

Credit Subcommittee Items

MRC/MC

September 18, 2014

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Annual Officer Certification Submission Changes

- 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

- 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 these proposed changes at its July 2014 meeting
- The MIC endorsed these proposed changes with one objection at its September 2014 meeting

PMA Adjustment for Virtual and Export Transactions

- 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
- Export Transactions will also be subject to screening, pending Commission acceptance of PJM's recent proposal
- This proposal would exclude from PMA the spot market energy, transmission congestion and transmission loss charges (and negative charges) that result from Virtual Transactions and Export Transactions
 - Deviation charges, fees and other line items will not be excluded

- The Credit Subcommittee unanimously endorsed these proposed changes at its July and August 2014 meetings
- The MIC endorsed these proposed changes with one objection at its September 2014 meeting



Reduced Credit Requirement Calculation Interval for Virtual and Export Transactions

- Current Virtual Transactions credit requirement uses a four-day calculation
 - Submitted bids for upcoming market day plus cleared bids for three prior days
- Enhancements to credit data availability now include Virtual Transactions results through the day prior to current day
- With more current data available, the Virtual Transactions credit requirement hold period could be reduced from four days to two
 - Upcoming market day submitted bids plus one prior day (i.e. tomorrow plus today)
- An alternative credit calculation involving two days of submitted bids would be rendered moot by reducing the primary calculation to two days
- Export Transactions, when screened, could similarly have their hold period credit requirement reduced to two days from four days as originally proposed

- 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 transaction losses
- Billed profits posted Tuesday currently support Wednesday submissions of Virtual Transaction bids for market day Thursday
- Results from Thursday virtual transactions available to eCredit until Friday
- Bills issued on Tuesday are already being prepared Friday 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 and Export Transactions credit requirements from four days to two days
 - One day of submitted bids for next market day plus one day of cleared bids
 - Eliminate current Virtual Transactions alternative of two days of submitted bids
 - Modify the Credit Available for Virtual Transactions to exclude billed profits

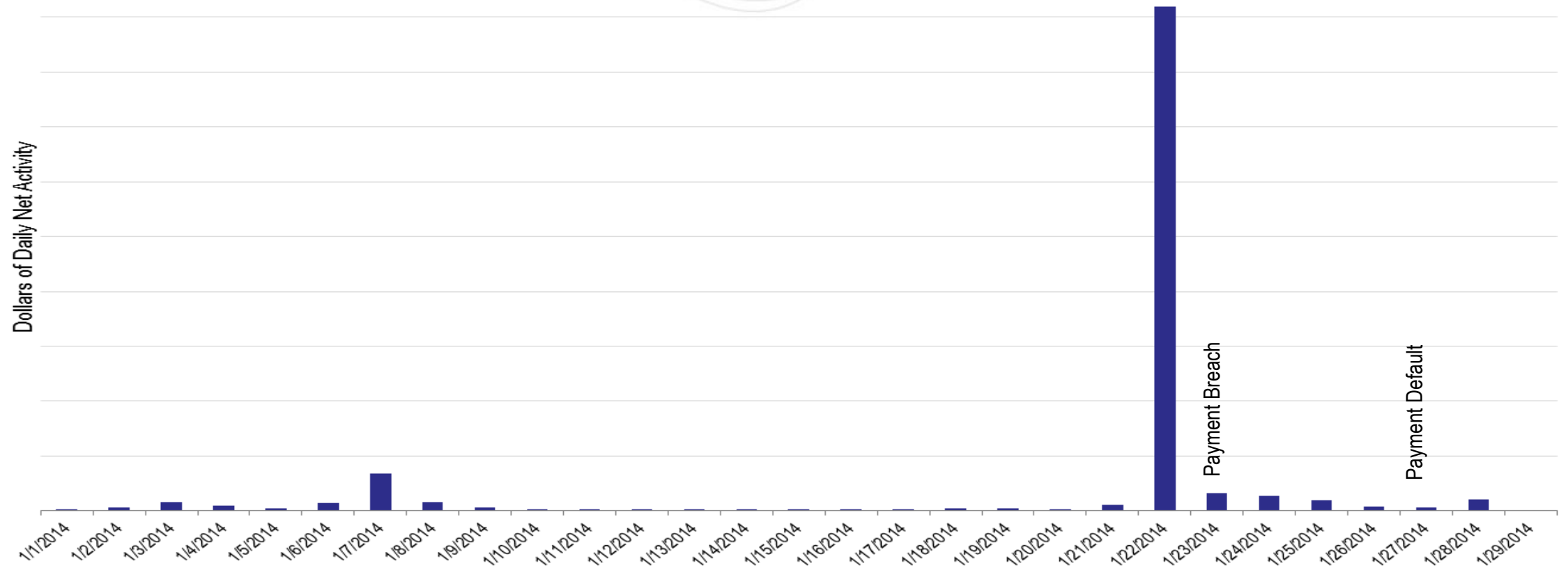
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Demand Bid Volume Limits

