

**UNITED STATES OF AMERICA BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

DC Energy, L.L.C.)	
Complainant)	
)	
v.)	Docket No. EL18-170-000
)	
PJM Interconnection, L.L.C.)	
Respondent)	

Comments of American Municipal Power, Inc.

On June 4, 2018, DC Energy, L.L.C. (“DC Energy”) filed a complaint seeking fast-track processing against the PJM Interconnection, L.L.C. (“PJM”) under sections 206 and 306 of the Federal Power Act (“FPA”) asking the Commission to rule that PJM’s Financial Transmission Right (“FTR”) credit requirements are unjust and unreasonable (“Complaint”).¹ Pursuant to Rule 212 of the Federal Energy Regulatory Commission’s (“FERC” or the “Commission”) Rules of Practice and Procedure,² American Municipal Power, Inc. (“AMP”) respectfully submits comments in response to the above docketed complaint.³

I. Background

DC Energy asserts that PJM’s current FTR credit requirements are unjust and unreasonable and cites to what DC Energy estimated at the time of the Complaint was a potential \$80 million net loss on an illustrative FTR portfolio (“Illustrative Portfolio”) as a result of DC Energy’s estimate of PJM’s current FTR credit policy’s requirement of \$10 million on that Illustrative Portfolio. Since DC Energy filed its Complaint, on June 21, 2018, PJM

¹ Fast-Track Complaint of DC Energy, LLC Regarding PJM Interconnection, LLC’s Credit Policy, Docket No. EL18-170-000, filed June 4, 2018.

² 18 C.F.R. § 385.212 (2018).

³ AMP filed a doc-less Motion to Intervene on June 18, 2018.

announced that GreenHat Energy, LLC (“GreenHat”) defaulted on a PJM invoice issued June 5, 2018, requiring PJM to liquidate GreenHat’s FTR positions. Consequently, a default assessment will be issued to PJM members following the liquidation process; however, PJM stated that it is not able to predict the prices at which GreenHat’s positions will liquidate or the net charges that may accumulate on the positions prior to liquidation. Hence, at this time, PJM cannot estimate the amount of the default allocation assessment but believes it is likely to be in the tens of millions of dollars.

DC Energy requests that the Commission direct PJM to make three changes to its FTR credit policy: (i) establish a \$0.05/MWh minimum credit requirement per FTR bid or cleared; (ii) incorporate references to FTR auction cleared prices in the determination of FTR portfolio credit requirements; and, (iii) revise the current minimum capitalization requirements for FTR auction participation to be scaled to the activity each market participant pursues.

PJM, through the stakeholder process, has been working to address credit vulnerabilities that allow some large portfolios to have little to no credit requirement by selectively choosing offsetting FTR paths. As a holder of FTRs and an entity that posts credit, as well as a market participant, AMP supports reasonable and appropriate collateral requirements required to protect market participants in the event of a default.

II. Comments

A. Minimum Credit Requirements

DC Energy argues that it is unjust and unreasonable and a violation of the Commission’s Order No. 741 to allow open FTR portfolios unsupported by a collateral requirement given that “all FTRs entail some risk, even FTRs that appear to be safe given historical data or that were acquired as a hedge.” Complaint at 22 (citing *Credit Reforms in Organized Wholesale Electricity Markets*, Order No. 741, 133 FERC ¶ 61,060 at P 71 (2008)). DC Energy presents a concrete example of a deficiency in PJM’s FTR credit rules, with which

PJM does not appear to disagree. In fact, PJM has proposed a \$0.10/MWh minimum monthly credit requirement applicable to both FTR bids submitted in auctions and cleared positions held in FTR portfolios, a proposal that received 80% support from PJM's Credit Subcommittee.⁴ In addition to demonstrating the deficiency of PJM's current FTR collateral policy, DC Energy proposes an alternative for the Commission's consideration. Specifically, DC Energy proposes that open FTR portfolios be subject to a volumetric per MWh minimum collateral floor of \$0.05/MWh. Complaint at 29.

AMP supports DC Energy's conclusion that the current rules cannot be considered just and reasonable. Accordingly, AMP also supports a minimum credit requirement on FTR bids and cleared positions held in FTR portfolios. AMP takes no position on whether \$0.05/MWh or \$0.10/MWh is more appropriate but urges the Commission to require some reasonable minimum credit requirement either through this Complaint proceeding or the forthcoming PJM filing.

B. DC Energy's Minimum Collateral and Proportionate Minimum Capitalization Proposals

In addition to DC Energy's minimum credit requirement proposal, DC Energy argues that the Commission should require PJM to impose additional collateral requirements when the expected liability associated with an open FTR portfolio exceeds the amount of collateral a market participant has already posted. Complaint at 32. Additionally, DC Energy proposes to require that minimum capitalization requirements be scaled to the activity each market participant pursues. Complaint at 35.

While AMP does not oppose additional collateral requirements in concept, DC Energy has not demonstrated that basing the additional collateral requirement on the mark-

⁴ See, *FTR Credit Enhancements*, Markets and Reliability Committee (June 21, 2018), available at: <http://www.pjm.com/~media/committees-groups/committees/mrc/20180621/20180621-item-10-ftr-credit-enhancements-presentation.ashx>.

to-auction valuation is just and reasonable. Using a mark-to-auction valuation is unnecessarily complex in that it would be difficult for market participants to predict and monitor and would create a significant movement of money as credit requirements would change after each auction. Similarly, DC Energy's scaling concept requires additional review and analysis. These concepts are being discussed in the PJM stakeholder process and AMP supports further discussion on both. However, at this time, AMP believes the credit requirement supported by DC Energy, PJM and a majority of PJM stakeholders is sufficient to resolve the most immediate concern raised by DC Energy in its Complaint and to provide sufficient protection to market participants in the event of a default.

III. Conclusion

WHEREFORE, for the foregoing reasons, AMP respectfully requests that the Commission grant DC Energy's complaint in part, direct PJM to impose a minimum monthly credit requirement applicable to both FTR bids submitted in auctions and cleared positions held in FTR portfolios and grant such further relief as the Commission may deem appropriate.

Respectfully submitted,

/s/ Lisa G. McAlister

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CERTIFICATE OF SERVICE

I hereby certify that I have on this date caused a copy of the foregoing document to be served on each person included on the official service list maintained for this proceeding by the Commission's Secretary, by electronic mail or such other means as a party may have requested, in accordance with Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.2010.

Dated this the 25th day of June, 2018.

/s/ Lisa G. McAlister
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