171 FERC ¶ 61,173
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Neil Chatterjee, Chairman;
Richard Glick, Bernard L. McNamee,
and James P. Danly.

PJM Interconnection, LLC — Docket No. ER20-1451-000

ORDER ACCEPTING FILING

(Issued May 29, 2020)

1. On March 31, 2020, PJM Interconnection, L.L.C. (PJM), in conjunction with PJM Settlement, Inc. (PJM Settlement), submitted proposed revisions to its Open Access Transmission Tariff (Tariff) and the Amended and Restated Operating Agreement (Operating Agreement) pursuant to section 205 of the Federal Power Act (FPA).[1] PJM states that the proposed revisions enhance and update its rules for evaluating and managing credit risk posed by entities that are seeking to participate or who are participating in the PJM-administered markets. PJM explains that it is not proposing to change its existing baseline formulaic collateral requirements, but instead to add to those requirements.[2] We accept PJM's filing, effective June 1, 2020, as requested, as discussed below.

I. Background

2. PJM explains that GreenHat Energy LLC (GreenHat) accumulated a large portfolio of Financial Transmission Rights (FTRs) over the course of 2017 and 2018 and defaulted on those positions in June 2018. PJM further explains that PJM members were left to cover GreenHat's default, highlighting the shortcomings in PJM's risk assessment and credit practices. PJM states that due to the GreenHat default, it commissioned an independent report to evaluate the actions and practices that preceded, and may have led to, the GreenHat default, as well as to provide concrete constructive recommendations for corrective actions moving forward.[3] PJM elaborates that the independent report made recommendations for PJM to enhance its credit risk evaluation process, including:

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[1] 16 U.S.C. § 824d (2018).

[2] PJM Transmittal Letter at 1-2.

[3] *Id.* at 3.

(1) policies to address critical risks; (2) procedures to provide PJM better information about the financial strength of its members (i.e., "know your customer" procedures); and (3) participation risk management tools and procedures. PJM further elaborates that the independent report recommended that PJM should, among other things: (1) include additional credit/collateral best practices in its tariff; (2) clarify the role of PJM as manager of risk in its markets (including providing PJM discretion to deal with unanticipated market emergency events and changes in market participants' risk profiles); (3) build a "know your customer" risk evaluation function into its market procedures and rules; and (4) implement technical practices for participant risk management.[4]

3. PJM states that, in response to the independent report, it created a Financial Risk Mitigation Senior Task Force to discuss and recommend tariff-related changes to risk mitigation and management in PJM.[5] PJM explains that the stakeholder process resulted in the proposed credit rule revisions in this filing, which will update and enhance PJM's procedures for monitoring and mitigating credit risk in the PJM markets. PJM further states that the instant proposal is potentially only one of several rounds of revisions that may be made to help PJM markets remain stable and robust.[6]

II. PJM Filing

A. PJM's Proposed Credit Rule Revisions

4. PJM states that its proposed credit rule revisions aim to materially enhance PJM's standards and procedures for evaluating and mitigating credit risk.[7] PJM further states that the instant proposal focuses on establishing updated credit risk evaluation and minimum participation requirements for market participants in PJM, including establishing or revising: (1) criteria PJM will use to evaluate market participant and guarantor risk for participation in all of the PJM markets; (2) the types of documents and other information applicants, market participants, and guarantors must submit for review in the credit evaluation process; (3) PJM's ability to request additional collateral and/or restrict the use of collateral posted by applicants and market participants; (4) provisions for demonstrating minimum capitalization requirements and other measures of creditworthiness; (5) PJM's authority to limit, suspend, or terminate market participants

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[4] *Id.* at 6-7.

[5] *Id.* at 7-8.

[6] *Id.* at 8 n.18.

[7] *Id.* at 8.

that represent unreasonable credit risk to PJM markets or fail to meet PJM's minimum participation requirements; and (6) definitions necessary to implement these changes.[8]

5. PJM explains that a key part of the instant proposal to improve its credit evaluation process is the implementation of initial and ongoing risk evaluation practices based on a "know your customer" approach.[9] PJM explains that any "know your customer" risk evaluation policies it adopts cannot be purely formulaic or prescriptive because different participants present different types and levels of risk to the markets. PJM further explains that it must have credit policies that are flexible to enable PJM to evaluate the potential risks posed by the wide variety of entities that participate in its markets.[10] Therefore, PJM states that the instant proposal does not attempt to specify or limit PJM's authority to act in any specific situations.[11]

6. PJM states that it will perform an initial risk evaluation for each entity applying to participate in the PJM Markets as well as ongoing credit risk evaluations of each existing market participant on at least an annual basis, beginning with FTR participants.[12] PJM explains that the instant proposal provides a greater structure for obtaining and processing a significantly greater amount of information regarding credit risk on an initial and ongoing basis.[13] PJM states that the instant proposal does not present any unreasonable barriers to entry or unduly discriminate against any entry because it will monitor and manage credit risk by assessing individual credit risk. PJM elaborates that in addition to the existing collateral requirements for participation in the FTR markets, only those entities that pose unreasonable credit risk to the PJM markets will be asked to post collateral, which would be commensurate with the risk posed, as a condition of entry and continued participation in the PJM markets.[14]

7. PJM states that the instant proposal clarifies that the scope of entities subject to PJM's credit policy includes participants in the PJM Interchange Energy Market, as well as PJM's ancillary services markets, FTR market, auction revenue rights market, and

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[8] *Id.* at 9.