- Demand Bids
 - Must have a related InSchedule load contract
 - Currently no PJM-imposed volume limits
 - Members can establish their own voluntary bidding 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 Requirement
- 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

Demand Bid Volume Limits People's Power & Gas, LLC January 2014 Default

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.



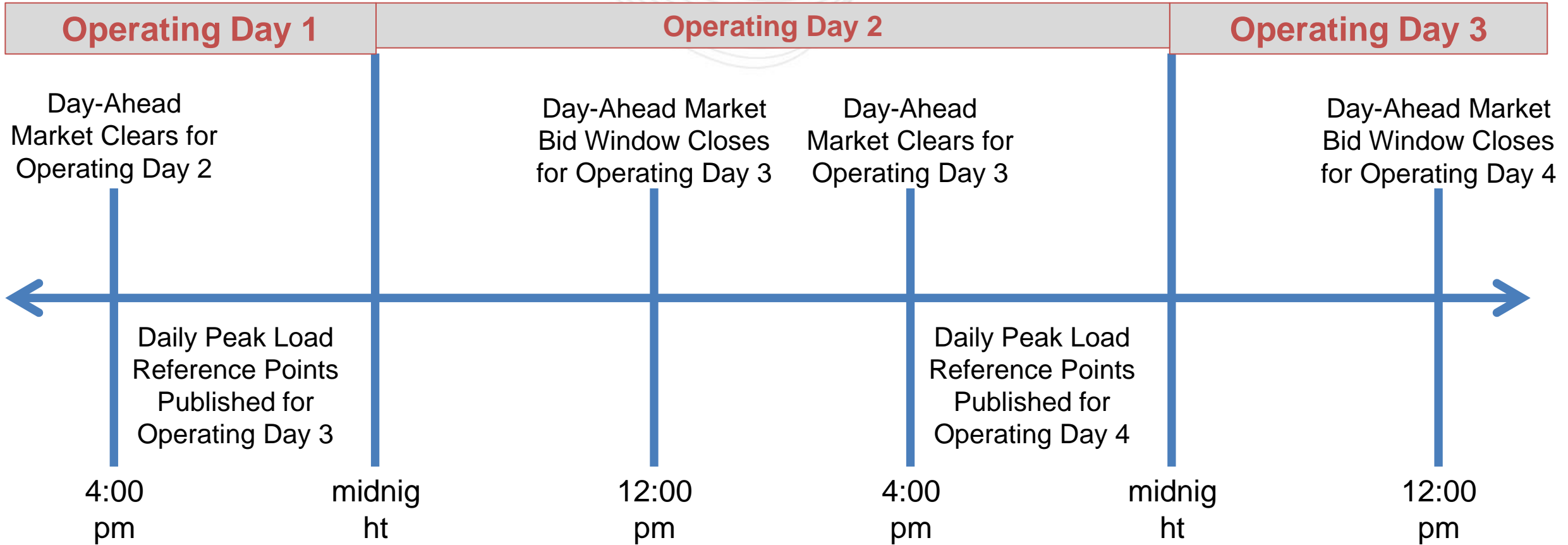
- PJM Proposes to establish a daily Demand Bid Limit for each LSE by transmission zone
- Daily Demand Limit would be the greater of 30% or 10 MW above the LSE's calculated Zonal Peak Load Reference Point for the operating day
 - 30% and 10MW were empirically derived from actual recent experience
 - The 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 - the product of:
 - 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
 - PJM's peak load forecast for each transmission zone
- For transparency, intend to make available to each LSE its Zonal Peak Load Reference Point or Demand Bid Limit 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

