

**Proposed Revisions to PJM Open Access Transmission Tariff
to Allow for Use of Surety Bonds as Credit Support
Presented to MRC on May 28, 2020**

Italicized language reflect revisions currently pending FERC acceptance in Docket No. ER20-4851

Revisions **highlighted in yellow** reflect changes made to the proposed revisions since April 2019 MRC Meeting for consistency with the revisions currently pending FERC acceptance in Docket No. ER20-4851

TARIFE, PART I, DEFINITIONS

Collateral:

“Collateral” shall be a cash deposit, including any interest *thereon*, or a Letter of Credit issued for the benefit of 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 credit support in order to participate in the PJM Markets or take Transmission Service. “Collateral” shall also include surety bonds, except for the purpose of satisfying the FTR Credit Requirement, in which case only a cash deposit or Letter of Credit will be acceptable.

TARIFE, ATTACHMENT Q

III. MINIMUM PARTICIPATION REQUIREMENTS

A Participant seeking to participate in any PJM Markets shall submit to PJM any information or documentation reasonably required for PJM to evaluate its experience and resources. If PJM determines, based on its review of the relevant information and after consultation with the Participant, that the Participant’s participation in any PJM Markets presents an unreasonable credit risk, PJM may reject the Participant’s application to become a Market Participant, notwithstanding applicant’s ability to meet other minimum participation criteria, registration requirements and creditworthiness requirements.

A. Annual Certification

Before they are eligible to transact in any PJM Market, all Applicants shall provide to PJM (i) an executed copy of a credit application and (ii) a copy of the annual certification set forth in Attachment Q, Appendix 1. As a condition to continued eligibility to transact in any PJM Market, Market Participants shall provide to PJM the annual certification set forth in Attachment Q, Appendix 1.

After the initial submission, the annual certification must be submitted each calendar year by all Market Participants between January 1 and April 30. PJM will accept such certifications as a matter of course and the Market Participants will not need further notice from PJM before commencing or maintaining their eligibility to participate in any PJM Markets.

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A Market Participant that fails to provide its annual certification by April 30 shall be ineligible to transact in any PJM Markets and PJM will disable the Market Participant's access to any PJM Markets until such time as PJM receives the certification. In addition, failure to provide an executed annual certification in a form acceptable to PJM and by the specified deadlines may result in a default under the Tariff.

Market Participants acknowledge and understand that the annual certification constitutes a representation upon which PJM will rely. Such representation is additionally made under the Tariff, filed with and accepted by FERC, and any false, misleading or incomplete statement knowingly made by the Market Participant and that is material to the Market Participant's ability to perform may be considered a violation of the Tariff and subject the Market Participant to action by FERC. Failure to comply with any of the criteria or requirements listed herein or in the certification may result in suspension or limitation of a Market Participant's transaction rights in any PJM Markets.

Applicants and Market Participants shall submit to PJM, upon request, any information or documentation reasonably and/or legally required to confirm Applicant's or Market Participant's compliance with the Agreements and the annual certification.

B. PJM Market Participation Eligibility Requirements

PJM may conduct periodic verification to confirm that Applicants and Market Participants can demonstrate that they meet the definition of "appropriate person" to further ensure minimum criteria are in place. Such demonstration will consist of the submission of evidence and an executed Annual Officer Certification form as set forth in Attachment Q, Appendix 1 in a form acceptable to PJM. If an Applicant or Market Participant does not provide sufficient evidence for verification to PJM within five (5) Business Days of written request, then such Applicant or Market Participant may result in a default under this Tariff. Demonstration of "appropriate person" status and support of other certifications on the annual certification is one part of the Minimum Participation Requirements for any PJM Markets and does not obviate the need to meet the other Minimum Participation Requirements such as those for minimum capitalization and risk profile as set forth in this Attachment Q.

To be eligible to transact in any PJM Markets, an Applicant or Participant must demonstrate in accordance with the Risk Management and Verification processes set forth below that it qualifies in one of the following ways:

1. an "appropriate person," as that term is defined under *Commodity Exchange Act*, section 4(c)(3), or successor provision, or;
2. an "eligible contract participant," as that term is defined in *Commodity Exchange Act*, section 1a(18), or successor provision, or;
3. a business entity or person who is in the business of: (1) generating, transmitting, or distributing electric energy, or (2) providing electric energy services that are necessary to support the reliable operation of the transmission system, or;

