

**1. Do you have concerns with the proposed concept of PJM requiring audited financials for Market Participants? (Slides 7 and 8)**

“Company” supports PJM requiring audited financials for all Market Participants. However, audited financials is just one of many tools PJM should use as part of its financial risk mitigation program.

a not for profit cooperative is subject to different financial auditing requirements as compared to an investor owned energy company. We are concerned that if PJM requires audited financials that we do not currently produce through our auditing requirements we may be saddled with additional requirements that cannot be met or will add extra layers of complexity and additional costs to our current processes.

Audited financials may not be available for the level of the PJM Member, just the holding company further up the corporate organization.

Barriers to Entry for new MP. Propose unaudited acceptable until year end financials are audited and available. Until then if a new MP wants to join then additional collateral must be posted and they are limited to the size they are allowed to transact

For a long-time PJM existing and trustworthy member company with simple balance sheet (such as with only cash assets and no debt or liabilities at all), not much new information gained for PJM by audited financials. But the company would be burdened with higher operating costs and time-consuming logistics.

How many members currently provide audited financials (%)? What % of members would be affected by the change?

It should a firm requirement, not a concept.

Our companies don't generate audited financial statements, only our parent does.

Requiring audited financials is nonsensical. PJM penalizes you if you don't, by requiring a larger collateral amount posted that you can't transact against. Audits are about \$10,000 and a huge disruption for smaller companies.

Slide 7 - Our firm can be comfortable with the requirement for a Market Participant to provide audited financial statements so long as the audited statements are submitted for the parent that provides an LOC or parental guarantee on behalf of the Market Participant. It is standard practice for financial statements to be audited at the parent level, audited financials are not produced at the subsidiary level and, as such, it would be unreasonable and not industry practice for PJM to expect subsidiary level audited financial statements.

Some companies do not have stand-alone audited financial statement at the Market Participant (i.e. affiliate company) level. In the past PJM has accepted audited financial statements of parent organizations that consolidate these affiliates. We would like to confirm this would continue to be acceptable for this purpose.

some of our facilities are not audited and this could be time consuming and costly

The concerns are simply that one size may not fit all, and we need to be sure that public power (municipalities and cooperatives) isn't saddled with a requirement that can't be met. They may need to provide other information about their financials, but their auditing requirements are going to vary considerably depending on their authority, and may be substantially different from standard corporate requirements.

The requirement to have audited financial statements is appropriate to determine in determining the amount of unsecured credit to allocate to a member. If a market participant does not have audited financial statements they should have an avenue to participate in the market as long as they are properly collateralized and they have posted a separate amount of collateral that is appropriate for the risk they are taking in the markets with regard to volume and tenor.

