

## CREDIT RISK ARISING FROM BILATERAL CAPACITY TRANSACTIONS

### PROBLEM / OPPORTUNITY STATEMENT

Attachment DD of the PJM Tariff, Section 4.6, as supplemented by PJM Manual 18, provides for three types of bilateral capacity transactions:

- Section 4.6(a): Unit Specific – Seller transfers both performance obligation and rights to the capacity to Buyer
- Section 4.6(b): Auction Specific – Seller retains performance obligation and transfers rights and title to the cleared capacity to Buyer
- Section 4.6(c): Locational UCAP - Seller retains performance obligation and transfers rights of the Locational UCAP (uncleared capacity) to Buyer

Winter Storm Elliott highlighted some vulnerabilities with regard to bilateral capacity transactions. In the case of all three types of these transactions, while they may be reported to PJM, PJM does not have a right of consent with respect to such transactions. PJM Settlement is not afforded an opportunity to evaluate the creditworthiness of a proposed Buyer in advance of the bilateral capacity transaction. In addition, with respect to Auction Specific and Locational UCAP bilateral capacity transactions, Sellers retain performance obligations and primary liability for performance charges (including Non-Performance Charges), but rights to capacity revenues are transferred to the Buyer. This undermines the ability of PJM Settlement to exercise setoff of capacity revenues against capacity obligations and also to utilize future capacity revenues as a means of collateralizing against credit risk. This can hinder PJM Settlement's unilateral enforcement of default remedies and the opportunity for PJM Settlement and Sellers to find consensual, proactive approaches by which to address a credit risk.

There is an opportunity to review the existing provisions pertaining to bilateral capacity transactions and determine if there are modifications that would enhance PJM's credit risk mitigation efforts.