17.2 of this Agreement.

A = for Members comprising factor “N” above, the Member's gross activity as determined by summing the absolute values of the charges and credits for each of the Activity Line Items identified in section 15.2.2(b) of this Agreement as accounted for and billed pursuant to section 3 of Schedule 1 of this Agreement for the month of default and the two previous months.

Z = the sum of factor A for all Members excluding ex officio Members, State Consumer Advocates, Emergency and Economic Load Response Program Special Members, and municipal electric system Members that have been granted a waiver under section 17.2 of this Agreement.

The assessment value of  $(0.1(1/N))$  shall not exceed \$10,000 per Member per calendar year, cumulative of all defaults, or more than once per Member default if Default Allocation Assessment charges for a single Member default span multiple calendar years. For this purpose, a default by an individual Member that spans multiple billing periods without cure shall be considered a single default. If one or more defaults arise that cause the value to exceed \$10,000 per Member, then the excess shall be reallocated through the gross activity factor.

(b) Activity Line Items shall be each of the line items on the PJM monthly bills net of load reconciliation adjustments and adjustments applicable to activity for the current billing month appearing on the same bill.

**15.3 Obligations to a MemberParticipant in Default.**

The Members have no continuing obligation to provide the benefits of interconnected operations to a MemberParticipant in default.

**15.4 Obligations of a MemberParticipant in Default.**

A MemberParticipant found to be in default shall take all possible measures to mitigate the continued impact of the default on the Members not in default, including, but not limited to, loading its own generation to supply its own load to the maximum extent possible.

**15.5 No Implied Waiver.**

A failure of a Member, the PJM Board, PJMSettlement, or PJM to insist upon or enforce strict performance of any of the provisions of this Agreement shall not be construed as a waiver or relinquishment to any extent of such entity’s right to assert or rely upon any such provisions, rights and remedies in that or any other instance; rather, the same shall be and remain in full force and effect.

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**15.6 Limitation on Claims.**

No adjustment in the billing for any service, transaction, or charge under this Agreement may be asserted by PJM, PJMSettlement, or any Member with respect to a month, if more than two years has elapsed since the first date upon which the billing for that month occurred. PJMSettlement, on behalf of itself or as agent for PJM, may make no adjustment to a Member's bill with respect to a month for any service, transaction, or charge under this Agreement, if more than two years have elapsed since the first date upon which the billing for that month occurred, unless 1) a claim made by a Member in writing and addressed to the President of PJMSettlement seeking such adjustment has been received by PJMSettlement prior thereto or 2) PJM and/or PJMSettlement have notified the Member in writing of the need to make such an adjustment prior thereto.

For Second Presentation to FRMSTF at ~~November 21, 2019~~January 13, 2020 Meeting  
Proposed Revisions to Tariff, Att. DD

#### **4. GENERAL PROVISIONS**

##### **4.1 Capacity Market Sellers**

Only Capacity Market Sellers shall be eligible to submit Sell Offers into the Base Residual Auction and Incremental Auctions. Capacity Market Sellers shall comply with the terms and conditions of all Sell Offers, as established by the Office of the Interconnection in accordance with this Attachment DD, Tariff, Attachment M, Tariff, Attachment M - Appendix and the Operating Agreement.

##### **4.2 Capacity Market Buyers**

Only Capacity Market Buyers shall be eligible to submit Buy Bids into an Incremental Auction. Capacity Market Buyers shall comply with the terms and conditions of all Buy Bids, as established by the Office of the Interconnection in accordance with this Attachment DD, Tariff, Attachment M, Tariff, Attachment M - Appendix and the Operating Agreement.

##### **4.3 Agents**

A Capacity Market Seller may participate in a Base Residual Auction or Incremental Auction through an Agent, provided that the Capacity Market Seller informs the Office of the Interconnection in advance in writing of the appointment and authority of such Agent. A Capacity Market Buyer may participate in an Incremental Auction through an Agent, provided that the Capacity Market Buyer informs the Office of the Interconnection in advance in writing of the appointment and authority of such Agent. A Capacity Market Buyer or Capacity Market Seller participating in such an auction through an Agent shall be bound by all of the acts or representations of such Agent with respect to transactions in such auction. Any written instrument establishing the authority of such Agent shall provide that any such Agent shall comply with the requirements of this Attachment DD and the Operating Agreement.

