Reliability Backstop Procurement Credit Requirement

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Credit Risk Frameworks:
Peak Market Activity (PMA) differs RBP Credit Requirement*

	PMA	RBP
Risk Focus	Short-term transactional – volatility & price spikes during market driven events	Long term asset delivery & contractual default.
Time Horizon	Rolling (greatest invoice amount) past, one, two, three or four-week period (backward-looking).	Up to 15-year (forward-looking).
Trigger Mechanism	Scales up when wholesale power prices surge.	Fix based on the total MW committed (DY).
Objective	Mitigates LSE from accumulating uncollateralized invoice during extreme energy price spikes in the event a LSE defaults before its invoice is settled/paid.	Prevents LSE from walking away from its long-term funding obligation. Ensures the cost of the 15-year capacity build remains anchored to the entity that triggered the reliability need, protecting rate payers.

**as related to LSEs*

- RBP credit requirement is not “duplicative” of Peak Market Activity
- Peak Market Activity manages immediate, rolling operational risk from daily transactions based upon a rolling, ***backward-looking*** billing history
- RBP credit requirement is to cover ***forward-looking*** risk over a long-term, up to 15-year commitment to sellers

Credit Requirement & Timing - Buyers
With Reported RBP Obligations

Credit Requirement

Buyer's (LSE) RBP credit requirement is a function of two inputs: **RBP credit rate and RBP UCAP MW committed**

Credit Rate x RBP UCAP MW Committed	• **Credit rate*:** $1.5 million • **RBP UCAP MW committed:** level of RBP UCAP MW for which an LSE is allocated cost responsibility submitted for the buyer by the EDC

Notes	• PJM will apply this rate to set the RBP credit requirement for each LSE allocated cost responsibility for a given Delivery Year. • Committed MW is equal to the generation that is coming online for that delivery year.
Form of Collateral (either)	Cash deposit or letter of credit (PJM approved form and issuing bank)
Timing	Prior to 45 days before the start of a delivery year

** Credit Rate - based on an auction clearing price of $555*

Credit Requirement

For buyers serving load in an Electric Distributor zone/area in which no RBP obligations have been reported

- Buyer may be required to post, or maintain an existing, RBP Collateral equal to the product of the RBP Credit Rate multiplied by the allocated RBP UCAP MW
- Load Serving Entity may be assessed an unreasonable credit risk under the Unreasonable Credit Risk provisions of Tariff, Attachment Q, Section II, and may be required to post collateral as appropriate

Notes:	To determine the amount of collateral the credit rate may utilize
Form of Collateral (either):	Cash deposit or letter of credit (PJM approved form and issuing bank)
Timing:	Prior to 45 days before the start of the delivery year

Credit Requirement – Transfer of Load

The transferee LSE **must satisfy the credit requirements** associated with taking on such load serving obligation, including any cost allocation for the RBP UCAP MW associated with such transferred.

Transferring LSE remains financially responsible until the receiving LSE has posted the required collateral and assumed responsibility for the transferred obligations.

Transferring LSE would then be released from its financial obligations once:

- (i) The new LSE has posted the RBP collateral.
- (ii) Any unpaid invoice amounts associated with such transfer have been paid by the transferor.

Timing	• EDC or LSE is responsible to submit transfer of load notification to PJM no later than 15 business days before the effective day of load transfer • Collateral must be posted no later than 7 business days in advance of the expected transfer effective date

Letter of Credit (LC):

- PJM's standard LC template must be utilized
- Both the form of letter of credit and issuing bank must be approved by PJM[1]
- LC must be issued by a domestic financial institution ("bank") that has either a senior unsecured, issuer or senior secured rating not less than "A" (not "A-") by S&P or Fitch, or "A2" from Moody's, or an equivalent short-term rating of not less than "A-1+" by S&P[2].
- Send draft LC for review to: rbp_collateral@pjm.com, with the subject line: RBP - Letter of Credit Modification Approval.
- For both review draft LC and Issuing bank approval subject line: RBP – LC Modification and Financial Institution Approval.

[1]LC template and list of issuing banks may be found at pjmbackstop.com
[2]All other short-term ratings are currently not acceptable

Cash:

For bank instructions, contact PJM's Treasury department at: cashmanagement@pjm.com with the subject line: ***RBP – Cash Collateral Transfer Details***

ACH/Fed Wire transfers must include:

- Name of the resource for in the Originator to Beneficiary (OBI) area of a Fed Wire or the Addenda Record of an ACH for PJM to appropriately match the collateral received with the resource for which it pertains.
- If this information cannot be included with the electronic fund transfer, email cashmanagement@pjm.com, with the subject line : ***RBP – Cash Collateral Transfer Details*** include:
  - **the resource name**
  - **amount of the cash remitted**
  - **resource name should align with the resource name submitted for the sell offer.**
  - **send electronic fund transfers individually by resource.**

Appendix

Collateral exceeds the remaining expected payment exposure.	*Transfer of load:* after transferee LSE posts collateral to cover the assumed load and any unpaid invoice amounts associated with such transfer have been paid by the transferor

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