



Counterparty Clarification Initiative

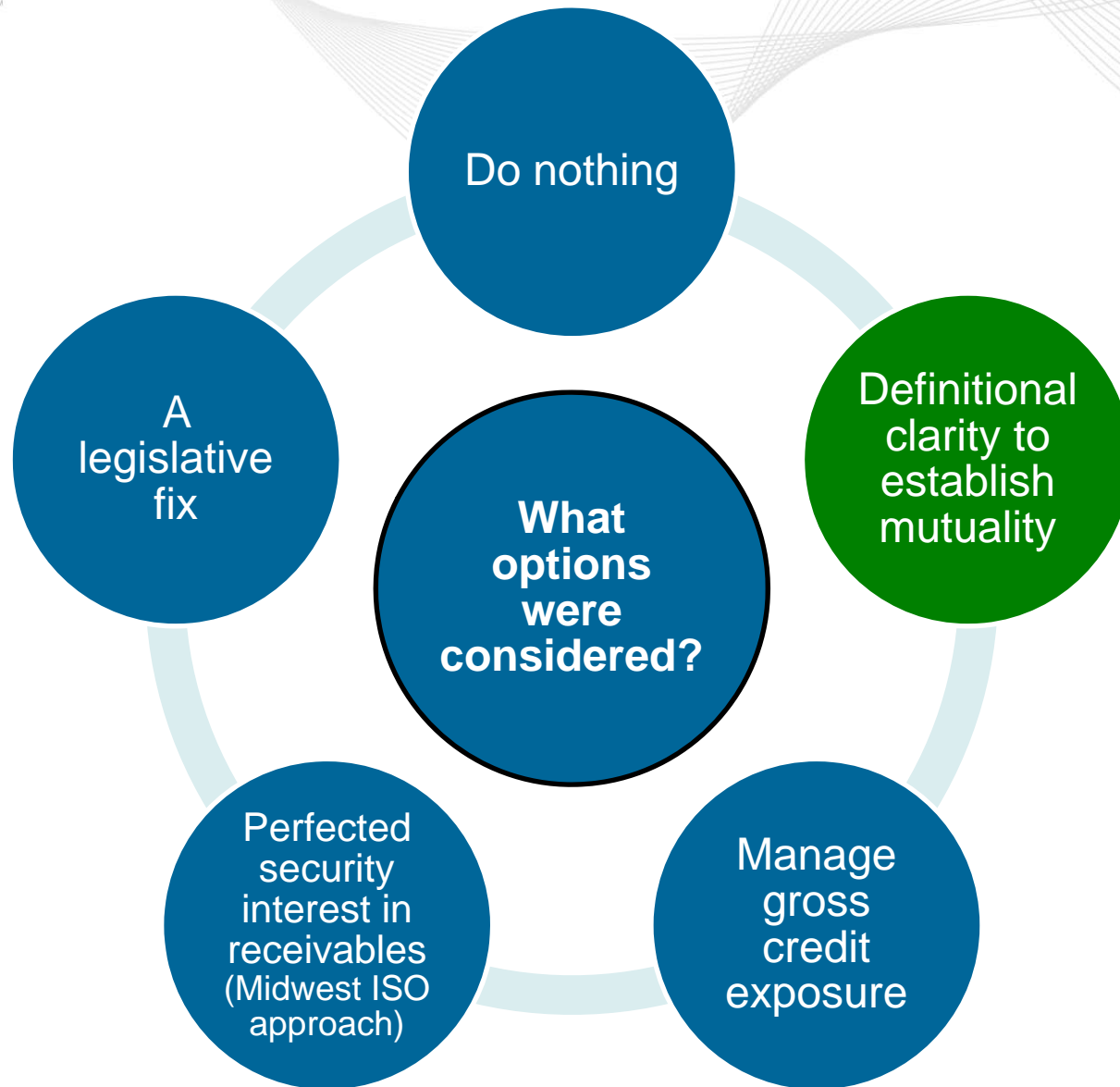
Suzanne Daugherty
Members Committee
March 25, 2010