##### **4.4 General Obligations of Capacity Market Buyers and Capacity Market Sellers**

Each Capacity Market Buyer and Capacity Market Seller shall comply with all laws and regulations applicable to the operation of the Base Residual and Incremental Auctions and the use of these auctions shall comply with all applicable provisions of this Attachment DD, Tariff, Attachment M, Tariff, Attachment M - Appendix, Tariff, Attachment Q, the Operating Agreement, and the Reliability Assurance Agreement, Tariff, Attachment K-Appendix, section 1.4 and the parallel provisions of Operating Agreement, Schedule 1, section 1.4, and all procedures and requirements for the conduct of the Base Residual and Incremental Auctions and the PJM Region established by the Office of the Interconnection in accordance with the foregoing.

##### **4.5 Confidentiality**

The following information submitted to the Office of the Interconnection in connection with any Base Residual Auction, Incremental Auction, Reliability Backstop Auction, or Capacity

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Performance Transition Incremental Auction shall be deemed confidential information for purposes of Operating Agreement, section 18.17, Tariff, Attachment M and Tariff, Attachment M - Appendix: (i) the terms and conditions of the Sell Offers and Buy Bids; and (ii) the terms and conditions of any bilateral transactions for Capacity Resources.

#### **4.6 Bilateral Capacity Transactions**

(a) Unit-Specific Internal Capacity Bilateral Transaction Transferring All Rights and Obligations (“Section 4.6(a) Bilateral”).

(i) Market Participants may enter into unit-specific internal bilateral capacity contracts for the purchase and sale of title and rights to a specified amount of installed capacity from a specific generating unit or units. Such bilateral capacity contracts shall be for the transfer of rights to capacity to and from a Market Participant and shall be reported to the Office of the Interconnection in accordance with this Attachment DD and the Office of the Interconnection’s rules related to its eRPM tools.

(ii) For purposes of clarity, with respect to all Section 4.6(a) Bilateral transactions, the rights to, and obligations regarding, the capacity that is the subject of the transaction shall pass to the buyer under the contract at the location of the unit and further transactions and rights and obligations associated with such capacity shall be the responsibility of the buyer under the contract. Such obligations include any charges, including penalty charges, relating to the capacity under this Attachment DD. In no event shall the purchase and sale of the rights to capacity pursuant to a Section 4.6(a) Bilateral constitute a transaction with the Office of the Interconnection or PJMSettlement or a transaction in any auction under this Attachment DD.

(iii) All payments and related charges associated with a Section 4.6(a) Bilateral shall be arranged between the parties to the transaction and shall not be billed or settled by the Office of the Interconnection or PJMSettlement. The Office of the Interconnection, PJMSettlement, and the Members will not assume financial responsibility for the failure of a party to perform obligations owed to the other party under a Section 4.6(a) Bilateral reported to the Office of the Interconnection under this Attachment DD.

(iv) With respect to capacity that is the subject of a Section 4.6(a) Bilateral that has cleared an auction under this Attachment DD prior to a transfer, the buyer of the cleared capacity shall be considered in the Delivery Year the party to a transaction with PJMSettlement as Counterparty for the cleared capacity at the Capacity Resource Clearing Price published for the applicable auction.

(v) A buyer under a Section 4.6(a) Bilateral contract shall pay any penalties or charges associated with the capacity transferred under the contract. To the extent the capacity that is the subject of a Section 4.6(a) Bilateral contract has cleared an auction under this Attachment DD prior to a transfer, then the seller under the contract also shall guarantee and indemnify the Office of the Interconnection, PJMSettlement, and the Members for the buyer’s obligation to pay any penalties or charges associated with the capacity and for which payment is not made to PJMSettlement by the buyer as determined by the Office of the Interconnection. All

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claims regarding a default of a buyer to a seller under a Section 4.6(a) Bilateral contract shall be resolved solely between the buyer and the seller.

