

167 FERC ¶ 61,002  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Neil Chatterjee, Chairman;  
Cheryl A. LaFleur, Richard Glick,  
and Bernard L. McNamee.

PJM Interconnection, L.L.C.

Docket No. ER19-945-000

ORDER ACCEPTING TARIFF REVISIONS

(Issued April 1, 2019)

1. On January 31, 2019, PJM Interconnection, L.L.C. (PJM) filed revisions to its Open Access Transmission Tariff (Tariff) to incorporate Financial Transmission Right (FTR) mark-to-auction provisions. PJM explains that the proposed revisions allow for PJM to make a collateral call if a member's FTR portfolio is declining in value based on the most recent FTR auction prices, including FTR auction prices provisionally calculated in the process of clearing an open FTR auction. PJM also proposed revisions to eliminate FTR credit provisions that were only needed for the 2018 FTR historical value updates and to incorporate two new defined terms.<sup>1</sup> As discussed below, we accept PJM's filing effective April 4, 2019, as requested.

**I. Filing**

2. PJM states that under the current credit policy there are several components to the FTR credit requirement including: (1) a path-specific component including historical reference values and adjustments for certain planned transmission upgrades (RTEP Upgrades); (2) undiversified adders if any; and (3) a volumetric component, which is a 10¢ per-MWh minimum credit requirement.<sup>2</sup> After determining FTR credit requirements through these components, PJM can further adjust FTR credit requirements according to available Auction Revenue Right (ARR) credits, if applicable, by subtracting prorated value of any ARRs held by market participant.<sup>3</sup> However, PJM explains that there is currently no provision that would allow PJM to make a collateral call when an FTR

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<sup>1</sup> PJM Transmittal Letter at 1.

<sup>2</sup> *Id.* at 3.

<sup>3</sup> *Id.* at 12 (citing Tariff, Attachment Q, IV.C.2).

portfolio is deteriorating in value based on preliminary or final FTR auction clearing prices.<sup>4</sup> PJM asserts that its instant proposal will incorporate an additional FTR credit requirement, a mark-to-auction valuation to measure FTR market value changes, in particular the difference between purchase price and the most recent market price since market value decline can be an indicator of increasing risk to an FTR portfolio.<sup>5</sup> In such instances, PJM explains that its ability to issue collateral calls will help prevent market participants from expanding their FTR positions and exposing the market to additional risk.<sup>6</sup>

3. PJM avers that under the mark-to-auction provisions, after each FTR auction is completed, PJM will calculate for each FTR held in a market participant's portfolio the price at which the same FTR would have cleared in the just-completed auction. PJM elaborates that it will subtract the original purchase price for each FTR from its corresponding recent auction equivalent price, and sum those values to determine the market indicated gain (positive) or loss (negative) in value of the portfolio. This value will be the newly-defined mark-to-auction value for the portfolio. PJM clarifies that the mark-to-auction value would not affect the current FTR credit requirement in place today. PJM illustrates that if the mark-to-auction value is positive, indicating the portfolio is gaining in market value, the FTR credit requirement is calculated using the higher of the path specific and the 10¢ per-MWh minimum requirements already in the PJM Tariff.<sup>7</sup> If the mark-to-auction value is negative, indicating the portfolio is losing market value, then the FTR credit requirement would be calculated using the higher of the path-specific and the 10¢ per-MWh minimum requirements, incremented by the magnitude of the negative mark-to-auction value.<sup>8</sup>

4. PJM explains that when the FTR credit requirement, including mark-to-auction value, exceeds the FTR credit available for auction bidding in a market participant's account, PJM will issue a collateral call. PJM further explains that the proposed requirements and remedy related to the collateral call differ depending on whether the collateral call is issued during the process of clearing an FTR auction (intra-auction) or

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<sup>4</sup> *Id.* at 4.

<sup>5</sup> *Id.*

<sup>6</sup> *Id.* (citing *DC Energy, LLC v. PJM Interconnection, L.L.C.*, Initial Brief of PJM Interconnection, L.L.C., Docket No. EL18-170-000, at 10-11 (Nov. 9, 2018)).

<sup>7</sup> *Id.* at 8.