[9] *Id.* at 10.

[10] *Id.* at 11.

[11] *Id.* at 14.

[12] *Id.* at 2.

[13] *Id.* at 16.

[14] *Id.* at 19.

capacity market.[15] PJM further states that, because entities that simply take transmission service or procure ancillary services via market-based rates pose little to no credit risk, PJM proposes a specific carve out so that its credit policy is not applicable to those entities.[16]

8. PJM concludes that the instant proposal allows PJM to protect its customers from financial losses that result from unreasonable credit risks and defaults, while also providing additional clarity and transparency to market participants.[17] PJM further concludes that these changes will enhance PJM's ability to ensure the integrity of the markets that it administers and thereby help ensure just and reasonable rates.[18]

B. Internal Credit Score

9. PJM proposes to use, in its initial credit evaluation, a new risk scoring methodology that would assign an Internal Credit Score[19] to each applicant, which would be a forward-looking numerical score determined by PJM Settlement based on quantitative and qualitative metrics. PJM explains that it is common for financial institutions and large business organizations to utilize multidimensional credit scores and internal ratings of quantitative and qualitative factors as a way to standardize the evaluation of an entity's credit risk. PJM states that internal metrics can be used in addition to external ratings provided by Moody's, S&P or other credit rating agencies, and that some RTO/ISOs develop similar composite credit scores. PJM states the

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[15] *Id.* at 23-24.

[16] *Id.* at 24.

[17] PJM also proposes to preserve its flexibility to act even in cases in which the Market Participant has entered bankruptcy proceedings by classifying FTR transactions as "forward contracts" and/or "swap agreements." In addition, PJM clarifies that all transactions between PJM and a Market Participant are intended to be part of a single integrated agreement and constitute a "master netting agreement" to prevent entities from trying to assume certain agreements and reject others in bankruptcy. *Id.* at 81-84.

[18] *Id.* at 4.

[19] PJM proposes to define Internal Credit Score as "a composite numerical score determined by PJMSettlement using quantitative and qualitative metrics to estimate various predictors of a credit event happening to a Market Participant that may trigger a credit event." PJM, Intra-PJM Tariffs, Open Access Transmission Tariff, OATT Definitions – I – J – K.

Internal Credit Score is intended to supplement and be consistent with crediting ratings issued by credit rating agencies.[20]

10. PJM explains that it consulted with Mr. Steven Dreyer, a consultant providing credit-related advisory services, to develop its Internal Credit Score methodology.[21] PJM notes that the Dreyer Affidavit explains that PJM's Internal Credit Score model conforms with industry practice in not relying on historical data and in providing for the use of qualitative judgement. PJM states that its Internal Credit Score model utilizes the financial information required of applicants as quantitative metrics, and factors that are internal or external to an applicant as qualitative metrics. PJM states that five tables will be incorporated in its tariff that will serve as the framework to assess these quantitative and qualitative metrics for each applicant.[22]

11. PJM explains its Internal Credit Score model will evaluate the capital and leverage, cash flow coverage of fixed obligations, liquidity, profitability, and other qualitative metrics of the applicant or guarantor. PJM explains the Internal Credit Score will be a numeric rating of one through six to align with the categories used by external rating agencies, S&P, Fitch, and Moody's. PJM explains it will consider an applicant's available external ratings in conjunction with its Internal Credit Score when determining the overall risk profile of the applicant, or its guarantor. PJM argues entities have sufficient notice and transparency into the Internal Credit Score model because the tables, metrics and categorization of primary or secondary metrics per business type are incorporated in the tariff under the instant proposal.

12. PJM states that, as explained in the Dreyer Affidavit, companies can determine the range of their Internal Credit Score based on the information in its tariff. PJM also explains it will provide an entity its Internal Credit Score upon request.[23] PJM clarifies that it does not propose to specify its weighting process across the various metrics considered in the Internal Credit Score model in order to tailor the analysis for specific

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[20] PJM Transmittal Letter at 35-36.

[21] *See id.* at 36; PJM Filing, Attach. E (Affidavit of Steven Dreyer) (Dreyer Aff.).