<p>We favor increasing collateral postings over disclosing financial statements. Sufficient collateral would solve the problem from the onset. Furthermore, private entities will not want to disclose their financials.</p>
<p>We support the requirement of audited financials, but want to ensure there are reasonable exceptions for affiliates, subsidiaries and the like. For example, a wholly owned subsidiary should not be required to have separately audited financials if all of its activity is included in its parent's audited financials.</p>
<p>Yes Although our company generally agrees that PJM only accept audited financial statements, for market participants that have a corporate guarantor, PJM should accept audited financials from that corporate entity.</p>
<p>Yes. Audited financial statements at the Market Participant level should not be required if a Market Participant is guaranteed by a company that has audited financial statements prepared according to US GAAP or IFRS.</p>
<p><b>2. Do you have concerns with the proposed concept of PJM implementing best practices around Know-Your-Customer (KYC) rules? (Slides 9 - 22)</b></p>
<p>"Company" supports PJM implementing best practices around Know-Your-Customer (KYC) rules. However, regarding disclosure of "energy market criminal or civil litigation within the last five years that resulted in criminal penalties and/or enforcement actions," "Company" recommends that this requirement be expanded with respect to criminal litigation such that it applies to any criminal litigation (i.e., not just energy market-related) and that it all apply to affiliates, certain principals, and ultimate parent companies. However, with respect to civil litigation, "Company" agrees that this requirement should be limited to actions related to energy markets.</p>
<p>Any policies/procedures that allow PJM to request additional collateral and/or limit, suspend or ban market participation should be clearly and unambiguously defined in the tariff. PJM should only be able to exercise discretion to request additional collateral and/or limit, suspend or ban market participation under circumstances that could not have been reasonably anticipated.</p>
<p>As with all retail suppliers, we are faced with civil litigation and or enforcement investigations at the state level that are usually small in scope and dismissed in most cases. This particular part of the PJM proposal seems to place an undue burden on retail suppliers.</p>
<p>But i need more details</p>
<p>For a new PJM member company, the establishment of initial position, term and tenure limits might make sense. But for a long-time PJM existing and trustworthy member company, those limits might disrupt the continuation of the member company's business. PJM ought to consider a grandfather clause exempting certain existing member companies with the following qualifications from the limits ---at least 10-year PJM membership ---at least 10-year PJM FTR market experience --- only participating in the prompt month FTR auction ---excellent credit history (no any default) ---have demonstrated excellent risk management ---have helped PJM improve and shape the LMP and FTR markets ---have made positive contributions to the design of the PJM wholesale power market</p>
<p>Implementation is necessary. I am concerned about the training and guidance given to those who are implementing the KYC procedures. What does the escalation process entail?</p>
<p>Increased collateral would be a superior solution. Disclosing orders to show cause, when the company is not found guilty is a concern. If found guilty this would be ok though. We are concerned with the administrative burden of this solution. Also, the past does not guarantee the future, so the fact that a company has a perfect track record does not preclude it from committing an ulterior offense. This is why we believe protection lies in the collateral requirements.</p>

Know your customer stuff is a bit extreme. However, in our opinion it would do more to protect from default than audited financial statements. So to implement both of these proposals is overkill.

KYC is a must.

Placing limits/bans at all is certainly reasonable. The mechanisms for doing so need to be clear. If there will be no formula or prescribed action for making a limit/ban determination (which is reasonable), at least the factors being considered need to be enumerated, as well as the process for considering them. One concern we have is for the determination to be the CRO's recommendation to the Risk Steering Committee. Seems like it should be the other way around - for a committee of multiple people to generate the recommended action for approval by the CRO. Otherwise it would be like the President making laws and asking Congress to approve them -- it gives too much power/influence to the President. Also, making this determination before auctions would be much better than doing so after a participant places bids in an auction. Would PJM ever make some ban or limit after bids are placed and during the auction clearing? If so, how would the mechanics work? In the case of limits, how would it be determined which positions are limited? There's no good way for this to happen during auction clearing.

Slide 10, bullet point 2: they should also disclose any investigations or allegations, not just litigation: you are looking for a PATTERN of behavior

Slide 13 - Generally, our firm is supportive of PJM protecting its Market Participants through expanding the due diligence of the entities participating in PJM markets, however, we caution that, without a clearly defined and transparent framework for Market Participants to rely on, any potential action from PJM could, without warning, limit or possibly even suspend an entities' ability to conduct its normal course of business and execute its defined risk management program.

Slide 10 - There should not be a requirement to disclose anything more than an Order to Show Cause or other official document from an agency because any other action in an inquiry or investigation does not constitute evidence of any wrong-doing.

Slide 9 - Our firm appreciates that one size does not fit all in the evaluation of a Market Participant, however, the concepts that PJM is proposing grants PJM an unreasonable degree of latitude through which it could impose disruptive actions on a Market Participant that has not behaved in a problematic manner. In addition, PJM's proposed concepts lack procedural elements as to actionable triggers, notifications, recourse/resolution/remedy and duration of said actions.