<sup>8</sup> *Id.* at 9.

after clearing the auction (post-auction).<sup>9</sup> PJM states that a market participant must satisfy an intra-auction collateral call within one business day, or, as a remedy, PJM will remove all of the FTR bids in that market participant's portfolio and rerun the auction clearing process. PJM also states that a market participant must satisfy a post-auction collateral call within two business days. PJM states that if a post-auction collateral call is not satisfied, then, as a remedy, all of the market participant's credit-screened activity – including not only FTR transactions but also virtual transactions, export transactions and Reliability Pricing Model transactions – will be restricted. Under these circumstances only sales of FTRs will be allowed, and then only if they would reduce the market participant's FTR credit requirement. In addition, PJM states that it will neither return any collateral nor make payments for market activity to the market participant until the collateral call is fulfilled. Furthermore, PJM states that it shall issue a second collateral call if the market participant has not satisfied the FTR credit shortfall, after clearing a subsequent auction<sup>10</sup> with a period overlapping the period of the FTR auction for which the prior collateral call was issued. If the second collateral call is not satisfied within two business days, PJM will declare the market participant in default.<sup>11</sup>

5. PJM states that the proposal is just and reasonable<sup>12</sup> because it will provide a better means under the Tariff for PJM to track and update FTR credit requirements when a market participant's FTR portfolio is significantly declining in value. PJM further states that the proposal is appropriately narrow so as to balance the need for ensuring sound credit management while at the same time respecting the general ability of market participants, both large and small, to trade in the PJM markets.<sup>13</sup>

6. PJM asserts that it conducted an analysis, which showed that the impact of PJM's proposed mark-to-auction provisions are appropriately narrow. Specifically, PJM explains that the analysis indicates that, as a result of the revisions, 75 percent of PJM's

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<sup>9</sup> *Id.* at 9-10.

<sup>10</sup> PJM explains that a one-month "grace period" prior to default was agreed upon by PJM stakeholders in order to enable potentially temporary market volatility to correct itself without causing an affected market participant to be in default. However, PJM further explains that in order for the grace period to be effective, the period of the second auction must overlap that of the auction giving rise to the collateral call. *Id.* at 10 n.23.

<sup>11</sup> *Id.* at 10.

<sup>12</sup> PJM also proposes to add two new definitions to PJM's Tariff, which are necessary to incorporate the proposed mark-to-auction provisions. *Id.* at 16-17.

<sup>13</sup> *Id.* at 4-5.

FTR market participants would see no increase in credit requirements, 11 percent would see an increase less than \$100,000, and another 11 percent would see an increase under \$1 million, while only four percent would see an increase of over \$1 million. PJM also explains that the revisions will improve market certainty, given that the mark-to-auction requirement would provide market participants timely information regarding the financial condition of their FTR portfolios.<sup>14</sup> Additionally, PJM asserts FTI Consulting reviewed PJM's proposal and concluded that the proposal covered almost 99.9 percent of the mark-to-auction exposure on all FTR portfolios from the past three planning years.<sup>15</sup>

7. Finally, PJM explains that it is proposing revisions to its Tariff given that the time period for the transition plans for the implementation of the RTEP Updates and per-MWh minimum will be expiring at the time of the updates to the historical values, on or about April 1, 2019.

## **II. Notice of the Filing**

8. Notice of PJM's filing was published in the *Federal Register*, 84 Fed. Reg. 2,843 (2019), with interventions and protests due on or before February 21, 2019.

9. NRG Power Marketing LLC, East Kentucky Power Cooperative, Inc., American Municipal Power, Inc., Dominion Energy Services, Inc., Independent Market Monitor for PJM, Mercuria Energy America, Inc., Energy Trading Institute, and Calpine Corporation each filed timely motions to intervene.

10. Exelon Corporation (Exelon) and DC Energy, LLC (DC Energy) filed timely motions to intervene and comments. Vitol, Inc. (Vitol) filed a timely motion to intervene and protest. PJM filed an answer.

## **III. Responsive Pleadings**

### **A. Comments**

11. DC Energy and Exelon support the mark-to-auction proposal and urge the Commission to accept the revisions as filed by PJM's requested effective date.<sup>16</sup> They assert that the proposal makes progress toward protecting market participants from

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<sup>14</sup> *Id.* at 5.

