Financial Risk Management Senior Task Force

Financial Transmission Right (FTR) External Counterparty Clearing

March 24, 2021

Megan Heater – Controller
Steve Lawson – Assistant Treasurer

PJM Analysis: Treasury Work Stream

Treasury

Line of credit necessary to support PJM Settlement variation margin requirements

- Line of credit sizing
- Line of credit structure
- Estimated costs

Line of Credit Sizing

Nodal Exchange sizing analysis is complete:

- $750 million minimum base line of credit required with accordion for an additional $500 million recommended
- Facility supported by $500 million in fronted letters of credit
- PJM review in process to validate Nodal Exchange sizing analysis

Line of Credit Structure

Based on lender discussions, below are the likely line of credit components:

- Syndicated facility which could include at least 5–8 different banks based on total line of credit capacity required
- Tenor – up to three years with a one-year extension option available
- Pricing will include both drawn LIBOR (or similar benchmark) spread and undrawn commitment fees
- Transaction fees:
  - Structuring fee – payable to lead bank
  - Upfront fee – payable to each participating lender based on their respective allocations

Fronted Letter of Credit Structure

Below are the likely letter of credit (LC) components:

- Fully collateralized LC backed by a bond from an insurance provider, posted from PJM to Nodal Clear
- LC would be issued by a syndicate of banks, providing diversification from Nodal institutions and letter of credit providers
- 12- to 18-month term with auto-renew provision
- Transaction costs:
  - Bond rate and fronting fee to bond provider, structuring fee to LC-issuing bank
  - Interest on drawn LC

PJM Analysis: Treasury Work Stream

Line of Credit Estimated Costs

	Variation Margin Line of Credit	Fronted Letter of Credit
Capacity	$750,000,000 ($500,000,000 accordion)	$500,000,000
Term	3 Years	12 -18 months with auto renew provision
Interest rate basis	Variable at LIBOR + 1.25%	TBD – (above market)
Current interest rate Annual drawn costs	1.37% **$2,247,000**	TBD Interest paid on balance of LC drawn
Unused commitment fee Annual unused costs	0.175% **$1,025,000**	None
Closing / upfront fees	0.30% **$2,250,000**	Included below
Arrangement fee / upfront fee	0.075% **$563,000**	Included below
Bond rate, fronting fee, fee to LC-issuing bank	None	.85%-1.00% **$5,000,000**
Total First Year Costs **Total Annual Costs Year 2 & 3**	**$6,085,000** **$3,272,000**	**$5,000,000 plus interest on drawn LC** **$5,000,000 plus interest on drawn LC**

Cost Analysis

- Incremental expense to support external clearing, including, but not limited to:
    - Line of credit and fronted letter of credit to support PJM Settlement, Inc. variation margin requirements
    - Settlement bank expense
    - Headcount – market operations, market settlement, treasury
    - System modifications – market operations, market settlement, treasury, controller
- Incremental expense associated with external clearing would need to be recovered under separate FERC-approved Tariff schedule

Cost Analysis: Incremental Expense (Estimated)

Cost Assignment	Year 1	Ongoing
Line of credit/fronted letters of credit	$11,085,000*	$8,272,000
Settlement bank cost	TBD	TBD
Employee support	250,000	250,000
System modifications	750,000	-
	$12,085,000	**$8,522,000**

*$6.085 million line of credit expense, $5 million fronted letter of credit expense

Origination costs will increase to Year-1 levels every fourth year in conjunction with re-establishment of the borrowing facilities; average cost per year of $9.4 million

Cost Analysis: Incremental Expense

Member expense, external to PJM:

- Exchange fees
- FCM fees