Slide 18 - PJM should not view a below investment-grade rating as the major determinant of risk, or use it to impose limits on an entity's ability to participate in PJM markets. Entities with "steel-in-the-ground" that utilize PJM markets to appropriately manage risk through the ability to hedge around such assets should not be subject to position, term or tenor limits. Market Participants already provide PJM with their prudent Risk Management Policies that demonstrate the risk tolerance of the entity. PJM presumably reviews those policies to ensure that they provide adequate risk protection. By limiting an entity's ability to fully participate in PJM markets and execute its risk management strategy, PJM will create more risk for the entity, as it will be unable to hedge around its assets.

Slide 15 - PJM needs to clearly define its proposed concepts to create a solid foundation for entities to participate in the PJM markets. Ambiguity in triggers, limits, suspension, or other limitations will cause market disruptions.

As a Market Participant, the concerns that arise from PJM's unfettered discretion in its proposal far outweigh the potential benefits of protecting against a future default.

We believe that the KYC rules as proposed will add substantial administrative effort and cost for both PJM and members. We would like PJM to provide a summary of the expected personnel and cost increases that will result. To the extent possible, we would also like PJM to clarify that its requirements will be consistent with other financial counterparties (banks, clearinghouses, etc.). For

slides 14-22 (PJM discretionary authority on limiting, suspending or banning participation; position, term and tenor limits), we would want PJM to provide as much clarity as possible on specific criteria that would be used. Some discretion may be needed, but it is important to demonstrate evaluation process is fair and objective. Additionally, regarding position limits, we would like to know what information will be made public. That is, will the limits themselves (both the fact that they exist, the participant they apply to and their amount) be known publicly? Will participants' utilization of the limits be known publicly? And will any market activity suspension resulting from the limits be made public?

We do not have an issue with the proposed concept of PJM implementing best practices around KYC and asking the due diligence questions in the presentation. Our concern is around how PJM plans to use the information. Having the ability to limit, suspend or terminate a member should be well defined in the tariff and agreed upon by the membership. If a market participant is adequately collateralized then some of the information requested may not be relevant for decision to limit, suspend or terminate a membership.

We support more robust disclosure obligations and more frequent KYC evaluations, but want to make sure that we aren't inadvertently requiring disclosure of events of which the participant isn't aware or isn't able to disclose (e.g. non-public investigations - we believe this is being addressed through comments already made). We further want to make sure that non-final actions and/or events that involved no admission of liability or guilt are used as the basis of adverse action against a participant.

We would like to see PJM establish an exemption for hedgers for position limits.

Yes - We agree with the concept but rules should be non-discriminatory and limited to the information that PJM needs to know with transparent consequences and clear confidential treatment.

Yes, what is the rationale behind the 5 year look back? Regulatory commissions have banned individuals for life. Also, the KYC should not be restricted to just the top 4-5 principals. What is the rationale behind that restriction? KYC process is to Know-your -Customer, not just the 4-5 top principals. PJM should be given a bit more latitude, especially for LLCs or closely held companies. Slides 14-22 deal with a different matter and response to this question should not impact those issues.

### **3. Do you have concerns with the proposed concept of PJM incorporating knowledge of default history for Market Participants? (Slides 23 - 25)**

Merger without assumption: you have to perform ALL KYC evaluations of the assuming/surviving company or this is meaningless.

No if it's within PJM's jurisdiction. Yes, if it considers cross default and default under other scenarios outside of PJM's jurisdiction. PJM needs to clarify this part of their proposal, potential include a threshold default amount.

PJM states on slide 25 "Note: the above 3 situations are typically not capable of being remedied and should result in immediate default, as soon as the facts have been clearly established." While our company agrees with this, PJM should have the ability to temporarily suspend a participant. Waiting until the facts have been clearly established could take a long time in which the situation deteriorates.

PJM should carefully consider how it will consider affiliate defaults and individuals associated with prior defaults. PJM should also incorporate flexibility into its sliding scale when determining the severity of defaults.

