December 4, 2014

Honorable Kimberly D. Bose  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E., Room 1A  
Washington, D.C.  20426  

Re:  
PJM Interconnection, L.L.C., Docket No. ER15-578-000  
Prohibited Securities/Financial Interests Operating Agreement Revisions

Dear Ms. Bose:

Pursuant to Section 205 of the Federal Power Act (“FPA”)\(^1\) and the Commission’s Regulations,\(^2\) PJM Interconnection, L.L.C. (“PJM”) submits for filing proposed revisions to the Amended and Restated Operating Agreement of PJM Interconnection, L.L.C. (“Operating Agreement”). PJM proposes to revise the Operating Agreement to incorporate and revise PJM’s code of conduct Financial Interests/Prohibited Securities rules restricting investments by PJM’s employees, officers, Board Members,\(^3\) their spouses and their dependent children (together referred to as “PJM Personnel”).

PJM’s proposal follows the same rules recently accepted by the Commission for the New York Independent System Operator, Inc. (“NYISO”)\(^4\) and the Midcontinent

\(^1\) 16 U.S.C. § 824d  
\(^2\) 18 C.F.R. Part 35  
\(^3\) Unless otherwise indicated, capitalized terms shall have the same meaning set forth in the PJM Operating Agreement or the PJM Open Access Transmission Tariff (“Tariff”).  
Independent System Operator, Inc. (“MISO”). PJM’s Operating Agreement revisions incorporate Financial Interests rules and create a definition of Prohibited Securities which will provide needed flexibility to ensure compliance with the Commission’s regulations and avoid unintended compliance issues in a manner that is consistent with the reasoning behind such regulation—Regional Transmission Organizations (“RTOs”) independence.

PJM’s proposal will allow PJM Personnel to invest in companies that have a de minimis relationship with PJM and the electric sector as determined by the same three prong test accepted by the Commission in the NYISO Order and the MISO Order. PJM respectfully submits, as in the case of NYISO and MISO, the proposed revisions to the PJM Operating Agreement are just and reasonable and follow the Commission’s independence principles for RTOs while providing the flexibility necessary to accommodate the growing and changing PJM markets.

PJM requests an effective date of February 16, 2015, for the attached Operating Agreement sections.

I. BACKGROUND AND STAKEHOLDER PROCESS

a. Financial Interests/Prohibited Investments Under PJM’s Code of Conduct

In Order 2000, the Commission adopted regulations requiring an RTO to maintain independence by prohibiting RTO employees and directors from having financial interests in any Market Participant. Consistent with these regulations, PJM adopted and

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6 PJM considered but rejected the blind trust mechanism adopted by NYISO and MISO. As NYISO stated in its prohibited investment filing letter (Docket Nos. ER14-308-000 and ER14-309-000): “(T)he blind trust mechanism has proven to be an incomplete solution to developing objective investment restrictions that protect the NYISO’s independence but also provide the flexibility necessary to accommodate the growing NYISO market. In practice, the blind trust mechanism has often been unwieldy or unworkable, especially with actively managed investment accounts. ...” PJM came to the same conclusion.
administers a Code of Conduct that restricts PJM personnel from directly owning the securities of its Members and Market Participants except under specified limited exceptions. For example, ownership of such securities is permitted through a mutual fund (other than a fund specifically targeted towards, or principally comprised of, entities of the electric industry or the electric utility industry) under which PJM Personnel does not control the purchase or sale of such securities. Any such ownership must be disclosed to PJM’s director, regulatory oversight and compliance who must report it to the PJM Board. Otherwise direct ownership of PJM Market Participant securities is prohibited and all PJM Personnel must divest of any such stock or other financial interest within six months of employment with PJM or adding a new Market Participant.

b. Impact of Introducing Non-traditional Market Participants

Whereas Market Participants were traditionally described as transmission-owning, generation-owning, load serving and electricity trading and marketing companies, in recent years non-traditional companies whose primary businesses cannot be described objectively as electricity or electricity-related related have joined PJM in increasing numbers. Many of these companies that have not previously participated in wholesale electricity market activities are now engaged in PJM’s markets. These non-traditional Market Participants include large industrial companies, large consumer product retailers


8 PJM does not file its code of conduct with Commission because it addresses many subjects outside the regulatory oversight and jurisdiction of the Commission (e.g., protection of company assets, proper use of information systems, fair employment practices, respect for diversity, harassment policies, etc.). Nor do the Commission’s regulations and rules require an RTO to file its code of conduct (see by analogy 18 C.F.R. § 358.1(c)).

9 The director, regulatory oversight and compliance is a position which reports directly to PJM’s senior vice president and general counsel.
and financial institutions that likely were not contemplated as Market Participants when
the Commission issued its Order 2000 RTO rulemaking and adopted its RTO
regulations.

In the NYISO Order, the Commission recognizes these issues pose recruiting and
retention problems, particularly regarding Board Members. In addition, the current
compliance obligations where PJM Personnel are required to divest securities that present
no real conflict of interest concern are unduly counterintuitive so as to unnecessarily
increase the risk of inadvertent non-compliance. The current obligations are
counterintuitive because, for certain publicly trading companies where ownership is
prohibited, their participation and interest in PJM is commercially and financially de
minimis. As a result, the current rule meets no underlying policy or conflict of interest
objective because no action that PJM Personnel could take in their role with the RTO
could conceivably affect the stock price of the PJM Market Participant. The
Commission’s existing regulations recognizes this logic by anticipating circumstances
where an exemption is appropriate to avoid blindly applying the rule where it would
serve no purpose.

c. NYISO’s and MISO’s Prohibited Investments Approach

NYISO’s Approach: In the NYISO Order, the Commission accepted NYISO’s
prohibited investments rule changes in its Code of Conduct attached to its tariff. NYISO
created a definition of “Prohibited Securities” that allows NYISO employees and

