

Credit Subcommittee Items

Markets and Reliability Committee

August 21, 2014

Harold Loomis

- Proposed Changes to Certification and Risk Documentation Requirements
- Virtual Transactions Credit Requirement Timeframe
- PMA Exclusions
- Demand Bid Volume Limits

Proposed Changes to Certification and Risk Documentation Requirements

- Current requirements for Officer Certifications include
 - Submittal of notarized paper form
 - Submittal by all applicants even if not active
- PJM Proposes to:
 - Allow submission in a form acceptable to PJM
 - Would enable use of an electronic signature service
 - Remove notary requirement
 - Remove requirement for submittal from inactive applicants
- The Credit Subcommittee unanimously endorsed the proposal at its July 2014 meeting

- Current requirement is for annual submission of risk policy documentation by applicable members even if identical to prior submission
- PJM proposes to allow certification that no changes of substance were made to portions related to activities in PJM in lieu of resubmission
 - Administrative changes or changes outside of PJM activity would be allowed
 - This is not a “materiality” test
 - Any change of substance, regardless of materiality, would eliminate eligibility to make the certification and would require resubmission of the appropriate documentation
- The Credit Subcommittee unanimously endorsed the proposal at its July 2014 meeting

Virtual Transactions Credit Requirement Timeframe

Virtual Transactions Credit Requirement Timeframe Reducing Calculation from Four Days to Two Days

- Current Virtual Transactions credit requirement uses a four-day calculation
 - Submitted bids for upcoming market day plus cleared bids for three prior cleared days
- Enhancements to credit data availability now include Virtual Transactions results through the prior calendar day
- With more recent data available, the Virtual Transactions credit requirement timeframe could be reduced from four days to two
 - Submitted bids for upcoming market day plus cleared bids for prior day (i.e. tomorrow plus today)
- Reducing the timeframe to two days would obviate the usefulness of an alternative credit calculation involving two days of submitted bids

- PJM has identified a Virtual Transactions risk related to the current billing timeframe
 - Risk that value from billed profits may not be available to cover losses from transactions that those profits support through the current credit structure
- Billed profits posted Tuesday currently support Wednesday submissions of Virtual Transaction bids for market day Thursday
- Results from Thursday virtual transactions are not available to eCredit until Friday
- By Friday, bills issued on Tuesday are already being prepared for Monday payment commitment
 - Although it is still technically possible to withhold payment on Monday, the tight timeframe and required one-off processing together increase process risk
- Bids submitted for later market days are likewise at risk

- PJM proposes to:
 - Reduce the virtual transactions credit requirement from four days to two
 - One day of submitted bids for upcoming market day plus one day of cleared bids
 - Eliminate current alternative of two days of submitted bids
 - Modify the Credit Available for Virtual Transactions to exclude billed profits
- The Credit Subcommittee unanimously endorsed this proposal at its July 2014 meeting
- The Market Implementation Committee unanimously* endorsed this proposal at its August 6, 2014 meeting (*with two abstentions)
- Pending updates in process for the eCredit system, prior to the next MRC meeting PJM will ask the Credit Subcommittee to endorse the same shorter timeframe for the Export credit screen

PMA Exclusions

- The Peak Market Activity (PMA) credit requirement is used to establish a baseline credit requirement for each member, using historical activity as a guide
- FTR billed activity is currently removed from the PMA
 - FTRs are financial instruments with their own credit requirement and screening system
- Virtual Transactions (INC/DEC/Up-to transactions) are also financial instruments with their own bid screening system
- This proposal would exclude from PMA the spot market energy, transmission congestion and transmission loss charges (and negative charges) that result from Virtual Transactions
- The Credit Subcommittee has unanimously endorsed this proposal