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4. an *Applicant* or Market Participant seeking eligibility as an “appropriate person” providing an unlimited Corporate Guaranty in a form acceptable to PJM as described in section V below from a *Guarantor* that *has demonstrated it is an “appropriate person,”* and has at least \$1 million of total net worth or \$5 million of total assets per *Applicant* and Market Participant for which the *Guarantor* has issued an unlimited Corporate Guaranty, or;
5. an *Applicant* or Market Participant providing a Letter of Credit of at least \$5 million to PJM in a form acceptable to PJM as described in section V below, that the *Applicant* or Market Participant acknowledges is separate from, and cannot be applied to meet, its credit requirements to PJM.
6. an *Applicant* or Market Participant providing a surety bond of at least \$5 million to PJM in a form acceptable to PJM as described in section V below that the *Applicant* or Market Participant acknowledges is separate from, and cannot be applied to meet, its credit requirements to PJM.

If, at any time, a Market Participant cannot meet the eligibility requirements set forth above, it shall immediately notify PJM and immediately cease conducting transactions in *any* PJM Markets. PJM may terminate a Market Participant’s transaction rights in *any* PJM Markets if, at any time, it becomes aware that the Market Participant does not meet the minimum eligibility requirements set forth above.

In the event that a Market Participant is no longer able to demonstrate it meets the minimum eligibility requirements set forth above, and possesses, obtains or has rights to possess or obtain, any open or forward positions in *any* PJM Markets, PJM may take any such action it deems necessary with respect to such open or forward positions, including, but not limited to, liquidation, transfer, assignment or sale; provided, however, that the Market Participant will, notwithstanding its ineligibility to participate in *any* PJM Markets, be entitled to any positive market value of those positions, net of any obligations due and owing to PJM.

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V. FORMS OF CREDIT SUPPORT

In order to satisfy their PJM credit requirements Participants may provide credit support in a PJM-approved form and amount pursuant to the guidelines herein, provided that, notwithstanding anything to the contrary in this section, a Market Participant in PJM’s FTR markets shall meet its credit support requirements related to those FTR markets with either cash or Letters of Credit.

Unless otherwise restricted by PJM, credit support provided may be used by PJM to secure the payment of Participant’s financial obligations under the Agreements.

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Collateral which may no longer be required to be maintained under provisions of the Agreements, shall be returned at the request of a Participant, no later than two (2) Business Days following determination by PJM within a commercially reasonable period of time that such Collateral is not required.

Except when an Event of Default has occurred, a Participant may substitute an approved PJM form of Collateral for another PJM approved form of Collateral of equal value.

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D. Surety Bond

An unconditional, irrevocable surety bond can be utilized to meet the Collateral requirement for Participants. As stated below, the form, substance, and provider of the surety bond must all be acceptable to PJM.

- (i) An acceptable surety bond must be payable immediately upon demand without prior demonstration of the validity of the demand. The surety bond will only be accepted from a U.S. Treasury-listed approved surety that has either (i) a minimum corporate debt rating of “A” by Standard & Poor’s or Fitch Ratings, or “A2” from Moody’s Investors Service, or an equivalent short term rating from one of these agencies, or (ii) a minimum insurer rating of “A” by A.M. Best. PJMSettlement will consider the lowest applicable rating to be the rating of the surety. If the rating of a surety providing a surety bond is lowered below A/A2 by any rating agency, then PJMSettlement may require the Participant to provide a surety bond from another surety that is rated A/A2 or better, or to provide another form of Collateral.
- (ii) The surety bond shall have an initial period of at least one year, and shall state that it shall renew automatically for successive one-year periods, until terminated upon at least ninety (90) days prior written notice from the issuing surety. If PJM or PJMSettlement receives notice from the issuing surety that the current surety bond is being cancelled, the Participant will be required to provide evidence, acceptable to PJM, that such surety bond will be replaced with appropriate Collateral, effective as of the cancellation date of the surety bond, no later than thirty (30) days before the cancellation date of the surety bond, and no later than ninety (90) days after the notice of cancellation. Failure to do so will constitute a default under this Attachment Q and one of more of the Agreements enabling PJM to immediately demand payment of the full value of the surety bond.
- (iii) PJM will post on its web site an acceptable standard form of a surety bond that should be utilized by a Participant choosing to submit a surety bond 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. All costs associated with obtaining and maintaining a

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surety bond and meeting the Attachment Q provisions are the responsibility of the Participant.

(iv) 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 Participant.

(v) PJM shall not accept surety bonds with an aggregate value greater than \$50 million dollars (\$50,000,000) issued by any individual surety.

