164 FERC ¶ 61,215
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Kevin J. McIntyre, Chairman;
Cheryl A. LaFleur, Neil Chatterjee,
and Richard Glick.

PJM Interconnection, L.L.C. Docket No. ER18-2090-000

ORDER ACCEPTING TARIFF REVISIONS

(Issued September 25, 2018)

1. On July 27, 2018, PJM Interconnection, L.L.C. (PJM) submitted revisions to its credit policy for Financial Transmission Rights (FTRs) to incorporate a minimum credit requirement for FTRs equal to $0.10/MWh (Volumetric Credit Requirement) to limit potential exposure to FTR portfolios with little to no credit requirements relative to the MWh volume of the positions in the FTR portfolios.[1] As discussed below, we accept the Volumetric Credit Requirement for filing, effective September 3, 2018, as requested.

I. Background

2. PJM explains that its market participants can acquire FTR positions in monthly, annual and long-term FTR auctions, but they must satisfy credit and collateral rules under the PJM Tariff.[2] PJM explains that current credit requirements are based on a proxy value (FTR Historical Value)[3] that is determined by using an adjusted three-year weighted average of day-ahead congestion of the associated FTR path. PJM explains that, under this calculation method, if the purchase price of the FTR is higher than the FTR Historical Value, then collateral would be required. However, if the purchase price of the FTR is lower than the FTR Historical Value, then collateral would not be required. PJM explains it has used this calculation for 15 years, under the assumption that a cleared

[1] The Volumetric Credit Requirement will be incorporated as a new Tariff Section IV.C.9 to Attachment Q of the PJM Open Access Transmission Tariff (Tariff). *See* PJM Transmittal at 12 – 13.

[2] *See* PJM Tariff, Attachment Q.

[3] *See* PJM Tariff, Attachment Q, § IV.C.2.

bid that was below the FTR Historical Value was expected to be profitable, and thus no collateral would be required to cover the position.[4]

3. PJM filed modifications to its FTR credit policies in late 2017 to revise the calculation of FTR Historical Values, which became effective April 1, 2018.[5] PJM states that the intent of those modifications was to address potential exposure related to decreases in FTR values resulting from reduced congestion due to recent transmission upgrades, creating under-collateralization of those positions. The modifications provided credit requirements for FTR paths with reduced congestion that were not in place under PJM's prior credit rules.

II. Filing

4. PJM explains that, despite the recent improvements in its credit rules, there remains potentially significant risk exposure in its FTR credit policy, due to FTR holders with large FTR portfolios that have minimal or no collateral requirements. In support, PJM states that its analysis of portfolios from planning year 2013/2014 through planning year 2016/2017 demonstrates a significant number of large portfolios with minimal collateral, including a 1.8 million MWh portfolio with a credit requirement of $126, a 4.5 million MWh portfolio with a credit requirement of $900, and a 12 million MWh portfolio with a credit requirement of $5,000. PJM states that even small changes in congestion can be magnified in large FTR portfolios, and thus PJM's FTR credit requirements should address risk from large FTR portfolios. Therefore, PJM and its stakeholders discussed several volumetric FTR credit requirements, and overwhelmingly endorsed the $0.10/MWh Volumetric Credit Requirement PJM proposes here.[6]

5. PJM explains that the Volumetric Credit Requirement is a new, additional calculation that will occur after the current path-specific FTR credit requirement calculation based on FTR Historical Values, which remains unchanged.[7] PJM explains that the calculation for the Volumetric Credit Requirement will be executed monthly, at the portfolio level and will be based on FTRs either held or bid in the portfolio. PJM explains that the greater of either the calculated credit requirements based on FTR

---

[4] PJM Transmittal at 2.

[5] *See PJM Interconnection, L.L.C.*, Docket No. ER18-425-000 (Jan. 19, 2018) (delegated order).

[6] PJM Transmittal at 3-4.

