



October 10, 2018

Mr. Andrew L. Ott  
President and CEO  
PJM Interconnection, L.L.C.  
2750 Monroe Blvd.  
Audubon, PA 19403-2497

**Re: PJM Liaison Committee Questions Relating to GreenHat Default:  
Follow-Up to October 3 Liaison Committee Meeting**

Dear Mr. Ott:

The October 3 Liaison Committee dedicated significant time to discussing PJM Sector representatives concerns around the GreenHat default. As you are aware, the PJM Sector representatives participating in the October 3 Liaison Committee meeting supported hiring an outside independent firm, reporting directly to the PJM Board, to answer certain questions raised at the meeting and to conduct an independent investigation into the matter.

We are pleased to understand that such an investigation will occur. As promised during the meeting, attached are the areas of inquiry discussed at the Liaison Committee meeting. We are also attaching a copy of the PJM Joint Sector Comment for reference. While the PJM Sector representatives participating in the October 3 Liaison Committee indicated that the attached questions and comments would be provided separately to PJM Management, no objection exists for this letter and its attachments to become public and shared, as appropriate, as an *ex parte* communication to the PJM Board as well.

The PJM Sector representatives understand that engaging an external firm to conduct this investigation, and the investigation itself, will require time. However, PJM Members respectfully request PJM provide process-related reports on the progress of the investigation at upcoming Members Committee meetings.

We appreciate your attention to this very important matter for PJM Members.

Very truly yours,

/s/ Chuck Dugan

Chuck Dugan  
East Kentucky Power Cooperative, Inc.

*Liaison Committee Chair*

Attachments

c: Vincent P. Duane, Esq.  
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**PJM Liaison Committee Questions Relating to GreenHat Default:**  
**Follow Up to October 3 Liaison Committee Meeting**

1. At what point did PJM management determine that the mark-to-market valuation of the GreenHat portfolio had turned sufficiently negative to warrant concern about a lack of posted collateral?
2. How did PJM management learn about the deteriorating value of the GreenHat portfolio? Was this based on internal PJM monitoring? There have been allegations in FERC proceedings that PJM learned about the portfolio valuation from other member companies. What safeguards and/or tools does PJM rely on for monitoring?
3. Based on our understanding of the timeline, it appears that PJM recognized the GreenHat portfolio was problematic as early as February 2017. We note that, at that time, PJM began to engage Members in discussions about modifying the credit policy and long-term FTR clearing process. However, the specific circumstances surrounding GreenHat were never raised to PJM Members during those discussions. PJM Members seek to understand why PJM followed this course of action.
4. From FERC pleadings, PJM Members understand PJM engaged in discussions with GreenHat in June 2017 and GreenHat ultimately posted receivables associated with a portfolio of bilateral FTR contracts. Members seek to understand PJM's acceptance of a receivables contract as an accepted form of collateral when the Tariff specifies cash or a Letter of Credit as the only possible collateral. Also, what method was used to value the posted collateral? And why did PJM not notify the membership of these circumstances?
  - a. What value was placed on the posted bilateral contracts? What cash flows did PJM understand had already taken place against the bilateral contracts? What methods did PJM use to perform due diligence on the contract value and previous cash flows against the contracts? What was PJM's assessed value of the contracts after performing this diligence (*i.e.*, receivables due, net of prior payments to GreenHat)?
5. PJM Members understand GreenHat was able to substantially add to its FTR positions without posting collateral during the 2018 annual FTR auction. GreenHat appears to have relied upon a transition mechanism associated with a new tariff provision designed to enhance FTR credit protection. GreenHat's portfolio additions during this auction contributed to the cost of the overall default.

At what point did PJM recognize that GreenHat was adding to its FTR portfolio in a manner that allowed it to evade the new credit provisions? Could PJM have halted the auction at that point and notified Members of the impact the transition mechanism was having on FTR buyers' behavior, and perhaps sought a tariff waiver to prevent the FTR purchases?

6. Looking more systemically, PJM Members seek to better understand the PJM decisionmaking on this issue, including the PJM departments involved, use of outside experts, and consultation with the PJM Board. With this request, PJM Members' interest is learning from the GreenHat experience.