

# Bilateral Capacity Transaction Reform

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Market Reliability Committee  
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**Market participants are permitted to bilaterally transfer capacity rights/revenues to others without PJM's consent (Attachment DD, Section 4.6)**

Today, Auction Specific and Locational UCAP bilateral transactions both transfer capacity rights from the Seller to the Buyer.

The Seller of the capacity remains subject to all applicable resource performance charges, including Capacity Resource Deficiency Charges and Non-Performance Charges.

The Buyer must indemnify PJM for any failure by the Seller including Seller ability to pay deficiency penalties and charges associated with these transactions.

The separation of capacity-related performance and payment obligations from the capacity entitlements diminishes PJM's ability to collect from the Seller, who retains the performance obligation, because revenues have been diverted from the Seller to the Buyer:

- Hinders PJM's ability to set off capacity revenues against capacity obligations
- Hampers PJM's unilateral enforcement of default remedies

Explore potential enhancements to existing relevant business rules and Tariff provisions to determine modifications that enhance credit mitigation efforts and provide PJM the ability to evaluate the creditworthiness of a proposed Seller/Buyer in advance of executing the bilateral capacity transaction.

## RMC met to discuss this between October 2023 and August 2024

**One package** created and voted through the stakeholder process.

RMC endorsed the solution package at August 2024 meeting by acclamation with:

**0**  
Objections

**0**  
Abstentions

# Endorsed Solution Package



## PROPOSED CHANGE

PJM conducts a credit review of Auction Specific and Locational UCAP bilateral capacity transactions prior to their final execution.

### Rationale:

- Promotes transparency and an accurate assessment of risk transfer between parties
- Ensures PJM has the necessary data to assess the bilateral transaction and market participant risk

- Seller/Buyer in advance of transaction start date submits proposed bilateral capacity transaction to PJM.
- Seller/Buyer bears the risk from delaying submission of the transaction to PJM.
- Primary Transaction data including Seller, Buyer, start/end date, Seller account, Buyer account, Auction/Resource, quantity (MWs), price and total notional value

PJM will review Auction Specific and Locational UCAP bilateral capacity transactions by close of next business day, if transaction is received by 1 p.m. EPT. If Buyer/Seller provides the necessary information later than 1 p.m. EPT, PJM will review the transaction by close of business two business days later.

**Rationale:**

- Promotes visibility and ability to assess risk transfer between parties
- Provides market participant sufficient time to provide PJM any additional credit support (if applicable)

Both market participants' (Seller & Buyer) creditworthiness and impact of the transaction will be considered in alignment with Attachment Q.

**Rationale:**

- Current tool does not provide for risk approval prior to trade execution

- Ensures PJM has the necessary data to assess the bilateral transaction and market participant risk

- The total unsecured credit allowance determined by PJM in accordance with Attachment Q of each participant will be compared to the notional value of the transaction.
- Seller Investment Grade / Buyer Investment Grade transactions (both parties have external investment grade ratings AND the total notional value of the transaction is less than the Seller's/Buyer's unsecured credit allowance) will be deemed approved unless PJM otherwise informs the parties by the applicable deadline.



SEPTEMBER

OCTOBER

NOVEMBER

DECEMBER

MRC  
first read

MRC  
seeking  
endorsement

MC  
seeking  
endorsement

**File Tariff  
redlines with  
FERC**

**Presenters:**

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