(vi) To the extent the capacity that is the subject of the Section 4.6(a) Bilateral transaction already has cleared an auction under this Attachment DD, such bilateral capacity transactions shall be subject to the prior consent of the Office of the Interconnection and its determination that sufficient credit is in place for the buyer with respect to the credit exposure associated with such obligations.

(b) Bilateral Capacity Transaction Transferring Title to Capacity But Not Transferring Performance Obligations (“Section 4.6(b) Bilateral”).

(i) Market Participants may enter into bilateral capacity transactions for the purchase and sale of a specified megawatt quantity of capacity that has cleared an auction pursuant to this Attachment DD. The parties to a Section 4.6(b) Bilateral transaction shall identify (1) each unit from which the transferred megawatts are being sold, and (2) the auction in which the transferred megawatts cleared. Such bilateral capacity transactions shall transfer title and all rights with respect to capacity and shall be reported to the Office of the Interconnection on an annual basis prior to each Delivery Year in accordance with this Attachment DD and pursuant to the Office of the Interconnection’s rules related to its eRPM tools. Reported transactions with respect to a unit will be accepted by the Office of the Interconnection only to the extent that the total of all bilateral sales from the reported unit (including Section 4.6(a) Bilaterals, Section 4.6(b) Bilaterals, and Locational UCAP bilaterals) do not exceed the unit’s cleared unforced capacity.

(ii) For purposes of clarity, with respect to all Section 4.6(b) Bilateral transactions, the rights to the capacity shall pass to the buyer at the location of the unit(s) specified in the reported transaction. In no event shall the purchase and sale of the rights to capacity pursuant to a Section 4.6(b) Bilateral constitute a transaction with PJMSettlement or the Office of the Interconnection or a transaction in any auction under this Attachment DD.

(iii) With respect to a Section 4.6(b) Bilateral, the buyer of the cleared capacity shall be considered in the Delivery Year the party to a transaction with PJMSettlement as Counterparty for the cleared capacity at the Capacity Resource Clearing Price published for the applicable auction; provided, however, with respect to all Section 4.6(b) Bilateral transactions, such transactions do not effect a novation of the seller’s obligations to make RPM capacity available to PJM pursuant to the terms and conditions originally agreed to by the seller; provided further, however, the buyer shall indemnify PJMSettlement, the LLC, and the Members for any failure by a seller under a Section 4.6(b) Bilateral to meet any resulting obligations, including the obligation to pay deficiency penalties and charges owed to PJMSettlement, associated with the capacity.

(iv) All payments and related charges associated with a Section 4.6(b) Bilateral shall be arranged between the parties to the contract and shall not be billed or settled by the Office of the Interconnection or PJMSettlement. The Office of the Interconnection, PJMSettlement, and the Members will not assume financial responsibility for the failure of a

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party to perform obligations owed to the other party under a Section 4.6(b) Bilateral capacity contract reported to the Office of the Interconnection under this Attachment DD.

(v) All claims regarding a default of a buyer to a seller under a Section 4.6(b) Bilateral shall be resolved solely between the buyer and the seller.

(c) Locational UCAP Bilateral Transactions Between Capacity Sellers.

(i) Market Participants may enter into Locational UCAP bilateral transactions which shall be reported to the Office of the Interconnection in accordance with this Attachment DD and the LLC's rules related to its eRPM tools.

(ii) For purposes of clarity, with respect to all Locational UCAP bilateral transactions, the rights to the Locational UCAP that are the subject of the Locational UCAP bilateral transaction shall pass to the buyer under the Locational UCAP bilateral contract subject to the provisions of Tariff, Attachment DD, section 5.3A. In no event, shall the purchase and sale of Locational UCAP pursuant to a Locational UCAP bilateral transaction constitute a transaction with the Office of the Interconnection or PJMSettlement, or a transaction in any auction under this Attachment DD.

(iii) A Locational UCAP Seller shall have the obligation to make the capacity available to PJM in the same manner as capacity that has cleared an auction under this Attachment DD and the Locational UCAP Seller shall have all obligations for charges and penalties associated with the capacity that is the subject of the Locational UCAP bilateral contract; provided, however, the buyer shall indemnify PJMSettlement, the LLC, and the Members for any failure by a seller to meet any resulting obligations, including the obligation to pay deficiency penalties and charges owed to PJMSettlement, associated with the capacity. All claims regarding a default of a buyer to a seller under a Locational UCAP bilateral contract shall be resolved solely between the buyer and the seller.

