



Initial Margin Filing Next Steps

March 9, 2022

Nigeria Bloczynski
Chief Risk Officer
Special RMC

PJM Members Committee voted for **FTR Credit Requirement revisions including adoption of HSIM model with 97% confidence interval (CI)** in Oct. 2021.

PJM filed its **Initial Margin filing with HSIM at 97% CI** on Dec. 21, 2021, supplemented Feb. 2, 2022.

Comments were filed by OPSI, the IMM, Joint Consumer Advocates and Joint Filers.

Comments **supported the adoption of a CI**

- OPSI urging FERC to issue a Notice of Deficiency
- IMM urging FERC to order PJM to implement 99% CI and include a specific timeline to get to 99% CI

FERC issued an order Feb. 28 rejecting PJM's FTR Credit Requirement revisions including HSIM 97% CI as unsupported by the record.

FERC found PJM proposed use of HSIM model at a 97% CI was not supported by the record.

- Lower aggregate collateral amounts to be collected
- PJM failed to demonstrate how the FTR Credit Requirement is calibrated to ensure Market Participants will be required to provide adequate collateral relative to risk of positions
- Lack of evidence that adequate margin will be in place for riskiest FTR counterparties
- Recent defaults in the FTR markets

FERC had concerns regarding imposing use of HSIM model at a 99% CI.

- Unspecified transition to go from 97% CI to 99% CI
- Concern that some participants may unwind their portfolios

FERC cited concerns that the existing FTR Credit Requirement is no longer just and reasonable and instituted a 206 proceeding. FERC also recognized that PJM could propose revisions to its tariff in a 205 filing.

FERC order appears to provide support for moving to 99% CI.

Core Objectives

- Move to HSIM based FTR credit requirement expeditiously to achieve more protection for members.
- Ensure market certainty (clarity on FTR credit requirements)

Potential Paths

- Seek rehearing
- Make a 205 filing
- Respond to FERC's 206 docket

PJM prefers to make a 205 filing and is seeking feedback on certain issues.

PJM Considerations

- Unlikely FERC would grant rehearing given the basis for rejection was lack of evidentiary support on utilizing a 97% CI
- PJM did not seek 99% CI in the hearing
- May create market uncertainty during rehearing

For the above reasons, PJM does not currently intend to seek a rehearing.

Pursue 205 filing at 99% confidence interval (end of March)

- Meets core objective of moving from status quo to an enhanced HSIM approach
- Provides some certainty, as FERC would have 60 days to rule*
 - Continue using current FTR credit requirement for 22/23 FTR Auction, May and June 2022 BOPP/Monthly Auctions
- Transition to new credit requirement*
 - Long-Term FTR Auction (June 2, 2022)
 - All existing and future FTR transactions

* Subject to FERC approval

As an aid to Market Participants, PJM will endeavor to have available an FTR Credit Calculator, which Members can use to determine their collateral requirements at the 99% CI.

- Provides transparency of resulting collateral movements
- Provides additional time for funding increases
- Provides opportunity to adjust positions

Most efficient path to adoption of the HSIM 99% CI and quickest FERC ruling.

If PJM were to make a 205 filing, we would provide 7-days notice and consultation per Section 9.2 of the OATT, and as such would not intend to seek a vote

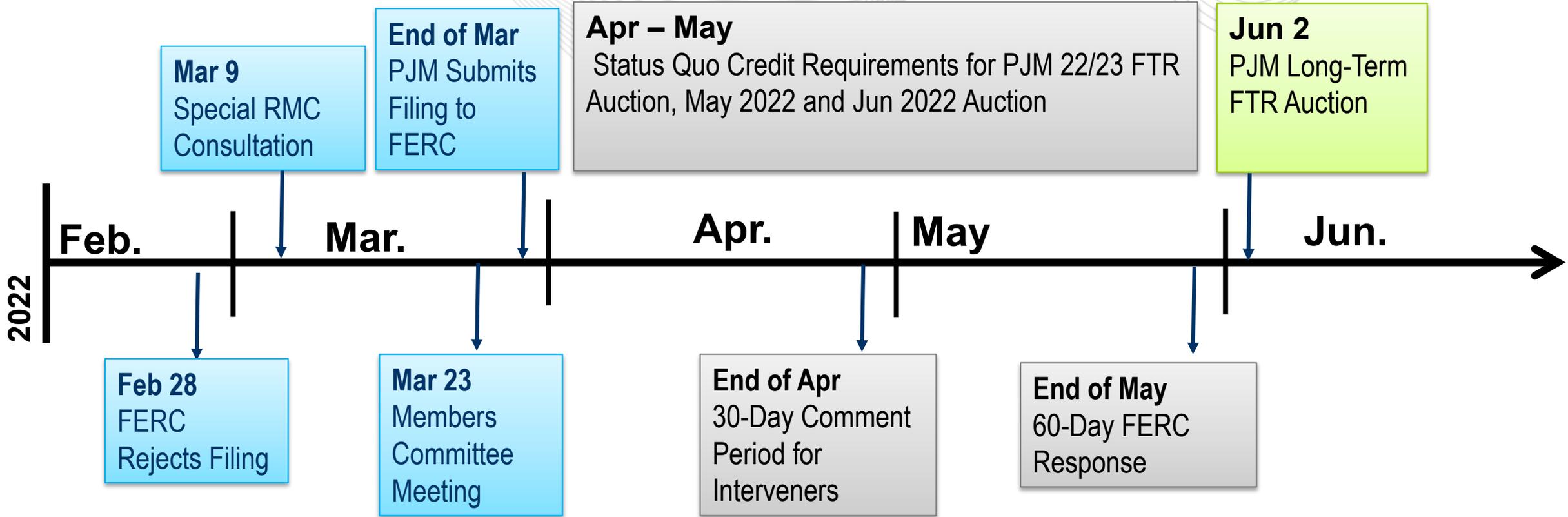
Potential Timeline

- Consult with Members at MC (March 23)
- Obtain Board support for 205 filing
- Notice to Transmission Owners at TOA-AC
- 205 filing by the end of March
- 206 response, which is due on or before April 29 our filing will point to the 205 filing

Potential 205 filing at the end of the March

- Consult with the MC on March 23.
- PJM expects that upon FERC approval, the new FTR Credit Requirement would apply to existing and future FTR portfolios.
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- If we pursued this path and FERC approved our filing, PJM expects that the new FTR Credit Requirement would be in place for the June Long-Term Auction.
- As an aid to Market Participants, PJM will endeavor to have available an FTR Credit Calculator, which Members can use to determine their collateral requirements at the 99% confidence interval.

Feedback will be collected between now and March 15th, through a survey link which will be provided after the meeting.



Existing FTR positions would be required to transition to revised FTR Credit requirement if approved by FERC. Impacts include collateral reductions and increases.

Facilitator:
Jim Gluck, Jim.Gluck@pjm.com

Secretary:
Emmy Messina,
Emmy.Messina@pjm.com

SME/Presenter:
Nigeria Bloczynski,
Nigeria.Bloczynski@pjm.com

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Member Hotline

(610) 666-8980

(866) 400-8980

custsvc@pjm.com

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