

RPM Seller Credit

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Risk Management Committee
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Per OATT, Attachment Q, Section VI.B.6, RPM Seller Credit is available to Market Participants to meet the requirements outlined in that section. This credit is extended solely to satisfy RPM auction credit requirements and serves as an additional form of unsecured credit, without consideration of the Market Participants' creditworthiness.

Objective of RPM Seller Credit:

RPM Seller Credit is designed to provide market participants with limited unsecured credit specifically based on consistent net sell positions in the PJM RPM market.

Usage of RPM Seller Credit:

This credit is extended solely to satisfy credit requirements for RPM auction participation.

**Tariff, Attachment Q, section VI.B*

ELIGIBILITY:

Must be a net seller into PJM Markets,
on average, over the past 12 months

FORMULA:

Average of the total net monthly
PJM bills over the past 12 months

×

2

Frequency

Calculated on a rolling
12-month basis

Cap

Limited by available Unsecured Credit,
not to exceed \$50 Million

Applicable Resources:

- *Planned Generation Capacity Resource*
- *Planned Demand Resource*
- *Planned Energy Efficiency Resource (sunset soon)*
- *Qualified Transmission Upgrade*
- *Generation Located Outside PJM without firm transmission service*
- *Price Responsive Demand not yet registered*

Requirement Overview:

- **Timing** – RPM Auction Credit Requirement must be satisfied prior to participating in the RPM Auction
- **Methods of Satisfaction** – Can be met with RPM Seller Credit, Unsecured Credit Allowance, or Collateral
- **Post-Auction Adjustments** – RPM Auction Credit Requirement may change after the auction closes

	A	B	C
	Credit Quality	Unsecured Credit Allowance (UCA) \$MM Section II.G	RPM Seller Credit extended per Section VI.B - \$MM
Market participant A	Investment grade	33	17
Market participant B	Non- Investment grade	0	50

- The sum of a market participant's UCA + calculated RPM Seller Credit may not exceed the \$50MM cap of Unsecured Credit
- As the example demonstrates (Column C):
 - a non-investment grade market participant is granted unsecured credit for RPM, which is inconsistent with other credit practices of PJM, including the extension of UCA in Attachment Q, Section II.G, and other RTOs
 - a non-investment grade market participant is given an equal amount of Unsecured Credit as an investment grade market participant for the purposes of RPM

Volatility of RPM Seller Credit:

- A decrease in the net monthly bill reduces RPM Seller Credit, potentially leading to an RPM Auction Credit Requirement shortfall.

Lack of Creditworthiness Assessment:

- Extending unsecured credit without assessing creditworthiness could lead to granting credit that exceeds the financial strength of certain Market Participants, increasing the risk of financial instability.

Collateral Default Timing:

- At the time the reduced RPM Seller Credit is less than the RPM Auction Credit Requirement, a Collateral call is made.
- If the Collateral call is not satisfied, a default occurs.
- PJM may need to procure capacity at potentially a higher price to meet resource adequacy criteria which may increase market costs.

Example: Non-Investment Grade with Existing RPM Resource

Assumptions:

- A participant with an existing RPM resource annual revenues (Net Bill) – \$30M & RPM Seller Credit - \$5.0MM
- That same participant has a Planned RPM resource UCAP 100MW in PJM RTO & participated in RPM Auction Delivery Year 25/26

Delivery Year	2025/26
Auction	BRA
LDA	RTO
Season	Annual
(a) UCAP (MW)	100
(b) Number of Days	365
(c) Net Cone UCAP (\$/MWD)	\$228.81
(d) Net Cone ICAP (\$/MWD)	\$180.76
(e) Clearing Price	\$269.92
(f) Pre Auction Credit Rate (\$/MW-Yr)	\$41,758 = $\max(0.5 * c, 20) * b$
(g) Pre Auction Credit Requirement (\$)	\$4,175,783 = $f * a$
(h) Post Auction Credit Rate (\$/MW-Yr)	\$19,704 = $\max(0.2 * e, 20, \min(0.5 * c, 1.5 * d))$
(i) Post Auction Credit Requirement (\$)	\$1,970,416 = $h * a$