(iv) All payments and related charges for the Locational UCAP associated with a Locational UCAP bilateral contract shall be arranged between the parties to such bilateral contract and shall not be billed or settled by the Office of the Interconnection or PJMSettlement. The LLC, PJMSettlement, and the Members will not assume financial responsibility for the failure of a party to perform obligations owed to the other party under a Locational UCAP bilateral contract reported to the Office of the Interconnection under this Attachment DD.

(d) The bilateral transactions provided for in this section 4.6 shall be for the physical transfer of capacity to or from a Market Participant and shall be reported to and coordinated with the Office of the Interconnection in accordance with this Attachment DD and pursuant to the Office of the Interconnection's rules relating to its eRPM tools. Bilateral transactions that do not contemplate the physical transfer of capacity to and from a Market Participant are not subject to this Attachment DD and shall not be reported to and coordinated with the Office of the Interconnection.

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**5.5 Eligibility for Participation in RPM Auctions**

A Capacity Market Seller may submit a Sell Offer for a Capacity Resource in a Base Residual Auction, Incremental Auction, or Capacity Performance Transition Incremental Auction only if such seller owns or has the contractual authority to control the output or load reduction capability of such resource and has not transferred such authority to another entity prior to submitting such Sell Offer, and has satisfied all of the applicable requirements of Tariff, Attachment Q. Capacity Resources must satisfy the capability and deliverability requirements of Reliability Assurance Agreement, Schedule 9 and Reliability Assurance Agreement, Schedule 10, the requirements for Demand Resources or Energy Efficiency Resources in Tariff, Attachment DD-1 and Reliability Assurance Agreement, Schedule 6, as applicable, and, for the 2018/2019 Delivery Year and subsequent Delivery Years, the criteria in section 5.5A below.

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## **5.6 Sell Offers**

Sell Offers shall be submitted or withdrawn via the internet site designated by the Office of the Interconnection, under the procedures and time schedule set forth in the PJM Manuals.

### **5.6.1 Specifications**

A Sell Offer shall state quantities in increments of 0.1 megawatts and shall specify, as appropriate:

a) Identification of the Generation Capacity Resource, Demand Resource, Capacity Storage Resource or Energy Efficiency Resource on which such Sell Offer is based;

b) Minimum and maximum megawatt quantity of installed capacity that the Capacity Market Seller is willing to offer (notwithstanding such specification, the product offered shall be Unforced Capacity), or designate as Self-Supply, from a Generation Capacity Resource;

i) Price, in dollars and cents per megawatt-day, that will be accepted by the Capacity Market Seller for the megawatt quantity of Unforced Capacity offered from such Generation Capacity Resource.

ii) The Sell Offer may take the form of offer segments with varying price-quantity pairs for varying output levels from the underlying resource, but may not take the form of an offer curve with nonzero slope.

c) EFORD of each Generation Capacity Resource offered.

i) If a Capacity Market Seller is offering such resource in a Base Residual Auction, First Incremental Auction, Second Incremental Auction, or Conditional Incremental Auction occurring before the Third Incremental Auction, the Capacity Market Seller shall specify the EFORD to apply to the offer.

ii) If a Capacity Market Seller is committing the resource as Self-Supply, the Capacity Market Seller shall specify the EFORD to apply to the commitment.

iii) The EFORD applied to the Third Incremental Auction will be the final EFORD established by the Office of the Interconnection six (6) months prior to the Delivery Year, based on the actual EFORD in the PJM Region during the 12-month period ending September 30 that last precedes such Delivery Year.

d) The Nominated Demand Resource Value for each Demand Resource offered and the Nominated Energy Efficiency Value for each Energy Efficiency Resource offered. The Office of the Interconnection shall, in both cases, convert such value to an Unforced Capacity basis by multiplying such value by the DR Factor (for Delivery Years through May 31, 2018) times the Forecast Pool Requirement. Demand Resources shall specify the LDA in which the

