

Surety Bonds

Hal Loomis
Market Implementation Committee
October 10, 2018

- At stakeholder request, the Credit Subcommittee approved an Issue Charge to discuss possible acceptance of Surety Bonds as an additional form of collateral
- Two alternatives ultimately were polled. Both received over 50% support from 148 members responding
 - 61% support for Proposal 1: accepting Surety Bonds as collateral for all market purposes, except FTRs, with a \$10 million cap per issuer for each member, and a \$50 million aggregate cap per issuer
 - 53% support for Proposal 2: accepting Surety Bonds as collateral for all market purposes, including FTRs, with a \$20 million cap per issuer for each member, and a \$100 million aggregate cap per issuer
 - 64% support for change from status quo

- Requirements for Surety Bond acceptance, if approved
 - Issuer must be U.S. Treasury-listed Approved Surety
 - Other provisions similar to those for letters of credit
 - Minimum rating of “A” by S&P/Fitch or A2 by Moody’s
 - AM Best also allowed as a fourth rating agency for Surety Bonds
 - Lowest rating used if more than one
 - Automatic annual renewal provision
 - PJM standard form must be used
 - No changes allowed
 - Immediate payment required on demand – similar to letters of credit
 - Final form to be approved by PJM Law Department