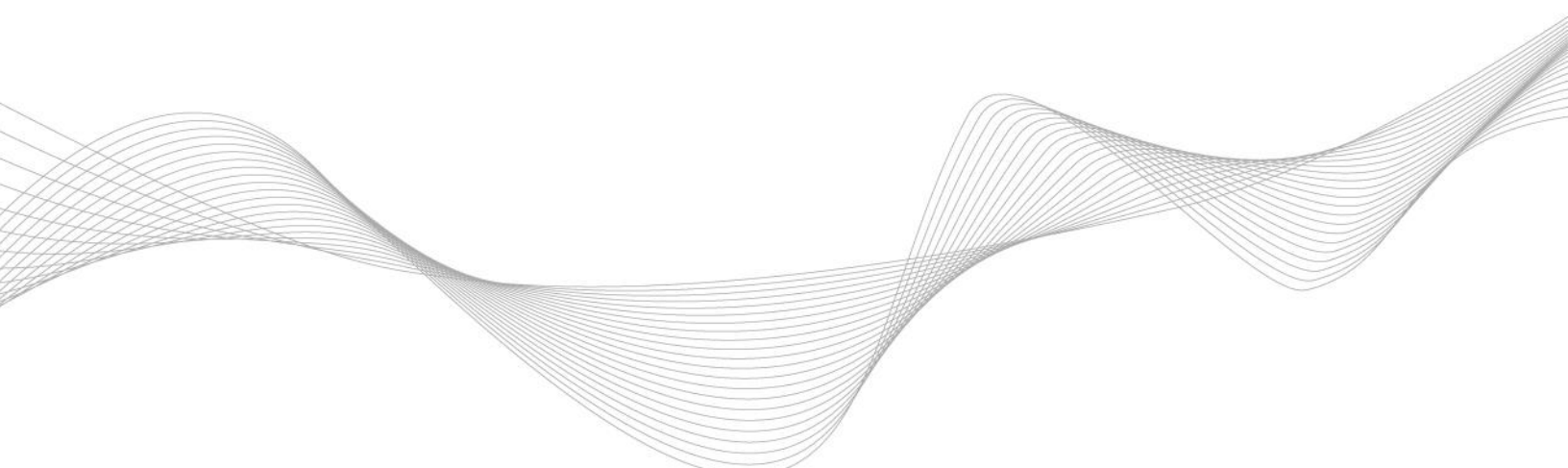




**Financial Market Reform Project
Discussion Paper
Enduring Governance of PJM's Financial Markets**

June 2019



1 Purpose

The purpose of this discussion paper is to explore the options available to PJM and stakeholders for implementation of these recommendations and to inform discussion of these recommendations in the Financial Risk Mitigation Senior Task Force.

2 Summary

In recommendation B1, authors of the GreenHat report recommend that PJM should revisit its existing stakeholder process to better facilitate member-to-PJM directions on advances in financial market policies and procedures. Specifically:

- Recommendation B1.1: Seek an equitable and efficient process centered on the relevant expertise that each PJM member may bring;
- Recommendation B1.2: Financial market member committees: voting attendees must be qualified member personnel, such as credit professionals, traders, or finance professionals, as appropriate for the committee duties
- Recommendation B1.3: The number of committees involved in rule setting for financial markets should be strictly minimized to streamline decision making and assure clear accountability

This discussion paper explores three potential pathways that stakeholders may choose to pursue:

1. Maintenance of the status quo (if the stakeholders choose this path, it would represent full rejection of the Report's recommendations)
2. An option that fully adopts the recommendations from the reports (full acceptance of the Report's recommendations)
3. An alternate option that comports to the spirit of the recommendations while maintaining aspects of the current stakeholder process that stakeholders have expressed they value (Partial Rejection/Acceptance of the Report's recommendations)

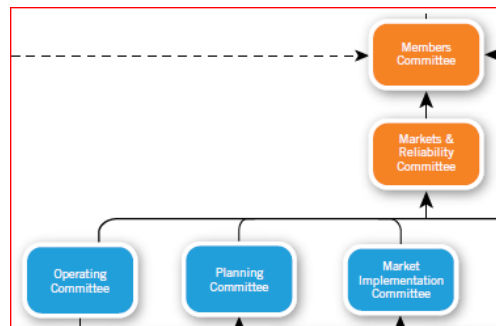
3 The Status Quo

The current stakeholder process is the product of several significant efforts by PJM and the stakeholders to craft processes that are fair and open to all stakeholders, maintain Member rights, and produce results that meet the needs of stakeholders and support PJM's mission. These efforts have included the Chairman's Advisory Team (2002-2003), the Governance Working Group (2005-2006), the Governance Assessment Special Team (2009-2010), and the Stakeholder Process Forum (2010 and on-going).

There are two themes to the recommendations in the report: 1. qualifications of participants and voting eligibility, and 2. streamlining and elevating the stakeholder body addressing financial market issues. Information related to the current stakeholder process in these two areas follows.

- Qualifications and Voting Eligibility
 - There are no restrictions on participant eligibility for voting.