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Demand Resource is located, including the location of such resource within any Zone that includes more than one LDA as identified on Reliability Assurance Agreement, Schedule 10.1.

e) For Delivery Years through May 31, 2018, a Demand Resource with the potential to qualify as two or more of a Limited Demand Resource, Extended Summer Demand Resource or Annual Demand Resource may submit separate but coupled Sell Offers for each Demand Resource type for which it qualifies at different prices and the auction clearing algorithm will select the Sell Offer that yields the least-cost solution. For such coupled Demand Resource offers, the offer price of an Annual Demand Resource offer must be at least \$.01 per MW-day greater than the offer price of a coupled Extended Summer Demand Resource offer and the offer price of a Extended Summer Demand Resource offer must be at least \$.01 per MW-day greater than the offer price of a coupled Limited Demand Resource offer.

f) For a Qualifying Transmission Upgrade, the Sell Offer shall identify such upgrade, and the Office of the Interconnection shall determine and certify the increase in CETL provided by such upgrade. The Capacity Market Seller may offer the upgrade with an associated increase in CETL to an LDA in accordance with such certification, including an offer price that will be accepted by the Capacity Market Seller, stated in dollars and cents per megawatt-day as a price difference between a Capacity Resource located outside such an LDA and a Capacity Resource located inside such LDA; and the increase in CETL into such LDA to be provided by such Qualifying Transmission Upgrade, as certified by the Office of the Interconnection.

g) For the 2018/2019 and 2019/2020 Delivery Years, each Capacity Market Seller owning or controlling a resource that qualifies as both a Base Capacity Resource and a Capacity Performance Resource may submit separate but coupled Sell Offers for such resource as a Base Capacity Resource and as a Capacity Performance Resource, at different prices, and the auction clearing algorithm will select the Sell Offer that yields the least-cost solution. Submission of a coupled Base Capacity Resource Sell Offer shall be mandatory for any Capacity Performance Resource Sell Offer that exceeds a Sell Offer Price equal to the applicable Net Cost of New Entry times the Balancing Ratio as provided for in Tariff, Attachment DD, section 6.4. For such coupled Sell Offers, the offer price of a Capacity Performance Resource offer must be at least \$.01 per MW-day greater than the offer price of a coupled Base Capacity Resource offer.

(h) For the 2018/2019 Delivery Year and subsequent Delivery Years, a Capacity Market Seller that owns or controls one or more Capacity Storage Resources, Intermittent Resources, Demand Resources, or Energy Efficiency Resources may submit a Sell Offer as a Capacity Performance Resource in a MW quantity consistent with their average expected output during peak-hour periods. Alternatively, for the 2018/2019 Delivery Year and subsequent Delivery Years, a Capacity Market Seller that owns or controls one or more Capacity Storage Resources, Intermittent Resources, Demand Resources, Energy Efficiency Resources, or Environmentally-Limited Resources may submit a Sell Offer which represents the aggregated Unforced Capacity value of such resources, where such Sell Offer shall be considered to be located in the smallest modeled LDA common to the aggregated resources. Such aggregated resources shall be owned by or under contract to the Capacity Market Seller, including all such resources obtained through bilateral contract and reported to the Office of the Interconnection in

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accordance with the Office of the Interconnection's rules related to its eRPM tools. For the 2018/2019 and 2019/2020 Delivery Years, any such offer may be submitted as Capacity Performance Resource, Base Capacity Resource, or as a coupled offer for Capacity Performance Resource and Base Capacity Resource, provided that, for any such coupled Sell Offers, the offer price of a Capacity Performance Resource offer must be at least \$.01 per MW-day greater than the offer price of a coupled Base Capacity Resource offer. For the 2020/2021 Delivery Year and subsequent Delivery Years, any such offer must be submitted as a Capacity Performance Resource.

