

**Comments of the PSEG Companies
Regarding PJM’s Market Participant Risk Evaluation Enhancements
January 6, 2020**

The PSEG Companies appreciate the time and effort that PJM and all stakeholders have invested in the Financial Risk Management Senior Task Force to date, and are encouraged by the good work that has been generated thus far. In the following comments, we will address several specific concerns we have with some of the tariff language that was provided in mid-December for stakeholder consideration.

More broadly throughout this process, we have hoped to help strengthen PJM’s credit and customer policies, and provide PJM with the capability they need to effectively administer the markets. We have felt that the many steps taken by PJM in the aftermath of the GreenHat default have strengthened the credit policies, and positively positioned PJM to avoid such scenarios in the future. With that confidence, we believe the actions at the FRMSTF are designed to further improve the PJM processes, by providing a thorough and thoughtful approach to enhanced market design, and with the current set of fixes in place we do not believe there is a “short fuse” on implementing these reforms.

Our comments focus on several themes. In several areas it appears the language provided by PJM is so broad that it could trigger unintended consequences based on things that may be outside the normal business operations of some market participants. There are also areas that appear to represent very quantitative approaches to metrics that lack the specificity necessary to achieve transparency among the stakeholders. Conversely, there are areas that limit PJM’s discretion in qualitative situations that can have negative consequences to market participants.

With this as a backdrop, the PSEG companies would again strongly encourage PJM not to rush these changes through the stakeholder process, especially since there is no immediate concern. We would request that PJM take the time to discuss all market participant concerns in detail and craft a document that will work effectively both for PJM and all of its stakeholders.

Our more specific comments regarding specific sections the proposed draft of Attachment Q are provided below.

Section II. Risk Evaluation

A. Initial Risk Evaluation

1. Rating Agency Reports

Besides Moody’s, S&P and Fitch, there are several other Nationally Recognized Statistical Ratings Organizations. Since the quality of research and access to information can vary when considering the smaller rating agencies, the PJM should limit the rating agencies to a smaller group when evaluating an Applicant, Guarantor or Guaranteed Affiliate.

3. Internal Credit Risk Score

We agree that the concept of using 10 different models utilizing different ratios for different member participant’s types makes a lot of sense. However the models should be transparent.

As seen with Midwestern ISO, the details relating to the calculation of specific credit metrics should be included in the Attachment Q or in an appendix. The information should be available and easy for a member to calculate its own quantitative score. The qualitative non-financial measures for creditworthiness should be transparent as well and also detailed in the Attachment Q. All of the weightings should be available whether for each ratio, ratio categories and between the quantitative and qualitative parts of the model. If weightings or ratio levels change, those changes should be approved through the PJM Credit Committee.

If a company has an external credit rating, such as Moody's or S&P, then that rating should be the basis for the qualitative assessment as the rating agencies have access to more confidential information and expertise to rate an entity. The qualitative metrics should have a lower weighting since they are more discretionary in nature.

5. Litigation, Commitments and Contingencies

This section is very broad as it requires reporting of any threatened litigation, arbitrations, investigations or proceeding that could have a Material Adverse impact. The language should be updated by removing the word "threatened" and replacing the word "could" with "would".

6. Default History

This section should include the same conditions for reporting default status and default history for Principals as it does for Applicants. Otherwise, the language could be read as requiring Principals to report any personal business dispute.

8. Unreasonable Credit Risk

The proposed "unreasonable credit risk" standard requires clarification. The determination of whether a Market Participant poses an unreasonable credit risk should be based on the risk that a Market Participant will default on an obligation directly related to its participation in a PJM Market

B. Ongoing Risk Evaluation

3. Material Adverse Changes

This section should be clarified and aligned with proven industry standards. Reporting obligations should be limited to circumstances reasonably likely to materially impact the Market Participants ability to meet its financial obligations to PJM. For example, events such as a quarterly or annual loss, a decline in earnings or a restatement of a prior period financial statement may not necessarily impact a Market Participant's ability to meet its financial obligations to PJM or any other entity.

Section III. Minimum Participation Requirements

A. Annual Certification

The proposed language regarding the timing of the annual certification appears to set an unrealistic January deadline for participants in the February Balance of Planning Period Auction held in mid-January of each year. It would be more reasonable to set an earlier deadline to apply to participants in the first round of the annual FTR auction for the Next Planning Year, which takes place each March. This deadline would be consistent with the Midcontinent Independent System Operator which requires FTR auction participants to submit annual certifications prior to an annual FTR auction in early April.

Section VIII. Events of Default

The proposed Events of Default language is very broad and includes events that are not actual defaults or breaches of a PJM Market obligation. Events of Default should be limited to failures to cure material breaches of payment and/or financial obligations directly stemming from participation in the PJM Markets.

Section IX. Position Limits

When responding to FERC Order 741 in September 2011, PJM proposed revisions to modify the Tariff to establish minimum criteria for market participation; restrict the use of unsecured credit; clarify PJM's ability to invoke "material adverse change" provisions to demand additional collateral; ensure general applicability of the standards. PJM did not implement position limits at that time.

PJM should consider the implications of imposing position limits such as potentially becoming subject to the jurisdiction of the CFTC and its associated administrative and reporting requirements for PJM and Market Participants.

Section X. Posting Requirement

The proposed language in this section indicates that "PJM may post on PJM's web site and may reference on OASIS, a supplementary document which contains additional business practices (such as algorithms for credit scoring) that are not included in this document.

This section provides for stakeholder review and comment but does not require stakeholder approval of supplemental requirements and only provides 15 days' notice before the supplemental requirements become effective.