

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

DC Energy, LLC,)	
Complainant,)	
)	
v.)	Docket No. EL18-170-000
)	
PJM Interconnection, L.L.C.,)	
Respondent.)	

FOURTH REPLY BRIEF OF PJM INTERCONNECTION, L.L.C.

In accordance with the Federal Energy Regulatory Commission’s (“Commission”) Order Establishing Paper Hearing and Establishing Refund Effective Date,¹ issued on September 25, 2018, in the captioned proceeding, PJM Interconnection, L.L.C. (“PJM”) files this fourth reply brief (“Fourth Reply Brief”) in response to the parties’ initial briefs submitted on November 9, 2018.

I. BACKGROUND AND OVERVIEW

In its prior submissions,² PJM requested that the Commission await the findings of its independent board review³ and any filings directly related to the issues raised in the September 25 Order because the Commission’s decision-making would be enhanced and better-informed by the work of the PJM Board of Managers and stakeholders. PJM committed that it would

¹ *DC Energy, LLC v. PJM Interconnection, L.L.C.*, 164 FERC ¶ 61,216 (2018) (“September 25 Order”).

² *DC Energy, LLC v. PJM Interconnection, L.L.C.*, Brief of PJM Interconnection, L.L.C., Docket No. EL18-170-000 (Nov. 9, 2018); *DC Energy, LLC v. PJM Interconnection, L.L.C.*, Reply Brief of PJM Interconnection, L.L.C., Docket No. EL18-170-000 (Dec. 10, 2018); *DC Energy, LLC v. PJM Interconnection, L.L.C.*, Second Reply Brief of PJM Interconnection, L.L.C., Docket No. EL18-170-000 (Apr. 19, 2019).

³ A Special Committee of the PJM’s Board of Managers retained independent third-party experts to investigate the circumstances leading to the June 2018 payment default by GreenHat Energy LLC (“GreenHat”). The experts retained include the Executive Director of the Committee of Chief Risk Officers, and the former Chairman and CEO of the American Stock Exchange and Chief Operating Officer of the New York Mercantile Exchange (the “Consultants”).

supplement the record in this proceeding with relevant information resulting from these ongoing efforts, including the filing of mark-to-auction credit reforms.

PJM submits this Fourth Reply Brief to supplement the record in this proceeding.

II. DISCUSSION

A. *Background*

In its Third Reply Brief filed on December 20, 2019,⁴ PJM advised that its Financial Risk Mitigation Senior Task Force was approved by the Markets and Reliability Committee at its April 25, 2019 meeting.⁵ PJM further stated that its stakeholders have been hard at work on the development of appropriate rule changes to allow PJM to better understand the entities that are seeking membership in PJM, seeking to participate in the PJM Markets, and to give PJM more authority to limit the entry of entities or their participation in the PJM Markets when it is deemed that they pose unreasonable risk to PJM's membership and the markets.⁶

PJM advised that it believed it would be in a position to file the first phase of its proposed rule changes by February 1, 2020 given that it had detailed discussions with stakeholders about credit risk management in general since May 2019, and its various specific proposals since July 2019,⁷ culminating in the presentation of its proposed revisions to its governing documents for stakeholder consideration at its Financial Risk Mitigation Senior Task Force meeting on December 17, 2019⁸ and Markets and Reliability Committee meeting on December 19, 2019.⁹

⁴ *DC Energy, LLC v. PJM Interconnection, L.L.C.*, Third Reply Brief of PJM Interconnection, L.L.C., Docket No. EL18-170-000 (Dec. 20, 2019) ("Third Reply Brief").

⁵ See Minutes of PJM Markets and Reliability Committee Meeting, <https://www.pjm.com/-/media/committees-groups/committees/mrc/20190530/20190530-caa-draft-minutes-mrc-20190425.ashx>.

⁶ See Third Reply Brief at 3-4.

⁷ See Financial Risk Mitigation Task Force web page, <https://www.pjm.com/committees-and-groups/task-forces/firmstf.aspx>.