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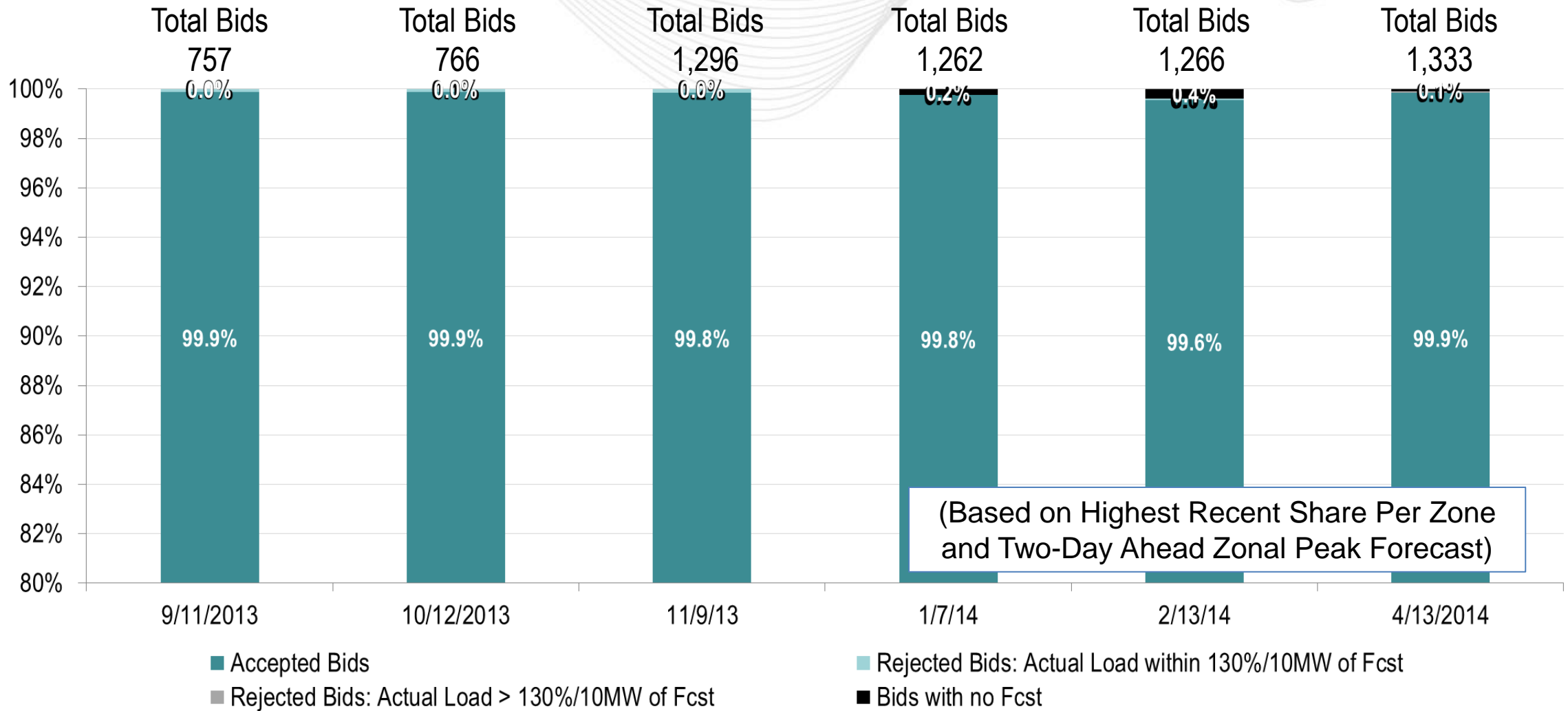


Demand Bid Volume Limits

Planned Timeline for Calculating Daily Zonal Peak Load Reference Points by LSE



Demand Bid Volume Limits Results of Sample Days' Analyses



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

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