[7] *Id.*

Historic Values or the Volumetric Credit Requirement will be the collateral requirement for an FTR portfolio each month.[8]

6. PJM states that when considering the price threshold for the Volumetric Credit Requirement, it found the Volumetric Credit Requirement provides a reasonable balance between decreasing credit shortfalls for large FTR portfolios and limiting additional credit requirements. PJM explains that it tested this proposal on a recent large default in the FTR market and found that the new credit requirement would have required at least $89 million in collateral to bid on the FTR portfolio that ultimately defaulted. PJM supports the Volumetric Credit Requirement as a reasonable deterrent to the risk of an FTR holder acquiring a large volume FTR portfolio without having to provide financial security that reflects the size of that portfolio.[9] PJM explains that its analysis of all FTR portfolios held in July 2018 shows that approximately 30 percent of market participants will experience additional collateral requirements, and approximately 48 percent of market participants will experience no impact.[10] PJM states that the impact of the Volumetric Credit Requirement will be concentrated in a small number of FTR holders with large FTR portfolios.

7. PJM proposes a one-time transition period to assist FTR holders with the initial implementation impact, which permits a market participant's credit shortfall to not result in a default unless such a default is not remedied upon the expiration date of the transition period. The transition period would begin on September 4, 2018 (which is a day after PJM's requested effective date and is coincident with the second round of the 2019 – 2022 long-term FTR auction), and expires April 2019.[11] PJM explains that, during the

---

[8] *Id.* at 4-5.

[9] *Id.* at 5-7.

[10] PJM also provides an analysis based on FTRs bought during the four annual auctions held from 2013 through 2017. PJM asserts that this analysis demonstrates that slightly less than 50 percent of market participants will not experience an annual dollar increase to their credit requirements. PJM asserts that the analysis also demonstrates approximately 30 percent of market participants will experience an annual dollar increase to their credit requirements of $25,000 - $1,000,000, and approximately 13 percent will experience an annual increase of $1,000,000 - above $5,000,000. *Id.* at 9-11.

[11] *Id.* at 12.

transition period, FTR holders with a credit shortfall will not be permitted to acquire any FTR positions, but will be able to sell FTR positions to reduce credit requirements.[12]

8. PJM requests a waiver of the Commission's regulations requiring the submission of this filing not less than 60 days prior to its requested effective date, September 3, 2018, which is less than 60 days after the Volumetric Credit Requirement was submitted.[13] PJM argues that its waiver request is warranted because it would permit the Volumetric Credit Requirement to be in place prior to the long-term FTR auction that begins September 4, 2018.[14] PJM states that it is informing the Commission that it will impose the Volumetric Credit Requirement prior to receiving a Commission Order approving those requirements. PJM explains it will return any collateral it requires of FTR holders as a result of the Volumetric Credit Requirement, in the case the Commission rejects the proposed revisions or finds the proposed effective date is not appropriate. PJM adds that affected FTR holders have been on notice of the Volumetric Credit Requirement since November 2017, and that it was strongly supported in the stakeholder process.[15] PJM states that the proposal was discussed thoroughly in its stakeholder process in a series of meetings from November 2017 through July 2018.[16]

III. Notice and Responsive Pleadings

9. Notice of the PJM's filing was published in the *Federal Register*, 83 Fed. Reg. 38,137 (2018), with interventions and protests due on or before August 17, 2018. Timely motions to intervene were filed by FirstEnergy Service, NRG Power Marketing, LLC and GenOn Energy Management, LLC, EDP Renewables North America LLC, American Municipal Power, Buckeye Power, Inc., NextEra Energy Marketing, LLC, Dominion Energy Services Inc., Ameren Services Company, Elliot Bay Energy Trading, LLC, Independent Market Monitor for PJM, and Delaware Division of the Public Advocate. DC Energy and PJM Power Providers Group (P3) filed timely motions to intervene and comments. Financial Marketers Coalition submitted an out of time motion to intervene.

[12] PJM explains the FTR holder will also not be able to engage in virtual or export transactions, participate in the capacity market auctions or other capacity market activities. *Id.* at 13.

[13] *Id.* at 14; 18 C.F.R. § 35.11 (2018).

[14] PJM Transmittal at 15.