⁸ *Id.*

PJM wanted to file the first phase of its proposed rule changes by February 1, 2020 so that it could have new rules in place in time for the commencement of its annual Financial Transmission Rights auction scheduled to be held in April 2020. For that reason, PJM requested that the Commission hold this proceeding in abeyance until June 30, 2020 while PJM completed the work of the Financial Risk Mitigation Senior Task Force and to allow its ongoing efforts to advance.¹⁰

To give stakeholders additional time to consider the large number of proposed revisions, PJM did not file the revisions with the Commission in February 2020 as originally planned. At the conclusion of the stakeholder process, PJM filed the revisions on March 31, 2020 in Docket No. ER20-1451-000, with overwhelming stakeholder support including DC Energy.¹¹ The Commission accepted the revisions in an order issued on May 29, 2020, effective June 1, 2020.¹² The timing was important because PJM needed to have the new rules in place in time for the commencement of the Financial Transmission Rights auction scheduled to be held in June 2020.

B. Informational Update

The Commission has accepted PJM's above-referenced filing in Docket No. ER20-1451-000 that addresses the first phase of its proposed rule changes. In its Credit Risk Order, the Commission stated:

We agree with PJM that the proposed revisions enhance its rules for evaluating and managing credit risk posed by entities seeking to participate or participating in the PJM-administered markets. We find that, as PJM contends, the instant proposal will enhance

(. . . continued)

⁹ See Third Reply Brief at 3-4.

¹⁰ *Id.*

¹¹ *PJM Interconnection, L.L.C.*, PJM Section 205 Submittal to Amend Applicable Sections of the PJM Operating Agreement and Tariff in Order to Enhance PJM's Credit Rules, Docket No. ER20-1451-000 (May 31, 2020).

¹² *PJM Interconnection, L.L.C.*, 171 FERC ¶ 61,173 (2020) ("Credit Risk Order").

PJM’s ability to ensure the integrity of the markets that it administers and thereby help ensure just and reasonable rates. We agree . . . that strengthening PJM’s “know your customer” policies will allow PJM to better understand an applicant’s financial condition and business risk profile, as well as to better detect changes in a market participant’s financial health or risk profile. Because of these new rules, we find that PJM’s proposal will allow PJM to more appropriately manage credit risk. We also find that the instant proposal will provide additional clarity and transparency to market participants. Moreover, we find that the instant proposal will help mitigate the risk of default in PJM’s markets, and thus, help avoid market participants from having to bear significant and unexpected costs as a result of another participant’s default.¹³

PJM has acknowledged that the accepted revisions are only the first phase of revisions, but that further revisions are needed. In recognition of that fact, PJM continues to work with its stakeholders on additional revisions to its credit risk mitigation rules to further strengthen them.

In addition, with respect to the complaint at issue in this proceeding, the revisions to Tariff, Attachment Q that PJM has made since the GreenHat Energy, LLC default, which the Commission has accepted,¹⁴ have addressed the vast majority of the concerns raised in the complaint. There are only two issues raised by DC Energy that PJM has not revised its Tariff to address – the undiversified adder and increasing the minimum capitalization requirement. PJM expects to address these two issues in the near term as part of its work on strengthening its credit risk mitigation rules, and is working with DC Energy, as well as other stakeholders, to address the remaining concerns raised in DC Energy’s complaint.

¹³ Credit Risk Order at P 35.

¹⁴ *PJM Interconnection, L.L.C.*, Letter Order, Docket No. ER18-425-000 (Jan. 19, 2018) (Commission accepted revisions to Tariff, Attachment Q which introduced into the FTR valuation process planned upgrades approved in PJM’s Regional Transmission Expansion Planning (“RTEP”) process); *PJM Interconnection, L.L.C.*, 164 FERC ¶ 61,215 (2018) (Commission approval to impose a \$0.10/MWh volumetric minimum credit requirement in order to provide additional risk mitigation, particularly against under-capitalized Market Participants seeking to acquire very large FTR positions); *PJM Interconnection, L.L.C.*, 167 FERC ¶ 61,002 (2019) (Commission accepted mark-to-auction revisions).

III. CONCLUSION

PJM requests that the Commission consider and make part of the record in this case each of its reply briefs filed herein, as well as all of the forthcoming Tariff revisions and/or other pertinent information that PJM has provided in this docket.

Respectfully submitted,



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July 6, 2020

CERTIFICATE OF SERVICE

I hereby certify that I this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Audubon, PA this 6th day of July, 2020.

/s/ Jacquelyn B. Hugee

Jacquelyn B. Hugee

Attorney for PJM Interconnection, L.L.C.