Slide 24 - Our firm supports Financial Default and Credit Support Default as an event of default. Our firm requests that the Breach of Credit Policy event of default be defined further as the key components of credit default have been captured in Financial and Credit Support Default.

Slide 25 - The events of bankruptcy, merger without assumption and default under third party transactions should only be seen as an event of default with respect to PJM if they directly impact the entity's obligations to PJM. Transactions in other markets or with other counterparties should be outside the PJM scope of review and should not be a concern. In addition, there has been a history of bankruptcies and mergers in the merchant generator space with no corresponding defaults impacting PJM Members. As such these events should not result in an immediate default.

The concern is the one day to remedy if a request is made by 1pm. Considering wire rooms at banks usually have cutoffs between 3 and 3:30 to send a wire, one long meeting could result in a participant going into default. Time is too short when you have to rely on bankers to get stuff done for you.

The criteria for determining a default has occurred under other certain transactions needs to be more specific and there should be certain thresholds (do not want to trigger an Event of Default if a small payment is not made, etc.) We believe the 1 day cure period may be onerous for some market participants and note that enabling agreements may be set up to allow for 2 days to respond to margin calls with certain clearing houses.

We do not have an issue with the proposed concept of PJM requesting default history. Our concern is around how PJM plans to use the information. Having the ability to limit, suspend or terminate a member should be well defined in the tariff and agreed upon by the membership. If a market participant is adequately collateralized then some of the information requested may not be relevant for decision to limit, suspend or terminate a membership.

We need to better understand how PJM would define vi on page 25.

Yes - We agree with the concept but rules should be non-discriminatory with transparent consequences and should be based on material payment defaults that are not cured in ISO markets within a stated time period,

#### **4. Do you have concerns with the proposed concept of PJM implementing credit risk scoring models that incorporate various financial ratios and other factors such as, industry characteristics, financial risks, and the nature of the business? (Slides 26 - 30)**

"Company" supports PJM implementing credit risk scoring models that incorporate various financial ratios and other factors. However, "Company" recommends that PJM establish alternative criteria sets that an entity could use to qualify as a market participant. In the table below, "Company" has relabeled PJM's proposed criteria set as Criteria Set 1 and has added a new Criteria Set 2. For Tiers 1-3, Criteria Set 2 would focus primarily on an entity's tangible net worth. "Company" believes that an entity with sufficiently high tangible net worth poses lower risk to PJM's members in the event that entity's posted collateral is insufficient to cover its full collateral obligations. For Tiers 1-2 under Criteria Set 2, "Company" has added an additional requirement that the entity be "Prudentially Regulated," which "Company" intends to mean that the entity, or its parent or a controlling or managing entity, is registered with and subject to regulation by a U.S. prudential regulator or the Securities and Exchange Commission or the Commodity Futures Trading Commission. "Company" believes such entities should qualify for a higher tier given the level of oversight by such regulatory agencies. For Tier 4, the criteria would be the same under Criteria Sets 1 and 2. Finally, "Company" has added a requirement that every entity, regardless of which criteria set is chosen and which tier is applicable, must provide audited financial statements and a \$5 million collateral posting in the form of either cash or a letter of credit that is to be held in escrow by PJM and either used in the event of a default or returned to the entity when it is no longer a PJM market participant and all of its financial obligations have been met. (We will forward the referenced table to Michele and Anita since we cannot embed it in the survey response.)

don't like the differentiation between financial participants and physical participants. I think it goes down a dangerous and inaccurate path.

