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PJM Outlines Reforms to FTR Markets with Release of Independent Review
Report identifies areas of improvement in handling of GreenHat default

(Valley Forge, Pa. – March 26, 2019) – An independent review released today by PJM Interconnection's Board of Managers recommends a number of improvements to PJM's market rules, internal structure and credit policies to protect its members against excessive risk in PJM's Financial Transmission Rights Market.

In October 2018, the PJM Board commenced a third-party review of the June 2018 default of GreenHat Energy LLC, a financial transmission rights (FTR) trader in the PJM markets. The scope of the review included PJM's actions leading up to the default as well as recommendations for the future. The report did not investigate the actions of GreenHat itself, as those matters are under investigation by the Federal Energy Regulatory Commission.

During the review, independent experts were provided unfettered access to PJM personnel, as well as to thousands of emails, documents and other records. They were supported by counsel from Schnader Harrison Segal & Lewis LLP in Philadelphia.

The report found that PJM did not violate any law, regulation or internal PJM policy, but it made four key findings and recommendations to improve credit risk policy and to provide better risk management tools.

"PJM management accepts the findings in the report regarding our handling of the GreenHat default," PJM President and CEO Andrew. L. Ott said.

"We recognize the shortcomings identified in this review," Ott said. "PJM takes the cost of this default very seriously, and we are committed to reforms that better protect market participants in the future."

In 2018, PJM and its members developed a number of credit risk management changes that began to address issues and recommendations that are contained in the report, and work is already underway on a plan to complete these reforms. In addition, Ott today outlined several areas of his comprehensive action plan that include organizational changes, process improvements and the examination of additional market rule and credit risk management reform.

Actions will include, but are not limited to:

- Establishing a new chief risk officer position
- Thoroughly reviewing and revamping processes and procedures in credit risk assessment and monitoring
- Creating a new coordination process for PJM's Markets, Credit/Finance and Legal areas and its Independent Market Monitor

The report noted that PJM members were unable to reach consensus on key credit reform recommendations following a smaller FTR default in 2007. The report renews the call to make critical reforms to credit rules, including robust valuation and margining of FTR positions, position limits, empowering PJM with greater discretion to act in emergency situations and other credit risk management reforms.

“We expect that this report will provide the momentum to move these issues forward,” Ott said. “PJM will work with our members and federal regulators to examine changes recommended by the report designed to strengthen the regulation of our FTR Market. It is our job to make sure this never happens again.”

PJM Interconnection, founded in 1927, ensures the reliability of the high-voltage electric power system serving 65 million people in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia. PJM coordinates and directs the operation of the region’s transmission grid, which includes over 84,236 miles of transmission lines; administers a competitive wholesale electricity market; and plans regional transmission expansion improvements to maintain grid reliability and relieve congestion. PJM’s regional grid and market operations produce annual savings of $2.8 billion to $3.1 billion. For the latest news about PJM, visit PJM Inside Lines at insidelines.pjm.com.

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