11 18 C.F.R. § 35.34.
12 See NYISO Order P10 (“We find the proposed revisions to the OTTT and the ISO Agreement are a just and reasonable approach to addressing the challenge of recruiting and retaining directors and employees…”).
13 See, 18 C.F.R. §35.34(b)(2)(i).
directors to invest in companies that have only a *de minimis* relationship with NYISO and the electric sector, as determined by a three-prong test. Under NYISO’s newly accepted rules, Prohibited Securities are the securities of a market participant that has been active in NYISO markets in the previous 12 months or the securities of its affiliates, if: (1) the market participant or affiliate is an electric sector company based on its NAICS classification or otherwise determined by NYISO; or (2) the total activity in the NYISO markets (purchases and sales) for all market participants affiliated with the publicly traded company at issue during its most recently completed fiscal year is equal to or greater than 0.5 percent of its gross revenues for the same time period; or (3) the total activity in the NYISO markets (purchases and sales) for all market participants affiliated with the publicly traded company at issue during the prior calendar year is equal to or greater than three percent of the total NYISO market activity (purchases and sales) for the same time period. Under the first prong, NYISO reserves the right to designate a company as an electric sector company even if its NAICS code is other than that of an electric sector company.

NYISO’s rules also require a director to disclose to the NYISO Board any financial interest he or she, or an immediate family member, has in a market participant or affiliate that is the subject of a matter before the NYISO Board, even if the securities held are not Prohibited Securities. The proposed revisions require the Chair of the NYISO Governance Committee and NYISO legal counsel to consult with the director to determine whether the director should be recused from NYISO Board deliberations and decision-making regarding the matter.

**MISO’s Approach:** In May 2014, MISO filed to amend its Code of Conduct attached to MISO’s Transmission Owners Agreement to adopt an approach to prohibited
investments similar to NYISO’s approach. FERC accepted MISO’s filing but required MISO to add to the definition of “Prohibited Securities” entities which could be selected by MISO as “Qualified Transmission Developers” under MISO’s Order No. 1000 changes because those developers are eligible to build transmission projects in MISO’s transmission expansion planning process but may not otherwise engage in transactions in the MISO markets and, therefore, not fall with the definition of Prohibited Securities.

d. Stakeholder Support for the Proposal

PJM received unanimous stakeholder support for the proposed PJM Operating revisions described herein. The proposed revisions were discussed with PJM’s Operating Committee, Markets and Reliability Committee (“MRC”) and Members Committee (“MC”). The proposed revisions were discussed with the MRC on October 9, 2014. The MC approved the proposed Operating Agreement revisions on October 30, 2014, by acclamation vote with no objections.

II. PROPOSED OPERATING AGREEMENT REVISIONS

In this filing, PJM proposes to adopt the rules substantially the same as those accepted by the Commission for NYISO and MISO with certain variations to reflect terminology, structure and constructs unique to PJM’s Operating Agreement. PJM proposes to revise the Operating Agreement to (i) add a new Section 10.2.1 “Financial Interests,” and (ii) add two new definitions referenced in new Section 10.2.1; “Prohibited Securities” (new Section 1.38.00) and “Securities” (new Section 1.41.01).14

14 PJM includes corresponding changes to the Operating Agreement Table of Contents for the three new sections.
a. **New Prohibited Securities and Securities Definitions**

Proposed new Section 1.38.00 will define the term “Prohibited Securities” to mean the Securities of a Member, Eligible Customer, or Nonincumbent Developer, or their Affiliates, if:

1. The primary business purpose of the Member or Eligible Customer, or their Affiliates, is to buy, sell or schedule energy, power, capacity, ancillary services or transmission services as indicated by an industry code within the “Electric Power Generation, Transmission, and Distribution” industry group under the North American Industry Classification System (“NAICS”) or otherwise determined by the Office of the Interconnection;

2. The Nonincumbent Developer has been pre-qualified as eligible to be a Designated Entity pursuant to Schedule 6 of this Agreement;

3. The total (gross) financial settlements regarding the use of transmission capacity of the Transmission System and/or transactions in the centralized markets that the Office of the Interconnection administers under the Tariff and the Operating Agreement for all Members or Eligible Customers affiliated with the publicly traded company during its most recently completed fiscal year is equal to or greater than 0.5% of its gross revenues for the same time period; or

4. The total (gross) financial settlements regarding the use of transmission capacity of the Transmission System and/or transactions in the centralized markets that the Office of the Interconnection administers under the Tariff and the Operating Agreement for all Members or Eligible Customers affiliated with the publicly traded company during the prior calendar year is equal to or greater than 3% of the total transactions for which PJMSettlements is a Counterparty pursuant to Section 3.3 of this Agreement for the same time period.

The first screen allows PJM to rely on the companies NAICS classification in nearly all cases to determine of the company is in the “Electric Power Generation, Transmission, and Distribution” industry group (i.e. an electric sector company); however, as in the NYISO tariff rules, PJM reserves the right to designate any company to be a prohibited investment, based on PJM’s evaluation of the company’s primary business activities, notwithstanding the company’s NAICS code designation.

This new definition also states PJM must compile and maintain a list of the Prohibited Securities publicly traded and post this list for all employees and distribute the
list to the Board Members. To help ensure PJM Personnel remain compliant with these new rules, PJM will implement an annual process to apply the new screens to all publicly traded PJM Members, Eligible Customers and their Affiliates annually following acceptance of these Operating Agreement revisions. This process will require the maintenance of a list of all companies who are exempted from Prohibited Securities list. This is necessary because these new rules will require a dynamic process to ensure compliance. As a company’s transactions in PJM increase or decrease the results of the screens may change and a company on the Prohibited Securities list one year could pass the screen the next year and be exempted from the list and vice versa.