ED. PJM Administrative Charges

Collateral or credit support held by PJM shall also secure obligations to PJM for PJM administrative charges, and may be liquidated to satisfy all such obligations in *an Event of Default*.

EE. Collateral and Credit Support Held by PJM

Collateral or credit support submitted by Participants and held by PJM shall be held by PJM for the benefit of PJM.

VI. SUPPLEMENTAL CREDIT REQUIREMENTS FOR SCREENED TRANSACTIONS

A. Virtual and Export Transaction Screening

1. Credit for Virtual and Export Transactions

Export Transactions and Virtual Transactions both utilize Credit Available for Virtual Transactions to support their credit requirements.

PJM does not require a Market Participant to establish separate or additional credit for submitting Virtual or Export Transactions; however, once transactions are submitted and accepted by PJM, PJM may require credit supporting those transactions to be held until the transactions are completed and their financial impact incorporated into the Market Participant's Obligations. If a Market Participant chooses to establish additional Collateral and/or Unsecured Credit Allowance in order to increase its Credit Available for Virtual Transactions, the Market Participant's Working Credit Limit for Virtual Transactions shall be increased in accordance with the definition thereof. The Collateral and/or Unsecured Credit Allowance available to increase a Market Participant's Credit Available for Virtual Transactions shall be the amount of Collateral and/or Unsecured Credit Allowance available after subtracting any credit required for Minimum Participation Requirements, FTR, RPM or other credit requirement determinants defined in this Attachment Q, as applicable.

If a Market Participant chooses to provide additional Collateral in order to increase its Credit Available for Virtual Transactions PJM may establish a reasonable timeframe, not to exceed three months, for which such Collateral must be maintained. PJM will not impose such restriction on a deposit unless a Market Participant is notified prior to making the deposit. Such restriction, if

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applied, shall be applied to all future deposits by all Market Participants engaging in Virtual Transactions.

A Market Participant may increase its Credit Available for Virtual Transactions by providing additional Collateral to PJM. PJM will make a good faith effort to make new Collateral available as Credit Available for Virtual Transactions as soon as practicable after confirmation of receipt. In any event, however, Collateral received and confirmed by noon on a Business Day will be applied (as provided under this Attachment Q) to Credit Available for Virtual Transactions no later than 10:00 am on the following Business Day. Receipt and acceptance of wired funds for cash deposit shall mean actual receipt by PJM's bank, deposit into PJM's customer deposit account, confirmation by PJM that such wire has been received and deposited, and entry into PJM's credit system. Receipt and acceptance of letters of credit or surety bonds shall mean receipt of the original Letter of Credit or surety bond, or amendment thereto, confirmation from PJM's credit and legal staffs that such Letter of Credit or surety bond, or amendment thereto, conforms to PJM's requirements, which confirmation shall be made in a reasonable and practicable timeframe, and entry into PJM's credit system. To facilitate this process, bidders submitting additional Collateral for the purpose of increasing their Credit Available for Virtual Transactions are advised to submit such Collateral well in advance of the desired time, and to specifically notify PJM of such submission.

A Market Participant wishing to submit Virtual or Export Transactions must allocate within PJM's credit system the appropriate amount of Credit Available for Virtual Transactions to the virtual and export allocation sections within each customer account in which it wishes to submit such transactions.

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Attachment Q

Appendix 1

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**PJM MINIMUM PARTICIPATION CRITERIA
ANNUAL OFFICER CERTIFICATION FORM**

Participant Name: _____ ("Participant")

I, _____, a duly authorized officer of Participant, understanding that PJM Interconnection, L.L.C. and PJMSettlement, Inc. ("PJMSettlement") are relying on this certification as evidence that Participant meets the minimum requirements set forth in the PJM Open Access Transmission Tariff ("PJM Tariff"), Attachment Q hereby certify that I have full authority to represent on behalf of Participant and further represent as follows, as evidenced by my initialing each representation in the space provided below:

