

**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.)	

LIMITED ANSWER OF PJM INTERCONNECTION, L.L.C.

PJM Interconnection, L.L.C. (“PJM”), pursuant to Rule 213 of the rules of the Federal Energy Regulatory Commission (“Commission”),¹ submits this limited answer to the Comments in Support of Elliot Bay Energy Trading, LLC,² and the Comments and Protest of Vitol, Inc.³ The Elliot Bay Comments, *inter alia*, support “certain aspects” of the credit reforms requested in the Complaint of DC Energy, LLC, filed June 4, 2018,⁴ and ask that these reforms be instituted prior to PJM’s next long-term FTR auction, scheduled to commence on September 4, 2018. The Vitol Comments urge the Commission to grant the DC Energy Complaint, arguing that without that immediate Commission action, PJM market participants may be exposed to “additional losses from

¹ 18 C.F.R. § 385.213.

² Comments in Support of Elliot Bay Energy Trading, LLC, Docket No. EL18-170-000 (June 25, 2018) (“Elliot Bay Comments”).

³ Comments and Protest of Vitol, Inc., Docket No. EL18-170-000 (June 25, 2018) (“Vitol Comments”).

⁴ Complaint of DC Energy, LLC, Docket No. EL18-170-000 (June 4, 2018) (“DC Energy Complaint”).

[Financial Transmission Rights (“FTR”)] positions that are unsecured and under-collateralized.”⁵

As explained below, PJM agrees with Elliot Bay that the \$0.10 per-megawatt hour (“MWh”) minimum credit requirement for FTR bids and cleared positions, which is currently being finalized in the PJM stakeholder process and expected to be presented to the Commission in a Federal Power Act, section 205 filing on or before August 1, 2018, should be in effect prior to PJM’s next long-term FTR auction. PJM will accordingly request a September 3, 2018 effective date⁶ (i.e., the day before the auction) when PJM files the Tariff revisions reflecting the \$0.10 volumetric minimum.

With respect to the Vitol Comments, and Vitol’s request for immediate Commission grant of the DC Energy Complaint, PJM respectfully reminds the Commission of ongoing stakeholder efforts that would address the credit issues presented in the DC Energy Complaint. There also appear to be a few misunderstandings in the Vitol Comments that PJM clarifies below. PJM therefore renews its request for the Commission to defer any action on the DC Energy Complaint as the DC Energy requests as well as the PJM stakeholder process discussing these issues will be informed by the Commission’s review/disposition of anticipated Tariff revisions.

⁵ Vitol Comments at 1.

⁶ PJM’s practice when it faces an effective date for a tariff change for which Commission approval is still pending is to implement the change, so long as that action can be readily reversed if the Commission in a subsequent order changes the effective date or modifies the tariff language. That would be the case for the volumetric credit requirement referenced here, given that any security provided for participation in the September 2018 FTR Auction can be revised or released as necessary to conform to the Commission’s order on the filing. This approach also ensures that if the Commission’s eventual order accepts the volumetric charge for effectiveness before the next annual FTR auction, that directive will have been effectuated.

I. MOTION FOR LEAVE TO ANSWER

PJM respectfully requests leave to file this limited answer, which provides important, updated information relevant to the Commission’s consideration of the issues pending in this proceeding. This answer also corrects and clarifies facts relevant to the Commission’s decision-making process and is offered to aid that process. In similar situations, the Commission has accepted answers.⁷

By limiting this answer to issues presented by Elliot Bay and Vitol, PJM does not concede the accuracy or relevance of arguments raised by other intervenors in response to the DC Energy Complaint. As explained, the purpose of this answer is to update the Commission with respect to PJM’s planned implementation of the credit reform discussed in the Elliot Bay Comments, and to correct certain factual misstatements contained in the Vitol Comments.

