

**For Presentation to FRMSTF at December 17, 2019 Meeting and at
December 19, 2019 MRC Meeting
Proposed Revisions to Operating Agreement, section 1 and Tariff, section 1**

FRMSTF Definitions

Adequate Assurance of Performance:

“Adequate Assurance of Performance” shall mean sufficient security in the form, amount and for the term reasonably acceptable to PJM and/or PJMSettlement, but not limited to, cash, a standby irrevocable Letter of Credit, and such other readily liquid assets with appropriate percentage reductions applied to the value of a Market Participant’s Collateral, margin and/or credit requirement that PJM and/or PJMSettlement may find acceptable from time to time. In the event that a Participant fails to provide the required Adequate Assurance of Performance in the timeframe required such failure shall be an Event of Default.

Commented [OB1]: Form should be set in tariff or manuals. I have a strong preference for cash or LC. List in the Commodity Exchange Act.
<https://www.law.cornell.edu/cfr/text/12/237.6>

Affiliate:

“Affiliate” shall mean any two or more Principals, corporations, partnerships, firms, joint ventures, associations, joint stock companies, trusts, unincorporated organizations or entities, one of which directly or indirectly controls the other or that are both under common control. “Control” shall mean the possession, directly or indirectly, of the power to direct the management or policies of a person or an entity. Ownership of publicly-traded equity securities of another entity shall not result in control or affiliation for purposes of the Tariff or Operating Agreement if the securities are held as an investment, the holder owns (in its name or via intermediaries) less than 10 percent of the outstanding securities of the entity, the holder does not have representation on the entity’s board of directors (or equivalent managing entity) or vice versa, and the holder does not in fact exercise influence over day-to-day management decisions. Unless the contrary is demonstrated to the satisfaction of the Members Committee, control shall be presumed to arise from the ownership of or the power to vote, directly or indirectly, ten percent or more of the voting securities of such entity.

Commented [OB2]: This term makes the definition more confusing in that Principals, as defined, includes real persons.

Commented [OB3]: Are we certain that there are no unintended consequences such as changing the operation of the three pivotal supplier test?

Agreements:

“Agreements” shall mean the Amended and Restated Operating Agreement of PJM Interconnection, L.L.C., the PJM Open Access Transmission Tariff, the Reliability Assurance Agreement, and/or other agreements between PJM Interconnection, L.L.C. and its Members.

Commented [OB4]: Have we verified that the change in definition here does not affect other actions PJM takes. eg 3PS test

Members are required to report affiliates each year. Under this definition, my own company would have to classify over 200 employees as Principals or non-Principals. For the Principals (which might exceed 50 people), my compliance team would have to maintain a list of all outside interests and determine whether the Principal has direct or indirect control over any of the outside interests. The reporting for Panda might include various not-for-profit organizations throughout the country and will include my own limited liability corporation. This is clearly a bridge too far. This criteria is far in excess of what is required of my company under the Investment Advisors Act.

Applicant:

“Applicant” shall mean an entity desiring to become a PJM Member, become a Market Participant, hold FTRs, ARR or otherwise engage in market activities, or to take Transmission Service, or take any other service under this Tariff, that has submitted the PJMSettlement credit application, PJMSettlement credit agreement and other required submittals as set forth in Tariff, Attachment Q.

Application:

“Application” shall mean a request by an Eligible Customer for transmission service pursuant to the provisions of the Tariff.

Breach:

“Breach” shall mean the failure of a party to perform or observe any material term or condition of Tariff, Part IV or Part VI, or any agreement entered into thereunder as described in the relevant provisions of such agreement.

Capacity Market Buyer:

“Capacity Market Buyer” shall mean a Member that submits bids to buy Capacity Resources in any Incremental Auction.

Capacity Market Seller:

“Capacity Market Seller” shall mean a Member that owns, or has the contractual authority to control the output or load reduction capability of, a Capacity Resource, that has not transferred such authority to another entity, and that offers such resource in the Base Residual Auction or an Incremental Auction.

Cash Collateral Agreement:

“Cash Collateral Agreement” shall mean a Credit Support Document naming PJM and/or PJMSettlement as beneficiary.