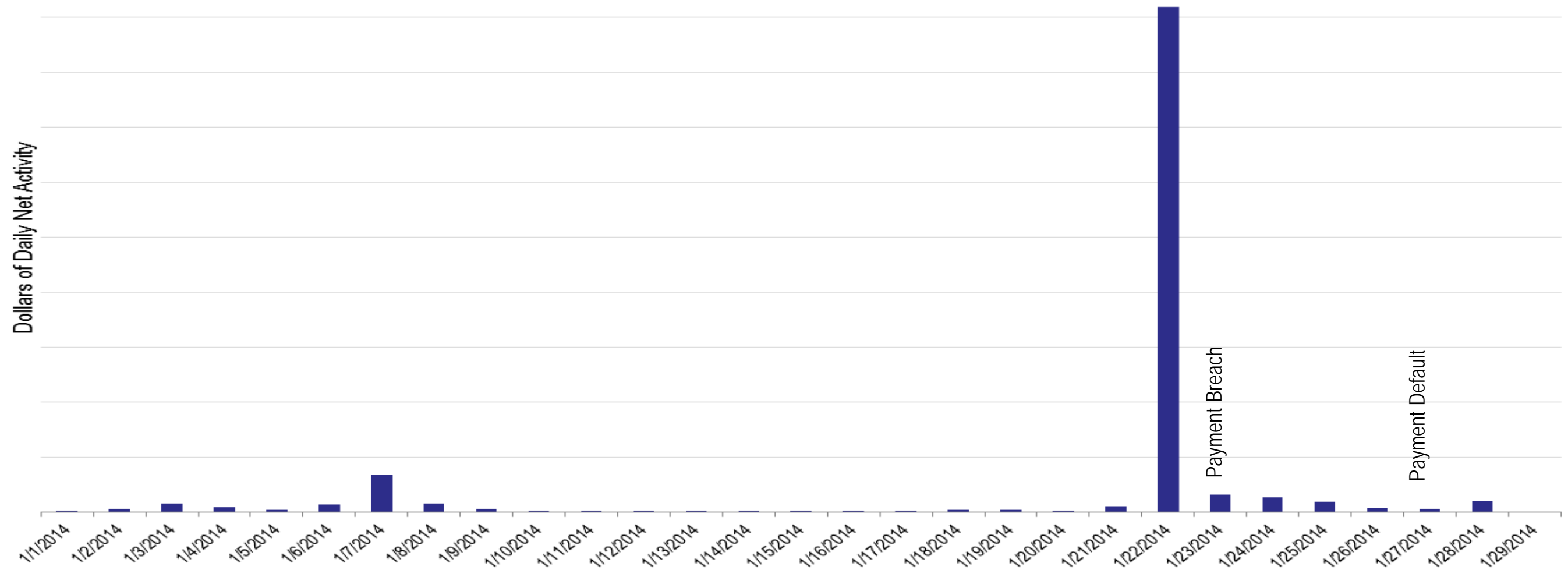
- PJM has identified that screened export transactions may also be appropriate to exclude from PMA
- Prior to the next MRC meeting, PJM will ask the Credit Subcommittee to consider adding an export transaction exclusion to this proposal

Demand Bid Volume Limits

Type of Day-Ahead Market Bid	Screens / Bid Requirements
Increment / Decrement	Screen of calculated potential net charges against available credit
Up-to-Congestion	Screen of calculated potential net charges against available credit
Load-Serving Entity Demand Bid	<ul style="list-style-type: none"> • Must have a related InSchedule load contract • Currently no volume limits • Demand bid in excess of actual load acts as a Virtual Transaction Decrement bid, but without the protections afforded by the Virtual Transaction credit screen and associated Minimum Participation Requirements

For all of these types of Day-Ahead buy bids, each member can establish its own voluntary bidding limits.