1. All employees or agents transacting in markets or services provided pursuant to the PJM Tariff or PJM Amended and Restated Operating Agreement ("PJM Operating Agreement") on behalf of the Participant have received appropriate training and are authorized to transact on behalf of Participant. *As used in this representation, the term "appropriate" as used with respect to training means training that is (i) comparable to generally accepted practices in the energy trading industry, and (ii) commensurate and proportional in sophistication, scope and frequency to the volume of transactions and the nature and extent of the risk taken by the participant.* _____
2. Participant has written risk management policies, procedures, and controls, approved by Participant's independent risk management function and applicable to transactions in *any* PJM Markets in which it participates and for which employees or agents transacting in markets or services provided pursuant to the PJM Tariff or PJM Operating Agreement have been trained, that provide an appropriate, comprehensive risk management framework that, at a minimum, clearly identifies and documents the range of risks to which Participant is exposed, including, but not limited to credit risks, liquidity risks and market risks. *As used in this representation, a Participant's "independent risk management function" can include appropriate corporate persons or bodies that are independent of the Participant's trading functions, such as a risk management committee, a risk officer, a Participant's board or board committee, or a board or committee of the Participant's parent company.*
 - a. *Participant is providing to PJM or PJMSettlement, in accordance with Tariff, Attachment Q, section III, with this Annual Officer Certification Form, a copy of its current governing risk management policies, procedures and controls applicable to its activities in any PJM Markets as part of its initial application pursuant to Attachment Q or because there have been substantive changes made to such policies, procedures and controls applicable to its market activities since they were last provided to PJM.* _____
 - b. *If the risk management policies, procedures and controls applicable to Participant's market activities submitted to PJM or PJMSettlement were submitted prior to the current certification, Participant certifies that no substantive changes*

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*have been made to such policies, procedures and controls applicable to its market activities since such submission.*_____

3. An FTR Participant must make either the following 3.a. or 3.b. additional representations, evidenced by the undersigned officer initialing either the one 3.a. representation or the *four* 3.b. representations in the spaces provided below:

a. Participant transacts in PJM's FTR markets with the sole intent to hedge congestion risk in connection with either obligations Participant has to serve load or rights Participant has to generate electricity in the PJM Region ("physical transactions") and monitors all of the Participant's FTR market activity to endeavor to ensure that its FTR positions, considering both the size and pathways of the positions, are either generally proportionate to or generally do not exceed the Participant's physical transactions, and remain generally consistent with the Participant's intention to hedge its physical transactions._____

b. On no less than a weekly basis, Participant values its FTR positions and engages in a probabilistic assessment of the hypothetical risk of such positions using analytically based methodologies, predicated on the use of industry accepted valuation methodologies._____

Such valuation and risk assessment functions are performed either by persons within Participant's organization independent from those trading in PJM's FTR markets or by an outside firm qualified and with expertise in this area of risk management._____

Having valued its FTR positions and quantified their hypothetical risks, Participant applies its written policies, procedures and controls to limit its risks using industry recognized practices, such as value-at-risk limitations, concentration limits, or other controls designed to prevent Participant from purposefully or unintentionally taking on risk that is not commensurate or proportional to Participant's financial capability to manage such risk._____

Exceptions to Participant's written risk policies, procedures and controls applicable to Participant's FTR positions are documented and explain a reasoned basis for the granting of any exception._____

4. Participant has appropriate personnel resources, operating procedures and technical abilities to promptly and effectively respond to all PJM *and PJMSettlement* communications and directions._____
5. Participant has demonstrated compliance with the Minimum Capitalization criteria set forth in Tariff, Attachment Q that are applicable to *any* PJM Markets in which Participant transacts, and is not aware of any change having occurred or being imminent that would invalidate such compliance._____

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6. All Participants must certify and initial in at least one of the four sections below:

- a. I certify that Participant qualifies as an “appropriate person” as that term is defined under section 4(c)(3), or successor provision, of the Commodity Exchange Act or an “eligible contract participant” as that term is defined under section 1a(18), or successor provision, of the Commodity Exchange Act. I certify that Participant will cease transacting in *any* PJM Markets and notify *PJM and PJMSettlement* immediately if Participant no longer qualifies as an “appropriate person” or “eligible contract participant.” _____

If providing *audited* financial statements, *which shall be in US GAAP format or any other format acceptable to PJM*, to support Participant’s certification of qualification as an “appropriate person:”

I certify, to the best of my knowledge and belief, that the *audited* financial statements provided to *PJM and/or PJMSettlement* present fairly, pursuant to such disclosures in such *audited* financial statements, the financial position of Participant as of the date of those *audited* financial statements. Further, I certify that Participant continues to maintain the minimum \$1 million total net worth and/or \$5 million total asset levels reflected in these *audited* financial statements as of the date of this certification. I acknowledge that both PJM and PJMSettlement are relying upon my certification to maintain compliance with federal regulatory requirements. _____

If not providing *audited* financial statements to support *Participant’s certification of qualification as an “appropriate person,” Participant certifies that they qualify as an “appropriate person” under one of the entities defined in section 4(c)(3)(A)-(J) of the Commodities Exchange Act.* _____

