



PJM General Session – November 30, 2010
Credit Risk Management Practices by RTO/ISOs

WELCOME

Welcome to PJM's General Session to be held on November 30, 2010 at the Chase Center in Wilmington, Delaware.

This year's topic, most broadly stated, is credit risk management practices in PJM. Our stakeholder community has done significant work over the last several years in this area, resulting in FERC approved rule changes, designed to balance the risk to pool participants of an individual participant's default with the desire to minimize up-front transaction costs facing participants in the form of collateralization. Dedicating scarce capital in the form of credit to support market transactions is a challenge actively managed by risk control, commercial and financial professionals for many of PJM's members. Any opportunity to more efficiently deploy this scarce resource, so as to free capital up for other more productive uses, should be given close examination.

To that end, the Federal Energy Regulatory Commission (FERC) has encouraged the organized electricity markets to explore opportunities for credit clearing. In 2008, PJM's consultant (Market Reform) offered this same encouragement, explaining the potential benefits that clearing might realize. FERC's recent final rule addressing credit management practices in RTO markets takes steps both to actively manage credit risk and enable opportunities for third party clearinghouses to offer clearing services to RTO participants. Additionally, this past July the President signed the Dodd-Frank Wall Street Reform and Consumer Protection Act. This law expanded the regulatory role of the Commodity Futures Trading Commission (CFTC) in the area of over-the-counter swap and options trading to require the clearing of considerable volume of over-the-counter transactions, including those taking place in bilateral electricity markets. The CFTC is about to embark on rulemakings to define these requirements. But at the same time the Dodd-Frank legislation additionally stirred up the question of whether products transacted in RTO markets and functions performed by RTOs in settling these markets might implicate the jurisdiction of the CFTC. This question, which focuses on the financial transmission right (FTR) product is unanswered by Dodd Frank and, if left unaddressed, may create considerable uncertainty for market participants transacting in FTRs in PJM and in comparable products in other RTOs.

PURPOSE OF TODAY'S SESSSION

With this backdrop, PJM is delighted to have FERC Commissioner Moeller and CFTC Commissioner O'Malia lead a discussion of clearinghouse and market participant experts. The discussion will touch on the implication of Dodd-Frank to market participant activity in the bilateral, over-the-counter markets, but the focus will be on the law's effects, if any, on organized electricity markets, and the transacting and settling of the FTR markets. This discussion will consider whether clearinghouses have anything to offer RTOs and their market participants. Is there a need or desirability to explore establishing an interface between RTO's and clearinghouses? And, if so, is this interest one of regulatory/public policy or is it commercially motivated by market participants seeing opportunities to efficiently deploy risk capital or both? Alternatively, would any benefit that clearing might realize be offset by dramatically increased cost or adverse impacts on liquidity? Could clearinghouses offer opportunities for inter-RTO clearing and are there in fact sufficient gains to be realized here? What about cash market clearing – have shortened settlement cycles obviated this need; should clearing really just focus on the forward (FTR) market? Does the elimination of unsecured credit in PJM's FTR markets make more viable the concept of clearing FTRs? But what about the devil in the details – how would a clearinghouse value an FTR; what changes would have to occur, if any, to PJM's market operations? We hope to explore these questions and we hope our stakeholder community will raise other points of question or concern.

PJM and its Board of Managers look forward to a robust examination of this topic and hope the session will prove both informative and educational for all.



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Agenda

<p>Welcome</p> <ul style="list-style-type: none"> · Bob O’Connell, Chair, Members Committee 	8:30 a.m.
<p>Opening</p> <ul style="list-style-type: none"> · Philip D. Moeller, Commissioner, Federal Energy Regulatory Commission · Scott D. O’Malia, Commissioner, Commodity Futures Trading Commission 	8:35 a.m.
<p>Introductory Remarks</p> <ul style="list-style-type: none"> · Professor Ronald H. Filler, New York Law School 	8:45 a.m.
<p>Panel 1 – Understanding the Issues</p> <ul style="list-style-type: none"> · Co-Moderators: <ul style="list-style-type: none"> ○ Howard Schneider, PJM Board of Managers ○ Commissioner O’Malia, Commodity Futures Trading Commission · Panelists: <ul style="list-style-type: none"> ○ Bob Anderson, <i>Executive Director</i> - Committee of Chief Risk Officers ○ Paul Cusenza, <i>Chief Executive Officer</i> - Nodal Exchange ○ Randi Abernethy, <i>Sr. Manager</i> - LCH.Clearnet ○ John Flory, <i>Sr. Managing Director</i> - NASDAQ OMX ○ Robert Levin, <i>Managing Director</i> - CME Group 	9:05 a.m.
<p>Break</p>	10:15 a.m.
<p>Panel 2 – Implications for PJM Markets</p> <ul style="list-style-type: none"> · Co-Moderators: <ul style="list-style-type: none"> ○ Neel Foster, PJM Board of Managers ○ Commissioner Moeller, Federal Energy Regulatory Commission · Panelists: <ul style="list-style-type: none"> ○ Joe Glace, <i>Chief Risk Officer</i> - Exelon ○ Chris Bernard, <i>VP & Associate General Counsel</i> - Edison Mission ○ Aaron Trent, <i>Manager, Financial Analysis</i> - Edison Electric Institute ○ Harry Singh, <i>Sr. Vice President</i> - RBS Sempra Commodities 	10:30 a.m.
<p>Final Comments</p> <ul style="list-style-type: none"> · From the Floor and/or PJM Board of Managers 	11:35 a.m.
<p>Closing Remarks</p> <ul style="list-style-type: none"> · Commissioners Moeller & O’Malia · Bob O’Connell, Chair, Members Committee 	11:50 a.m.