The new Prohibited Investment rules apply to PJM’s Members, Eligible Customers and their Affiliates\(^{15}\) and to pre-qualified Nonincumbent Developers rather than Market Participants because all Market Participants are PJM Members.\(^ {16}\) Eligible Customers (i.e. Transmission Service Customers) are stated separately because not all Eligible Customers are PJM Members.\(^ {17}\)

Pre-qualified Nonincumbent Developers eligible to be a Designated Entity under PJM’s Regional Transmission Expansion Planning Protocol (“RTEPP”) are also included in the definition of Prohibited Securities. As in the case of MISO’s Qualified Transmission Developers, these entities may have a significant financial interest in PJM Personnel decisions as PJM evaluates new transmission proposals from such entities and

\(^{15}\) Operating Agreement Section 1.2 defines “Affiliate” as “any two or more entities, entities, one of which controls the other or that are under common control. “Control” shall mean the possession, directly or indirectly, of the power to direct the management or policies of an entity. Ownership of publicly-traded equity securities of another entity shall not result in control or affiliation for purposes of this 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.

\(^{16}\) See Operating Agreement, Sections 1.21, 1.22, 1.23, and 1.24.

\(^{17}\) See PJM Open Access Transmission Tariff, Section 1.11.
selects a Designated Entity to build transmission projects approved pursuant to PJM’s RTEPP rules as recently revised to comply with Order No. 1000.¹⁸ A Nonincumbent Developer pre-qualified as eligible to be a Designated Entity under Schedule 6 of the Operating Agreement could be under consideration to be selected to build potentially lucrative transmission projects approved by PJM’s RTEPP. Unless specifically included in the definition of Prohibited Securities as proposed, such entities may not fall within the definition of Prohibited Securities but may nonetheless have financial interests in PJM Personnel decisions.

For the market activity screens, PJM proposes to use total financial settlements from the use of PJM’s transmission system and/or transaction in the centralized markets of PJM as the point of reference and comparison for determining if an entity’s activity in PJM is commercially or financially de minimis. This approach follows the PJMSettlements counterparty provisions in Section 3.3 of the Operating Agreement because the proper measure of an entity’s market activity and transactions in PJM is tied to the entities financial settlements under Section 3.3.

As part of the Prohibited Securities definition, PJM also proposes to add a definition for “Securities” in new Section 1.41.01 as follows:

“Securities” shall mean negotiable or non-negotiable investment of financing instruments that can be sold and bought. Securities include bonds, stocks, debentures, notes and options.

This definition is consistent with the defined terms for “Securities” in the NYISO and MISO tariffs. It is also consistent with the definition of “security” in the Securities Act of 1933.¹⁹

b. **Section 10.2.1 Financial Interests**

PJM proposes to incorporate into the Operating Agreement a new Section 10.2.1 “Financial Interests.” A version of these Financial Interests rules have been in PJM’s Code of Conduct since PJM’s inception; however, PJM made certain changes to the Financial Interests rules in the PJM Code of Conduct to incorporate the new definition of “Prohibited Investments” discussed below. The proposed Financial Interests rules restrict PJM Personnel from directly owning the “Prohibited Securities” subject to the following rules:

1. **Each Office of the Interconnection Board Member, officer, or employee or spouse or dependent children thereof, shall divest of those Prohibited Securities within six (6) months of:** (i) the time of his affiliation or employment with the Office of the Interconnection, (ii) the time a new Member is added to this Agreement, a new Eligible Customer begins taking service under the Tariff or a Nonincumbent Developer is pre-qualified as eligible to be a Designated Entity pursuant to schedule 6 of this Agreement, where the Board Member, officer or employee of the Office of the Interconnection, or spouse or dependent children thereof owns such Prohibited Securities; or (iii) the time of receipt of such Prohibited Securities (e.g. marriage, bequest, gift, etc.).

2. **Nothing in this Section 10.2.1 shall be interpreted to preclude a Board Member, officer or employee of the Office of the Interconnection, or spouse or dependent children thereof, from indirectly owning publicly traded Prohibited Securities through a mutual fund or similar arrangement (other than a fund or arrangement specifically targeted towards, or principally comprised of, entities in the electric industry or the electric utility industry, or any segments thereof) under which the Board Member, officer or employee of the Office of the Interconnection, or spouse or dependent children thereof, does not control the purchase or sale of such Prohibited Securities. Any such ownership, including the nature and conditions of the interest, must be disclosed to the Office of the Interconnection’s director, regulatory oversight and compliance who will report it to the PJM Board.**

3. **Ownership of Prohibited Securities** as part of a pension plan or fund of a Member, Eligible Customer or Nonincumbent Developer shall be permitted. Any such ownership, including the nature and conditions of the interest, must be disclosed to the Office of the Interconnection’s director, regulatory oversight and compliance who will report it to the PJM Board.

4. **Ownership of Prohibited Securities** by a spouse of a Board Member, officer or employee of the Office of the Interconnection who is employed by a Member, Eligible Customer or Nonincumbent Developer and is required to purchase and maintain ownership of Securities of such Member, Eligible Customer or Nonincumbent Developer as a part of his or her employment shall be permitted. Any such ownership by a spouse, including the nature and conditions of the interest, must be disclosed to the Office of the Interconnection’s director, regulatory oversight and compliance who will report it to the PJM Board.