[15] *Id.*

[16] Specifically, PJM's Market Implementation Committee provided 208 votes in favor and 12 votes objecting, and PJM's Markets and Reliability Committee provided one vote in objection. *Id.* at 14.

EDF Trading North America, LLC and EDF Energy Services, LLC (EDF Parties) submitted an out of time motion to intervene and comments.

10. P3 states it agrees that PJM's FTR credit policy should be updated to reflect the risk related to large FTR portfolios, and agrees with the Volumetric Credit Requirement PJM proposes. EDF Parties also support the Volumetric Credit Requirement, and encourage PJM to pursue future enhancements to its FTR credit policy.[17]

11. DC Energy also filed comments in support of PJM's proposal, but argues that additional design elements, including a minimum capitalization requirement and mark-to-auction collateral requirement, are needed.[18] DC Energy argues that no collateral requirement can cover every contingency, thus, PJM should implement more robust minimum capitalization requirements that scale to risks of larger and longer term FTR portfolios. DC Energy elaborates that minimum capitalization requirements should ensure that market participants maintain assets or net worth that are significant enough relative to the market risks they assume, such that market participants have meaningful equity at risk.[19] DC Energy argues mark-to-auction collateral requirements would also establish just and reasonable credit requirements where market participants are expected to cover their liabilities in their FTR portfolios.[20]

IV. Determination

12. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2018), the notices of intervention and timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding. Pursuant to Rule 214(d) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214(d) (2018), we grant Financial Marketers Coalition's late-filed motion to

---

[17] EDF Parties Comments at 3-4.

[18] DC Energy Comments at 3. DC Energy notes that it filed a complaint with the Commission related to these proposals in Docket No. EL18-170-00, which is pending at the Commission. *Id.* at 2. DC Energy in its complaint argues that PJM should be required to update its minimum capitalization requirements for FTR market participants such that they are adequately capitalized for the scope and tenor of market risk they are allowed to assume, that is, scaled to the activity each market participant pursues. DC Energy also argues that open FTR portfolios should be subject to a minimum collateral based on the mark-to-auction valuation. Fast-Track Complaint of DC Energy, LLC Regarding PJM Interconnection, LLC's Credit Policy, Docket No. EL18-170-000, at 3, 28, 35 (filed June 4, 2018).

[19] DC Energy Comments at 7.

[20] *Id.* at 3.

intervene given its interest in the proceeding, the early stage of the proceeding, and the absence of undue prejudice or delay.

13. We accept PJM's proposed Volumetric Credit Requirement, effective September 3, 2018, as requested.[21] Specifically, we agree that the $0.10/MWh minimum credit requirement for FTRs helps address the specific risks to market participants due to large FTR portfolios that may be under-collateralized. As PJM will now apply the higher of the credit requirements based on the FTR Historic Value or the Volumetric Credit Requirement, this proposal helps address risks associated with large FTR portfolios that may continue to be under-collateralized as a result of prior FTR credit policies in PJM. We agree that the price threshold established in the Volumetric Credit Requirement more reasonably balances the need to remedy credit shortfalls for large FTR portfolios while limiting the impact to market participants in its FTR market.

14. We note that no party protested the filing. DC Energy supports the filing but also argues that the filing may not go far enough, contending that PJM should make additional changes to its FTR credit policy. However, the issue of whether PJM must make additional changes to its overall credit requirements is beyond the scope of this FPA section 205 proceeding and is more appropriately addressed in the pending complaint proceeding in Docket No. EL18-170-000, which we set for a paper hearing in a contemporaneously issued order.[22]

<u>The Commission orders</u>:

PJM's filing is hereby accepted, effective September 3, 2018, as requested, as discussed in the body of this order.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.

---

[21] 18 C.F.R. § 35.11 (2018); *Central Hudson Gas & Elec. Corp.*, 60 FERC ¶ 61,106, *reh'g denied*, 61 FERC ¶ 61,089 (1992). Good cause exists to permit PJM to implement the Volumetric Credit Requirement prior to the next long-term FTR auction that begins on September 4, 2018.

[22] *DC Energy, LLC v. PJM Interconnection, L.L.C.*, 164 FERC ¶ 61,216 (2018).