II. ANSWER

A. PJM Intends to Seek a September 3 Effective Date for Implementation of a Volumetric Minimum FTR Credit Requirement.

In answering the DC Energy Complaint, PJM described various credit reforms under consideration in PJM’s ongoing stakeholder process.⁸ One such reform, i.e., a proposed \$0.10 per-MWh minimum credit requirement on all FTR bids and cleared

⁷ See, e.g., *PJM Interconnection, L.L.C.*, 139 FERC ¶ 61,165, at P 24 (2012) (accepting answers to a protest because “they have provided information that assisted [the Commission] in [its] decision-making process”); *PJM Interconnection, L.L.C.*, 104 FERC ¶ 61,031, at P 10 (2003) (accepting answer because “it will not delay the proceeding, will assist the Commission in understanding the issues raised, and will [e]nsure a complete record upon which the Commission may act”); *Morgan Stanley Capital Grp., Inc. v. N.Y. Indep. Sys. Operator, Inc.*, 93 FERC ¶ 61,017, at 61,036 (2000) (accepting answer as “helpful in the development of the record”).

⁸ See Answer of PJM Interconnection, L.L.C., Docket No. EL18-170-000, at 7-9 (June 25, 2018) (“PJM June 25 Answer”).

positions, was, at the time PJM filed its answer, working its way through PJM's stakeholder committees. PJM indicated in the PJM June 25 Answer that it anticipated submitting Tariff revisions adopting this reform prior to August 1, 2018, with a proposed effective date of October 1, 2018.⁹

Elliot Bay supports a volumetric minimum as part of PJM's FTR credit rules, and urges that it be adopted prior to PJM's next long-term FTR auction.¹⁰ That auction is set to commence September 4, 2018. However, under the schedule previously indicated by PJM, the volumetric minimum would become effective, subject to Commission approval, on October 1, 2018, *after* PJM's next long-term FTR auction.

PJM agrees that the \$0.10 volumetric minimum FTR credit requirement should be implemented ahead of the next long-term FTR auction. This enhanced collateral requirement is currently being finalized in PJM's stakeholder process and is on track to be submitted, as previously indicated, on or before August 1, 2018. However, to provide for timely implementation, PJM plans to request a September 3, 2018 effective date,¹¹ so that the new volumetric minimum would be effective for PJM's next long-term FTR auction. PJM would not be seeking accelerated action by the Commission on its filing but would, by setting the effective date at September 3, 2018, ensure that the minimum

⁹ *Id.* at 5. PJM also committed to complete within six months an analysis and stakeholder process regarding the potential merits of a mark-to-auction provision in PJM's FTR credit requirements and any proposed changes to FTR market minimum participation requirements. *Id.* at 9-10.

¹⁰ *See* Elliot Bay Comments at 4-5 (endorsing \$0.05 per-MWh minimum). Vitol also supports a volumetric, per-MWh minimum collateral requirement. Vitol Comments at 2.

¹¹ *See supra* note 6.

credit requirement would be in effect ahead of the next long term FTR auction in September.

B. PJM Followed Existing Tariff Requirements and Did Not Grant Any Unsecured Credit to Green Hat

Vitol implies that the recent default of the FTR portfolio held by GreenHat Energy LLC (“GreenHat”) suggests that PJM may have granted unsecured credit to GreenHat. Vitol asserts that, to the extent this is true, the extension of unsecured credit to satisfy the credit requirements of an FTR portfolio violates the PJM Tariff and Commission regulations.

The Commission can summarily dispose of these inaccurate assertions. GreenHat acquired its FTR positions in accordance with the credit and collateral requirements of PJM’s Tariff and, specifically, Attachment Q. Indeed, the DC Energy Complaint does not allege that GreenHat failed to satisfy PJM’s credit rules or that PJM acted contrary to its Tariff in establishing the credit requirements for GreenHat to acquire its FTR positions. Simple speculation is not the basis for the filing of a complaint.

As PJM previously explained,¹² the applicable credit requirements when GreenHat acquired the majority of the FTR portfolio on which it has defaulted referenced historical congestion values, which indicated GreenHat’s portfolio would be overall profitable and obligated GreenHat to post some financial security with PJM. GreenHat complied with this financial security-posting requirement to satisfy its then-applicable credit requirements.