Cash Deposit:

“Cash Deposit” shall mean cash Collateral provided to PJM and/or PJMSettlement to secure a Participant’s performance under the terms and conditions of the Agreements and/or other agreements.

Collateral:

“Collateral” shall be a ~~C~~ash ~~D~~eposit, including any interest, or ~~L~~etter of ~~C~~redit held by 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 security ~~in order to participate in the PJM Markets or take Transmission Service.~~

Collateral Call:

“Collateral Call” shall mean a notice to a Participant that additional Collateral, or possibly early payment, is required in order to remain in, or to regain, compliance with Tariff, Attachment Q.

Corporate Guaranty:

“Corporate Guaranty” shall mean a legal document, in a form acceptable to PJM and/or PJMSettlement, used by an Affiliate of an Applicant or Market Participant ~~entity~~ to guaranty the obligations of ~~another entity~~ that Applicant or Market Participant.

Credit Available for Virtual Transactions:

“Credit Available for Virtual Transactions” shall mean the Market Participant’s Working Credit Limit for Virtual Transactions calculated on its credit provided in compliance with its Peak Market Activity requirement plus available credit submitted above that amount, less any unpaid billed and unbilled amounts owed to PJMSettlement, plus any unpaid unbilled amounts owed by PJMSettlement to the Market Participant, less any applicable credit required for Minimum Participation Requirements, FTRs, RPM activity, or other credit requirement determinants as defined in Tariff, Attachment Q.

Credit Breach:

“Credit Breach” shall mean the status of a Participant that does not currently meet the requirements of Tariff, Attachment Q or other provisions of the Agreements, and it shall also mean the failure of a Participant to perform, observe or comply with any term or condition of the Agreements, other than a failure to make a payment.

Credit Risk Score:

“Credit Risk Score” shall mean a composite numerical score determined by PJMSettlement using quantitative and qualitative metrics to estimate various predictors of a credit event happening to a Market Participant that may trigger a credit event, including but not limited to bankruptcy, obligation default and failure to pay amounts due when due.

Commented [OB5]: Should this be an “or”

Credit Score:

“Credit Score” shall mean a composite numerical score scaled from 0-100 as calculated by PJMSettlement that incorporates various predictors of creditworthiness.

Credit Support Default:

“Credit Support Default,” as that term is used in the Agreements, shall mean shall mean (a) the failure of a Market Participant or any Guarantor or Guaranteed Affiliate of such Market Participant to comply with or perform any agreement or obligation to be complied with or performed by it in accordance with the provisions of Tariff, Attachment Q, or (b) a false representation or misrepresentation, intentional or unintentional, made by a Market Participant in any Credit Support Document that proves to be incorrect or misleading in any material respect.

Credit Support Document:

“Credit Support Document” shall mean any agreement or instrument in any way guaranteeing or securing any or all of a Participant’s obligations under the Agreements (including, without limitation, the provisions of Tariff, Attachment Q), any agreement entered into under, pursuant to, or in connection with the Agreements or any agreement entered into under, pursuant to, or in connection with the Agreements and/or any other agreement to which PJM, PJMSettlement and the Participant are parties, including, without limitation, any Corporate Guaranty, Cash Collateral Agreement, Letter of Credit, Security Agreement or agreement granting PJM and PJMSettlement a security interest.

Commented [OB6]: This definition is too broad and it gives PJM too much discretion to accept forms of collateral not specifically identified in the proposed definition of Collateral. Credit Support Documents should include only Letters of Credit or Corporate Guaranty.

Default:

As used in the Interconnection Service Agreement and Construction Service Agreement, “Default” shall mean the failure of a Breaching Party to cure its Breach in accordance with the applicable provisions of an Interconnection Service Agreement or Construction Service Agreement.

Commented [OB7]: Are Defaults limited to ISAs and CSAs?

