

Sent to the MC, MRC, CS, and MSS email distribution lists on behalf of Suzanne Daugherty, SVP, CFO and Treasurer, as a follow-up to the informational update provided at the June 21, 2018 Markets and Reliability Committee meeting

Member Payment Default:

On June 21, 2018, PJM declared a PJM member and Financial Transmission Rights (FTR) market participant, GreenHat Energy, LLC, in payment default for non-payment of its PJM invoice issued on June 5, 2018. The weekly invoice payment on which GreenHat defaulted was approximately \$1.2 million.

FTR Liquidation:

In accordance with PJM Operating Agreement sections 7.3.9 and 15.1.2A and PJM Manual 6: Financial Transmission Rights section 6.8, PJM will now close out and liquidate the FTRs in the portfolio on which GreenHat defaulted as follows:

1. The FTRs applicable to the balance of the 2018/2019 planning year will be offered for sale in the FTR auction for which the bid window opens on July 16, 2018. Any remaining 2018/2019 planning year FTR positions that are not liquidated in the auction held in July 2018 will be offered for sale in the FTR auction for which the bid window opens on August 16, 2018.
2. The FTRs applicable to the 2019/2020 and 2020/2021 planning years will be offered for sale in the long-term FTR auction for which the bid window opens on September 4, 2018. Any remaining 2019/2020 or 2020/2021 planning year FTR positions that are not liquidated in the long-term FTR auction held in September 2018 will be offered for sale in the long-term FTR auction for which the bid window opens on December 3, 2018.

PJM will post the positions to be offered for liquidation on its financial transmission rights web page at <http://www.pjm.com/markets-and-operations/fttr.aspx>

Default Allocation Assessment:

The net loss or net gain on these liquidated positions will be added to the actual unpaid net charges or net credits that accumulate on these positions prior to being liquidated and will be included in the total default amount that will be allocated to PJM's members in accordance with the default allocation assessment provisions in PJM Operating Agreement sections 15.1.2A(1) and 15.2.2.

PJM is not able to predict the prices at which these positions will liquidate or the net charges that may accumulate on the positions prior to liquidation. Hence, at this time, PJM cannot estimate the amount of the default allocation assessment but believes it is likely to be in the tens of millions of dollars.

The portion of the default allocation assessment each member will be charged is calculated independent of the actual dollar amount of the default to be allocated but requires the June 2018 month-end invoice to be calculated. Therefore, PJM can calculate each member's estimated default allocation assessment percentage that will be applicable to GreenHat's default after the June 2018 month-end invoices are issued on July 9, 2018. PJM is targeting posting by July 13, 2018 each member's estimated default allocation assessment percentages applicable to the GreenHat default to the Member Data report in PJM's eCredit application under the column "Approx Default Alloc Factor."

PJM will include the default allocation assessment for calculated accumulated charges plus liquidated 2018/2019 FTR positions in the July 2018 month-end invoices. There may be an additional default

allocation assessment in the August 2018 month-end invoices if any 2018/2019 positions need to be liquidated in the FTR auction conducted in August 2018.

PJM will include the default allocation assessment for 2019/2020 and 2020/2021 positions liquidated in the September 2018 long-term FTR auction in the September 2018 month-end invoices. If not all 2019/2020 and 2020/2021 positions are liquidated in the September 2018 long-term FTR auction, then PJM will include the default allocation assessment for 2019/2020 and 2020/2021 positions liquidated in the December 2018 long-term FTR in the December 2018 month-end invoices.

After the completion of each auction in which positions are offered for sale, PJM will notify members of the results of its liquidation efforts.

PJM will pursue reasonable avenues of collection of GreenHat's default amounts. Any recovery realized from these collection efforts would be allocated back to members that are charged a default allocation assessment related to GreenHat's default.

Credit Policy Enhancements:

The majority of the FTR positions in the portfolio on which GreenHat has defaulted were acquired in 2015 and 2016 long-term FTR auctions and represent FTR paths for which future congestion will likely vary from historical congestion due to transmission system enhancements. At the time GreenHat acquired the majority of its positions in long-term FTR auctions, both historical congestion and the FTR auction clearing prices indicated GreenHat's portfolio would be profitable.

On April 1, 2018, PJM implemented revisions to its FTR credit requirements to incorporate considerations of the impact of significant transmission system upgrades on future congestion patterns. PJM estimates that these credit policy enhancements would establish an approximately \$60 million credit requirement to acquire the FTR portfolio on which GreenHat has defaulted.

Currently under consideration in the PJM stakeholder process are options for incorporating a minimum FTR credit requirement based on the volume of FTRs on which a market participant bids or holds in its FTR portfolio. Under PJM's proposal, a market participant would have an approximately \$90 million minimum FTR credit requirement to acquire the FTR portfolio on which GreenHat has defaulted.

Please contact me at suzanne.daugherty@pjm.com or at 610-666-4770 with any questions.