For reasons stated above, providing financial statements could be a problem.
I would not have issues if I believed that PJM's credit department could handle the sophistication of the modeling but I do not have confidence they could execute.
Implementing credit risk scoring models makes sense. However, how to apply credit risk scoring system to new and existing member companies could be complex and needs time and experience. Before PJM starts to deploy the scoring system, PJM ought to review the possible score with each member company to get feedback and to be truly Know-Your-Customer. In order not to disrupt the continuation of the member company's business, PJM ought to carefully implement credit scores for certain existing member companies with the following qualifications: ---at least 10-year PJM membership ---at least 10-year PJM FTR market experience ---only participating in the prompt month FTR auction ---excellent credit history (no any default) ---have demonstrated excellent risk management ---have helped PJM improve and shape the LMP and FTR markets ---have made positive contributions to the design of the PJM wholesale power market Also, because of the GreenHat default, PJM and member companies focus more on the small-cap credit risk. However, small-cap credit risk might cost member companies just a lot of money like Greenhat, but large-cap credit risk might make the entire power market stop working, like Lehman Brothers.
In principle, we are supportive. We do think it is the right policy to differentiate among credit risks as a way to protect against "fly-by-night" entities. However, this requires a level of judgment and discretion on the part of ISOs in general (this will be a precedent for other ISOs) that they have not historically demonstrated. We are concerned about the ISOs' ability to balance protection against default with not overly restricting open access given that credit management has historically been a non-discretionary tariff based process. The issue is tricky. We also want to emphasize the importance, with such a discretionary process, of market participants being able to communicate with PJM to ensure they receive a fair hearing and that the unique specifics of their company's strategy and risk management procedures so this can be accounted for in the credit scoring.
In the past, most ideas floated by the IMM and others regarding scoring models was discriminating in nature, as a means to limit smaller firms from access to the markets. Market liquidity and competitiveness requires different players access. we dont support any policy that uses risk scoring or other metrics as a means to exclude players.
It is not clear why such models would be necessary for participants in markets that do not allow for the use of unsecured credit (ex. FTRs). Cash collateral requirement should be designed to cover reasonably anticipated credit risks. If such models are used then the models themselves and the actions PJM will take based on the models will need to be clearly and transparently documented in the tariff.
My concerns are with the physical v. financial participant's differentiation. I think it furthers a stereotype that has plagued market participants for a long time.
My concerns are with the physical v. financial participants differentiation. I think it furthers a stereotype that has plagued market participants for a long time..
NO, Generally speaking, if PJM implements such a scoring model, it must be fully transparent. No black box model.
PJM should treat all market participants equally and not make distinctions between classes of market participants in this regard.
slide 26 should also include changes in regulations
Slide 28 - Our firm supports sound, industry-accepted credit scoring models, however, the appropriate metrics need to be incorporated, and PJM should not be establishing its own credit scoring model. Basing credit scoring on investment grade status and certain financial metrics does not tell the whole story. Asset-backed entities utilize PJM markets to reduce their risk profile by

hedging their assets. To subject these entities to MtM, concentration, or position limits will restrict the entity's ability to manage its risk and, in turn, could lead to more market instability.

TBD

The qualitative part of the scoring needs to be clearly defined. Also, what all will the credit risk score be used for? Any evaluation of participants? For limits, bans, base capital minimum, something else? Also, rules that penalize new companies need to be carefully constructed. Specifically, we are concerned we would be penalized as a relatively new participant even though we operated under a different entity as a PJM participant for several years. There needs to be some mechanism for cases like this -- where the entire company either ACTUALLY changed names or EFFECTIVELY changed names (since legally in our case, a new entity was created under which we are now operating, as opposed to changing the name of the first entity).

We agree with the concept and that these factors should be considered for a risk scoring model. However, we have concerns about the transparency in how the risk scores would be utilized to limit auction participation and position sizes of participants. We are concerned that the risk scores could be unfair, punitive and discriminatory towards non-public companies, particularly those that do not have established credit ratings and may not take into proper account that private companies can be creditworthy market participants without requiring additional requirements or subject to punitive limits or other measures. Risk scores often do not adequately measure private companies, in particular private or proprietary companies that trade financial products. This concern arises from the example PJM provided where an investment grade credit rating would be required to participate in the annual and LT auctions.