[22] PJM states capital and leverage, liquidity and industry level (e.g. investor-owned utilities, private equity, etc.) are examples of qualitative metrics. PJM Transmittal Letter at 36.

[23] *Id.* at 37 (citing Dreyer Aff. ¶ 15).

characteristics of each market participant evaluated, and to avoid applicant actions to deliberatively influence their credit risk evaluation.[24]

13. PJM explains that the instant proposal will revise the credit scoring used in current Unsecured Credit Allowance[25] evaluations to permit it use the Internal Credit Score if no external credit rating from a credit rating agency is available, and to use the lower credit rating if multiple external credit ratings are available.[26] PJM also explains that in instances where the external credit rating is used to calculate the Unsecured Credit Allowance, PJM may also use the Internal Credit Score as an input into determining the overall risk profile of an applicant and/or its guarantor.[27]

C. Unreasonable Credit Risk

14. PJM explains, in its initial credit risk evaluation, that it will determine whether an applicant presents unreasonable credit risk based on the likelihood that the applicant will default on financial obligations linked to its participation in PJM markets. PJM proposes to include in its tariff a list of indicators[28] of potentially unreasonable credit risk, which is

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[24] *Id.* at 38 (citing Dreyer Aff. ¶¶ 9-11).

[25] Unsecured Credit Allowance is defined in PJM's tariff as "Unsecured Credit extended by PJMSettlement in an amount determined by PJMSettlement's evaluation of the creditworthiness of a Participant. This is also defined as the amount of credit that a Participant qualifies for based on the strength of its own financial condition without having to provide Collateral." PJM, Intra-PJM Tariffs, Open Access Transmission Tariff, OATT Definitions – T–U–V.

[26] PJM Transmittal Letter at 55-56.

[27] PJM, Intra-PJM Tariffs, Open Access Transmission Tariff, Attach. Q, § II.2.

[28] "Unreasonable credit risk shall be determined by the likelihood that an Applicant will default on a financial obligation arising from its participation in any PJM Markets. Indicators of potentially unreasonable credit risk include, but are not limited to, a history of market manipulation based upon a final adjudication of regulatory and/or legal proceedings, a history of financial defaults, a history of bankruptcy or insolvency within the past five (5) years, or a combination of current market and financial risk factors such as low capitalization, a reasonably likely future material financial liability, a low Internal Credit Score (derived pursuant to section II.A.3 above) and/or a low externally derived credit score. PJM's determination will be based on, but not limited to, information and material provided to PJM during its initial risk evaluation process, information and material provided to PJM in the Officer's Certification, and/or

not exhaustive, and includes factors such as any history of market manipulation, history of financial defaults within the past five years, or a combination of low capitalization, a likely future material financial liability, or a low Internal Credit Score.[29] PJM explains that one factor alone is not guaranteed to result in a determination of unreasonable credit risk, but that the factors will be used to support a finding on a case by case basis which is based on all of the circumstances at that time.[30] PJM argues that it should have reasonable discretion in its credit risk determinations so that it is not limited to act only on specific instances of increased credit risk prescribed in the tariff. PJM states that it is consistent with Order No. 741[31] to allow it to use its discretion to request additional collateral in response to unreasonable credit risk in order to protect PJM's market and members from a market participant default.[32] PJM also argues that the Commission has recognized RTO/ISO discretion to assess credit risk strikes a balance between flexibility to protect markets and certainty to market participants.[33]

15. PJM explains that if it determines that an applicant poses unreasonable credit risk in its initial credit risk evaluation, it may require collateral that is commensurate with the risk of financial default by the applicant. PJM states that it may reject an application to participate in PJM markets for the amount of time PJM determines necessary, if PJM determines collateral is insufficient to cover the identified unreasonable credit risk, or if the applicant does not want to post the collateral sought by PJM. PJM states that it will also reject an application to participate in PJM markets if collateral, additional collateral,

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information gleaned by PJM from public and non-public sources." PJM, Intra-PJM Tariffs, Open Access Transmission Tariff, Attach. Q, § II.D.

[29] PJM Transmittal Letter at 42-43.

[30] *Id.* at 43.

[31] *Credit Reforms in Organized Wholesale Electric Markets*, Order No. 741, 133 FERC ¶ 61,060 (2010), *on reh'g*, 134 FERC ¶ 61,126, *reh'g denied*, 135 FERC ¶ 61,242 (2011).

[32] PJM states that Order No. 741 determined this discretion was appropriate for material adverse changes, but argues the same conclusion applies to unreasonable credit risk. PJM Transmittal Letter at 44 (citing Order No. 741, 133 FERC ¶ 61,060 at P 147).

