

Interconnection Security Requirement Revisions for VIUs

Presentation to PJM MRC
October 28, 2026

Overview of Proposal

- Tariff revisions proposed to:
 - Define Vertically Integrated Utility (VIU)
 - Exempt developers that are the same exact corporate entity as Transmission Owner (TO), i.e. VIU, from posting Security
 - Make clear VIU developer remains responsible for all interconnection costs owed to VIU TO
 - Reinstates requirement to post Security if VIU status lost
 - Protect against VIU default through setoff, recoupment and netting
 - Add protection for non-defaulting developers under NUCRAs, placing them in better position than they are in today, by eliminating responsibility for default of VIU

Why Are These Changes Being Sought?

Customer affordability resulting from reduced cost to customers - avoiding payment of millions of dollars in bank fees to procure letters of credit from VIU developer *to itself* as VIU TO

Eliminate administrative burden on PJM, developer and FERC related to repeatedly seeking waivers of security requirement

FERC recommended changes be made

Requiring a utility to post Security to or for its own benefit is unnecessary

Purpose of Posting Security

Security for interconnection agreements is provided for the benefit of Transmission Owner (TO) to ensure the TO is paid for the cost to construct facilities for developers:

- GIA, sections 5.0 and 14.0:

5.0 Security.

In accord with the GIP, Project Developer shall provide the Transmission Provider (for the benefit of the Transmission Owner) with a letter of credit from an agreed provider or other form of security reasonably acceptable to the Transmissions Provider and that names the Transmission Provider as beneficiary ("Security") in the amount of \$_____. Such Security can also be applied to unpaid Cancellation Costs

14.0 Third Party Beneficiaries. No third party beneficiary rights are created under this GIA, except, however, that, subject to modification of the payment terms stated in section 10 of this GIA pursuant to the Negotiated Contract Option, payment obligations imposed on Project Developer under this GIA are agreed and acknowledged to be for the benefit of the Transmission Owner(s). Project Developer expressly agrees that the Transmission Owner(s) shall be entitled to take such legal recourse as it deems appropriate against Project Developer for the payment of any Costs or charges authorized under this GIA or the GIP with respect to Interconnection Service for which Project Developer fails, in whole or in part, to pay as provided in this GIA, the GIP and/or the Operating Agreement.

- CSA, section 2.1 (UCSA, section 2.1 has similar language):

2.1 Obligation to Provide Security.

Unless Security is provided pursuant to a Generation Interconnection Agreement, Developer Party shall provide Security to collateralize Developer Party's obligation to pay the Costs incurred by Transmission Owner to construct the Network Upgrades identified in this CSA, Appendix I, less any Costs already paid by Developer Party, in accordance with the GIP. Developer Party shall deliver such Security to Transmission Provider prior to the Effective Date of this CSA, as described in this CSA, Appendix III. Unless otherwise specified by Transmission Provider, such Security shall take the form of a letter of credit, in the amount of \$_____ naming Transmission Provider and Transmission Owner as beneficiaries.

FERC Precedent

- History of granting waivers of requirement to post Security for developers that are the same corporate entity as TO, i.e. VIUs because:
 - “security provisions . . . exist to protect the Transmission Owner from financial risk associated with the construction of interconnection facilities or upgrades requested by an *independent* Interconnection Customer,” and “that protection is unnecessary” when “the Transmission Owner and Interconnection Customer are one and the same.”
 - “failure by the Interconnection Customer to provide security or funding will not result in undue discrimination inasmuch as the Customer and the Transmission Provider are the same entity.” Thus, found “under such circumstances . . . the requirement to provide security to oneself to be impractical and obviously unnecessary.”
- Recommended Transmission Providers consider revising tariffs to eliminate security requirement “where the Transmission Owner is also the Interconnection Customer . . . so that all similarly situated parties would be treated in the same manner without having to file individual non-conforming agreements and requests for waiver of the security requirements.”
- August 2026, approved elimination of requirement to post Security in CAISO where developer and TO are the same legal entity

Define Vertically Integrated Utility

- Add a new defined term Vertically Integrated Utility: “a single Member entity, operating as both a Project Developer, Upgrade Customer, Wholesale Market Participant, Developer Party, Affected System Customer or Eligible Customer (collectively, for the purpose of this definition, “Project Developer”) and a Transmission Owner, and subject to the same New Service Request or interconnection agreement.”
- Also adding to that definition that a VIU developer is exempt from providing Security, but if that developer is later deemed to no longer constitute the same VIU as the TO, it must post Security.