5. A Board Member shall disclose to the PJM Board if the Board Member is aware that he or she, or an immediate family member, has a financial interest in a Member, Eligible Customer or Nonincumbent Developer, or their Affiliates that is subject to a matter before the PJM Board. The chair of the PJM Board Governance Committee and the Office of the Interconnection legal counsel shall consult with the Board Member to determine whether the PJM Board Member should be recused from the PJM Board deliberations and decision making regarding the matter before the PJM Board.

c. **The Proposed Operating Agreement Revisions are Just and Reasonable**

PJM respectfully submits the proposed revisions to the Operating Agreement adopt substantially the same rules as the ones accepted by the Commission in the NYISO Order and the MISO Order and, therefore, are just and reasonable. PJM’s proposed approach to addressing the challenge of recruiting and retaining PJM Personnel follow the Commission’s independence principles for RTOs. The proposal incorporates rules that ensure that PJM Personnel do not own securities of traditional electric sector companies, companies whose PJM market activity (as measured by gross financial settlements) is significant to the company’s gross revenues, or companies whose PJM market activity (as measured by gross financial settlements) is significant to PJM. The proposed definition of Prohibited Securities will also help avoid unnecessary divestitures
of securities by PJM Personnel, a factor recognized by the Commission in the NYISO Order.\textsuperscript{20}

The proposed definition of Prohibited Securities establishes conservative screens using objective conflict of interest standards. A company that passes each of the three screens would have only a \textit{de minimis} interest in the PJM market and investment in its securities should be permitted. PJM, therefore, respectfully requests the Commission approve the attached proposed Operating Agreement revisions.

The proposed Financial Interest provisions also include explicit recusal rules which require PJM Board Members to disclose to the PJM Board if the Board Member or an immediate family member has a financial interest in a Member, Eligible Customer or Nonincumbent Developer, or their Affiliates subject to a matter before the PJM Board even if such financial interest is not a Prohibited Security. The chair of the PJM Board Governance Committee and the Office of the Interconnection legal counsel shall consult with the Board Member to determine whether the PJM Board Member should be recused from the PJM Board deliberations and decision making regarding the matter before the PJM Board. PJM submits this proposed recusal requirement for Board Members is just and reasonable and provides additional safeguards of independence.\textsuperscript{21}

\section*{III. EFFECTIVE DATE}

PJM requests an effective date of February 16, 2015, for the attached PJM Operating Agreement sections, which is more than 60 days after the filing date.

\section*{IV. DOCUMENTS ENCLOSED}

PJM encloses with this transmittal letter electronic copies of the clean and redline PJM Operating Agreement sections.

\textsuperscript{20} NYISO Order at P 10.
\textsuperscript{21} See. NYISO Order at P 10.
V. CORRESPONDENCE AND COMMUNICATIONS

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VI. SERVICE

PJM has served a copy of this filing on all PJM Members and on all state utility regulatory commissions in the PJM Region by posting this filing electronically. In accordance with the Commission’s regulations, PJM will post a copy of this filing to the FERC filings section of its internet site, located at the following link: http://www.pjm.com/documents/ferc-manuals/ferc-filings.aspx with a specific link to the newly-filed document, and will send an e-mail on the same date as this filing to all PJM Members and all state utility regulatory commissions in the PJM Region alerting them this filing has been made by PJM and is available by following such link. If the document is not immediately available by using the referenced link, the document will be available through the referenced link within 24 hours of the filing. Also, a copy of this filing will be available on the FERC’s eLibrary website located at the following link: http://www.ferc.gov/docs-filing/elibrary.asp in accordance with the Commission’s regulations and Order No. 714.

Respectfully submitted,

/s/ Steven R. Pincus

Steven R. Pincus
Craig Glazer
PJM Interconnection, L.L.C.

22 See 18 C.F.R §§ 35.2(e) and 385.2010(f)(3).
23 PJM already maintains, updates and regularly uses e-mail lists for all PJM Members and affected state commissions.
Attachment A

Revisions to the
PJM Operating Agreement

(Marked / Redline Format)
OPERATING AGREEMENT

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1.27 **Office of the Interconnection.**

“Office of the Interconnection” shall mean the LLC.

1.28 **Operating Reserve.**

“Operating Reserve” shall mean the amount of generating capacity scheduled to be available for a specified period of an Operating Day to ensure the reliable operation of a Control Zone, as specified in the PJM Manuals.

1.29 **Original PJM Agreement.**

“Original PJM Agreement” shall mean that certain agreement between certain of the Members, originally dated September 26, 1956, and as amended and supplemented up to and including December 31, 1996, relating to the coordinated operation of their electric supply systems and the interchange of electric capacity and energy among their systems.

1.30 **Other Supplier.**

“Other Supplier” shall mean a Member that: (i) is engaged in buying, selling or transmitting electric energy, capacity, ancillatry services, financial transmission rights or other services available under PJM’s governing documents in or through the Interconnection or has a good faith intent to do so, and; (ii) does not qualify for the Generation Owner, Electric Distributor, Transmission Owner or End-Use Customer sectors.

1.31 **PJM Board.**

“PJM Board” shall mean the Board of Managers of the LLC, acting pursuant to this Agreement.

1.31A [Reserved].

1.32 **PJM Control Area.**

“PJM Control Area” shall mean the Control Area recognized by NERC as the PJM Control Area.

1.33 **PJM Dispute Resolution Procedures.**

“PJM Dispute Resolution Procedures” shall mean the procedures for the resolution of disputes set forth in Schedule 5 of this Agreement.

1.34 **PJM Interchange Energy Market.**
“PJM Interchange Energy Market” shall mean the regional competitive market administered by the Office of the Interconnection for the purchase and sale of spot electric energy at wholesale in interstate commerce and related services established pursuant to Schedule 1 to this Agreement.

1.35  PJM Manuals.

“PJM Manuals” shall mean the instructions, rules, procedures and guidelines established by the Office of the Interconnection for the operation, planning, and accounting requirements of the PJM Region and the PJM Interchange Energy Market.

1.35.01  PJM Market Monitor.

“PJM Market Monitor” shall mean the Market Monitoring Unit established under Attachment M to the PJM Tariff.

1.35A  PJM Region.