We have no concerns with the concept generally, but we need to be cognizant that a number of market participants are not publicly traded or rated companies. For those entities, the majority of the potential metrics listed for review are qualitative assessments of the entity's exposure, which alone isn't an indicator of creditworthiness or likelihood of default.

We have no issue with the implementation of a credit risk-scoring model but we think that it should be mainly used only for the allocation of unsecured credit. In the conduct of our own business, we utilize a credit risk scoring model in determining size and the term of the unsecured credit limit we grant a customer. This is not a limiting factor because if the customer is willing to provide satisfactory collateral that covers the risk of the transaction we will do business with the customer. We believe that, if a credit risk-scoring model is implemented at PJM, it should drive how a member's unsecured credit is determined in all markets and it should not be limited only to the FTR market. Additionally we believe that PJM should not independently develop a model that needs constant review to deem if it is still appropriate but should use publicly available credit models that are utilized and have already been vetted by the industry.

We request that PJM provide: 1) more detail on the incremental level of cost and personnel implementing the credit scoring methodology will require, and 2) more detail on the proposal itself, including (but not limited to): What ratings considerations will PJM utilize? How will PJM define "industry sectors"? Which financial ratios will PJM utilize? How will market participants be assessed under the approach (by parent company, voting member, by individual affiliate)? What rating outcome ranges will PJM utilize? What will limits, thresholds, collateral requirements etc be under various rating ranges/outcomes? Without this specific information it is difficult to discern what the impact of PJM's proposal will be for member companies. We would also like to understand whether PJM plans to outsource any portion of this effort.

While generally supportive of the proposal, stakeholder need more details - particularly on the following: What ratings considerations will PJM utilize? How will PJM define "industry sectors"? Which financial ratios will PJM utilize? How will market participants be assessed under the approach

(by parent company, voting member, by individual affiliate)? What rating ranges will PJM utilize? What will limits, thresholds, collateral requirements etc be under various rating ranges/outcomes?
while valuable, using industry standards to judge any one entity can be risky or unfairly discriminatory
Yes, we have concerns. PJM can not get that info for small privately held companies like us. Therefore, I can see PJM giving us a terrible score without us having any input. I presume a terrible credit risk score would require additional collateral etc.
<b>5. Do you support further pursuing the Nodal Exchange proposal?</b>
among our main reasons against the proposal are: 1) Additional costs (Nodal + FMCs + unknown) 2) regulatory complexity: FERC x CFTC 3) Not the most effective way to address the task force goals 4) lack of transparency regarding credit requirements, roles between PJM/Nodal
As it stands, the proposal would not work. However, as a long-term project, there elements of a clearing market that might work for PJM. A task force dedicated to studying this would have to resolve the problems.
concept is complicated, not all MPs will be able to clear, MPs that don't clear will leave residual risk in PJM, cost
However significant hurdles with respect to market coverage and cost remain.
I support further investigation of the Nodal exchange proposal. I have not decided whether to support implementation.
If Nodal Exchange can build arbitrage-free future/forward curves for sources/sinks of FTRs positions, then it could be considered. But we don't think the correlations of those nodal future/forward curves can be calculated in time.
If Nodal is voluntary, still need a PJM fix for those that remain. The same amount of PJM FTR market reform needs to be done regardless if voluntary Nodal ever put in place.
If the cost allocation for the Nodal Exchange proposal is done correctly (i.e. those members electing to utilize Nodal Exchange to clear their FTRs pay the costs), and the remaining issues (as listed in question 8) are resolved, this could be a viable option. As such we believe it should be pursued (at least until we determine it is not financially viable or the remaining issues are insurmountable)
It appears too early to take this potential option off the table. We encourage reviewing this, along with other potential solutions.
My concern is that PJM appears willing to scratch the Nodal proposal because it is hesitant to ask the CFTC for permission to allow Nodal to take approximately 10% of the FTR assets. This appears to be throwing out the baby with the bath water.
Need more details, particularly with how Nodal could return unwanted risky positions to PJM.
Not sure about the Nodal Exchange proposal.
seems like a major option to move risks away from the membership.
The Nodal proposal, at a minimum, does not provide a complete option for running the FTR auction. It leaves a bifurcated market with some FTR holders going to Nodal with others staying with PJM which seems to add additional risk to all participants.
There are too many unanswered questions on how a Nodal Exchange will potentially work, so we cannot support it at this time. We are concerned that some adverse risks include liquidity risks, daily margining requirements, potentially more risk in the FTR only market if only credit worthy customers move to the Nodal exchange etc. which will not be beneficial to PJM members as a whole
There are way too many unknowns, and not a clear enough benefit to PJM Members. The entire structure is intended to address default risk, which is something we have improved and will continue to improve on the PJM side, and creating a two-market system (with some FTRs in the PJM system, and others in the Exchange) adds complication without significant benefit.



