

134 FERC ¶ 61,142
FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

February 28, 2011

In Reply Refer To:
PJM Interconnection, L.L.C.
Docket No. ER11-2492-000

PJM Interconnection, L.L.C.
955 Jefferson Avenue
Norristown, PA 19403-2497
Attention: Robert V. Eckenrod

Reference: PJM Credit Requirements for Counterflow FTRs

Dear Mr. Eckenrod:

1. On December 22, 2010, PJM Interconnection, L.L.C. (PJM) submitted proposed revisions to the PJM Open Access Transmission Tariff (Tariff), pursuant to section 205 of the Federal Power Act (FPA).¹ PJM states that its proposed revisions are intended to modify (and thus improve upon) a security posting requirement previously rejected by the Commission in Docket No. ER09-650-001, *et al.*² PJM notes that, in that prior proceeding, the Commission accepted, subject to conditions, PJM's proposal to eliminate the allowance of unsecured credit for Financial Transmission Rights (FTR) trading but required PJM to address, in a compliance filing, the appropriate credit requirements applicable to load serving entities (LSEs) utilizing counterflow FTRs to hedge their loads.³ PJM notes that in the April 15, 2010 Order the Commission rejected PJM's subsequent compliance filing proposal in which PJM proposed to exempt from its FTR

¹ 16 U.S.C. § 824e (2006).

² *PJM Interconnection, L.L.C.*, 131 FERC ¶ 61,017 (April 15, 2010 Order), *order on rehearing*, 132 FERC ¶ 61,180 (2010).

³ *PJM Interconnection, L.L.C.*, 127 FERC ¶ 61,017 (2009).

security requirement counterflow FTRs that sink at an LSE's load location.⁴

2. PJM states that under its revised proposal, an FTR counterflow security posting exemption will apply, as in its prior proposal, subject to a cap based on the LSE's base load at each location (PJM's prior proposal was subject to a cap based on the LSE's peak load). PJM states that this modification will appropriately limit the FTR from being exposed to unhedged congestion. PJM explains that the potential resulting settlement risk will be limited because the hedged position will be offset by energy sales/purchases in most instances. PJM asserts that this modified cap will also ensure that LSEs do not purchase counterflow FTRs in an amount greater than their actual load, thereby minimizing the risk of unbounded losses. PJM concludes that its modified proposal represents an improvement over its prior, peak-load cap proposal because it will more narrowly tailor the settlement risk at issue.

3. PJM acknowledges that its modified proposal will not require that the LSE contract for, or have, generation at the source of its FTR – the risk potential discussed by the Commission in the April 15, 2010 Order. PJM argues, however, that while such a requirement would provide a complete hedge for the LSE, it has never been either PJM's or the Commission's position that LSEs are required to perfectly hedge their loads at all times.

4. PJM states that its filing also includes minor, ministerial corrections removing from its OATT language that was previously rejected by the Commission (addressing a definitional amendment to the term "FTR Portfolio Auction Value," at Attachment Q, Section VII).⁵ PJM requests that its filing be made effective March 1, 2011.

5. Notice of PJM's filing was published in the *Federal Register*, 76 Fed. Reg. 358 (2011), with interventions and protests due on or before January 12, 2011. Timely-filed interventions were submitted by Illinois Municipal Electric Agency, Exelon Corp., DC Energy, LLC, American Municipal Power, Inc., and Allegheny Electric Cooperative, Inc. (Allegheny Coop). Comments in support of PJM's filing were submitted by Allegheny Coop.

6. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2010), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

⁴ April 15 2010 Order, 131 FERC ¶ 61,017 at P 33 (finding that PJM had failed to explain why its FTR security requirements should not apply to an LSE that has acquired a counterflow FTR sinking at the location of the LSE's load, where the LSE has no contract with generation at that source).

⁵ *PJM Interconnection, L.L.C.*, 132 FERC ¶ 61,189 (2010).

7. We reject PJM's proposed revisions to its FTR security requirements. PJM acknowledges that its proposal, here, is similar to the proposed exemptions previously rejected by the Commission in the April 15, 2010 Order.⁶ PJM asserts, however, that the distinction between these two filings – its proposal, here, to cap the exclusion at the LSE's *base* load value for the load served at each location – is relevant because the risk at issue will be “minimized.” PJM, while not disputing the existence of this risk, argues that its proposal greatly reduces the risk and that a “perfect” hedge has not been required by the Commission.

8. We disagree. The Commission, in the April 15, 2010 Order, rejected PJM's initial proposed exemption to its FTR security requirement, based on the Commission's finding that PJM had failed to explain why a counterflow FTR that is unsupported by a generation contract at its source presents less risk than any other counterflow FTR to which PJM's security requirements apply. The Commission further held that while the use of a counterflow FTR may offset the risk of price fluctuations at the LSE's load and shift price point locations, the fact that an LSE may be purchasing power at another point does nothing to mitigate the risk at the source of the counterflow FTR. The Commission concluded that, in the absence of a generation contract at the source of the FTR, this risk should be collateralized in the same way it would be if the counterflow FTR was held by any other entity.⁷ While PJM, in this filing, modifies its prior proposal somewhat to reduce the cap on the quantity of counterflow FTRs that an LSE can hold, PJM still does not demonstrate that energy purchases at one point mitigate the risk of the counterflow FTR. Accordingly, we reject PJM's proposal because PJM fails to show that this proposal adequately reduces the unbounded risk of price fluctuations at the source of counterflow FTRs that are not supported by generation contracts.

9. PJM also has made minor corrections to various provisions that we accept. However, because we have rejected PJM's proposal with respect to counterflow FTRs, PJM is required to make a compliance filing to correct the definition of FTR Portfolio

⁶ See PJM filing at 5 (“Admittedly, the present proposal is quite similar to the proposal which was ultimately not accepted by the Commission [in the April 15, 2010 Order].”)

⁷ See also *Credit Reforms in Organized Wholesale Electric Markets*, Order No. 741, 133 FERC ¶ 61,060, at P 77 (2010) (finding that LSEs using FTRs to hedge congestion are not exempt from the prohibition on the use of unsecured credit in the FTR market); *PJM Interconnection, L.L.C.*, 122 FERC ¶ 61,279, at P 36 (2008) (holding that PJM's collateral requirements should be correlated with the risk exposure in the FTR market).

Auction Value at Attachment Q, Section VII in its Tariff by removing the following language:

For the purpose of determining portfolio diversification and the associated FTR credit for a load serving Participant, negatively priced FTRs that sink at their load location (as determined from the effective ARR allocation) shall be excluded from this calculation. However, for the purposes of this calculation, the MW quantity of FTRs shall not exceed the peak load of the load serving Participant at each location.

The Commission orders:

(A) PJM's proposed revisions to its FTR credit requirements are hereby rejected, as discussed in the body of this order.

(B) PJM's is directed to submit a compliance filing within 60 days of the date of this order, as discussed in the body of this order.

By direction of the Commission.

Kimberly D. Bose,
Secretary.