Effective FTR Holder:

“Effective FTR Holder” shall mean:

- (i) For an FTR Holder that is either a (a) privately held company, or (b) a municipality or electric cooperative, as defined in the Federal Power Act, such FTR Holder, together with any Affiliate, subsidiary or parent of the FTR Holder, any other entity that is under common ownership, wholly or partly, directly or indirectly, or has the ability to influence, directly or

indirectly, the management or policies of the FTR Holder; or

(ii) For an FTR Holder that is a publicly traded company including a wholly owned subsidiary of a publicly traded company, such FTR Holder, together with any Affiliate, subsidiary or parent of the FTR Holder, any other PJM Member has over 10% common ownership with the FTR Holder, wholly or partly, directly or indirectly, or has the ability to influence, directly or indirectly, the management or policies of the FTR Holder; or

(iii) an FTR Holder together with any other PJM Member, including also any Affiliate, subsidiary or parent of such other PJM Member, with which it shares common ownership, wholly or partly, directly or indirectly, in any third entity which is a PJM Member (e.g., a joint venture).

Events of Default:

“Events of Default,” as that term is used in Tariff, Attachment Q, shall mean a Default by a Market Participant under any of the terms and provisions thereof, or the occurrence of an Event of Default pursuant to the terms and provisions described in Tariff, Attachment Q, section VIII.

External Market Buyer:

“External Market Buyer” shall mean a Market Buyer making purchases of energy from the PJM Interchange Energy Market for consumption by end-users outside the PJM Region, or for load in the PJM Region that is not served by Network Transmission Service.

Financial Default:

“Financial Default,” as that term is used in Tariff, Attachment Q, means (a) the failure of a Participant to make any payment for obligations under the Agreements when due by the deadline for the applicable cure period, including but not limited to initial margin, variation margin, final invoice payment or other a Collateral Call, (b) a financial default on a bilateral FTR transaction to another Member or counterparty, (c) a default in any commodity exchange or any other energy, ancillary service and/or capacity markets including but not limited to those of another Regional Transmission Organization or Independent System Operator, (d) insolvency or the inability of a Market Participant to meet its financial obligations as they become due to any third party, (e) failure to satisfy a payment default or Collateral Call within one Business Day, or (f) when the Market Participant or any Guarantor or Guaranteed Affiliate of such Market Participant has a Merger Without Assumption.

FTR Credit Limit:

“FTR Credit Limit” shall mean the amount of credit established with PJMSettlement that an FTR Participant has specifically designated to be used for FTR activity in a specific customer account. Any such credit so set aside shall not be considered available to satisfy any other credit requirement the FTR Participant may have with PJMSettlement.

FTR Credit Requirement:

“FTR Credit Requirement” shall mean the amount of credit that a Participant must provide in order to support the FTR positions that it holds and/or for which it is bidding. The FTR Credit Requirement shall not include months for which the invoicing has already been completed, provided that PJMSettlement shall have up to two Business Days following the date of the

Commented [OB8]: This component is inadvisable. It potentially creates a default under the PJM tariff of what could possibly be a contract dispute between two counterparties. How would this work. Party A claims Party B defaulted under a bilateral contract so PJM suspends Party B without granting Party B and due process rights. If Party B is granted due process rights, would it have a right to discovery of the documents and records in Party A's possession?

Commented [OB9]: An entity seeking bankruptcy protection remains insolvent. Is this definition meant to frustrate the protection granted by filing a bankruptcy proceeding?

Commented [OB10]: I don't understand this one? Which entity remains in default? Why should PJM care if obligations to it are satisfied?

invoice completion to make such adjustments in its credit systems. FTR Credit Requirements are calculated and applied separately for each separate customer account.

FTR Historical Value:

For each FTR for each month, “FTR Historical Value” shall mean the weighted average of historical values over three years for the FTR path using the following weightings: 50% - most recent year; 30% - second year; 20% - third year.

FTR Holder:

“FTR Holder” shall mean the PJM Member that has acquired and possesses an FTR.

FTR Monthly Credit Requirement Contribution:

For each FTR, for each month, “FTR Monthly Credit Requirement Contribution” shall mean the total FTR cost for the month, prorated on a daily basis, less the FTR Historical Value for the month. For cleared FTRs, this contribution may be negative; prior to clearing, FTRs with negative contribution shall be deemed to have zero contribution.

FTR Net Activity:

“FTR Net Activity” shall mean the aggregate net value of the billing line items for auction revenue rights credits, FTR auction charges, FTR auction credits, and FTR congestion credits, and shall also include day-ahead and balancing/real-time congestion charges up to a maximum net value of the sum of the foregoing auction revenue rights credits, FTR auction charges, FTR auction credits and FTR congestion credits.