<p>There should have been the option to vote "Possibly". We voted Yes only to keep the discussion going. We believe we need additional discussion to render an informed decision of Yes or No.</p>
<p>This is a way for PJM to play to its strength (operating energy / capacity / ancillary service markets and ensuring reliability) while allowing Nodal Exchange to provide services from its strength (compartmentalizing risk, not putting PJM's members into danger of another FTR default, using an existing successful platform)</p>
<p>voluntary so limited success and bifurcated holdings, fees</p>
<p>We believe we need to evaluate all of the pros and cons of migrating to third party clearing. To complete this analysis we need to understand and compare the Nodal proposal with the PJM proposal. We will also need to evaluate cost structures with each proposal. This information is very important and we hope PJM can release their proposal and the cost structures as soon as possible. At this point, we lack sufficient information to make a firm determination one way or the other.</p>
<p>We do not support the proposal as long as it bifurcates the PJM FTR market as present.</p>
<p>We do not support the proposal as long as it proposes to bifurcate the PJM FTR market.</p>
<p>We do see benefit in this proposal for larger companies that also trade OTC. Being that we are a smaller firm we probably wouldn't participate immediately</p>
<p>We need more information on the costs of PJM's credit enhanced FTR market vs the costs of the bifurcated Nodal/PJM Proposal.</p>
<p>We need to know more information regarding the Nodal Exchange proposal in order to determine our position and therefore support further exploring the proposal.</p>
<p>We should have a full comparison of the Nodal proposal versus the PJM alternative (with costs and benefits for both laid side by side).</p>
<p>We support further exploring the proposal, but we have a number of concerns and there are far too many issues to properly evaluate whether we could support the actual proposal and implementation of same. At some point, we can't further evaluate the possible structure without investing more time into these questions/issues, and we don't want to invest that time without knowing that there is serious interest in the proposal. We don't know where the balance is between the two - but we can provide the feedback that, similar to a number of other participants, we continue to have questions about the costs and logistics of the proposal.</p>
<p>We want to be able to compare the Nodal proposal to the PJM proposal.</p>
<p><b>6. In regards to managing default risk specific to the FTR/ARR market, do you support an external clearing option, e.g. Nodal Exchange proposal?</b></p>
<p>"Company" does not currently support an external clearing option in regards to managing default risk specific to the FTR/ARR market. "Company" believes PJM can achieve comparable terms of creditworthiness on its own through an appropriate risk-scoring model. Reliance on an external clearing option will result in unnecessary expenses, in terms of funding and fees, for market participants.</p>
<p>among our main reasons against the proposal are: 1) Additional costs (Nodal + FMCs + unknown) 2) regulatory complexity: FERC x CFTC 3) Not the most effective way to address the task force goals 4) lack of transparency regarding credit requirements, roles between PJM/Nodal</p>
<p>Based on the expressed desire of PJM to do parallel risk evaluations (and the changes already made), it would seem that from a risk mitigation standpoint ONLY, the Nodal Exchange proposal is not necessary for the protection of the market.</p>
<p>concept is complicated, not all MPs will be able to clear, MPs that don't clear will leave residual risk in PJM, cost</p>

