



Market Participant Risk Management Practices and Policy Review

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Risk Management Committee

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Over the past decade, PJM has experienced events that have demonstrated the increasing need to strengthen and promote risk management practices.

Polar vortex and freezing weather,
Winter 2013/14 & Winter 2017/18

Transmission outages,
Winter 2021/22

Capacity PAI penalties and summer heat
wave energy price/demand increases, 2022

Lessons learned from
notable and near defaults

Money laundering, bribery and corruption cases
resulting in financially impairing fines and penalties

Capacity price
changes, 2024

Regardless of the driving force, these occurrences stress the importance of:

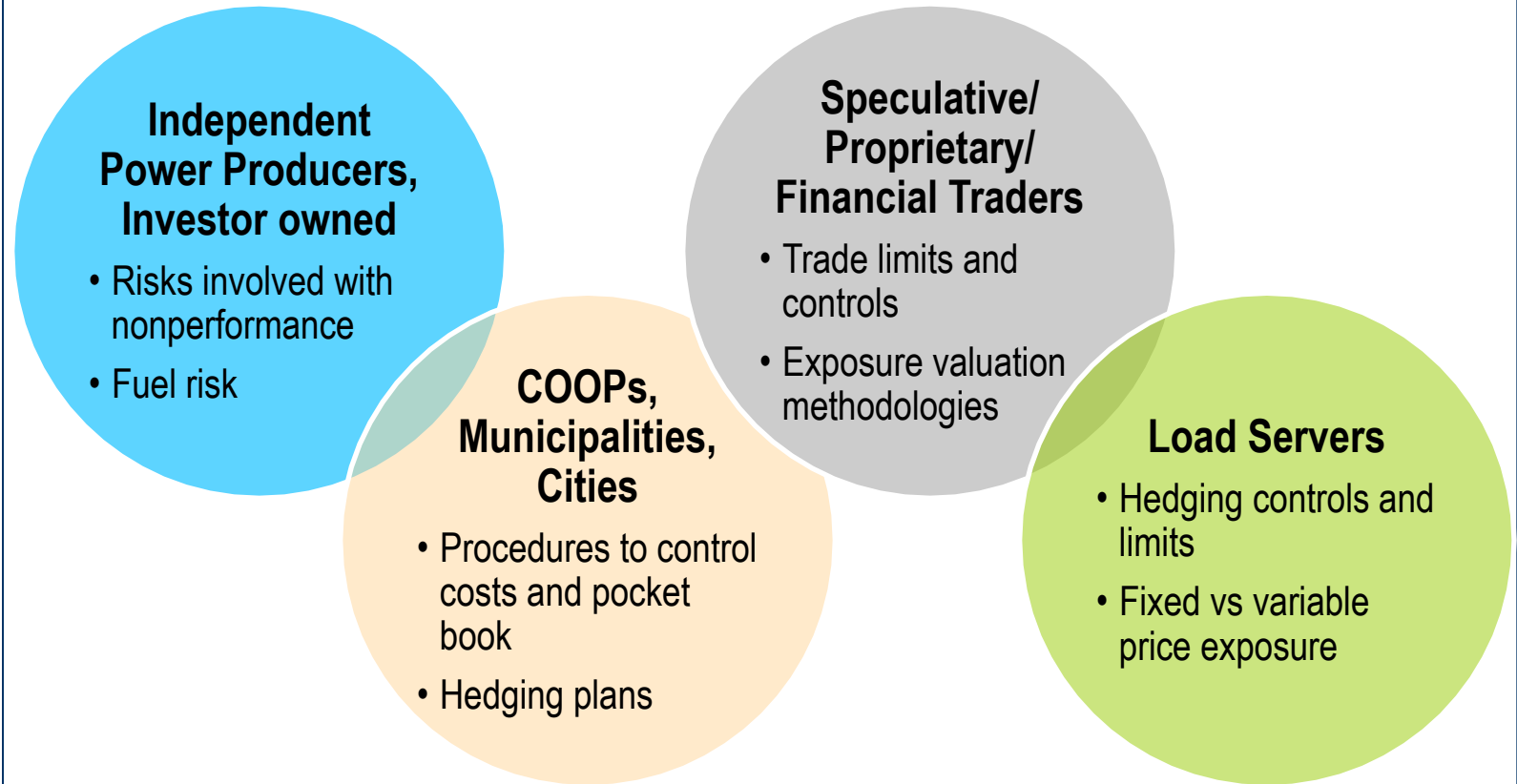
- Planning ahead and anticipating problem areas
- Agile, efficient operations
- Liquidity management and controls on financial exposure
- KYC and counterparty exposure management
- Risk oversight, measurement, monitoring and reporting

PJM is working to strengthen its practices in these areas through stakeholder engagement and improving risk review of its Members.