[33] *Id.* (citing *N.Y. Indep. Sys. Operator, Inc.*, 170 FERC ¶ 61,054, at P 32 (2020) (*NYISO*)).

or restricted collateral PJM requires does not remedy the unreasonable credit risk identified.[34]

16. Similarly, PJM explains that if it determines a market participant poses unreasonable credit risk as a result of a material adverse change, the market participant will be required to provide collateral, additional collateral, or additional restricted collateral, commensurate with the identified risk. PJM states that collateral requirements can be reduced if the market participant's risk improves from PJM's most recent evaluation of credit risk. PJM further states that a market participant will be declared in default if it fails to provide any required collateral within the cure period applicable.[35]

17. PJM states that if a market participant is determined to pose an unreasonable credit risk under an ongoing credit risk evaluation, PJM may notify the market participant immediately to explain this determination and can issue a collateral call or limit the entity's participation to any PJM market, as necessary, to mitigate the identified risk. PJM clarifies that limitations to participation in PJM markets will only occur if a market participant does not provide collateral, additional collateral, or restricted collateral required by PJM that addresses the unreasonable credit risk.

18. PJM explains that it will communicate any concerns to the applicant or market participant in writing prior to finalizing a determination of unreasonable credit risk determined as a result of either an initial credit risk evaluation, material adverse change, or ongoing credit risk evaluation. PJM explains that it will provide a written explanation of a decision to require collateral to mitigate unreasonable credit risk as part of an initial credit risk evaluation, and an applicant that is rejected due to unreasonable credit risk can file a complaint or other filing with the Commission if it believes PJM's determination is unduly discriminatory or arbitrary.[36] Similarly, PJM states that any provision of collateral required as a result of unreasonable credit risk caused by a material adverse change will be communicated through a written notification and written explanation of the determination.[37] As to market participants that PJM determines pose unreasonable credit risk in ongoing credit risk evaluations, PJM states that they will have five business days after PJM's written notification to provide supplemental information to potentially

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[34] *Id.* at 43.

[35] *Id.* at 52-53.

[36] *Id.* at 44-45.

[37] *Id.* at 52 -53.

reduce the need for additional collateral, and that PJM's final determination will be communicated via a written explanation.[38]

III. Notice of the Filing and Responsive Pleadings

19. Notice of PJM's filing was published in the *Federal Register*, 85 Fed. Reg. 19,470 (Apr. 7, 2020), with interventions and protests due on or before April 21, 2020. Timely motions to intervene were filed by Old Dominion Electric Cooperative, LS Power Associates, L.P., Elliott Bay Energy Trading, LLC, Office of the People's Counsel for the District of Columbia, Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM, FirstEnergy Utility Companies,[39] Calpine Corporation, Public Citizen, Inc., New Jersey Board of Public Utilities, Electric Power Supply Association, East Kentucky Power Cooperative, Inc., Shell Energy North America (US), L.P., NRG Power Marketing LLC, DC Energy, LLC, Vistra Energy Corp. and Dynegy Marketing and Trade, LLC, New York Transmission Owners,[40] J-POWER USA Development Co., Ltd., Financial Marketers Coalition, PPL Electric Utilities Corporation, American Municipal Power, Inc., Boston Energy Trading and Marketing LLC, The Dayton Power and Light Company, Duke Energy Corporation, American Electric Power Service Corporation, Ameren Services Company, Buckeye Power, Inc., Allegheny Electric Cooperative, Inc., Talen Energy Corporation, Enel North America, Inc., Exelon Corporation (Exelon), PJM Industrial Customer Coalition (Customer Coalition), PJM Power Providers Group (PJM Power Providers), Vitol Inc. (Vitol), and Dominion Energy Services, Inc. (Dominion).

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[38] *Id.* at 53-54.

[39] FirstEnergy Utility Companies are: FirstEnergy Service Company, on behalf of the Ohio Edison Company, The Cleveland Electric Illuminating Company, The Toledo Edison Company, Pennsylvania Power Company, Pennsylvania Electric Company, Metropolitan Edison Company, West Penn Power Company, Jersey Central Power & Light Company, Monongahela Power Company, and The Potomac Edison Company.

[40] New York Transmission Owners are Central Hudson Gas & Electric Corporation, Consolidated Edison Company of New York, Inc., Long Island Lighting Company d/b/a Power Supply Long Island, Long Island Power Authority, New York Power Authority, New York State Electric & Gas Corporation, Niagara Mohawk Power Corporation d/b/a National Grid, Orange and Rockland Utilities, Inc., and Rochester Gas and Electric Corporation.

20. Exelon, Customer Coalition, PJM Power Providers, PJM Utilities Coalition,[41] and Vitol filed comments. Dominion filed a protest. PJM filed an answer.