Tariff, Part VIII, Subpart A, section 400, Definitions V

Security Exemption in Substantive Tariff Sections

- Add exemption to post Security limited only to situation in which the developer and transmission owner are the *exact same corporate entity*; does not apply when developer is an affiliated entity of transmission owner
- Same proposed revision in several sections of Tariff; only difference is developer title:

“Notwithstanding the foregoing, [Project Developer] [Eligible Customer] [Upgrade Customer] [Generation Project Developer] shall be exempt from providing Security under this section where [Project Developer] [Eligible Customer] [Upgrade Customer] [Generation Project Developer] and Transmission Owner are the same Vertically Integrated Utility.”

Tariff, Part VII, Subpart D, section 313 (Decision Point III)
Tariff, Part VIII, Subpart C, section, 408 (Decision Point II)
Tariff, Part VIII, Subpart H, section 435 (Upgrade Requests)

Tariff, Part VIII, Subpart C, section 406 (Decision Point I)
Tariff, Part VIII, Subpart C, section 410 (Decision Point III)
Tariff, Part X, Subpart C, section 603 (Expedited Interconnection Track Process)

Non-Substantive Revision in Interconnection Agreements

- Add the following non-substantive reference to the developer being a VIU in intro paragraph of applicable agreements as follows:

“[Use as/when applicable: [Project Developer] [Upgrade Customer] and Transmission Owner, together, constitute a Vertically Integrated Utility subject to the Vertically Integrated Utility provisions of this [GIA] [E&P Agreement] [Upgrade CSA].]”

Tariff, Part IX, Subpart B, intro section (GIA)

Tariff, Part IX, Subpart E, intro section (Upgrade CSA)

Tariff, Part IX, Subpart D, intro section (E&P Agreement)

Tariff, Part IX, Subpart J, intro section (CSA)

Security Exemption in Interconnection Agreements

- Add exemption to post Security limited only to situation in which the developer and transmission owner are the *exact same corporate entity*; does not apply when developer is an affiliated entity of transmission owner
- Exemption only applies while VIU status continues
- Same proposed revision in several sections of Tariff; only difference is developer title and agreement reference:

“Notwithstanding the foregoing, Project Developer shall be exempt from providing Security under this [GIA] [E&P Agreement] [Upgrade CSA] [CSA] where [Project Developer] [Upgrade Customer] [Developer Party] and Transmission Owner are the same Vertically Integrated Utility. If at any time [Project Developer] [Upgrade Customer] [Developer Party] and Transmission Owner no longer constitute the same Vertically Integrated Utility, [Project Developer] [Upgrade Customer] [Developer Party] shall be required to provide Security at the earlier of any Tariff prescribed deadline, or at least thirty (30) Business Days prior to the effective date of the change in status of the Vertically Integrated Utility. Exempting [Project Developer] [Upgrade Customer] [Developer Party] from any Security obligation under this [GIA] [E&P Agreement] [Upgrade CSA] [CSA] does not relieve [Project Developer] [Upgrade Customer] [Developer Party] from cost responsibility for any Network Upgrade(s) under this [GIA] [E&P Agreement] [Upgrade CSA] [CSA].”

Tariff, Part IX, Subpart B, section 5.0 (GIA)

Tariff, Part IX, Subpart E, section 2.1 (Upgrade CSA)

Tariff, Part IX, Subpart D, sections 4.0, 20.1.4.1 (E&P Agreement)

Tariff, Part IX, Subpart J, section 2.1 (CSA)

Protections Against Default in Interconnection Agreements

- Protect against VIU default through setoff, recoupment and netting
- Same proposed revision in several agreements; only difference is developer title and agreement reference: [22][24][25] Vertically Integrated Utilities

The following provisions shall apply only where the Project Developer and Transmission Owner under this [GIA] [E&P Agreement] [Upgrade CSA] [CSA] constitute a Vertically Integrated Utility.

[22.11][24.11][25.11] Default:

If Project Developer defaults under this [GIA] [E&P Agreement] [Upgrade CSA] [CSA], PJM retains its right under the Operating Agreement, section 14B.4(d) to set off any amount owed by [Project Developer] [Upgrade Customer] under this this [GIA] [E&P Agreement] [Upgrade CSA] [CSA] and the Tariff against any amounts owed to Transmission Owner under this [GIA] [E&P Agreement] [Upgrade CSA] [CSA]. Similarly, if [Project Developer] defaults under this this [GIA] [E&P Agreement] [Upgrade CSA] [CSA], PJM retains its right under this [GIA], Appendix 2, section 11.1.1 to net remittances of Transmission Owner, against any amounts owed by [Project Developer] [Upgrade Customer], under the Tariff.