- Operating Agreement (OA) section 11.3.1 (c) states that Members are responsible to “Provide adequate and properly trained personnel to ... (iii) serve on committees ...”
- OA section 8.4 defines the “manner of acting” at Senior Standing Committees (the Members Committee (MC) and the Markets & Reliability Committee (MRC)) as super-majority sector weighted voting, in which all Voting Members and Ex Officio Voting Members may participate.
- Voting at the Standing Committees (the Operating (OC), Planning (PC) and Market Implementation Committees (MIC)) and Senior Task Forces is defined in Manual 34: PJM Stakeholder Process. All Voting Members, Ex Officio Voting Members, and Affiliate Members may vote at these groups.
- Stakeholder Body Addressing Financial Market Issues
 - OA Section 8.6 addresses Senior, Standing and Other Committees, with subsections on the MC, MRC, MIC, OC and PC, with the following structure



- Financial market issues have been addressed in the MIC directly or in subcommittees or Task Forces reporting to the MIC (e.g. the Credit Subcommittee).
- A FTR Senior Task Force reporting directly to the MRC has been employed to address FTR related specific issues on at least one occasion.

4 Full Adoption Option

PJM Staff interprets the Report’s recommendations to be proposing that:

- all financial market-related matters be dealt with by a single committee
- the approval chain between the committee endorsing a rule change and Board approval should be “strictly minimized” to ensure decision-making on these matters is clear and not diluted as it passes through multiple committees
- voting members of the this committee should have professional experience relevant to the subject matter addressed by the committee

PJM interprets fully adopting the Report’s recommendations as creating a new Senior Standing Committee (potentially called the Financial Markets Committee (FMC)), reporting directly to the MC. Following the OA’s rules regarding Manner of Acting at a Senior Standing Committee, super-majority sector-weighted voting would be used, and the Member representatives voting at the FMC would be required to have professional experience relevant to the subject matter. These professional experience and qualification

requirements would be identified by PJM. All stakeholders would be empowered to participate in discussion at the FMC.

The benefit in having a committee with specific focus on financial markets matters would be to ensure these can be dealt with on a holistic basis regarding both product design and credit risk. One potential detriment to having the FMC report directly to the MC rather than the MRC might be that the FMC participants may not account for the interactions of financial market issues with physical and reliability issues.

The benefit of ensuring that the voting individuals forming part of this committee possess expertise and experience relevant to its work is to ensure that decision makers are informed and qualified in the subject matter. Any stakeholder organization would be able to participate in the work of the committee – just not vote. Should some limitation on engagement be imposed, stakeholders would need to consider some objective measure of expertise, such as PJM Market Certification.

5 Modified Options

Regarding the two themes to the recommendations in the report (qualifications of participants and voting eligibility, and streamlining and elevating the stakeholder body addressing financial market issues), stakeholders may wish to consider the following observations:

- **Qualifications and Voting Eligibility** – One of the tenants of the PJM stakeholder process has been its openness to all stakeholders. Participation has not been limited, other than as outlined in PJM Manual 34: PJM Stakeholder Process, section 4.5: Code of Conduct. Stakeholders have long held that it is their right to participate throughout the stakeholder process – either directly or through their agents or representatives. Limiting engagement to only those that meet certain qualifications seems counter to the long-standing position that stakeholders have taken that meetings are open to all stakeholders. Additionally, as noted above, OA section 11.3.1 (c) already requires that Members are responsible to provide adequate and properly trained personnel to participate in the stakeholder process. Stakeholders have expressed through the survey recently completed in the FRMSTF that they feel it is their right and obligation to choose their stakeholder process representatives, and that their representatives are informed by adequately qualified colleagues within their organizations.
- **Stakeholder Body Addressing Financial Market Issues** – All of the stakeholder groups that have dealt with financial market issues have reported through the MIC (with the exception of FTR related Senior Task Forces), and ultimately to the MRC and MC. While creating a Senior Standing Committee would streamline the reporting relationships, it is unclear how more focus could be achieved over the status quo. Furthermore, when sub-groups or Task Forces have been used, they have been for the very purpose of engaging those most knowledgeable with the specific subject matter. A concern may be raised regarding a new Financial Markets Senior Standing Committee reporting directly to the MC may not incorporate related reliability perspectives that may be revealed by review of proposals by a group such as the MRC, which has both markets and reliability perspectives. Furthermore, while financial market issues are clearly important, it is not

clear that they are more important or warrant special Senior Standing Committee stakeholder group treatment relative to other aspects of PJM's markets, operations or planning functions. Finally, a question remains as to whether and where credit related issues not related to financial markets would be considered if a single Senior Standing Committee related to financial markets is implemented as described in the Report.

Other options regarding stakeholder body structure may be explored to address the concerns raised in the Report. For example, one would be to create a new Financial Markets Committee at the Standing Committee level (the MIC, OC, PC level) to address financial market and related credit issues. This would allow other, non-financial market credit issues to be addressed in the Credit Subcommittee, as well as include MRC review to ensure that any interactions between financial markets and reliability issues would be addressed. A third option would be move the Credit Subcommittee to the Standing Committee level (the MIC, OC, PC level) allowing it to report directly to the MRC. Finally, a Financial Markets Credit subcommittee could be considered, potentially reporting to the MIC.

6 Implementation Issues

All identified options for resolving the Report recommendations would require revisions to the OA and/or Manual 34. Revisions to both documents require MC approval. Should the MC not approve revisions to the OA, implementation of the revisions would require filing under FPA section 206. Such a filing would require demonstration that the current structure is not just and reasonable, is unduly preferential or discriminatory. Should the MC not approve Manual 34 revisions, there are not current provisions for PJM to unilaterally implement them.