21. Customer Coalition, Exelon, PJM Utilities Coalition, PJM Power Providers, and Vitol support PJM's filing. Customer Coalition states that, as compared to the status quo, the proposed credit rules strike a better, fine-tuned balance between minimizing credit risk and maximizing market participation than the existing rules.[42]

22. Exelon finds particular value in two of PJM's core enhancements: (1) strengthening of "know your customer" policies that will allow PJM to better understand an applicant's financial condition and business risk profile, as well as to better detect changes in a market participant's financial health or risk profile, and (2) the development of better tools that will allow PJM to more appropriately manage credit risk. Exelon asks the Commission to accept these reforms as soon as possible, asserting that it is essential to have credit reforms in place before the next PJM long-term FTR auctions in June 2020.[43]

23. PJM Utilities Coalition supports PJM's proposed changes to better ensure that credit risks are mitigated and that the risk of a default cost allocation occurring in the future is minimized. PJM Utilities Coalition states that PJM's proposed reforms are responsive to the independent report's recommendations regarding credit/collateral best practices, clarification of PJM's risk manager role, "know your customer" risk evaluation process, and practices for managing risks to prevent problems from materializing. PJM Utilities Coalition believes that the proposed reforms are necessary for PJM to better mitigate the risk of market participant defaults which would be socialized across the membership in accordance with the PJM tariff. PJM Utilities Coalition points out that certain market participants that are not publicly traded may need flexibility in producing financial statements or suitable alternative in the timeline envisioned in PJM's proposed tariff revisions due to other financial reporting requirements with which they must comply. PJM Utilities Coalition states that instead of needing to request an extension each year or each quarter that such entities may find themselves unable to meet the

[41] PJM Utilities Coalition is American Electric Power Service Corporation, on behalf of Appalachian Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company, and Wheeling Power Company and AEP Energy Partners, Inc.; Buckeye Power, Inc.; Duke Energy Corporation, on behalf of Duke Energy Ohio, Inc., Duke Energy Kentucky, Inc., Duke Energy Indiana, LLC, Duke Energy Carolinas, LLC, and Duke Energy Progress, LLC; East Kentucky Power Cooperative, Inc.; and FirstEnergy Utility Companies.

[42] *See* Customer Coalition Comments at 2-4.

[43] *See* Exelon Comments at 1-6.

timeline, PJM and the Commission should interpret the proposed tariff language as affording PJM the ability to grant an extension to such entities for all annual and quarterly submittals at the outset of the new rules' implementation. PJM Utilities Coalition requests that the Commission consider its comments and approve PJM's instant filing.[44]

24. PJM Power Providers state that they generally support PJM's filing, but caution that new concerns may be realized as the proposed credit rules are implemented. PJM Power Providers state that the instant proposed revisions are potentially only one of several rounds of revisions and its members look forward to participating in the ongoing PJM stakeholder meetings to address any future concerns. PJM Power Providers conclude by requesting that the Commission accept PJM's filing.[45]

25. Vitol supports PJM's proposed credit rules as an important step in addressing the flaws in its credit practices identified in the independent report and through the stakeholder process. Vitol states that market participants may not, in the ordinary course of business, collect or prepare the information or reports that PJM seeks and it may not be feasible to provide such information even for highly-established creditworthy applicants and participants, but PJM is attempting to deal with such circumstances by requesting more discretion in the information it could seek from applicants or market participants. Vitol further states that this discretion would provide PJM and its participants with flexibility to adapt the information disclosure requirements to fit the particular situation.

26. Vitol notes that if PJM determines that it is collecting information that it is not using or that is not indicative of credit risk, then PJM should consider eliminating the particular reporting requirement or updating it. Vitol further notes that if market participants discover that there are many instances where PJM resorts to discretionary actions, this might be a sign that the credit rules should be updated. Additionally, Vitol states that where the discretionary actions taken by PJM are outsized or overly-burdensome in light of the overall financial health of an applicant or market participant, then it will be prudent for PJM and its market participants to quickly revisit and refine the credit rules to ensure they are not unduly burdensome or costly. However, Vitol explains that PJM has assured its market participants that it does not intend to be overly rigid in how it applies the requirements, is cognizant of the burdens that the amended credit rules might impose on certain market participants, and is seeking discretion to allow it to adapt the requirements as needed to avoid such burdens. Vitol concludes that it is comfortable

[44] *See* PJM Utilities Coalition Comments at 2-8.

[45] *See* PJM Power Providers Comments at 2-3.

with these assurances and requests that the Commission approve PJM's instant filing and encourage PJM to continue to collaborate with its stakeholder to refine its credit rules.[46]

27. While Dominion states that it is generally supportive of the proposal, it raises concerns over specific aspects of the instant proposal. Specifically, Dominion argues that PJM's process for when it uses external credit ratings and when it uses Internal Credit Scores for purposes of determining an entity's Unsecured Credit Allowance is ambiguous and should be clarified.[47] Further, Dominion states that PJM proposes to appropriately utilize a rating agency's credit rating to determine the amount of credit PJM will extend and, if one is not available, then PJM will utilize its own Internal Credit Score.[48] However, Dominion contends that PJM also proposes additional language that would allow PJM to consider the Internal Credit Score even when external credit ratings are available.[49] Dominion claims that this would make it difficult, if not impossible, for an applicant or its guarantor to determine the amount of credit PJM will extend it. Additionally, Dominion claims that this aspect of PJM's instant proposal creates uncertainty because companies do not know which credit rating PJM will utilize to determine a participant's credit score.[50] Dominion requests the Commission direct PJM to revise its proposed tariff language to eliminate this ambiguity so that PJM would use the Internal Credit Score only when an external credit rating is unavailable.[51]

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[46] *See* Vitol Comments at 2-5.