If providing *audited* financial statements, *which shall be in US GAAP format or any other format acceptable to PJM*, to support Participant’s certification of qualification as an “eligible contract participant:”

I certify, to the best of my knowledge and belief, that the *audited* financial statements provided to *PJM and/or PJMSettlement* present fairly, pursuant to such disclosures in such *audited* financial statements, the financial position of Participant as of the date of those *audited* financial statements. Further, I certify that Participant continues to maintain the minimum \$1 million total net worth and/or \$10 million total asset levels reflected in these *audited* financial statements as of the date of this certification. I acknowledge that both PJM and PJMSettlement are relying upon my certification to maintain compliance with federal regulatory requirements. _____

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If not providing audited financial statements to support Participant's certification of qualification as an "eligible contract participant," Participant certifies that they qualify as an "eligible contract participant" under one of the entities defined in section 1a(18)(A) of the Commodities Exchange Act. _____

- b. I certify that Participant has provided an unlimited Corporate Guaranty in a form acceptable to PJM as described in Tariff, Attachment Q, section III.D from an issuer that has at least \$1 million of total net worth or \$5 million of total assets per Participant for which the issuer has issued an unlimited Corporate Guaranty. *I also certify, to the best of my knowledge and belief, that the audited financial statements provided to PJM and/or PJMSettlement present fairly, pursuant to such disclosures in such audited financial statements, the financial position of the issuer as of the date of those audited financial statements. Further, I certify that Participant will cease transacting PJM's Markets and notify PJM and PJMSettlement immediately if issuer of the unlimited Corporate Guaranty for Participant no longer has at least \$1 million of total net worth or \$5 million of total assets per Participant for which the issuer has issued an unlimited Corporate Guaranty.*_____

I certify that the issuer of the unlimited Corporate Guaranty to Participant continues to have at least \$1 million of total net worth or \$5 million of total assets per Participant for which the issuer has issued an unlimited Corporate Guaranty. I acknowledge that PJM and PJMSettlement are relying upon my certifications to maintain compliance with federal regulatory requirements._____

- c. I certify that Participant fulfills the eligibility requirements of the Commodity Futures Trading Commission exemption order (78 F.R. 19880 – April 2, 2013) by being in the business of at least one of the following in the PJM Region as indicated below (initial those applicable):
1. Generating electric energy, including Participants that resell physical energy acquired from an entity generating electric energy:_____
 2. Transmitting electric energy:_____
 3. Distributing electric energy delivered under Point-to-Point or Network Integration Transmission Service, including scheduled import, export and wheel through transactions:_____
 4. Other electric energy services that are necessary to support the reliable operation of the transmission system:_____

Description only if c(4) is initialed:

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Further, I certify that Participant will cease transacting in *any* PJM Markets and notify *PJM and PJMSettlement* immediately if Participant no longer performs at least one of the functions noted above in the PJM Region. I acknowledge that PJM and PJMSettlement are relying on my certification to maintain compliance with federal energy regulatory requirements. _____

- d. I certify that Participant has provided a *Letter of Credit* of \$5 million or more to *PJM or PJMSettlement* in a form acceptable to *PJM and/or PJMSettlement* as described in Tariff, Attachment Q, section V.B that the Participant acknowledges cannot be utilized to meet its credit requirements to *PJM and PJMSettlement*. I acknowledge that PJM and PJMSettlement are relying on the provision of this letter of credit and my certification to maintain compliance with federal regulatory requirements. _____

e. I certify that Participant has provided a surety bond of \$5 million or more to PJM or PJMSettlement in a form acceptable to PJM and/or PJMSettlement as described in Tariff, Attachment Q, section V.D. that the Participant acknowledges cannot be utilized to meet its credit requirements to PJM and PJMSettlement. I acknowledge that PJM and PJMSettlement are relying on the provision of this surety bond and my certification to maintain compliance with federal regulatory requirements. _____

7. I acknowledge that I have read and understood the provisions of Tariff, Attachment Q applicable to Participant's business in *any* PJM Markets, including those provisions describing PJM's *Minimum Participation Requirements* and the enforcement actions available to *PJM and PJMSettlement* of a Participant not satisfying those requirements. I acknowledge that the information provided herein is true and accurate to the best of my belief and knowledge after due investigation. In addition, by signing this certification, I acknowledge the potential consequences of making incomplete or false statements in this Certification. _____

Date: _____

Participant (Signature)

Print Name: _____
Title: _____