¹² PJM June 25 Answer at 4-6 & n.4.

Equally inaccurate is any suggestion that PJM violated section 35.47(c) of the Commission's regulations.¹³ Section 35.47(c), which was part of the credit practice reform adopted by the Commission in Order No. 741,¹⁴ requires regional transmission organizations such as PJM to have in place Tariff provisions that eliminate unsecured credit in FTR markets.

In response to Order No. 741, PJM submitted various Tariff revisions in Tariff, Attachment Q, to comply with the new credit regulations. Those revisions were accepted by the Commission, with certain additional Commission-ordered modifications.¹⁵ Directly relevant to Vitol's Tariff violation claim was a Commission-ordered modification concerning PJM's FTR credit requirements, which directed PJM to remove any unsecured credit allowance for FTR trading.¹⁶ PJM's subsequent filing to address this requirement (and other compliance directives) was accepted by the Commission as compliant with the Commission's initial order and with Order No. 741.¹⁷ Accordingly, there is no merit to Vitol's assertion that PJM violated the provisions of Order No. 741 and the Commission should reject that assertion.

¹³ 18 C.F.R. § 35.47(c).

¹⁴ *See Credit Reforms in Organized Wholesale Electric Markets*, Order No. 741, 2008–2013 FERC Stats. & Regs., Regs. Preambles ¶ 31,317, at P 2 (2010), *order on reh'g*, Order No. 741-A, 2008–2013 FERC Stats. & Regs., Regs. Preambles ¶ 31,320, *reh'g denied*, Order No. 741-B, 135 FERC ¶ 61,242 (2011).

¹⁵ *PJM Interconnection, L.L.C.*, 136 FERC ¶ 61,190 (2011).

¹⁶ *Id.* at P 22.

¹⁷ *PJM Interconnection, L.L.C.*, 138 FERC ¶ 61,183 (2012).

C. Contrary to Vitol, PJM Has Made Good Faith Efforts to Manage Credit Risk

The Commission should also reject Vitol’s concerns regarding potential further default exposure from open FTR positions, including claims that PJM has failed to “proactively manage credit risk.”¹⁸ As PJM explained in its answer to the DC Energy Complaint,¹⁹ recently adopted credit revisions, as well as the aforementioned additional credit reforms anticipated to be filed in the next few weeks, significantly increase collateral requirements for FTR portfolios where appropriate. Indeed, it was in response to the growing exposure associated with certain open FTR positions—most notably, the GreenHat portfolio—that PJM modified its FTR Historical Value calculation to more accurately reflect the potential risks of FTR positions that will be affected by transmission system upgrades.²⁰

Vitol’s allegation that PJM “may indeed have willfully ignored” the risk posed by GreenHat’s FTR portfolio²¹ is entirely contrary to the facts, as the accompanying

¹⁸ Vitol Comments at 2.

¹⁹ See PJM June 25 Answer at 5.

²⁰ See Proposed Modifications to FTR Credit Requirements of PJM Interconnection, L.L.C., Docket No. ER18-425-000, (Dec. 11, 2017). The Commission approved these revisions—hereinafter 2018 Credit Revisions—by letter order dated January 19, 2018. PJM explained in its answer to the DC Energy Complaint that had the 2018 Credit Revisions been in place prior to GreenHat acquiring the majority of its portfolio of FTRs, GreenHat would have had to provide an estimated \$60 million in collateral to bid on the portfolio. Furthermore, the additional credit reforms that are currently being finalized in the PJM stakeholder process—namely, PJM’s recommended \$0.10 per-MWh minimum credit requirement—would have added approximately \$30 million, bringing GreenHat’s total collateral requirement to nearly \$90 million.

²¹ Vitol Comments at 3.

affidavit of Mr. Stanley Williams, PJM's Director of Compliance and Settlements and President of PJM Settlement Inc., confirms.