“PJM Region” shall mean the aggregate of the Zones within PJM as set forth in Attachment J to the PJM Tariff.

1.35B  PJM South Region.

“PJM South Region” shall mean the Transmission Facilities of Virginia Electric and Power Company.

1.35C  PJMSettlement.

“PJMSettlement” shall mean PJM Settlement, Inc. (or its successor), established by PJM as set forth in Section 3.3.

1.36  PJM Tariff.

“PJM Tariff” shall mean the PJM Open Access Transmission Tariff providing transmission service within the PJM Region, including any schedules, appendices, or exhibits attached thereto, as in effect from time to time.

1.36A  [Reserved.]

1.36B  PJM West Region.

“PJM West Region” shall mean the Zones of Allegheny Power; Commonwealth Edison Company (including Commonwealth Edison Co. of Indiana); AEP East Operating Companies; The Dayton Power and Light Company; the Duquesne Light Company; American Transmission Systems, Incorporated; Duke Energy Ohio, Inc. and Duke Energy Kentucky, Inc.

1.37  Planning Period.
“Planning Period” shall initially mean the 12 months beginning June 1 and extending through May 31 of the following year, or such other period established under the procedures of, as applicable, the Reliability Assurance Agreement.

1.38 President.

“President” shall have the meaning specified in Section 9.2.

1.38.00 Prohibited Securities

“Prohibited Securities” shall mean the Securities of a Member, Eligible Customer, or Nonincumbent Developer, or their Affiliates, if:

(1) the primary business purpose of the Member or Eligible Customer, or their Affiliates, is to buy, sell or schedule energy, power, capacity, ancillary services or transmission services as indicated by an industry code within the “Electric Power Generation, Transmission, and Distribution” industry group under the North American Industry Classification System (“NAICS”) or otherwise determined by the Office of the Interconnection;

(2) the Nonincumbent Developer has been pre-qualified as eligible to be a Designated Entity pursuant to Schedule 6 of this Agreement;

(3) the total (gross) financial settlements regarding the use of transmission capacity of the Transmission System and/or transactions in the centralized markets that the Office of the Interconnection administers under the Tariff and the Operating Agreement for all Members or Eligible Customers affiliated with the publicly traded company during its most recently completed fiscal year is equal to or greater than 0.5% of its gross revenues for the same time period; or

(4) the total (gross) financial settlements regarding the use of transmission capacity of the Transmission System and/or transactions in the centralized markets that the Office of the Interconnection administers under the Tariff and the Operating Agreement for all Members or Eligible Customers affiliated with the publicly traded company during the prior calendar year is equal to or greater than 3% of the total transactions for which PJMSettlements is a Counterparty pursuant to Section 3.3 of this Agreement for the same time period.

The Office of the Interconnection shall compile and maintain a list of the Prohibited Securities publicly traded and post this list for all employees and distribute the list to the Board Members.

1.38.01 Proportional Multi-Driver Project:

“Proportional Multi-Driver Project” shall mean a Multi-Driver Project that is planned as described in Schedule 6, section 1.5.10(h) of this Agreement.

1.38A Public Policy Objectives
“Public Policy Objectives” shall refer to Public Policy Requirements, as well as public policy initiatives of state or federal entities that have not been codified into law or regulation but which nonetheless may have important impacts on long term planning considerations.

1.38B Public Policy Requirements

“Public Policy Requirements” shall refer to policies pursued by: (a) state or federal entities, where such policies are reflected in duly enacted statutes or regulations, including but not limited to, state renewable portfolio standards and requirements under Environmental Protection Agency regulations; and (b) local governmental entities such as a municipal or county government, where such policies are reflected in duly enacted laws or regulations passed by the local governmental entity.
Definitions S – T

1.40C SERC.

“SERC” or “Southeastern Electric Reliability Council” shall mean the reliability council under section 202 of the Federal Power Act established pursuant to the SERC Agreement dated January 14, 1970, or any successor thereto.

1.41 Sector Votes.

“Sector Votes” shall mean the affirmative and negative votes of each sector of a Senior Standing Committee, as specified in Section 8.4.

1.41.01 Securities

“Securities” shall mean negotiable or non-negotiable investment or financing instruments that can be sold and bought. Securities include bonds, stocks, debentures, notes and options.

1.41A Senior Standing Committees.

“Senior Standing Committees” shall mean the Members Committee, and the Markets, and Reliability Committee, as established in Sections 8.1 and 8.6.

1.41A.01 Short-term Project.

A transmission enhancement or expansion with an in-service date of more than three years but no more than five years from the year in which, pursuant to section 1.5.8(c) of this Schedule 6, the Office of the Interconnection posts the violations, system conditions, or Public Policy Requirements to be addressed by the enhancement or expansion.

1.41A.02 [Reserved].

1.41A.03 [Reserved].

1.41B Standing Committees.

“Standing Committees” shall mean the Members Committee, the committees established and maintained under Section 8.6, and such other committees as the Members Committee may establish and maintain from time to time.

1.42 State.

“State” shall mean the District of Columbia and any State or Commonwealth of the United States.
1.42.01 State Certification.

“State Certification” shall mean the Certification of an Authorized Commission, pursuant to Section 18 of this Agreement, the form of which is appended to this Agreement as Schedule 10A, wherein the Authorized Commission identifies all Authorized Persons employed or retained by such Authorized Commission, a copy of which shall be filed with FERC.

1.42A State Consumer Advocate.

“State Consumer Advocate” shall mean a legislatively created office from any State, all or any part of the territory of which is within the PJM Region, and the District of Columbia established, inter alia, for the purpose of representing the interests of energy consumers before the utility regulatory commissions of such states and the District of Columbia and the FERC.

1.42A.01 Subregional RTEP Project.