FTR Participant:

“FTR Participant” shall mean any Market Participant that ~~provides or is required to provide Collateral in order to~~ participates in PJM’s FTR ~~auctions~~markets.

FTR Portfolio Auction Value:

“FTR Portfolio Auction Value” shall mean for each customer account of a Market Participant, the sum, calculated on a monthly basis, across all FTRs, of the FTR price times the FTR volume in MW.

Generating Market Buyer:

“Generating Market Buyer” shall mean an Internal Market Buyer that is a Load Serving Entity that owns or has contractual rights to the output of generation resources capable of serving the Market Buyer’s load in the PJM Region, or of selling energy or related services in the PJM Interchange Energy Market or elsewhere.

Guarantor:

“Guarantor” shall mean a credit support provider under a Corporate Guaranty accepted by PJM and/or PJMSettlement for the benefit of the Market Participant.

Guaranteed Affiliate:

“Guaranteed Affiliate” shall mean each Affiliate of each Guarantor for whose benefit such Guarantor provided a Corporate Guaranty accepted by PJM and/or PJMSettlement.

Commented [OB11]: I think this is too limited. PJM should have an interest in understanding whether a Guarantor is over-extended. As such, PJM should consider a Guaranteed Affiliate any entity for which a Guarantor has provided a Corporate Guaranty.

Internal Market Buyer:

“Internal Market Buyer” shall mean a Market Buyer making purchases of energy from the PJM Interchange Energy Market for ultimate consumption by end-users inside the PJM Region that are served by Network Transmission Service.

Letter of Credit:

“Letter of Credit” shall mean a Credit Support Document naming PJM and/or PJMSettlement as beneficiary, a form of which shall be posted on PJM’s website.

Mark-to-Auction Value:

“Mark-to-Auction Value” shall mean the net increase (or decrease) in value of a portfolio of FTRs, as further described in Tariff, Attachment Q, **section IV.C.9.**

Market Buyer: (OA only)

“Market Buyer” shall mean a Member that has met reasonable creditworthiness standards established by the Office of the Interconnection and/or PJMSettlement in Tariff, Attachment Q, and that is otherwise able to make purchases in the PJM Interchange Energy Market.

Market Participant:

“Market Participant” shall mean a Market Buyer, a Market Seller, and/or an Economic Load Response Participant, except when that term is used in or pertaining to Tariff, Attachment M, Tariff, Attachment Q, Operating Agreement, section 15, Tariff, Attachment K-Appendix, section 1.4 and Operating Agreement, Schedule 1, section 1.4. ~~“Market Participant,” or all three, except~~ when such term is used in or pertaining to Tariff, Attachment M, ~~in which case Market Participant~~ shall mean an entity that generates, transmits, distributes, purchases, or sells electricity, ancillary services, or any other product or service provided under the PJM Tariff or Operating Agreement within, into, out of, or through the PJM Region, but it shall not include an Authorized Government Agency that consumes energy for its own use but does not purchase or sell energy at wholesale. “Market Participant,” when such term is used in or pertaining to Tariff, Attachment Q, Operating Agreement, section 15, Tariff, Attachment K-Appendix, section 1.4 and Operating Agreement, Schedule 1, section 1.4, shall mean an entity that satisfies the eligibility requirements set forth in Tariff, Attachment Q, Operating Agreement, Schedule 1 and Tariff, Attachment K-Appendix that generates, transmits, distributes, purchases, or sells electricity, ancillary services, or any other product or service provided under the PJM Tariff or Operating Agreement within, into, out of, or through the PJM Region, but it shall not include an Authorized Government Agency that consumes energy for its own use but does not purchase or sell energy at wholesale.

Market Seller: (OA only)

“Market Seller” shall mean a Member that has met reasonable creditworthiness standards established by the Office of the Interconnection and/or PJMSettlement in Tariff, Attachment Q, and that is otherwise able to make sales in the PJM Interchange Energy Market.