For avoidance of doubt, PJM's rights of setoff, recoupment, and netting, including in the event of bankruptcy, shall apply notwithstanding that the Vertically Integrated Utility is acting in different capacities under this [GIA] [E&P Agreement] [Upgrade CSA] [CSA] and PJM's governing documents. The Vertically Integrated Utility is recognized as a single legal entity for purposes of a [Ctrl] + [Click] rights, and PJM may offset any amounts owed to the Vertically Integrated Utility (in any capacity) against any amounts owed by the Vertically Integrated Utility (in any capacity), including in any insolvency, receivership, or bankruptcy proceedings.

Tariff, Part IX, Subpart B, Appendix 2, new section 25 (GIA)

Tariff, Part IX, Subpart E, Appendix 2, new section 22 (Upgrade CSA)

Tariff, Part IX, Subpart D, Appendix 2, new section 24 (E&P Agreement)

Tariff, Part IX, Subpart J, Appendix 2, new section 22 (CSA)

Additional Protection for Non-Defaulting Developers

- Revisions put non-defaulting developers under NUCRAs in better position than today, by eliminating reallocation of costs of defaulting VIU to non-defaulting developers; held harmless by VIU
- Same proposed revision in CSA and GIA; only difference is developer title and agreement reference:

[22.2][25.2] Common Use Network Upgrades:

To the extent this [GIA] [CSA] includes Common Use Upgrades for which a Network Upgrade Cost Responsibility Agreement (“NUCRA”) is required, PJM, [Project Developer] [Developer Party], and Transmission Owner agree that the following additional conditions apply:

1. If [Project Developer] [Developer Party] defaults under this [GIA] [CSA], any non-defaulting Project Developer that is a party to any related NUCRA shall not be liable for any portion of defaulting [Project Developer] [Developer Party]’s cost responsibility under the applicable NUCRA;
2. Upon a default under any applicable NUCRA by [Project Developer] [Developer Party], no portion of defaulting [Project Developer] [Developer Party]’s unpaid cost responsibility for a Common Use Upgrade shall be reallocated to the non-defaulting Project Developers; and,
3. Transmission Owner and defaulting [Project Developer] [Developer Party] agree to hold all non-defaulting Project Developers harmless from any cost responsibility that is allocated to defaulting [Project Developer] [Developer Party] under any applicable NUCRA.

While Transmission Owner agrees that it is a signatory for acknowledgment purposes of any NUCRA(s) associated with this [GIA] [CSA], exemption of [Project Developer] [Developer Party]’s otherwise applicable requirement to provide Security under this [GIA] [CSA] specifically obligates Transmission Owner to incur cost responsibility for any Network Upgrade(s) under this [GIA] [CSA] for which the [Project Developer] [Developer Party] defaults under the associated NUCRA(s).

Tariff, Part IX, Subpart B, Appendix 2, new section 25 (GIA)

Tariff, Part IX, Subpart J, Appendix 2, new section 22 (CSA)

Additional Protection for Non-Defaulting Developers

3.1 Effective Date. This NUCRA shall become effective on the later of (i) the date the agreement has been executed by all parties to this NUCRA, or (ii) the date that all Project Developers have delivered all required Security to the Transmission Provider, provided, however, that if the NUCRA is filed with the FERC unexecuted, the Effective Date shall be the date specified by the FERC.

7.2 Upon Default by Project Developer:

7.2.1 Consequences of Default by Project Developer:

If one or more, but not all, Project Developers that are parties to this NUCRA are in Default, such Project Developers shall remain liable for any portion of their cost responsibility for the Costs of the Common Use Upgrades, and Cancellation Costs, in accordance with Schedule B of this NUCRA. Transmission Provider shall draw on and apply such defaulting Project Developer's Security, or, in the case of a Vertically Integrated Utility may exercise its rights of setoff, recoupment and netting, to any amount under this NUCRA not paid by that Project Developer. Upon drawing on such Security, or the exercise of setoff, recoupment, and netting rights, Project Developer is automatically in default of this NUCRA, and Project Developer's GIA and Construction Service Agreement; and all such agreements shall be deemed terminated and withdrawn, and Project Developer's project shall be removed from the relevant Cycle.