PJM acknowledges that Members' risks are as diverse as the membership itself.

- Idiosyncratic differences and risks exist due to the type of company, business strategic objectives, business purpose, assets, entity's size, customers, company structure and exposures.

Some examples of differences that drive Members' risk management and informs PJM's review



PJM's risk review applies the same foundational best practices approach incorporating an understanding of each Member's idiosyncrasies.

The risk review includes:

- Know Your Customer reviews
- Credit reviews
- Member portfolio risk and collateral assessments
- Market activity and fundamentals analysis
- Member's external exposures
- **Members' risk management practices/policies review and verification** including interviews, discussions and visits with Members



PJM's Members approved Tariff requirement that all Market Participants maintain and submit to PJM written risk management policies.

OATT Attachment Q, Section III.C

“All Market Participants must maintain current written risk management policies, procedures, or controls to address how market and credit risk is managed, and are required to submit to PJM (at the time they make their annual certification) a copy of their current governing risk control policies, procedures and controls applicable to their market activities....”

“Participants must demonstrate on at least an annual basis that they have implemented and maintained prudent risk management policies and procedures in order to continue to participate in any PJM Markets.”

- **Each Member's implementation and adherence** to a robust risk management program, is ultimately, *a financial savings to ALL Members.*
- **The written Risk Policy** is one of the ways Members *demonstrate their own recognition, vigilance and commitment to managing their risks.*

OATT Attachment Q, Section IV.B

“PJM shall also conduct a periodic compliance verification process to review and verify, as applicable, Participants' risk management policies, practices, and procedures pertaining to the Participant's activities in any PJM Markets.”

PJM requires that despite recognized differences between Members, each risk management policy demonstrate Key Risk Management Principles.

Governance and Oversight

- Top leadership's ongoing involvement in risk oversight
- Independent risk oversight with authority to intervene and clear separation with trading personnel
- Clear description of business activity and related assets and affiliates covered by risk policy
- Established protocols for risk policy review and approval

Compliance and Ethical Behavior

- Policies and procedures evidencing compliance with market rules, regulations and cooperation with regulators
- Procedures for reporting and dealing with violations of risk limits, rules and regulations
- Description of controls to identify and prevent money laundering, bribery and corruption activities

Demonstrated commitment to Key Risk Management Principles

Risk Management

- Identification of enterprise and market risks
- Description of market risk exposure management
 - Pre and post bid exposure assessments and monitoring
 - Transaction Authorization Limits, including trading authority limits and how those limits are established and enforced
 - Description of the risk monitoring and reporting capabilities
 - Value at Risk (VaR) thresholds
 - Description of valuation methodologies
 - Description of counterparty credit risk exposure management
- Evidence of compliance with risk policies and processes

Financial Due Diligence

Description of capital and liquidity sources for trading activity, unexpected events and losses and other sources of risk mitigating funding

PJM employs a fundamental best practices and risk management principles approach that incorporates idiosyncratic differences in review of a Member's risk management practices.

We welcome your thoughts and feedback and are available to discuss and understand individual Member's risks.



For assistance in preparation or editing of risk policy,
access the [Risk Policy Requirements \(PDF\)](#)

Go to *PJM.com* > *About PJM* > *Member Services* > [Membership Enrollment](#)

Current Risk Policies are due from All Market Participants
by April 30 of each year during Annual Certification.

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Member Hotline

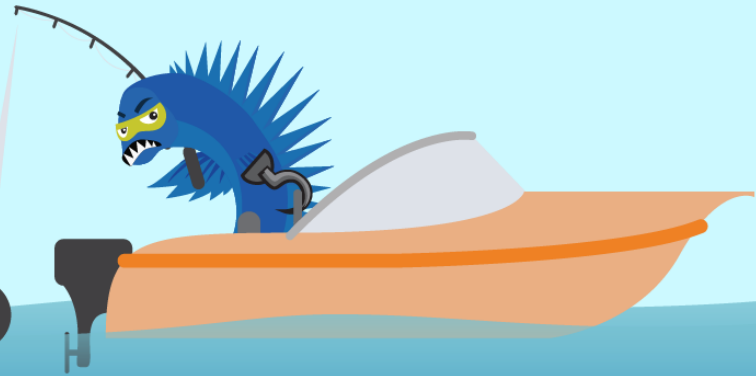
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POWER GRID**

**THINK BEFORE
YOU CLICK!**



**BE ALERT TO
MALICIOUS PHISHING
EMAILS**



**Report suspicious email activity to PJM.
Call (610) 666-2244 or email it_ops_ctr_shift@pjm.com**