Mr. Williams explains that, in addition to PJM's advancement of Tariff changes to address the very risks raised by the GreenHat position, PJM was also engaging directly with GreenHat in good faith efforts, as early as March 2017, to identify means to reduce the potential exposure for GreenHat's open FTR portfolio. As noted above, GreenHat's security was in compliance with the Tariff. Nonetheless, PJM engaged with GreenHat and was able to obtain from GreenHat a Partial Assignment and Pledge Agreement, pursuant to which GreenHat committed to pledge revenues owed to GreenHat under bilateral FTR contracts between GreenHat and a third party. Under the agreed-to arrangement, revenues pledged by GreenHat to PJM would flow directly into a dedicated depository account accessible by PJM.

Thus, far from turning away from the credit issues posed by GreenHat's open FTR positions, PJM proactively responded to them (notwithstanding that, as Mr. Williams explains, there is now some question whether the Pledge Agreement will result in monies to PJM). And, as previously discussed, these proactive efforts, including the anticipated filing of the \$0.10 volumetric minimum, are continuing and should be allowed to run their course. Given the anticipated, near-term resolution and filing of these credit changes, the Commission should reject Vitol's request for immediate disposition of the DC Energy Complaint.

D. There Is No Merit to Vitol's Suggestion that PJM Improperly Withheld Information Regarding the GreenHat Default

Vitol asserts that "the Commission should require PJM and the other ISOs/RTOs to provide market participants with information about unsecured positions so they can

better protect themselves.”²² Vitol alleges that “PJM declined to explain to Vitol whether or how it has addressed the risks presented by such holdings” and that this alleged lack of transparency “impeded Vitol’s ability to make informed choices about the extent of the default risk and how to best manage its own exposure.”²³

Vitol’s allegations rest on faulty facts. In the first place, and as previously noted, PJM never granted any unsecured credit to GreenHat. More to the point, however, is that PJM is subject to strict confidentiality requirements under the PJM Operating Agreement²⁴ and Tariff.²⁵ These provisions safeguard the integrity of market information and prohibit disclosure of Members’ confidential data—i.e., credit status and posted Financial Security—that Vitol apparently seeks.

PJM’s communication of the GreenHat default was consistent with its transparency commitments to its Members. Once PJM’s Operating Agreement and Tariff no longer required PJM to maintain the confidentiality of GreenHat’s credit and collateral information, and in accordance with Operating Agreement, section 15.1.5(iv), PJM provided timely notification to its Members. Following the public announcement of the

²² Vitol Comments at 4.

²³ *Id.*

²⁴ See PJM Operating Agreement §§ 10.3 & 18.17 (prohibiting Members from receiving or reviewing documents or data of another Member to the extent such documents or data is designated as confidential by PJM and prohibiting PJM from disclosing such information).

²⁵ See PJM Tariff, Part I § 6A.7 (holding PJM Settlement to the same confidentiality requirements as PJM); see also *id.*, Attachment K-Appendix §§ 1.6.2 (imposing on Office of the Interconnection the duty to protect confidential information), 1.7.4 (obligating Office of the Interconnection to abide by all non-disclosure requirements to ensure protection of any confidential or proprietary information provided by a Market Participant) (Tariff, Attachment K-Appendix is identical to provisions of Operating Agreement, Schedule 1).

default, PJM responded to Member inquiries and provided additional information regarding the circumstances of the default. PJM continues to be available to respond to additional inquiries.

III. CONCLUSION

For the foregoing reasons, the Commission should accept this answer and allow PJM's ongoing stakeholder procedures to address the credit issues presented in the DC Energy Complaint.

Respectfully submitted,

/s/ Paul M. Flynn

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July 11, 2018

ATTACHMENT

**Affidavit of Stanley Williams
on Behalf of PJM Interconnection, L.L.C.**

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**AFFIDAVIT OF STANLEY WILLIAMS
ON BEHALF OF PJM INTERCONNECTION, L.L.C.**

1. My name is Stanley Williams. My business address is 2750 Monroe Blvd., Audubon, Pennsylvania, 19403. I currently serve as the Director, Settlements and Operation Analysis for PJM Interconnection, L.L.C. (“PJM”) and President of PJM Settlement Inc. (“PJMSettlement”).