Material:

“Material,” as that term is used in Tariff, Attachment Q, or elsewhere in the Agreements concerning an entity’s financial health or creditworthiness or pertaining thereto, shall mean an amount that is the lesser of: (i) the materiality standard established by the accounting firm

- Commented [OB12]:** Where is this term defined and does it include municipal utilities? Might this definition of market participant erroneously exclude municipal utilities when they potentially pose credit risk?
- Commented [OB13]:** We need different terms so that any distinction between them is clear. As drafted, this has the potential to create confusion and gaps.
- Commented [OB14]:** I’m confused. If it does not purchase or sell energy (I assume the word energy includes capacity and ancillary services)) why is the notch-out necessary?

performing the respective entity’s annual audit; (ii) an amount that equals or exceeds five percent (5%) of the entity’s Tangible Net Worth for the preceding financial year, calculated in accordance with generally acceptable accounting principles; and (iii) a change, event, proceeding, occurrence that results (or if adversely determined could result) in a change of five percent (5%) or more in the entity’s Tangible Net Worth compared to the Tangible Net Worth of the entity for the preceding fiscal year, calculated in accordance with US Generally Acceptable Accounting Principles.

Commented [OB15]:

Commented [OB16]: Should this be an “or”

Commented [OB17]: Are these two terms intentionally different?

Material Adverse Change:

“Material Adverse Change” shall mean any material change in the financial condition of the respective entity or any change, event or occurrence which, individually or in the aggregate could have a Material adverse effect on any current or future financial result or financial condition or creditworthiness of the entity and includes, without limitation, the items listed in Tariff, Attachment Q.

Merger Without Assumption:

“Merger Without Assumption” shall mean when a Member or Transmission Customer, or any Guarantor or other credit support provider of such Member or Transmission Customer, merges with or transfers all or substantially all of its assets to, or consolidates, amalgamates, reorganizes, reincorporates or reconstitutes into or as, another entity and, at the time of such consolidation, amalgamation, merger, transfer, reorganization, reincorporation or reconstitution (a) the resulting, surviving or transferee entity does not assume all the obligations of such Member or Transmission Customer, or any Guarantor or other credit support provider of such Member or Transmission Customer under the Agreements or any Credit Support Document to which it or its predecessor was a party; or (b) the benefits of any Credit Support Document do not extend (without the consent of the other party) to the performance by such resulting, surviving or transferee entity of its obligations under the Agreements.

Commented [OB18]: Why Member? Why not Market Participant?

Commented [OB19]: This reads as a provision that circumvents any reorganization under a bankruptcy proceeding.

Minimum Participation Requirements:

“Minimum Participation Requirements” shall mean a set of minimum training, risk management, communication and capital or collateral requirements required for Participants in the PJM Markets, as set forth herein and in the Form of Annual Certification set forth as Tariff, Attachment Q, Appendix 1. FTR Participants ~~transacting in FTRs~~ in certain circumstances will be required to demonstrate additional risk management procedures and controls as further set forth in the Annual Certification found in Tariff, Attachment Q, Appendix 1.

MTA Collateral Call:

“MTA Collateral Call” shall mean a demand for additional Collateral issued due to a credit shortfall arising from a Mark-to-Auction Value change. The requirements and remedies for an MTA Collateral Call may be different from the requirements and remedies for a Collateral Call.

Municipalities and Cooperatives; Municipality and Cooperative; Municipality or Cooperative:

“Municipalities and Cooperatives,” “Municipality and Cooperative,” and “Municipality or Cooperative,” as those terms are used in Tariff, Attachment Q or elsewhere regarding credit scoring, shall mean Participants that are not-for-profit municipal electric systems, municipalities, electric cooperatives, generation cooperatives, transmission cooperatives and/or joint municipal

agencies, or agents representing one or more of such entities and whose credit quality is directly derived from the credit quality of the entity(ies) represented through the agency relationship.

Nationally Recognized Statistical Rating Organization:

“Nationally Recognized Statistical Rating Organization” or “NRSRO” shall have the meaning as set forth in Securities Exchange Act of 1934, section 3(a)(62), 15 U.S.C. §78(a)(62).

Net Obligation:

“Net Obligation” shall mean the amount owed to PJMSettlement and PJM for purchases from the PJM Markets, Transmission Service, ~~under Tariff, Parts II and III-~~ and other services pursuant to the Agreements, after applying a deduction for amounts owed to a Participant by PJMSettlement as it pertains to monthly market activity and services. Should other markets be formed such that Participants may incur future Obligations in those markets, then the aggregate amount of those Obligations will also be added to the Net Obligation.