[47] Dominion Protest at 3.

[48] "PJM will use credit risk scoring methodologies as a tool in determining an Unsecured Credit Allowance for each Applicant and/or its Guarantor. As its source for calculating the Unsecured Credit Allowance, PJM will rely on the ratings from a Rating Agency, if any, on the Applicant's or Guarantor's senior unsecured debt or their issuer ratings or corporate ratings if senior unsecured debt ratings are not available. If there is a split rating between the Rating Agencies, the lower of the ratings shall apply. If no external credit rating is available PJM will utilize its Internal Credit Score in order to calculate the Unsecured Credit Allowance." PJM, Intra-PJM Tariffs, Open Access Transmission Tariff, Attach. Q, § II.A.3.

[49] "In instances where the external credit rating is used to calculate the unsecured credit allowance, PJM may also use the Internal Credit Score as an input into determining the overall risk profile of an Applicant and/or its Guarantor." PJM, Intra-PJM Tariffs, Open Access Transmission Tariff, Attach. Q, § II.A.3.

[50] Dominion Protest at 4-5.

[51] *Id.*

28. Additionally, Dominion argues that PJM's proposal does not clearly define the term "unreasonable credit risk." Dominion states that although the proposed revisions in the instant proposal describe potential indicators of unreasonable credit risk, and responsive actions if PJM determines an applicant poses unreasonable credit risk, PJM does not clearly define the term.[52]

29. PJM responds to Dominion's concerns about how PJM proposes to determine Unsecured Credit Allowances. PJM explains that Dominion misunderstands the proposed language and fails to read the provisions together to see how they operate as a whole.[53] PJM clarifies that it is clear that the proposed tariff contemplates external ratings from a rating agency to be but one item for PJM to rely upon in determining an entity's Unsecured Credit Allowance. PJM states that its evaluation of an entity's overall risk profile considers much more than a single, static value from an external source and is an ongoing, dynamic process that considers qualitative as well as quantitative information from multiple sources, including external credit ratings, financial statements, PJM's Internal Credit Score, other "Know Your Customer" information, and any notifications of Material Adverse Changes or other pertinent events. PJM elaborates that this structure for determining an Unsecured Credit Allowance ensures that PJM's ongoing assessment is given meaning, and PJM does not abdicate to a rating agency PJM's responsibility to monitor and mitigate the risk of financial defaults. PJM further elaborates that, given that PJM is determining the level of *unsecured* credit an entity may be allowed, PJM's approach is prudent and reasonable.[54]

30. PJM explains that the focus of the rating agencies' and PJM's Internal Credit Score determinations are different, and thus, it is appropriate for PJM to consider both. PJM further explains that a credit rating published by a rating agency is a generic opinion on the creditworthiness of the entity, while PJM is evaluating whether an entity poses an unreasonable credit risk, based on the likelihood that an applicant will default on a financial obligation arising from its participation in any PJM markets.[55] PJM states that

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[52] *Id.* at 6.

[53] PJM explains that the first sentence of the proposed Tariff, Attach. Q, section II.A(3) states that "PJM will use credit risk scoring methodologies as a *tool* in determining an Unsecured Credit Allowance." PJM further states that then, the proposed tariff goes on to state that "PJM will rely on the ratings from a Rating Agency," (e.g., S&P Global Ratings ("S&P"), Moody's, Fitch, etc.), while PJM will *also* consider the PJM-derived Internal Credit Score "as an input into determining the [entity's] overall risk profile." PJM Answer at 2-3.

[54] *Id*. at 4-5.

