UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

PJM Interconnection, L.L.C.	)))	Docket No. ER24-461-000

COMMENTS OF THE INDEPENDENT MARKET MONITOR FOR PJM

Pursuant to Rule 211 of the Commission's Rules and Regulations[1] Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor ("Market Monitor") for PJM Interconnection, L.L.C. ("PJM"),[2] submits these comments responding to the filing submitted by PJM Interconnection, L.L.C. ("PJM") on November 21, 2023 ("November 21st Filing").

The Commission should accept PJM's proposed changes regarding the calculation of the Peak Market Activity collateral requirement, but only on the condition that the Commission reject the component of the filing that would allow participants to reduce collateral obligations by prepaying obligations because it is not supported as just and reasonable and is, in fact, not supported by PJM at all in the filing. This condition would not require PJM's adoption of an "entirely different rate design."[3]

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[1] 18 CFR § 385.211 (2023).

[2] Capitalized terms used herein and not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff ("OATT"), the PJM Operating Agreement ("OA") or the PJM Reliability Assurance Agreement ("RAA").

[3] *See NRG Power Mktg., LLC v. FERC*, 862 F.3d 108, 114 (2017) ("FERC has some authority to propose modifications to a utility's proposal if the utility consents to the modifications").

I. COMMENTS

A. PJM's Backtesting Provides Only Weak Support For The Conclusion That The Proposal Will Allow Better Protection at Lower Collateral Cost.

PJM claims, in summary, (at 8) that its proposals will increase collateral requirements during periods of heightened market activity while reducing surplus collateral as activity decreases.

PJM's backtesting (Attachment C, para. 5) results were based on "weekly invoices from Q1 2020 through Q1 2023, for all PJM members having a 2022 Peak Market Activity in excess of $1,000." PJM states (Attachment C, para. 6) that the results of the backtesting "demonstrated that the proposed revisions will reduce the rate (the 'failure rate') in which the Peak Market Activity credit requirement fails, in any given billing week, to cover the invoices for the immediately preceding billing week, the present billing week, and the immediately following billing week." PJM notes (Attachment C, para. 6) that a "failure" as defined in the analysis was not the equivalent to a default that would cause socialized loss to fall on PJM Members, it was just whether there was sufficient collateral from the proposal to cover the sum of a participant's billing for three weeks (the prior week, the current week and the next week). Based on this metric, PJM states that in backtesting, the PJM proposal resulted in a reduction in "the collateral failure rate from the existing Peak Market Activity provisions (7.6 percent) to the revised Peak Market Activity provisions submitted in this filing (4.9 percent)."

While PJM's testing results are consistent with its proposal, more robust testing is required. More than three years of data should be used in that testing.

B. There Is No Basis for Allowing PrePayment Reductions to Peak Market Collateral Calculations

PJM proposes that "[p]articipants receiving unsecured credit will be allowed to make 13 early payments in a rolling 52-week period in order to reduce its Peak Market Activity for credit requirement purposes—an increase over the current limit of ten (10) early payments in a rolling 52-week period." PJM states (at 6) that in the stakeholder process, several participants "requested an increase in the maximum, as the ability to make early payments to reduce Peak Market Activity assists Participants in managing their PJM credit requirements and reducing collateral costs." PJM (at 6) states "[e]arly payment does reduce credit risk insofar as it reduces the current week's obligation, but this particular change represents an accommodation to Participants that PJM has determined can be made without materially affecting risk." PJM's goal is not to help participants manage credit requirements and reduce their collateral costs. PJM's role is to ensure that credit rules and collateral requirements protect all market participants against default risk.

Unlike its other proposed changes, PJM does not provide an argument and does not provide analysis to support the proposal to allow participants with unsecured credit to make up to 13 early payments (up from 10) in a rolling 52-week period in order to reduce their Peak Market Activity for credit requirement purposes. In fact, PJM provides no basis at all for allowing prepayments to be used to reduce the Peak Market Activity collateral requirements under PJM's proposed rules. Allowing prepayments of a bill to alter the collateral calculation under PJM's proposed changes would undermine all the purported benefits of the new weekly adjusted calculation being proposed.

The proposal to increase the number of early payments from 10 to 13 over a 52-week period that can be used to reduce the Peak Activity collateral requirements may not have had a material effect on credit risk under PJM's existing calculation of Peak Market Activity collateral requirements. However, the use of early payments to reduce collateral requirements would have a serious material and negative effect on the credit risk exposure to PJM's membership under PJM's proposed changes to the Peak Market Activity collateral requirements calculations.

Under the current calculation of the Peak Market Activity collateral requirement, PJM divides the calendar year into two semiannual periods ending in early April and October. Within each semiannual period, each participant must have credit with PJM equal to the greater of initial Peak Market Activity or the sum of the three highest consecutive weeks of total PJM bills ending in that semiannual period (or one or the sum of the highest consecutive two week period if greater than the three highest consecutive weeks combined). The use of prepayments under the current rules allows a participant to reduce a fixed collateral requirement by artificially reducing their apparent market activity. While it is not directly at issue in this matter, there is no good reason to allow any prepayments to reduce collateral requirements.

The effect of prepayments is different under PJM's proposed Peak Market Activity proposal. The proposed and existing prepayment mechanism (whether based on 10 or 13 weeks of prepayment) is not compatible with PJM's proposed Peak Market Activity collateral requirement that resets weekly. PJM's proposal to calculate the Peak Market Activity collateral requirement on a weekly basis creates a direct connection between the credit risk of a participant's more recent market activity and collateral requirements. Allowing the use of prepayments under the proposed rules would allow a participant to artificially reduce their apparent near term (in the last one, two, three and four week period) market activity and thereby break the connection between their actual market activity and ongoing credit risk exposure. Allowing prepayments to affect the weekly calculation of Peak Market Activity would, for example, undermine the calculation of the actual collateral risk in periods when market activity is increasing, as prepayments would work to artificially reduce apparent market activity in the calculation. Prepayments of bills for market activity does not eliminate or reduce the associated market activity any more than paying a bill on time eliminates or reduces the associated market activity. Prepayment of bills should not eliminate or reduce any collateral requirements based on market activity.

C. The Commission Should Accept PJM's Basic Proposal and Reject the Prepayment Proposal.

The Commission should accept PJM's proposed changes regarding the calculation of the Peak Market Activity collateral requirement, but only on the condition that the Commission reject the component of the filing that would allow participants to reduce collateral obligations by prepaying obligations because it is not supported as just and reasonable and is, in fact, not supported by PJM at all in the filing. This condition would not require PJM's adoption of an entirely different rate design.

II. CONCLUSION

The Market Monitor respectfully requests that the Commission afford due consideration to this pleading as the Commission resolves the issues raised in this proceeding.

Respectfully submitted,

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Dated: December 12, 2023

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 Eagleville, Pennsylvania,
this 12th day of December, 2023.

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