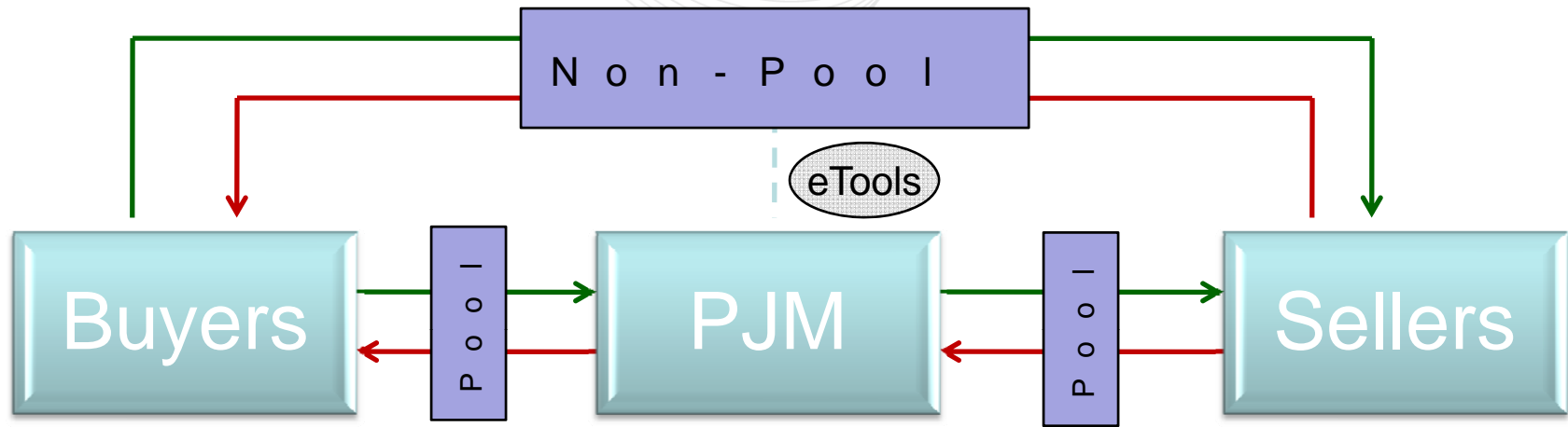
Objectives of Counterparty Clarification Proposal

Clarity of PJM's Legal Capacity

1. Create mutuality supporting netting practices in bankruptcy contexts, reducing risks of grossed-up default allocations to members.
2. Resolve current ambiguity of counterparties which creates uncertainty and lack of predictability in a variety of contexts (e.g. collection litigation).
3. Eliminate member exposure to default allocations for "non-pool" transactions in addition to eSchedule internal bilateral transaction clarity established in 2009.



→ Power Flow
→ Dollar Flow



	Pool	Non-Pool
Privity	w/pool (PJM as principal)	w/others bilateral or self supply
Risk of default	Mutualized	Bilateral counterparty
Credit/billing/settlement/collection	Performed by PJM	Arranged bilaterally



History of Discussions with PJM Stakeholders

Committee Discussions to Date	
April 2008	<ul style="list-style-type: none">• Introduced issue to Credit Risk Management Steering Committee (CRMSC)
July 2008	<ul style="list-style-type: none">• Introduced potential settlement subsidiary to serve as counterparty
September 2008	<ul style="list-style-type: none">• Further detail on initiative and implementation
February 2009	<ul style="list-style-type: none">• Introduction of proposed Tariff and Operating Agreement (OA) revisions
July 2009	<ul style="list-style-type: none">• Initiative endorsed by CRMSC for broader stakeholder discussion
September 2009	<ul style="list-style-type: none">• First Information Session
October 22, 2009	<ul style="list-style-type: none">• Second Information Session; Tariff Advisory Committee review of Tariff and OA revisions
September 2009 January 2010	<ul style="list-style-type: none">• Markets and Reliability Committee presentations
August 2009 January 2010	<ul style="list-style-type: none">• Members Committee presentations
February 24, 2010	<ul style="list-style-type: none">• Markets and Reliability Committee: 4.75 sector vote in favor
March 25, 2010	<ul style="list-style-type: none">• Members Committee vote

Clarity of PJM's Legal Capacity

Endorse Tariff and approve Operating Agreement revisions to establish PJM Settlement, Inc. as the central counterparty to all “pool” transactions and to clarify that “non-pool” transactions do not involve PJM as a counterparty and non-performance cannot be recovered via default allocation assessments.