(i) For the 2020/2021 Delivery Year and subsequent Delivery Years, a Capacity Market Seller that owns or controls a resource that qualifies as a Summer-Period Capacity Performance Resource may submit a Sell Offer as a Capacity Performance Resource in a MW quantity consistent with the average expected output of such resource during peak-hour periods, and may submit a separate Sell Offer as a Summer-Period Capacity Performance Resource in a MW quantity consistent with the average expected output of such resource during summer peak-hour periods, provided the total Sell Offer MW quantity submitted as both a Capacity Performance Resource and a Summer-Period Capacity Performance Resource does not exceed the Unforced Capacity value of the resource. For the 2020/2021 Delivery Year and subsequent Delivery Years, a Capacity Market Seller that owns or controls a resource that qualifies as a Winter-Period Capacity Performance Resource may submit a Sell Offer as a Capacity Performance Resource in a MW quantity consistent with the average expected output of such resource during peak-hour periods, and may submit a separate Sell Offer as a Winter-Period Capacity Performance Resource in a MW quantity consistent with the average expected output of such resource during winter peak-hour periods, provided the total Sell Offer MW quantity submitted as both a Capacity Performance Resource and a Winter-Period Capacity Performance Resource does not exceed the Unforced Capacity value of the resource. Each segment of a Seasonal Capacity Performance Resource Sell Offer must be submitted as a flexible Sell Offer segment with the minimum MW quantity offered set to zero.

#### **5.6.2 Compliance with PJM Credit Risk Management Policy**

Capacity Market Sellers shall comply with the provisions of the PJM Credit Risk Management Policy as set forth in Tariff, Attachment Q, including the provisions specific to the Reliability Pricing Model, prior to submission of Sell Offers in any Reliability Pricing Model Auction. A Capacity Market Seller desiring to submit a Credit-Limited Offer shall specify in its Sell Offer the maximum auction credit requirement, in dollars, and the maximum amount of Unforced Capacity, in megawatts, applicable to its Sell Offer.

#### **5.6.3 [reserved]**

#### **5.6.4 Qualifying Transmission Upgrades**

A Qualifying Transmission Upgrade may not be the subject of any Sell Offer in a Base Residual Auction unless it has been approved by the Office of the Interconnection, including certification of the increase in Import Capability to be provided by such Qualifying Transmission Upgrade, no later than 45 days prior to such Base Residual Auction. No such approval shall be granted

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unless, at a minimum, a Facilities Study Agreement has been executed with respect to such upgrade, and such upgrade conforms to all applicable standards of the Regional Transmission Expansion Plan process.

#### **5.6.5 Market-based Sell Offers**

Subject to Tariff, Attachment DD, section 6, a Market Seller authorized by FERC to sell electric generating capacity at market-based prices, or that is not required to have such authorization, may submit Sell Offers that specify market-based prices in any Base Residual Auction or Incremental Auction.

#### **5.6.6 Availability of Capacity Resources for Sale**

(a) The Office of the Interconnection shall determine the quantity of megawatts of available installed capacity that each Capacity Market Seller must offer in any RPM Auction pursuant to Tariff, Attachment DD, section 6.6, through verification of the availability of megawatts of installed capacity from: (i) all Generation Capacity Resources owned by or under contract to the Capacity Market Seller, including all Generation Capacity Resources obtained through bilateral contract; (ii) the results of prior Reliability Pricing Model Auctions, if any, for such Delivery Year (including consideration of any restriction imposed as a consequence of a prior failure to offer); and (iii) such other information as may be available to the Office of the Interconnection. The Office of the Interconnection shall reject Sell Offers or portions of Sell Offers for Capacity Resources in excess of the quantity of installed capacity from such Capacity Market Seller's Capacity Resource that it determines to be available for sale.