- Prior to Base Residual Auction (BRA), Pre-Auction RPM Auction Credit Requirement - \$4.2MM
- Post BRA Auction RPM Auction Credit Requirement - \$2.0MM (Using \$5.0MM RPM Seller Credit)
- Existing resource faces unexpected prolonged outage



Example: Scenario 1 – Non-Performing Existing RPM Resource

Date	Monthly Net Bill From Existing Resource	RPM Seller Credit Based on Monthly Net Bill	RPM Auction Credit Requirement for Planned Resource	Collateral Needed For Planned Resource	Notes
May-24	\$2.5	\$5.0			
Jun-24	\$2.5	\$5.0	\$4.2	\$0.0	Pre Auction Credit Requirement
Jul-24	\$2.5	\$5.0	\$2.0	\$0.0	Post Auction Credit Requirement
Aug-24	Extended Existing Resource Outage	\$4.6	\$2.0	\$0.0	RPM Seller Credit starts to reduce
Sep-24		\$4.2	\$2.0	\$0.0	due to existing resource outage
Oct-24		\$3.8	\$2.0	\$0.0	
Nov-24		\$3.3	\$2.0	\$0.0	
Dec-24		\$2.9	\$2.0	\$0.0	
Jan-25		\$2.5	\$2.0	\$0.0	
Feb-25		\$2.1	\$2.0	\$0.0	
Mar-25		\$1.7	\$2.0	-\$0.3	RPM Credit Requirement shortfall starts
Apr-25		\$1.3	\$2.0	-\$0.8	
May-25		\$0.8	\$2.0	-\$1.2	

- The volatility of RPM Seller Credit may lead to a RPM Auction Credit Requirement shortfall
- Reduction of net monthly impacts the RPM Seller Credit for (non-creditworthy) market participants that could lead to a collateral default due to weak financials and insufficient liquidity

Example: Scenario 2 – Performing Existing RPM Resource

	# Days	\$MM
RPM Seller Credit	60	5.0
RPM Auction Credit Requirement		2.0
Revenue PJM Retained	19	1.6
Exposure at time of default		0.4

As the example demonstrates:

- The RPM Seller Credit (unsecured credit) is calculated based upon 60 days (net monthly bill)
- Revenue PJM retains at any time is 19 days (maximum)
- Revenues supporting the RPM Seller Credit are largely unavailable to PJM in the event of a default

- Credit is posted prior to participation in the BRA
- At that time the RPM Seller Credit available represents the avg of the past 12 months net monthly bill times 2
- Each month the RPM Seller Credit is calculated based upon the MP net monthly bill
- Fluctuations to the net monthly bills either increases or decreases the RPM Seller Credit as it is calculated on a rolling 12 month basis
- When the BRA auctions clears, the RPM Auction Credit Requirement is compared again to the RPM Seller Credit
- If the RPM Auction Credit Requirement is greater than the adjusted RPM Seller credit, collateral is required
- If the collateral call is not satisfied by the deadline the Market Participant is in default

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RPM Seller Credit**Member Hotline**

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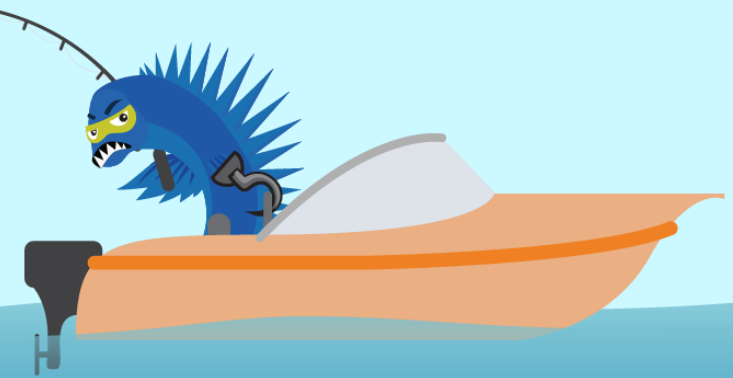
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