<sup>15</sup> *Id.* at 6.

<sup>16</sup> DC Energy Comments at 2-3; Exelon Comments at 1, 4-7.

potential future defaults.<sup>17</sup> DC Energy states that the mark-to-auction collateral requirement will improve PJM's credit policy by helping ensure that posted-collateral keeps pace with the growth of liabilities.<sup>18</sup> In addition, DC Energy notes that the proposed effective date avoids disrupting current market expectations and allows the new requirements to become effective prior to the next annual FTR auction and planning year.<sup>19</sup>

12. Similarly, Exelon contends that without the proposed reforms, PJM has no mechanism to prevent a market participant whose FTR portfolio is declining in value from expanding its FTR positions, which exposes the market to additional risk.<sup>20</sup> Exelon states that this risk was made evident in the events leading up to the June 2018 GreenHat default, particularly when the value of GreenHat's FTR portfolio fell significantly but GreenHat continued to acquire FTR positions without providing additional collateral under PJM's then-effective credit requirements.<sup>21</sup> Exelon argues that the mark-to-auction proposal would have limited the effects of the GreenHat default on other PJM members and should help limit market participants' exposure to the costs of similar defaults.<sup>22</sup>

13. Further, Exelon states that PJM's existing credit mechanism tends to undervalue risk, and the mark-to-auction proposal strikes a more appropriate balance between increasing costs for market participants and reducing risk.<sup>23</sup>

14. Like DC Energy and Exelon, Vitol supports the mark-to-auction proposal as a material improvement but asserts that PJM market participants would be better protected if the proposal addressed when PJM should take action if an FTR portfolio loses value and when PJM should make a collateral call.<sup>24</sup> Vitol urges the Commission to order PJM to adopt Vitol's recommended alterations to PJM's proposed revisions to Attachment Q,

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<sup>17</sup> DC Energy Comments at 2; Exelon Comments at 4.

<sup>18</sup> DC Energy Comments at 2.

<sup>19</sup> *Id.*

<sup>20</sup> Exelon Comments at 4.

<sup>21</sup> *Id.* at 4-5.

<sup>22</sup> *Id.* at 5.

<sup>23</sup> *Id.* at 5-6.

<sup>24</sup> Vitol Protest at 2.

sections IV.C.8 and 9 of the PJM Tariff.<sup>25</sup> Specifically, Vitol proposes to add the word “promptly” to these sections of the Tariff that would describe when PJM will take action to issue a collateral call, recalculate the FTR credit requirement or ARR credits, cause the removal of a market participant’s bids, or require that a market participant establish additional credit. Vitol also proposes to add language requiring that PJM must not delay the recalculation of ARR credits when “it is in possession of information indicating that the applicable market participant may be unable to satisfy the FTR Credit Requirement.” Vitol states that while PJM may need some flexibility when applying its credit policy, credit management tools provide less protection for market participants if they are not used in a timely manner; Vitol asserts that its revisions are intended to ensure that PJM acts promptly.<sup>26</sup>

15. Finally, Vitol states that the mark-to-auction proposal remains a suboptimal solution unless and until the pricing PJM uses for the marks is updated on a more frequent, market-driven basis, as opposed to PJM’s currently irregular auction schedule.<sup>27</sup> Vitol argues that auction prices used to mark open FTR portfolios will only be a good indicator of market conditions soon after an auction but will be less accurate as months elapse prior to the next auction.<sup>28</sup> Vitol states that it requested rolling monthly FTR auctions in Docket No. EL18-170.<sup>29</sup>

## **B. PJM’s Answer**

16. PJM requests that the Commission reject Vitol’s request as the revisions are not necessary or already are addressed.<sup>30</sup> PJM explains that the insertion of the word “promptly” is not necessary because the proposed Tariff language contains specific timeframes for action and the whole mark-to-auction value process will occur during a very

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<sup>25</sup> *Id.* at 2-4.

<sup>26</sup> *Id.* at 4.

<sup>27</sup> *Id.* at 4-5.