“Subregional RTEP Project” shall mean a transmission expansion or enhancement rated below 230 kV which is required for compliance with the following PJM criteria: system reliability, operational performance or economic criteria, pursuant to a determination by the Office of the Interconnection.

1.42A.02 Supplemental Project.

“Supplemental Project” shall mean a transmission expansion or enhancement that is not required for compliance with the following PJM criteria: system reliability, operational performance or economic criteria, pursuant to a determination by the Office of the Interconnection and is not a state public policy project pursuant to section 1.5.9(a)(ii) of Schedule 6 of this Agreement. Any system upgrades required to maintain the reliability of the system that are driven by a Supplemental Project are considered part of that Supplemental Project and are the responsibility of the entity sponsoring that Supplemental Project.

1.42B [Reserved].

1.43 System.

“System” shall mean the interconnected electric supply system of a Member and its interconnected subsidiaries exclusive of facilities which it may own or control outside of the PJM Region. Each Member may include in its system the electric supply systems of any party or parties other than Members which are within the PJM Region, provided its interconnection agreements with such other party or parties do not conflict with such inclusion.

1.43A Third Party Request.

“Third Party Request” shall mean any request or demand by any entity upon an Authorized Person or an Authorized Commission for release or disclosure of confidential information provided to the Authorized Person or Authorized Commission by the Office of the
Interconnection or PJM Market Monitor. A Third Party Request shall include, but shall not be limited to, any subpoena, discovery request, or other request for confidential information made by any: (i) federal, state, or local governmental subdivision, department, official, agency or court, or (ii) arbitration panel, business, company, entity or individual.

1.44 Transmission Facilities.

“Transmission Facilities” shall mean facilities that: (i) are within the PJM Region; (ii) meet the definition of transmission facilities pursuant to FERC’s Uniform System of Accounts or have been classified as transmission facilities in a ruling by FERC addressing such facilities; and (iii) have been demonstrated to the satisfaction of the Office of the Interconnection to be integrated with the transmission system of the PJM Region and integrated into the planning and operation of such to serve all of the power and transmission customers within such region.

1.45 Transmission Owner.

“Transmission Owner” shall mean a Member that owns or leases with rights equivalent to ownership Transmission Facilities and is a signatory to the PJM Transmission Owners Agreement. Taking transmission service shall not be sufficient to qualify a Member as a Transmission Owner.

1.46 Transmission Owner Upgrade

“Transmission Owner Upgrade” shall mean an upgrade to a Transmission Owner’s own transmission facilities, which is an improvement to, addition to, or replacement of a part of, an existing facility and is not an entirely new transmission facility.
10.2.1 Financial Interests:

No Board Member, officer or employee of the Office of the Interconnection, or spouse or dependent children thereof, shall own, control or hold with power to vote Prohibited Securities subject to the following:

1. Each Office of the Interconnection Board Member, officer, or employee or spouse or dependent children thereof, shall divest of those Prohibited Securities within six (6) months of: (i) the time of his affiliation or employment with the Office of the Interconnection, (ii) the time a new Member is added to this Agreement, a new Eligible Customer begins taking service under the Tariff or a Nonincumbent Developer is pre-qualified as eligible to be a Designated Entity pursuant to schedule 6 of this Agreement, where the Board Member, officer or employee of the Office of the Interconnection, or spouse or dependent children thereof owns such Prohibited Securities; or (iii) the time of receipt of such Prohibited Securities (e.g. marriage, bequest, gift, etc.).

2. Nothing in this Section 10.2.1 shall be interpreted to preclude a Board Member, officer or employee of the Office of the Interconnection, or spouse or dependent children thereof, from indirectly owning publicly traded Prohibited Securities through a mutual fund or similar arrangement (other than a fund or arrangement specifically targeted towards, or principally comprised of, entities in the electric industry or the electric utility industry, or any segments thereof) under which the Board Member, officer or employee of the Office of the Interconnection, or spouse or dependent children thereof, does not control the purchase or sale of such Prohibited Securities. Any such ownership, including the nature and conditions of the interest, must be disclosed to the Office of the Interconnection’s director, regulatory oversight and compliance who will report it to the PJM Board.

3. Ownership of Prohibited Securities as part of a pension plan or fund of a Member, Eligible Customer or Nonincumbent Developer shall be permitted. Any such ownership, including the nature and conditions of the interest, must be disclosed to the Office of the Interconnection’s director, regulatory oversight and compliance who will report it to the PJM Board.

4. Ownership of Prohibited Securities by a spouse of a Board Member, officer or employee of the Office of the Interconnection who is employed by a Member, Eligible Customer or Nonincumbent Developer and is required to purchase and maintain ownership of Securities of such Member, Eligible Customer or Nonincumbent Developer as a part of his or her employment shall be permitted. Any such ownership by a spouse, including the nature and conditions of the interest, must be disclosed to the Office of the Interconnection’s director, regulatory oversight and compliance who will report it to the PJM Board.
5. A Board Member shall disclose to the PJM Board if the Board Member is aware that he or she, or an immediate family member, has a financial interest in a Member, Eligible Customer or Nonincumbent Developer, or their Affiliates that is subject to a matter before the PJM Board. The chair of the PJM Board Governance Committee and the Office of the Interconnection legal counsel shall consult with the Board Member to determine whether the PJM Board Member should be recused from the PJM Board deliberations and decision making regarding the matter before the PJM Board.
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Revisions to the PJM Operating Agreement

(Clean Format)
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1.33 PJM Dispute Resolution Procedures.

“PJM Dispute Resolution Procedures” shall mean the procedures for the resolution of disputes set forth in Schedule 5 of this Agreement.

1.34 PJM Interchange Energy Market.
“PJM Interchange Energy Market” shall mean the regional competitive market administered by the Office of the Interconnection for the purchase and sale of spot electric energy at wholesale in interstate commerce and related services established pursuant to Schedule 1 to this Agreement.

