



Initial Margin Filing Next Steps

March 23, 2022

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Chief Risk Officer
Members Committee

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.

- Stakeholders overwhelmingly agree that HSIM methodology is an improvement over Status Quo
- Recognizes that PJM and its Members are concerned with tail risk and aims to mitigate as much of it as possible
- Using a higher confidence interval provides more coverage of tail events, protecting not only Members, but ratepayers too.
- Realigns collateral requirement from market participants commensurate with the risk in their portfolio such that collateral increases for riskier portfolios and is reduced for less risky, more balanced portfolios

- Russia/Ukraine conflict continues to affect global commodities markets
- U.S. Securities & Exchange Commission issued a rare public warning around this volatility.
- Urged close monitoring of counterparty risk and to collect margin or collateral from counterparties to the fullest extent possible.
- Significant swings in oil prices generate more margin
- Market Participants that do not hold sufficiently liquid assets can face significant financial stress from sudden large margin calls.

PJM Still Recommends 99% CI.

PJM held two meetings to **share its current thinking on a recommended path and to seek feedback**

March 9 Special RMC

March 14 TOA-AC

PJM also **sought feedback by an electronic feedback form** through March 15

20 stakeholders representing all five sectors provided feedback through the form

Seek a vote prior to making a 205 filing

Seek rehearing

Make a 205 filing in support of a 97% CI with stronger support for this level (and some suggested a transition to get to 99% CI)

Make a 205 filing in support of a 99% CI (and some said with expedited timeline)

PJM has listened to feedback and supports seeking a Member vote today to inform its decision on how to move forward with this issue.

We understand there is a motion today to seek a vote on several potential filings:

99% CI

97% CI with a transition to 99%
for the 2023/2024 Annual FTR Auction

97% CI

We appreciate this feedback but PJM believes it is unproductive to seek rehearing for the following reasons:

FERC rejected the filing as “unsupported by the record”

FERC found “the lack of support regarding how the HSI model used at a 97% confidence interval establishes reasonably calibrated collateral levels for riskier portfolios” “particularly in light of the significant recent defaults involving the FTR market”

These issues cannot be addressed on rehearing as additional evidence would be necessary to meet the burden proof and FERC procedural rules prohibit the introduction of additional evidence on rehearing

May create market uncertainty during rehearing, particularly if FERC grants rehearing for further consideration and wraps consideration into the 206 proceeding.

PJM agrees with this feedback, for the reasons articulated in prior slides

HSIM methodology is an improvement over Status Quo

Better protection of ratepayers and Members

Brings PJM closer to the standards generally used in other commodity markets

Recent market volatility

PJM heard the feedback that some would like us to make this filing in an expedited manner and we will consider that as we move forward in this process

We heard feedback that PJM did not fully support the 97% CI

PJM stands behind its filing

PJM does not believe there is a high probability of success in such a filing, even with additional support as long as there continues to be protests to the 97% CI

We heard from some that refiling 97% with a transition may be a better option, and we agree that, with a defined transition we may satisfy the concerns raised by some stakeholders and could improve the odds of success

A member vote today on all three options will provide PJM valuable input on next steps.

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