Obligation:

“Obligation” shall mean all amounts owed to PJMSettlement for purchases from the PJM Markets, Transmission Service, (under both Tariff, Part II and Part III), and other services or obligations pursuant to the Agreements. In addition, aggregate amounts that will be owed to PJMSettlement in the future for capacity purchases within the PJM capacity markets will be added to this figure. Should other markets be formed such that Participants may incur future Obligations in those markets, then the aggregate amount of those Obligations will also be added to the Net Obligation.

Participant:

“Participant” shall mean a Market Participant and/or Transmission Customer and/or Applicant requesting to be an active Market Participant and/or Transmission Customer.

Peak Market Activity:

“Peak Market Activity” shall mean a measure of exposure for which credit is required, involving peak exposures in rolling three-week periods over a year timeframe, with two semi-annual reset points, pursuant to provisions of Tariff, Attachment Q, **section V.A.** Peak Market Activity shall exclude FTR Net Activity, Virtual Transactions Net Activity, and Export Transactions Net Activity.

PJM Governing Agreements:

“PJM Governing Agreements” shall mean the PJM Open Access Transmission Tariff, the Operating Agreement, the Consolidated Transmission Owners Agreement, the Reliability Assurance Agreement, or any other applicable agreement approved by the FERC and intended to govern the relationship by and among PJM and any of its Members.

PJM Markets:

“PJM Markets” shall mean the PJM Interchange Energy and capacity markets, including the RPM auctions, together with all bilateral or other wholesale electric power and energy transactions, capacity transactions, ancillary services transactions (including black start service), transmission transactions and any other market operated under the ~~PJM Tariff or Operating Agreements~~ within the PJM Region, wherein Market Participants may incur Obligations to PJM and/or PJMSettlement.

Position Limits:

“Position Limits” shall mean a pre-determined volumetric threshold that limits the amount of risk or the number of transactions a Market Participant or group of affiliated Market Participants may have.

Commented [OB20]: Note correction

Principal:

“Principal” shall mean an individual person with the following roles and responsibilities: (i) sole proprietor of a sole proprietorship; (ii) general partner of a partnership; (iii) manager, managing member of a member vested with the management authority for a limited liability company or limited liability partnership; (iv) any person or entity that (1) is the direct owner of 10% or more of any class of an organization’s equity securities or (2) has directly contributed 10% or more of an organization’s capital; (v) a director, president, chief executive officer, vice president, secretary, treasurer, operating officer, risk officer, general counsel, compliance officer, financial officer, general manager, comptroller or senior officer (or equivalent positions) of a corporation or other organization, or individuals to whom they have delegated authority to perform executive duties functions; and (vi) any person or entity that has the power to exercise supervisory authority or influence over an organization’s trading activities in PJM.

Commented [OB21]: This has the potential to be a false indicator. I may hold 1 FTR, which is well below the pre-determined threshold. If that 1 FTR is \$0.15 under water, no one cares. However, if that FTR is \$1.5M under water, someone better care.

Commented [OB22]: Note addition

Commented [OB23]: This creates an affiliation whereby PJM would have the authority to seek person business records including tax records.

Commented [OB24]: This creates an affiliation between an LLC and the entities who hold more debt than 10% of the LLC’s total capitalization. Does debt financing through syndication count as a direct contribution? Does a syndicator of the debt count as a direct contribution? Are the affiliates of my affiliates my affiliates?

Commented [OB25]: List is too extensive. It should be limited to CEO, COO, SVPs, or directors.

Rating Agency:

“Rating Agency” shall mean a Nationally Recognized Statistical Rating Organization that assesses the financial condition, strength and stability of companies and governmental entities and their ability to timely make principal and interest payments on their debts and the likelihood of default, and assigns a rating that reflects its assessment of the ability of the company or governmental entity to make the debt payments.

Restricted Collateral:

“Restricted Collateral” shall mean Collateral, held in escrow by PJM or PJMSettlement, that is restricted for specific market or other activity or risks, held by PJM or PJMSettlement, and which cannot be used or spent to satisfy any other obligations.

RPM Seller Credit:

“RPM Seller Credit” shall mean an additional form of Unsecured Credit defined in Tariff, Attachment Q, section IV.

