



PJM Surety Bond and Letter of Credit Collateral Update

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Financial Risk Mitigation Sr. Task Force
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Approval for surety bonds as a PJM collateral instrument has been vetted by members and is awaiting final FERC approval:

- May 28, 2020 – The PJM Markets & Reliability Committee endorses surety bond proposal (“Package A”) and associated Tariff revisions by acclamation with no objections and one abstention
 - June 18, 2020 – The PJM Members Committee endorses the proposed Tariff revisions related to surety bonds as a form of collateral
 - July 2, 2020 – PJM files for surety bond approval with FERC
 - FERC has 60 days from date of filing to approve
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- Surety bond format conditional on FERC approval can be found at <https://www.pjmsettlement.com/credit.aspx>

Historical View of Proposed Solutions

Two possible surety bond implementation approaches were presented for member consideration and package A was endorsed:

- Package A: Accepting surety bonds as collateral for all market purposes, except FTRs, with a \$10 million cap per issuer for each member, and a \$50 million aggregate cap per issuer.
- Package B: Accepting surety bonds as collateral for all market purposes, including FTRs, with a \$20 million cap per issuer for each member, and a \$100 million aggregate cap per issuer.

Requirements for surety bond acceptance, if approved, include that surety must:

- Be listed on the Department of U.S Treasury's certified list
 - Link: <https://www.fiscal.treasury.gov/surety-bonds/list-certified-companies.html>
- Have a minimum credit rating of (i) "A" with S&P or Fitch, or "A2" with Moody's, or an equivalent short-term rating from one of these agencies or (ii) a minimum insurer rating of "A" with AM Best
- Be authorized to do business in Pennsylvania and Delaware
- Accept one day payment demand terms
- Provide for an initial coverage period of at least one year
- Provide for automatic annual renewal until bond is terminated with at least 60 days prior written notice from issuer

Issuance of surety bonds must adhere to the following guidelines:

- PJM shall not accept surety bonds with an aggregate value greater than \$10 million dollars (\$10,000,000) issued by any individual surety on behalf of any individual
- PJM shall not accept surety bonds with an aggregate value greater than \$50 million dollars (\$50,000,000) issued by any individual surety
- PJM will post on its web site an acceptable standard form of a surety bond to be utilized by a participant to establish credit at PJM. If the surety bond varies in any way from the standard format, it must first be reviewed and approved by PJM. PJM shall not accept any surety bond that varies in any material way from the standard format
- Surety bond must be replaced with eligible collateral 30 days prior to termination date to cover any outstanding obligations or PJM will demand payment from surety to cover obligations

PJM has updated its standard LC format for new LCs and renewals going forward:

- Two additional draw conditions have been added
 - PJM represents that letter of credit will expire in 60 days or less and participant has not posted substitute eligible collateral if required
 - Change in LC form but not substance
 - PJM represents that the issuing bank has not maintained a credit rating as required per the PJM Tariff
 - Minimum credit rating of (i) “A” with S&P or Fitch, or “A2 “with Moody’s, or an equivalent short-term rating from one of these agencies
- Additional examples of changes include the addition of traditional LC provisions:
 - Prohibition on amendments without PJM consent, prohibitions on LC transfer and assignment, allowance for partial drawings, jurisdiction of governing law

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