1.35  PJM Manuals.

“PJM Manuals” shall mean the instructions, rules, procedures and guidelines established by the Office of the Interconnection for the operation, planning, and accounting requirements of the PJM Region and the PJM Interchange Energy Market.

1.35.01  PJM Market Monitor.

“PJM Market Monitor” shall mean the Market Monitoring Unit established under Attachment M to the PJM Tariff.

1.35A  PJM Region.

“PJM Region” shall mean the aggregate of the Zones within PJM as set forth in Attachment J to the PJM Tariff.

1.35B  PJM South Region.

“PJM South Region” shall mean the Transmission Facilities of Virginia Electric and Power Company.

1.35C  PJM Settlement.

“PJM Settlement” shall mean PJM Settlement, Inc. (or its successor), established by PJM as set forth in Section 3.3.

1.36  PJM Tariff.

“PJM Tariff” shall mean the PJM Open Access Transmission Tariff providing transmission service within the PJM Region, including any schedules, appendices, or exhibits attached thereto, as in effect from time to time.

1.36A  [Reserved.]

1.36B  PJM West Region.

“PJM West Region” shall mean the Zones of Allegheny Power; Commonwealth Edison Company (including Commonwealth Edison Co. of Indiana); AEP East Operating Companies; The Dayton Power and Light Company; the Duquesne Light Company; American Transmission Systems, Incorporated; Duke Energy Ohio, Inc. and Duke Energy Kentucky, Inc.

1.37  Planning Period.
“Planning Period” shall initially mean the 12 months beginning June 1 and extending through May 31 of the following year, or such other period established under the procedures of, as applicable, the Reliability Assurance Agreement.

1.38 President.

“President” shall have the meaning specified in Section 9.2.

1.38.00 Prohibited Securities

“Prohibited Securities” shall mean the Securities of a Member, Eligible Customer, or Nonincumbent Developer, or their Affiliates, if:

(1) the primary business purpose of the Member or Eligible Customer, or their Affiliates, is to buy, sell or schedule energy, power, capacity, ancillary services or transmission services as indicated by an industry code within the “Electric Power Generation, Transmission, and Distribution” industry group under the North American Industry Classification System (“NAICS”) or otherwise determined by the Office of the Interconnection;

(2) the Nonincumbent Developer has been pre-qualified as eligible to be a Designated Entity pursuant to Schedule 6 of this Agreement;

(3) the total (gross) financial settlements regarding the use of transmission capacity of the Transmission System and/or transactions in the centralized markets that the Office of the Interconnection administers under the Tariff and the Operating Agreement for all Members or Eligible Customers affiliated with the publicly traded company during its most recently completed fiscal year is equal to or greater than 0.5% of its gross revenues for the same time period; or

(4) the total (gross) financial settlements regarding the use of transmission capacity of the Transmission System and/or transactions in the centralized markets that the Office of the Interconnection administers under the Tariff and the Operating Agreement for all Members or Eligible Customers affiliated with the publicly traded company during the prior calendar year is equal to or greater than 3% of the total transactions for which PJMSettlements is a Counterparty pursuant to Section 3.3 of this Agreement for the same time period.

The Office of the Interconnection shall compile and maintain a list of the Prohibited Securities publicly traded and post this list for all employees and distribute the list to the Board Members.

1.38.01 Proportional Multi-Driver Project:

“Proportional Multi-Driver Project” shall mean a Multi-Driver Project that is planned as described in Schedule 6, section 1.5.10(h) of this Agreement.

1.38A Public Policy Objectives
“Public Policy Objectives” shall refer to Public Policy Requirements, as well as public policy initiatives of state or federal entities that have not been codified into law or regulation but which nonetheless may have important impacts on long term planning considerations.

1.38B Public Policy Requirements

“Public Policy Requirements” shall refer to policies pursued by: (a) state or federal entities, where such policies are reflected in duly enacted statutes or regulations, including but not limited to, state renewable portfolio standards and requirements under Environmental Protection Agency regulations; and (b) local governmental entities such as a municipal or county government, where such policies are reflected in duly enacted laws or regulations passed by the local governmental entity.
1.40C SERC.

“SERC” or “Southeastern Electric Reliability Council” shall mean the reliability council under section 202 of the Federal Power Act established pursuant to the SERC Agreement dated January 14, 1970, or any successor thereto.

1.41 Sector Votes.

“Sector Votes” shall mean the affirmative and negative votes of each sector of a Senior Standing Committee, as specified in Section 8.4.

1.41.01 Securities

“Securities” shall mean negotiable or non-negotiable investment or financing instruments that can be sold and bought. Securities include bonds, stocks, debentures, notes and options.

1.41A Senior Standing Committees.

“Senior Standing Committees” shall mean the Members Committee, and the Markets, and Reliability Committee, as established in Sections 8.1 and 8.6.

1.41A.01 Short-term Project.

A transmission enhancement or expansion with an in-service date of more than three years but no more than five years from the year in which, pursuant to section 1.5.8(c) of this Schedule 6, the Office of the Interconnection posts the violations, system conditions, or Public Policy Requirements to be addressed by the enhancement or expansion.

1.41A.02 [Reserved].

1.41A.03 [Reserved].

1.41B Standing Committees.

“Standing Committees” shall mean the Members Committee, the committees established and maintained under Section 8.6, and such other committees as the Members Committee may establish and maintain from time to time.

1.42 State.

“State” shall mean the District of Columbia and any State or Commonwealth of the United States.
1.42.01 State Certification.

“State Certification” shall mean the Certification of an Authorized Commission, pursuant to Section 18 of this Agreement, the form of which is appended to this Agreement as Schedule 10A, wherein the Authorized Commission identifies all Authorized Persons employed or retained by such Authorized Commission, a copy of which shall be filed with FERC.