Security Agreement:

“Security Agreement” shall mean a Credit Support Document taking the form found in Tariff, Attachment Q, Attachment 3.

Commented [OB26]: Must be limited to letters of credit and corporate guarantees.

Trade Reference:

“Trade Reference” shall mean a reference from a contact or firm that had a business relationship of a significant nature with a Participant.

Commented [OB27]: This creates a bar to entry for new legal entities. There is no standard for significant nature.

Tangible Net Worth:

“Tangible Net Worth” shall mean all assets ~~(not including any intangible assets such as~~

goodwill) shown on a balance sheet calculated in accordance with United States Generally Accepted Accounting Principles (“US GAAP”), less the following shown on a balance sheet calculated in accordance with US GAAP: (i) the amount of all liabilities of the entity, (ii) assets PJM reasonably believes to be restricted or potentially unavailable to settle a claim in the event of default, net of any matching liabilities, to the extent that the result of that netting is a positive value, (iii) derivative assets, net of any matching liabilities, to the extent that the result of that netting is a positive value, (iv) preferred stock, (v) all intangible assets (such as goodwill, patents, trademarks, intellectual property, franchises and any other assets not having a physical existence), and (vi) non-controlling interest. Any such calculation may be revised by PJMSettlement upon review of the available financial information.

Commented [OB28]: What is the standard for making this determination?

Total Net Obligation:

“Total Net Obligation” shall mean all unpaid billed Net Obligations plus any unbilled Net Obligation incurred to date, as determined by PJMSettlement on a daily basis, plus any other Obligations owed to PJMSettlement at the time.

Transmission Customer:

“Transmission Customer” shall mean any Eligible Customer (or its Designated Agent) that (i) executes a Service Agreement, or (ii) requests in writing that the Transmission Provider file with the Commission a proposed unexecuted Service Agreement, to receive transmission service under Tariff, Part II. This term is used in Tariff, Part I and Part VI to include customers receiving transmission service under Tariff, Part II and Part III. Where used in Tariff, Attachment K-Appendix and the parallel provisions of Operating Agreement, Schedule 1, Transmission Customer shall mean an entity using Point-to-Point Transmission Service.

Unsecured Credit:

“Unsecured Credit” shall mean any credit granted by PJMSettlement to a Participant that is not secured by Collateral.

Unsecured Credit Allowance:

“Unsecured Credit Allowance” shall mean Unsecured Credit extended by PJMSettlement in an amount determined by PJMSettlement’s evaluation of the creditworthiness of a Participant. This is also defined as the amount of credit that a Participant qualifies for based on the strength of its own financial condition without having to provide Collateral. See also: “Working Credit Limit.”

Commented [OB29]: Why is this being retained? There would have been no Lehman Bros default in PJM had there not been Unsecured Credit.

Working Credit Limit:

“Working Credit Limit” shall mean an amount that is 75% of the Participant’s Unsecured Credit Allowance and/or 75% of the Collateral provided by the Participant to PJMSettlement. The Working Credit Limit establishes the maximum amount of Total Net Obligation that a Participant may have outstanding at any time. The calculation of Working Credit Limit shall take into account applicable reductions for Minimum Participation Requirements, FTR participation, or other credit requirement determinants as defined in Tariff, Attachment Q.

Working Credit Limit for Virtual Transactions:

The “Working Credit Limit for Virtual Transactions” shall be calculated as 75% of the Market Participant’s Unsecured Credit Allowance and/or 75% of the Collateral provided by the Market Participant to PJMSettlement when the Market Participant is at or below its Peak Market

Activity credit requirements as specified in Tariff, Attachment Q, **section V.A.** When the Market Participant provides additional Unsecured Credit Allowance and/or Collateral in excess of its Peak Market Activity credit requirements, such additional Unsecured Credit Allowance and/or Financial Security shall not be discounted by 25% when calculating the Working Credit Limit for Virtual Transactions. The Working Credit Limit for Virtual Transactions is a component in the calculation of Credit Available for Virtual Transactions. The calculation of Working Credit Limit for Virtual Transactions shall take into account applicable reductions for Minimum Participation Requirements, FTR, or other credit requirement determinants as defined in Tariff, Attachment Q.