2. In my capacity as Director of Settlements and Operation Analysis and as President, PJM Settlement, Inc., I am directly responsible for ensuring accurate market settlement billing in addition to ensuring PJM has integrated market operations required to ensure accurate market settlements. This includes providing input to electricity market design and implementation, market operations, and interconnection seams management.

3. I have served in my current position since 2012. Prior to that time, I served as Manager of the Performance Compliance Department for 10 years, where I was responsible for managing the Performance Compliance Department to assure the reliable, economic, and coordinated operation of PJM in accordance with PJM Operating Principles and Standards and the ReliabilityFirst, SERC Reliability Corporation, and North American Electric Reliability Corporation Operating Policies. Further, I provided technical, regulatory, and business support to the Market Services Division, other divisions, and the member companies in addressing PJM operating and engineering issues in a competitive utility environment.

4. I hold a Bachelor’s of Science degree in Electrical Engineering from North Carolina State University.

5. I am submitting this affidavit on behalf of PJM in support of its answer being filed today in the captioned docket. Specifically, I will address certain negotiations that took place beginning in March 2017 between PJM and GreenHat Energy, LLC (“GreenHat”), concerning GreenHat’s open Financial Transmission Right (“FTR”) portfolio. In describing these negotiations, I intend to rebut the contention of Vitol Inc. that PJM may have “willfully ignored the mounting risk posed by GreenHat’s market activity or positions.”

6. In early 2017, PJM became concerned about GreenHat's significant open FTR portfolio with PJM that GreenHat had acquired primarily in long-term FTR auctions for the 2018/2019, 2019/2020 and 2020/2021 planning years. At that time, PJM contacted GreenHat to discuss its concerns about the possibility of a significant loss on GreenHat's FTR portfolio. Mr. Kittell, GreenHat Managing Member, informed PJM that GreenHat expected significant revenues from bilateral FTR contracts with a third party, which Mr. Kittell represented to PJM amounted to over \$62 million. GreenHat agreed to pledge to PJM such contracts and the revenues Mr. Kittell represented would be due to GreenHat from the third party beginning in June 2018.

7. Accordingly, GreenHat and PJM entered into a Partial Assignment and Pledge Agreement on June 23, 2017 ("Pledge Agreement"), pursuant to which GreenHat agreed to pledge the contracts and the revenues thereunder. Mr. Kittell worked with PJM to establish a dedicated depository account and represented that GreenHat would request the third party to deposit the revenues from the bilateral contracts into a bank account that PJM had access to and from which PJM would execute automated clearing house withdrawals to cover net losses that accumulated in GreenHat's PJM account. However, to date, no cash has flowed from the bilateral contracts that are the subject of the Pledge Agreement. The third party has indicated to PJM that it does not have any remaining payment obligations under the subject bilateral contracts. PJM is working with the third party to obtain the documentation that the third party believes supports that assertion.

8. Contrary to Vitol's observation, PJM did not "willfully ignore" the potential loss exposure in GreenHat's FTR portfolio. PJM acted in good faith to reduce the potential loss exposure in GreenHat's FTR portfolio. I would add that PJM has taken further steps to reduce the risk of Members acquiring FTR portfolios with similar risks to GreenHat's without increased credit requirements. As of April 2018, PJM developed and implemented a FTR credit policy revision to incorporate projected congestion changes from transmission system upgrades into the FTR credit requirements for paths for which future congestion is expected to differ from historical congestion. PJM has also recommended a \$0.10 per-FTR megawatt hour minimum credit requirement on bids and cleared positions. This proposal is currently completing its stakeholder voting and PJM targets it to be effective September 3, 2018, before the next long-term FTR auction.

9. This concludes my Affidavit.

CERTIFICATE OF SERVICE

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

Dated at Washington, D.C., this 11th day of July 2018.

/s/ Jeffrey G. DiSciullo

Jeffrey G. DiSciullo

Attorney for

PJM Interconnection, L.L.C.