[55] *Id*. at 5-6.

rating agencies warn that their credit ratings should not be relied on and are not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. PJM also states that it is well recognized that, while external credit ratings from rating agencies, like Moody's or S&P, provide valuable insight into the creditworthiness of an entity, such ratings are not infallible, as they do not reflect market or liquidity risk and can go stale quickly.[56] PJM concludes that, in recognition of the limitations of external ratings, the instant filing properly balances the benefit provided by the external ratings, by relying on them in determining an entity's Unsecured Credit Allowance and overall risk profile, while also supplementing the guidance the external ratings provide by using the PJM derived Internal Credit Score *as an input* in evaluating an entity's overall credit risk.[57]

31. PJM also responds to Dominion's arguments about PJM's lack of a definition for unreasonable credit risk. PJM states that Dominion does not provide any reasoning or explanation as to why it is necessary for the Commission to direct PJM to define unreasonable credit risk. PJM further states that a defined term would be too limiting and inappropriately confine PJM's ability to manage and mitigate credit risk, thereby increasing risk to all PJM members.[58]

32. In response to PJM Utilities Coalition, PJM affirms that the proposed tariff revisions grant PJM, upon request, the authority to allow entities to provide the required financial statements at a date later than required by the proposed tariff revisions.[59]

IV. Discussion

A. Procedural Matters

33. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2019), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

34. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2019) prohibits an answer to a protest or to an answer unless otherwise

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[56] *Id*. at 6.

[57] *Id*. at 7-8.

[58] *Id*. at 8-9.

[59] *Id.* at 10.

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

35. We find that PJM's proposed revisions are just and reasonable and not unduly discriminatory or preferential, and, therefore, we accept PJM's instant proposal. We agree with PJM that the proposed revisions enhance its rules for evaluating and managing credit risk posed by entities seeking to participate or participating in the PJM-administered markets. We find that, as PJM contends, the instant proposal will enhance PJM's ability to ensure the integrity of the markets that it administers and thereby help ensure just and reasonable rates. We agree with Exelon that strengthening PJM's "know your customer" policies will allow PJM to better understand an applicant's financial condition and business risk profile, as well as to better detect changes in a market participant's financial health or risk profile. Because of these new rules, we find that PJM's proposal will allow PJM to more appropriately manage credit risk. We also find that the instant proposal will provide additional clarity and transparency to market participants. Moreover, we find that the instant proposal will help mitigate the risk of default in PJM's markets, and thus, help avoid market participants from having to bear significant and unexpected costs as a result of another participant's default.

36. We next turn to the disputed issues in this proceeding, raised by Dominion, and the requested clarification by PJM Utilities Coalition. We disagree with Dominion that the lack of a definition for "unreasonable credit risk" makes the instant filing unjust and unreasonable. PJM's proposal provides that, in determining what constitutes unreasonable credit risk, it will consider specific factors or indicators, as described above.[60] In addition to using specific factors and indicators set forth in its tariff, PJM will use its discretion, based on all circumstances at the time, in determining whether there is an unreasonable credit risk. As the Commission has previously recognized, it is impractical to enumerate all of the examples that constitute an unreasonable credit risk, as doing so may unnecessarily limit when an RTO can act to protect its wholesale markets and market participants to only those specified instances enumerated in the tariff.[61] Similar to previous Commission findings, we find that the instant proposal provides PJM flexibility to protect the integrity of the PJM-administered markets, as well as protect market participants from financial losses that result from unreasonable credit risks and defaults, while also providing additional clarity and transparency to market participants.[62]

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[60] *See supra* P 14.

[61] *See NYISO*, 170 FERC ¶ 61,054 at P 32.

[62] *See id.*; *Midcontinent Indep. Sys. Operator, Inc.*, 170 FERC ¶ 61,257, at P 8 (2020).

We also find that providing PJM with discretion to determine when there is an unreasonable credit risk, based on PJM's consideration of the specific factors and indicators set forth in its tariff and all circumstances, is reasonable and consistent with Order No. 741, which allows discretion to an RTO in determining a material adverse change and requiring additional collateral in unusual or unforeseen circumstances.[63]

37. We also find that PJM's proposal provides sufficient transparency to its determination of "unreasonable credit risk" such that the applicant will have the information to understand, and, if necessary, challenge that determination. PJM's proposed tariff revisions provide that PJM will engage in a process to help the applicant or market participant understand PJM's determination and, in doing so, PJM will communicate any concerns to the applicant or market participant in writing. Additionally, for both initial and ongoing credit risk evaluations, PJM will provide a written explanation of its decision to require collateral to mitigate unreasonable credit risk. Further, for ongoing credit risk evaluations, PJM will provide market participants with an opportunity to provide supplemental information to reduce the need for additional collateral, with PJM committing to providing a final determination and explanation in writing. We find that this level of transparency addresses any potential concerns that PJM's determination may be unduly discriminatory or arbitrary.

38. In response to PJM Utilities Coalition's requested clarification that PJM's proposal should be interpreted as providing PJM the ability to provide an extension for all annual and quarterly submittals, we find that PJM's proposal provides an appropriate amount of flexibility to address this concern. As PJM explains in its answer, the proposed tariff revisions grant PJM the authority to allow entities to provide the required financial statements at a date later than required by the proposed tariff revisions. Additionally, as Vitol contends, PJM's proposed degree of discretion will provide PJM and its participants with flexibility to adapt the information disclosure requirements to fit the particular situation.