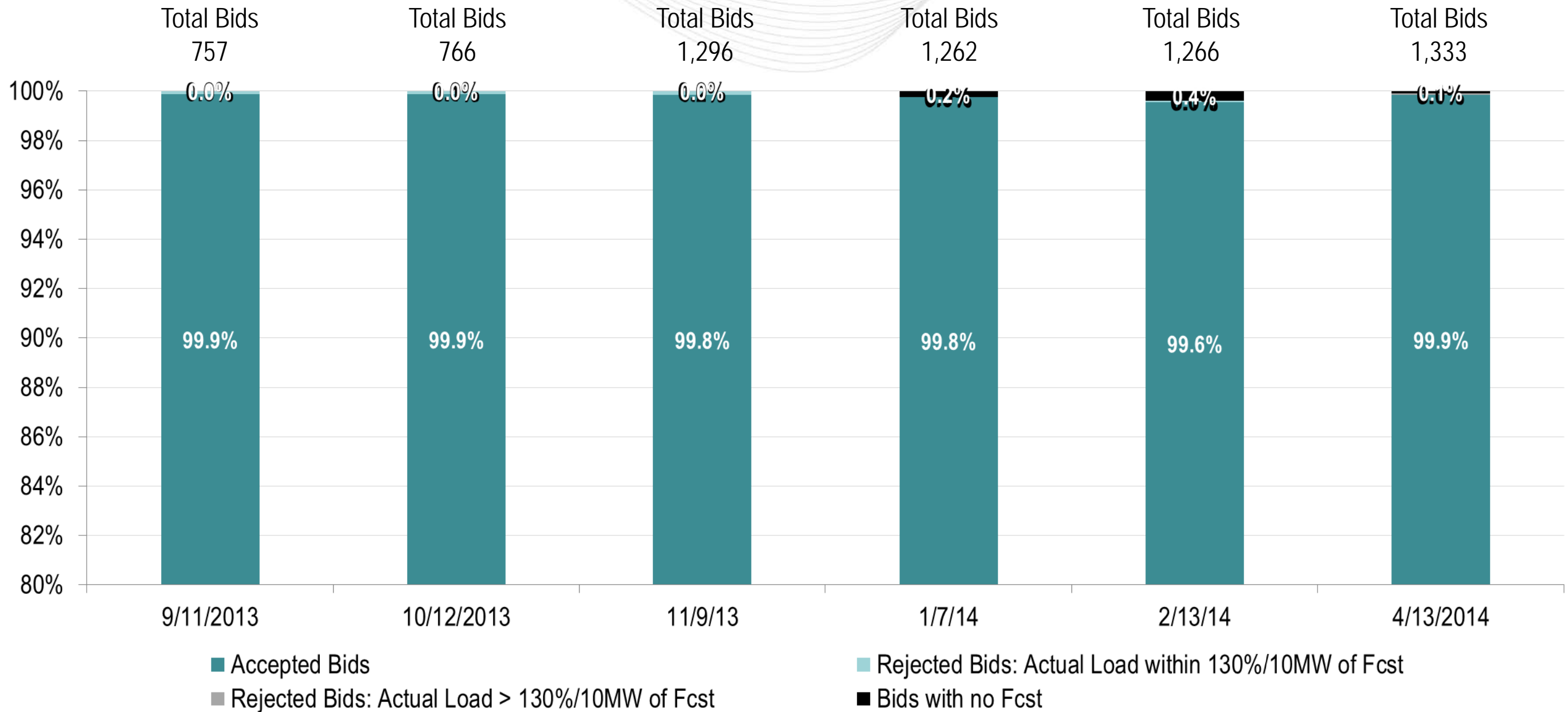
People's Power & Gas, LLC's unpaid net charges resulted almost entirely from one day's charges on a demand bid for approximately 100 times the level of load served by this load-serving entity.



- Objective – Reduce the risk of material costs accruing on demand bids in excess of the load-serving commitments of the load-serving entities (LSEs) entering those demand bids
- Proposal – establish a daily Demand Bid Limit for each LSE by transmission zone
 - Daily Demand Limit would be the greater of 30% or 10 MW above the LSE's calculated Zonal Peak Load Reference Point for the operating day
 - 30% and 10MW were empirically derived from actual recent experience
 - The single largest two-day-ahead zonal forecast shortfall from January 2013 through March 2014 was 28%
 - Zonal Peak Load Reference Point calculated from actual recent LSE load and PJM forecasted zonal load

- Zonal Peak Load Reference Point is the product of:
 - a) Recent Load Share: Each LSE's highest one-hour share of the actual load contributions for each transmission zone in the most recently available seven days, times
 - b) PJM's peak load forecast for each transmission zone
 - For transparency, intend to make available to each LSE its Zonal Peak Load Reference Point for each transmission zone two days prior to the applicable operating day
- Demand bids in excess of limit would not be accepted into the Day-ahead market system
- Exception requests could be authorized
- The Credit Subcommittee unanimously endorsed the proposal at its July 2014 meeting

(Based on Highest Recent Share Per Zone and Two-Day Ahead Zonal Peak Forecast)



(Based on Highest Recent Share Per Zone and Two-Day Ahead Zonal Peak Forecast)

Date	Total Bids	Bids Accepted	Bids Rejected		
			Actual Under Cap	Actual Over Cap	No Baseline
9/11/2013	757	756	1	0	0
10/12/2013	766	765	1	0	0
11/9/2013	1262	1260	2	0	0
1/7/2014	1266	1263	0	0	3
2/13/2014	1333	1327	1	0	5
4/13/2014	1296	1294	0	1	1