



Performance Assessment Interval Credit/Billing Approach

Risk Management Committee
Jan. 24, 2023

- Overview of credit actions for Dec. 23 and Dec. 24
- Credit outreach
- PAI impact on Peak Market Activity (PMA) credit calculation
- Timeline of Performance Assessment Interval (PAI) calculations
- MSRS reports
- Overview of Tariff language
- Current billing timeline
- Extension of billing period

- Risk analytics estimated the incremental exposure for Dec. 23–24 for each LSE and generator impacted.
- Over 160 phone calls were made the week of Dec. 25 with over \$300 million of prepayments received ahead of billing.
- Dec. 28 bill was issued on Jan. 3.
- Second-largest weekly bill ever – \$1.8 billion
- Over 45 phone calls made on Jan. 3 with \$50 million of prepayments secured.
- No payment defaults as a result of credit actions

PJM thanks members for their partnership, which resulted in a positive outcome.

Currently, approximately **200 market participants** are expected to be assessed a Performance Assessment Interval penalty.

The following initial criteria was established to evaluate credit risk and determine which market participants may be required to post some form of collateral.

- Size of exposure
- Size of exposure as compared to annual capacity revenue
- Energy market exposure/revenue
- Internal credit score
- Age/viability of unit

PJM is balancing the following goals throughout the credit outreach process.

- Maximize the probability of payment of penalty charges
- Promote continued operation of generation resources that can perform when needed
- Minimize market disruption

Per Attachment Q, section 2.E.8., PJM has the ability to issue a collateral call if PJM deems a market participant poses an unreasonable credit risk.

The potential collateral call may be satisfied as follows:

Prepayment of estimated exposure:
Form of cash, letter of credit, payment stream

Weekly withholding of capacity revenue (or other revenue)
payments in advance of the March 2023 invoice:
Withholdings could begin on the invoice issued Jan. 31, 2023.

Or a combination of any
of the options

- Conversations have begun with the market participants that bear the most risk.
- Given that penalties are not finalized, any collateral calls will be based on the facts and circumstances of the individual market participant.
- Collateral calls could begin this week in some cases.

PJM wants to work with members and is seeking input from members on this approach.

PJM is intending to exclude both PAI penalties and bonuses from the PMA calculation.

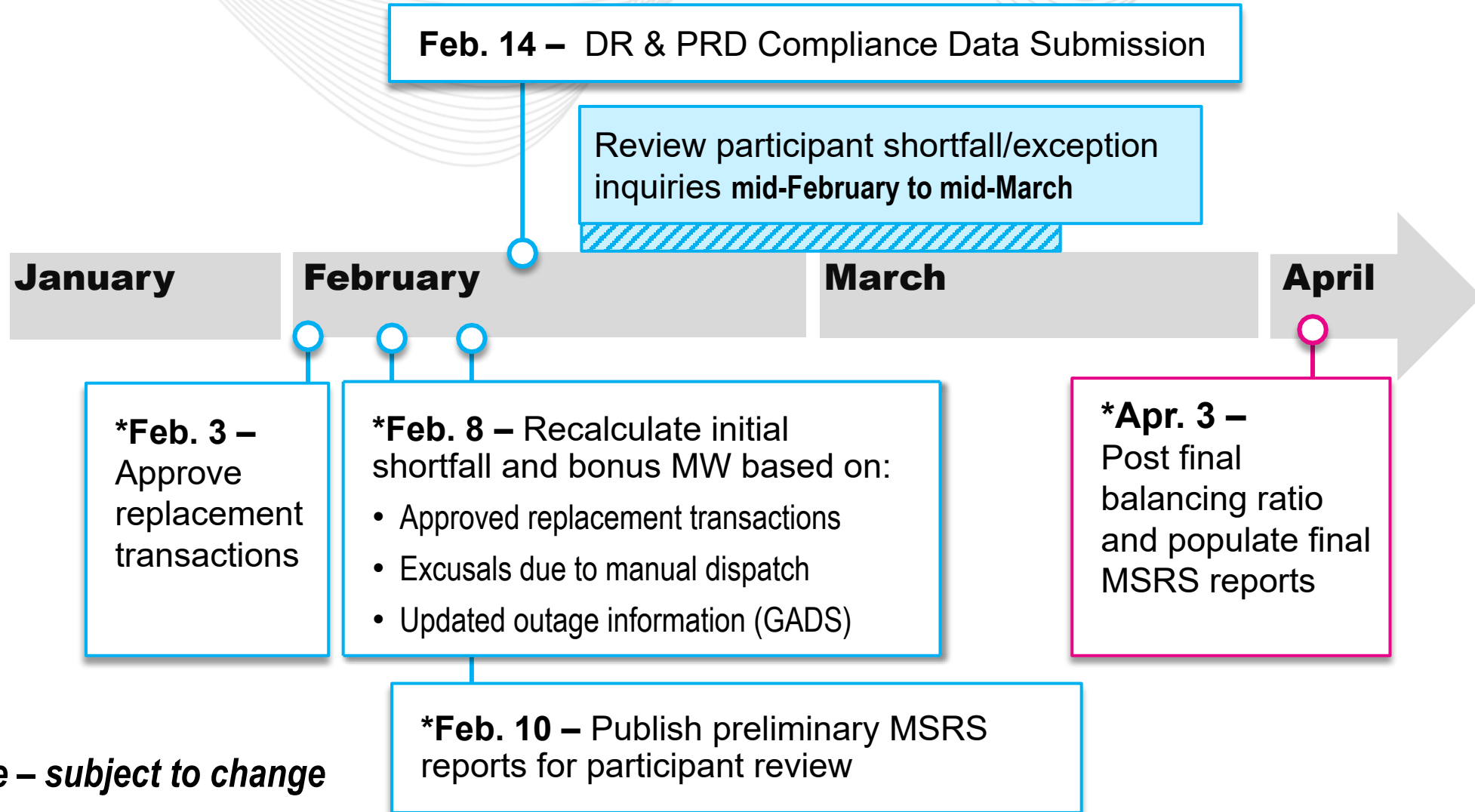
- Attachment Q, section 7A outlines the credit requirement for Peak Market Activity (PMA).
- PJM asserts that PAI penalties and bonuses are not market activity and therefore should be excluded from the PMA credit requirement.
- Also, within the Tariff, PJM has the discretion to adjust a market participant's PMA requirement if PJM determines that the PMA is not representative of such a market participant's expected activity, as a consequence of known, measurable and sustained changes.
- PJM considers PAIs to be a rare event.