1.42A State Consumer Advocate.

“State Consumer Advocate” shall mean a legislatively created office from any State, all or any part of the territory of which is within the PJM Region, and the District of Columbia established, inter alia, for the purpose of representing the interests of energy consumers before the utility regulatory commissions of such states and the District of Columbia and the FERC.

1.42A.01 Subregional RTEP Project.

“Subregional RTEP Project” shall mean a transmission expansion or enhancement rated below 230 kV which is required for compliance with the following PJM criteria: system reliability, operational performance or economic criteria, pursuant to a determination by the Office of the Interconnection.

1.42A.02 Supplemental Project.

“Supplemental Project” shall mean a transmission expansion or enhancement that is not required for compliance with the following PJM criteria: system reliability, operational performance or economic criteria, pursuant to a determination by the Office of the Interconnection and is not a state public policy project pursuant to section 1.5.9(a)(ii) of Schedule 6 of this Agreement. Any system upgrades required to maintain the reliability of the system that are driven by a Supplemental Project are considered part of that Supplemental Project and are the responsibility of the entity sponsoring that Supplemental Project.

1.42B [Reserved].

1.43 System.

“System” shall mean the interconnected electric supply system of a Member and its interconnected subsidiaries exclusive of facilities which it may own or control outside of the PJM Region. Each Member may include in its system the electric supply systems of any party or parties other than Members which are within the PJM Region, provided its interconnection agreements with such other party or parties do not conflict with such inclusion.

1.43A Third Party Request.

“Third Party Request” shall mean any request or demand by any entity upon an Authorized Person or an Authorized Commission for release or disclosure of confidential information provided to the Authorized Person or Authorized Commission by the Office of the
Interconnection or PJM Market Monitor. A Third Party Request shall include, but shall not be limited to, any subpoena, discovery request, or other request for confidential information made by any: (i) federal, state, or local governmental subdivision, department, official, agency or court, or (ii) arbitration panel, business, company, entity or individual.

1.44 Transmission Facilities.

“Transmission Facilities” shall mean facilities that: (i) are within the PJM Region; (ii) meet the definition of transmission facilities pursuant to FERC’s Uniform System of Accounts or have been classified as transmission facilities in a ruling by FERC addressing such facilities; and (iii) have been demonstrated to the satisfaction of the Office of the Interconnection to be integrated with the transmission system of the PJM Region and integrated into the planning and operation of such to serve all of the power and transmission customers within such region.

1.45 Transmission Owner.

“Transmission Owner” shall mean a Member that owns or leases with rights equivalent to ownership Transmission Facilities and is a signatory to the PJM Transmission Owners Agreement. Taking transmission service shall not be sufficient to qualify a Member as a Transmission Owner.

1.46 Transmission Owner Upgrade

“Transmission Owner Upgrade” shall mean an upgrade to a Transmission Owner’s own transmission facilities, which is an improvement to, addition to, or replacement of a part of, an existing facility and is not an entirely new transmission facility.
10.2.1 Financial Interests:

No Board Member, officer or employee of the Office of the Interconnection, or spouse or dependent children thereof, shall own, control or hold with power to vote Prohibited Securities subject to the following:

1. Each Office of the Interconnection Board Member, officer, or employee or spouse or dependent children thereof, shall divest of those Prohibited Securities within six (6) months of: (i) the time of his affiliation or employment with the Office of the Interconnection, (ii) the time a new Member is added to this Agreement, a new Eligible Customer begins taking service under the Tariff or a Nonincumbent Developer is pre-qualified as eligible to be a Designated Entity pursuant to schedule 6 of this Agreement, where the Board Member, officer or employee of the Office of the Interconnection, or spouse or dependent children thereof owns such Prohibited Securities; or (iii) the time of receipt of such Prohibited Securities (e.g. marriage, bequest, gift, etc.).

2. Nothing in this Section 10.2.1 shall be interpreted to preclude a Board Member, officer or employee of the Office of the Interconnection, or spouse or dependent children thereof, from indirectly owning publicly traded Prohibited Securities through a mutual fund or similar arrangement (other than a fund or arrangement specifically targeted towards, or principally comprised of, entities in the electric industry or the electric utility industry, or any segments thereof) under which the Board Member, officer or employee of the Office of the Interconnection, or spouse or dependent children thereof, does not control the purchase or sale of such Prohibited Securities. Any such ownership, including the nature and conditions of the interest, must be disclosed to the Office of the Interconnection’s director, regulatory oversight and compliance who will report it to the PJM Board.

3. Ownership of Prohibited Securities as part of a pension plan or fund of a Member, Eligible Customer or Nonincumbent Developer shall be permitted. Any such ownership, including the nature and conditions of the interest, must be disclosed to the Office of the Interconnection’s director, regulatory oversight and compliance who will report it to the PJM Board.

4. Ownership of Prohibited Securities by a spouse of a Board Member, officer or employee of the Office of the Interconnection who is employed by a Member, Eligible Customer or Nonincumbent Developer and is required to purchase and maintain ownership of Securities of such Member, Eligible Customer or Nonincumbent Developer as a part of his or her employment shall be permitted. Any such ownership by a spouse, including the nature and conditions of the interest, must be disclosed to the Office of the Interconnection’s director, regulatory oversight and compliance who will report it to the PJM Board.

5. A Board Member shall disclose to the PJM Board if the Board Member is aware that he or she, or an immediate family member, has a financial interest in a Member, Eligible Customer or Nonincumbent Developer, or their Affiliates that is subject to a matter before the PJM Board. The chair of the PJM Board Governance Committee and the Office of the
Interconnection legal counsel shall consult with the Board Member to determine whether the PJM Board Member should be recused from the PJM Board deliberations and decision making regarding the matter before the PJM Board.