7.2.2 Reallocation of Costs upon Default by Project Developer:

If a defaulting Project Developer cannot pay its amount due after exhausting all available Security, the unpaid costs shall be reallocated to the remaining Project Developers in proportion to the cost responsibility percentages set forth in Schedule B unless the defaulting Project Developer is a Vertically Integrated Utility. If the defaulting Project Developer is the same Vertically Integrated Utility as the Transmission Owner, any portion of cost responsibility for the Common Use Upgrades that are unpaid by such Project Developer shall not be reallocated to the non-defaulting Project Developers, and the Vertically Integrated Utility will hold non-defaulting Project Developers harmless from any cost responsibility for the Common Use Upgrades and Cancellation Costs that are allocated to the defaulting Project Developer through the rights of setoff, recoupment and netting conferred to Transmission Provider under the GIA. A remaining Project Developer shall be entitled to exercise such other rights and remedies as it may have in equity or at law against the defaulting Project Developer that caused the reallocation of Costs under this section.

Tariff, Part IX, Subpart H, section 3.1, Appendix 2, section 7.2 (NUCRA)

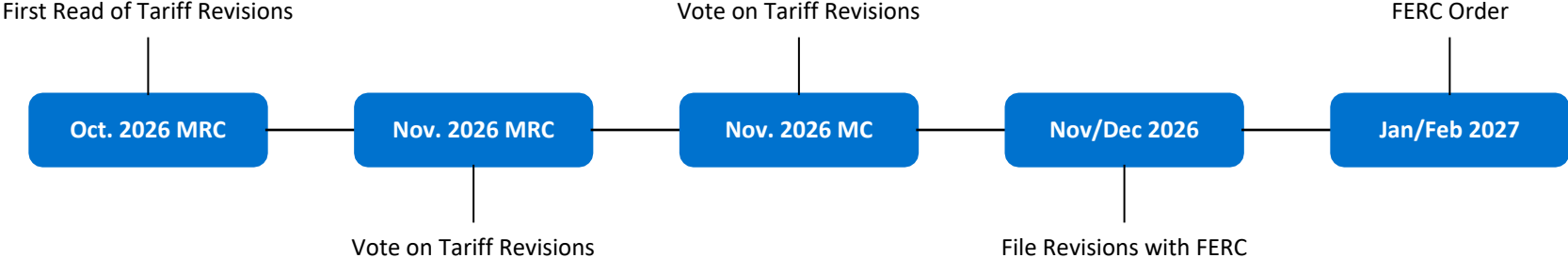
Additional Requirements for Assignment of GIA

- Adding requirements for assignment of GIA to new owner and VIU status ends, including posting Security, amending GIA at least 30 days before assignment effective date:

In addition to the above, if Project Developer has not provided Security under the GIA because it and Transmission Owner are the same Vertically Integrated Utility, the following additional conditions must be satisfied:

- (a) Project Developer must provide PJM with at least sixty (60) days advance written notice prior to assignment of this GIA and any related PJM service agreements, including NUCRAs, that would terminate the Vertically Integrated Utility status.
- (b) At least thirty (30) days prior to the effective date of the assignment, an amended GIA must be executed by the assignee, at which point the Security requirements referenced in amended GIA, section 5.0 and amended GIA, Specifications, section 4.7 (and any adjustments thereof) shall apply.
- (c) PJM must receive the required Security from the assignee (or someone on its behalf) in the amount and form required no later than thirty (30) days prior to the effective date of such assignment.
- (d) After receipt of the executed amended GIA, any associated NUCRAs, and any other related service agreements, and all required Security are provided to PJM, PJM will file the amended agreement(s) with FERC or report them in PJM's Electric Quarterly Reports to the extent required by FERC regulation.
- (e) Subject to any necessary regulatory acceptance, the effective date of the amended GIA, any associated amended NUCRAs, and any other related service agreements subject to an assignment will be the same as the effective date of the assignment.

Timeline – Quick Fix



Key Takeaways

Limited applicability

Security is waived, but cost responsibility remains

Clear transition rules apply if VIU status ends

Increased default protections - other Project Developers are better protected than they are today; held harmless

Cost savings to customers

Consistent with FERC precedent;
FERC recommended changes be made

Questions?