39. We disagree with Dominion that, rather than using an Internal Credit Score, PJM must take only external credit scores, if they are available, into consideration in order for the instant proposal to be just and reasonable. As PJM explains, it is common for financial institutions and large business organizations to utilize multi-dimensional credit scores and internal ratings of quantitative and qualitative factors as a way to standardize the evaluation of an entity's credit risk. We also note that, previously, PJM was only able to rely on external credit ratings, which as PJM describes in its answer, do not reflect

[63] Order No. 741, 133 FERC ¶ 61,060 at P 147 (stating that the list of conditions under which an RTO/ISO would request additional collateral due to a material adverse change should not be exhaustive and should allow the RTO/ISO to use their discretion to requesting additional collateral in response to unusual or unforeseen circumstances).

market or liquidity risk and can go stale quickly.[64] With the ability to consider both external credit ratings and its Internal Credit Score, PJM will have more insight and visibility into the credit risk posed by a particular applicant or market participant and can react quickly to minimize financial exposure. Further, as PJM describes in its answer, a credit rating published by a rating agency is a generic opinion on the creditworthiness of the entity, while in contrast PJM is evaluating whether an entity poses an unreasonable credit risk, based on the likelihood that an applicant will default on a financial obligation in a PJM market. We agree with PJM that the instant filing properly incorporates the benefits provided by consideration of external ratings, as PJM will rely on them in determining an entity's Unsecured Credit Allowance and overall risk profile, while also supplementing the use of the external ratings with the PJM-derived Internal Credit Score as an input in evaluating an entity's overall credit risk. We find that this aspect of PJM's proposal will allow PJM to have flexibility in ensuring the appropriate amount of Unsecured Credit Allowance is extended, which also further supports PJM's overarching goal of evaluating and managing credit risk posed by entities seeking to participate or who are participating in the PJM markets.

40. We also find that, contrary to Dominions assertions, PJM's proposal is not unreasonably vague. PJM provides the applicant with all the information it uses to determine the applicant's score and its tariff will include five tables detailing the framework PJM will use to assess the quantitative and qualitative metrics for determining Internal Credit Scores. Furthermore, PJM clarifies that it will provide an entity with its Internal Credit Score upon request. Therefore, we find that the applicant will have transparency regarding the two credit scores that PJM could take into consideration – the lowest external credit score and PJM's Internal Credit Score. For these reasons, we disagree that PJM's proposal is unreasonably vague and, instead, find that PJM's proposal provides transparency while also reducing the opportunity for a market participant to deliberatively influence its Internal Credit Score.

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[64] As explained in Order No. 741, "[e]vents in credit markets can change the fortunes of a participant very quickly." Order No. 741, 133 FERC ¶ 61,060 at P 135. As an example of how quickly credit markets can change, the Commission pointed to Lehman Brothers, which "was rated as 'investment grade' by all ratings agencies on Friday, September 12, 2008, only to file for bankruptcy on Monday, September 15, 2008." *Id.* PP 50, 135 n.142.

The Commission orders:

PJM's filing is hereby accepted, effective June 1, 2020, as requested, as discussed in the body of this order.

By the Commission. Commissioner Danly and Commissioner Glick are concurring with a joint separate statement attached.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

PJM Interconnection, LLC Docket No. ER20-1451-000

(Issued May 29, 2020)

DANLY, Commissioner, and GLICK, Commissioner, *concurring*:

1. We support the Commission's approval of PJM's revisions to the creditworthiness provisions of its tariff. Although we are made somewhat uneasy by the breadth of the discretion afforded to the RTO in making creditworthiness decisions, on the whole, PJM's proposal is at least as exacting as others we have approved[1] and is otherwise just and reasonable.

2. These revisions represent an important first step in enhancing PJM's credit risk evaluation process, but they are just that: a *first* step. Further changes should be considered, not only in PJM, but in all the organized markets. In this regard, we note that the Commission has pending before it Docket No. AD20-6-000, a petition to convene a technical conference and initiate a rulemaking addressing credit and risk management procedures across the markets.[2] Docket No. AD20-6-000 represents a timely vehicle for the Commission to engage in a much-needed discussion on these important issues, and we urge the Commission to take advantage of the opportunity afforded by this petition.

For these reasons, we respectfully concur.

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James P. Danly Commissioner	Richard Glick Commissioner

[1] *See, e.g.*, *Midcontinent Indep. Sys. Operator, Inc.*, 170 FERC ¶ 61,257 (2020); *N.Y. Indep. Sys. Operator, Inc.*, 170 FERC ¶ 61,054 (2020).

[2] *See* Energy Trading Institute, Request for Technical Conference and Petition for Rulemaking to Update Credit and Risk Management Rules and Procedures in the Organized Markets of Energy Trading Institute, Docket No. AD20-6-000 (Dec. 16, 2019).