<sup>28</sup> *Id.*

<sup>29</sup> *Id.* at 4 (citing *DC Energy, LLC v. PJM Interconnection, LLC*, FERC Docket No. EL18-170, Initial Brief of Vitol, Inc., at 11-12 (Nov. 9, 2018)).

<sup>30</sup> PJM Answer at 1.

short window of time. Additionally, PJM states that any recalculation of ARR credits will only be taken when PJM deems it to be appropriate.<sup>31</sup>

#### **IV. Discussion**

##### **A. Procedural Matters**

17. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2018), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

18. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2018) prohibits an answer to a protest or to an answer unless otherwise ordered by the decisional authority. We accept PJM's answer because it provides information that assisted us in our decision-making process.

##### **B. Substantive Matters**

19. We accept PJM's proposal as just and reasonable. We agree with PJM that the revisions will help prevent market participants from exposing the market to additional risk as a result of declining market value of FTR portfolios.<sup>32</sup> Specifically, incorporation of a mark-to-auction valuation in PJM's FTR credit requirement will allow PJM to issue collateral calls when an FTR portfolio is deteriorating in value. In addition, we find persuasive FTI Consulting's analysis that PJM's proposal would have covered almost 99.9 percent of the mark-to-auction exposure on all FTR portfolios from the past three planning years.<sup>33</sup> We agree with PJM that the proposal balances the need for ensuring sound credit management while limiting the impact to market participants in its FTR market. Accordingly, we find that PJM's proposal will improve PJM's FTR credit requirements.

20. While we agree with Vitol that PJM should act in a timely manner, we disagree with Vitol that PJM's proposed timing is unjust and unreasonable. We find that PJM's proposed revisions provide reasonable, specific timelines for PJM to complete the necessary steps to make additional collateral calls, collect additional collateral, recalculate ARR credits, and declare a market participant in default. Similarly, we find Vitol's proposed language that requires PJM to recalculate ARR credits without delay when it possesses information that a market participant may be unable to meet the FTR credit

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<sup>31</sup> *Id.* at 2.

<sup>32</sup> *See* PJM Transmittal Letter at 4.

<sup>33</sup> *See id.* at 6.

requirement to be unnecessary. Under PJM's proposal, it will recalculate ARR credits held by each market participant after each annual FTR auction, and PJM may also recalculate ARR credits at any other time it deems appropriate should PJM become aware of information that a market participant is unable to meet the credit requirement.

21. We also dismiss as outside the scope of this proceeding Vitol's arguments that the PJM mark-to-auction proposal remains a suboptimal solution unless and until the pricing PJM uses for the marks is updated on a more frequent, market-driven basis, as opposed to PJM's current auction schedule. As discussed herein, we find PJM has demonstrated that its FPA section 205 proposal is just and reasonable. PJM need not demonstrate that its proposal is the optimal solution.<sup>34</sup> PJM's proposed tariff revisions permit it to make a collateral call if a member's FTR portfolio is declining in value based on the most recent monthly FTR auction prices, including FTR auction prices provisionally calculated in the process of clearing an open FTR auction. PJM's proposed tariff revisions would repeat these mark-to-auction calculations subsequent to any secondary market clearing calculation. These calculations are performed in the context of PJM's current successive long-term, annual, and monthly auctions, and we find that the frequency of PJM's auctions is outside the scope of this proceeding.

The Commission orders:

PJM's filing is hereby accepted for filing, effective April 4, 2019, as discussed in the body of this order.

By the Commission.

( S E A L )

Nathaniel J. Davis, Sr.,  
Deputy Secretary.

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<sup>34</sup> *Petal Gas Storage, L.L.C. v. FERC*, 496 F.3d 695, 703 (D.C. Cir. 2007) ("FERC is not required to choose the best solution, only a reasonable one"); *see also Cities of Bethany v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1984) ("FERC has interpreted its authority to review rates under the FPA as limited to an inquiry into whether the rates proposed by a utility are reasonable – and not to extend to determining whether a proposed rate schedule is more or less reasonable than alternative rate designs."); *Cal. Indep. Sys. Operator Corp.*, 128 FERC ¶ 61,282, at P 31 (2009) (finding that, because the Commission found the independent system operator's proposal to be just and reasonable, the Commission need not assess the justness and reasonableness of an alternative proposal).