PJM is open to feedback from members on this approach.

Initial shortfall and bonus MW calculated based on:

- Preliminary balancing ratio
- Preliminary excusals due to economics and approved outages

Complete



** Indicates estimated date – subject to change*

PJM plans to release preliminary performance assessment data in MSRS
by Feb. 10, 2023.

The following new MSRS reports will be created to distribute this information:

Report Name	Contents
Preliminary Non-Performance Assessment <u>Unit Performance Details</u>	Interval-level scheduled and actual MW output for each resource, including adjustments for ancillary services and export transactions
Preliminary Non-Performance Assessment <u>Resource Outage Details</u>	Interval-level forced and planned outage MW for each resource
Preliminary Non-Performance Assessment <u>Resource Charge Details</u>	Interval-level non-performance charges by resource, includes Expected MW, Actual MW, Excused MW and Bonus MW
Preliminary Non-Performance Assessment <u>Billing Month Summary</u>	The portion of the interval-level non-performance charge and/or bonus credit to be billed in a given billing month by sub-account

Note: These reports will be copies of the pre-existing non-performance assessment MSRS reports. Links to existing documentation included above.

OATT Attachment DD, Section 10A

Bonus credits (g) Revenues *collected* from assessment of Non-Performance Charges for a Performance Assessment Interval shall be distributed to each Market Participant, whether or not such Market Participant committed a Capacity Resource or Locational UCAP for a Performance Assessment Interval, that provided energy or load reductions above the levels expected for such resource during such interval. For purposes of this provision, the performance expected of a resource, and the revenue distribution payment, if any, for a resource, shall be determined in accordance with the following formulae: ...

Billing timing (j) The Office of the Interconnection shall bill charges and credits for performance during Performance Assessment Intervals within three calendar months after the calendar month that included such Performance Assessment Intervals, provided, for any Non-Performance Charge, the amount shall be divided by the number of months remaining in the Delivery Year for which no invoice has been issued, and the resulting amount shall be invoiced each such remaining month in the Delivery Year or during the first month of the next Delivery Year if three months do not remain in the current Delivery Year.



Current Billing Timeline

PJM invoices PAI penalties beginning in March.

The penalties would be invoiced as follows:

Month-End Invoice	Issue Date	Due Date
March 2023	April 7, 2023	April 14, 2023
April 2023	May 5, 2023	May 12, 2023
May 2023	June 7, 2023	June 16, 2023

PAI Penalties would be billed in equal thirds each month.

- In the interest of minimizing disruption to the market and maximizing collection of PAI charges, PJM is proposing to extend the billing period an additional six months.
- Under this proposal, PJM invoicing for PAI penalties would extend to November 2023.
- This proposal would require a FERC filing since the invoicing would extend past the current delivery year.
- PJM plans to provide notice of this filing and the associated redline Tariff changes at the Jan. 25 MC meeting.

PJM is seeking input from members on this approach.

- (j) The Office of the Interconnection shall bill charges and credits for performance during Performance Assessment Intervals within three calendar months after the calendar month that included such Performance Assessment Intervals, provided, for any Non-Performance Charge, the amount shall be divided by the number of months remaining in the Delivery Year for which no invoice has been issued, and the resulting amount shall be invoiced each such remaining month in the Delivery Year. Notwithstanding, or during the first month of the next Delivery Year if three there are less than six months do not remaining in the current Delivery Year for which no invoice has been issued, the Office of the Interconnection may, with prior notice to PJM Members, allocate in equal amounts any Non-Performance Charge in the remaining monthly bills for the current Delivery Year plus up to six monthly bills into the following Delivery Year.

- Due to the magnitude of PAI charges, there is likelihood that a portion of penalties billed may be unpaid.
 - This would result in less than 100% of PAI bonus credits available.
- PJM is planning to hold back a portion of the bonus credits to minimize overpayment resulting from unpaid penalties.
 - Bonus credits would be adjusted to reflect actual collections the following month.
- A proposed holdback percentage will be shared at the February 2023 RMC.
 - The proposal will be informed by our credit outreach.

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PAI Credit/Billing Approach



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