(b) The Office of the Interconnection shall determine the quantity of installed capacity available for sale in a Base Residual Auction or Incremental Auction as of the beginning of the period during which Buy Bids and Sell Offers are accepted for such auction, as applicable, in accordance with the time schedule set forth in the PJM Manuals. Removal of a resource from Capacity Resource status shall not be reflected in the determination of available installed capacity unless the associated unit-specific bilateral transaction is approved, the designation of such resource (or portion thereof) as a network resource for the external load is demonstrated to the Office of the Interconnection, or equivalent evidence of a firm external sale is provided prior to the deadline established therefor. The determination of available installed capacity shall also take into account, as they apply in proportion to the share of each resource owned or controlled by a Capacity Market Seller, any approved capacity modifications, and existing capacity commitments established in a prior RPM Auction, an FRR Capacity Plan, Locational UCAP transactions and/or replacement capacity transactions under this Attachment DD. To enable the Office of the Interconnection to make this determination, no bilateral transactions for Capacity Resources applicable to the period covered by an auction will be processed from the beginning of the period for submission of Sell Offers and Buy Bids, as appropriate, for that auction until completion of the clearing determination for such auction. Processing of such bilateral transactions will reconvene once clearing for that auction is completed. A Generation Capacity Resource located in the PJM Region shall not be removed from Capacity Resource status to the extent the resource is committed to service of PJM loads as

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a result of an RPM Auction, FRR Capacity Plan, Locational UCAP transaction and/or by designation as a replacement resource under this Attachment DD.

(c) In order for a bilateral transaction for the purchase and sale of a Capacity Resource to be processed by the Office of the Interconnection, both parties to the transaction must notify the Office of the Interconnection of the transfer of the Capacity Resource from the seller to the buyer in accordance with procedures established by the Office of the Interconnection and set forth in the PJM Manuals. If a material change with respect to any of the prerequisites for the application of this section 5.6.6 to the Generation Capacity Resource occurs, the Capacity Resource Owner shall immediately notify the Market Monitoring Unit and the Office of the Interconnection.

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**FRMSTF Definitions**

**(Deleted defined terms that were not being revised)**

**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<sup>2</sup>,” ~~except as that term is used in Tariff, Attachment Q,~~ shall mean any two or more ~~Principals, 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,” 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 ~~a person or~~ 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.

“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, 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 Cash Deposit, including any interest, or Letter of Credit 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.

**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 to guaranty the obligations of 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 Risk Score:**~~

~~“Credit Risk 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 failure to pay amounts due when due.~~

**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 ~~one Business Day~~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 participates in PJM’s FTR 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 PJM Settlement 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,” when such term is used in or pertaining to Tariff, Attachment M, 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 PJM Settlement 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 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 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 Agreements within the PJM Region, wherein Market Participants may incur Obligations to PJM and/or PJMSettlement.

**Position Limits:**

~~“Position Limits” shall mean a pre-determined volumetric threshold that limits the amount of risk or the number of transactions a Market Participant or group of affiliated Market Participants may have.~~

**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. “Principal” shall mean an individual with the following roles and responsibilities: (i) sole proprietor of a sole proprietorship; (ii) general partner of a partnership; (iii) manager, managing member of a member vested with the management authority for a limited liability company or limited liability partnership; (iv) any person or entity that (1) is the direct owner of 10% or more of any class of an organization’s equity securities or (2) has directly contributed 10% or more of an organization’s capital; (v) a director, president, chief executive officer, vice president, secretary, treasurer, operating officer, risk officer, general counsel, compliance officer, financial officer, general manager, comptroller or senior officer (or equivalent positions) of a corporation or other organization, or individuals to whom they have delegated authority to perform executive duties functions; and (vi) any person or entity that has the power to exercise supervisory authority or influence over an organization’s trading activities in PJM.~~

**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 **32**.

**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 all assets shown on a balance sheet calculated in accordance with United States Generally Accepted Accounting Principles (“US GAAP”), less the following shown on a balance sheet calculated in accordance with US GAAP: (i) the amount of all liabilities of the entity, (ii) assets PJM reasonably believes to be restricted or potentially unavailable to settle a claim in the event of default, net of any matching liabilities, to the extent that the result of that netting is a positive value, (iii) derivative assets, net of any matching liabilities, to the extent that the result of that netting is a positive value, (iv) preferred stock, (v) all intangible assets (such as goodwill, patents, trademarks, intellectual property, franchises and any other assets not having a physical existence), and (vi) non-controlling interest. Any such calculation may be revised by PJMSettlement upon review of the available financial information.~~

“Tangible Net Worth” shall mean the net worth of all assets of a Market Participant, excluding goodwill and any other intangible assets, as determined in accordance with the United States Generally Accepted Accounting Principles.

**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 PJMSettlement 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.