However significant hurdles with respect to market coverage and cost remain.
I support further investigation.
If Nodal Exchange can build arbitrage-free future/forward curves for sources/sinks of FTRs positions, then it could be considered. But we don't think the correlations of those nodal future/forward curves can be calculated in time.
If Nodal is voluntary, still need a PJM fix for those that remain. The same amount of PJM FTR market reform needs to be done regardless if voluntary Nodal ever put in place.
If PJM were able to develop collateral call mechanisms as strict as those from Nodal Exchange, this might eliminate the need for external clearing.
In general we support this idea. However, requiring participants to work with Nodal's existing FCMs could potentially be problematic for smaller participants. FCMs generally have size limits for clients they're willing to work with. We support this as long as a participant who can't find an FCM to clear their trades is allowed to keep their FTRs at PJM.
need more information
No, for the same reason as in #5 -- it adds complexity without a clear and significant benefit.
Not sure about the Nodal Exchange proposal.
PJM Settlement should be the entity that performs the clearing. PJM Settlement may want to contract with an expert service provider like Nodal Exchange.
Similar reasons as stated in question 5
There should have been the option to vote "Possibly". We voted Yes only to keep the discussion going. We believe we need additional discussion to render an informed decision of Yes or No.
Undecided, but as stated, it appears too early to take this potential option off the table. We encourage reviewing this, along with other potential solutions.
We are still considering this option. Need more information on benefits and cost comparison between Nodal and PJM proposals.
We believe we need to evaluate all of the pros and cons of going to third party clearing. To complete this analysis we need to understand and compare the Nodal proposal with the PJM proposal. We will also need to evaluate cost structures with each proposal. This information is very important and we hope PJM can release their proposal and the cost structures as soon as possible. At this point, we lack sufficient information to make a firm determination one way of the other.
We can support an external clearing option but not as proposed.
We can support an external clearing option provided it is for 100% of the FTR market, but not the current proposal.
We could support the concept, but not under the current Nodal proposal. Details on how this could work would need thorough review.
We need more information on the costs of PJM's credit enhanced FTR market vs the costs of the bifurcated Nodal/PJM Proposal.
We need to know more information regarding the Nodal Exchange proposal in order to determine our position and therefore support further exploring the proposal.
Without more structured proposals, it is too soon to express a preference.
Yes, because PJM will never have the personnel or the personnel with the expertise to monitor the FTR market. PJM needs to employ an outfit that has that expertise.
<b>7. Please select your preference on how PJM should manage risk mitigation in the FTR market moving forward?</b>

among our main reasons against the proposal are: 1) Additional costs (Nodal + FMCs + unkown) 2) regulatory complexity: FERC x CFTC 3) Not the most effective way to address the task force goals 4) lack of transparency regarding credit requirements, roles between PJM/Nodal
An external clearing model should be reviewed further. PJM should retain the existing ARR/FTR allocation/conversion construct for LSEs. An external model should be considered for the entire residual grr market.
Based upon comments made and answers to 5 and 6
Comment on Question 7: In principle, we believe that PJM is better situated to provide a proper credit model compared to external clearing. However, we can't endorse it until we have seen it! Comment on question 8: Our number 1 issue/concern with the Nodal Exchange proposal is not listed in question 8. We do not believe that clearing members will support clearing of the FTR market in sufficient depth to have the proposal be viable.
Currently we do not have enough information to determine whether we support third party clearing or PJM Enhanced Model. We will need more information on methodology and costs before we can form an opinion.
External clearing may be acceptable, but certainly not as currently proposed. More detail is needed in order to consider an external mode.
I don't have enough detail about each proposal to make a determination. I would value the opinion of an external independent expert on each proposal.
it depends... on the specifics of the rules of each. Either could be better than the other depending on the details.
Needed a third option, TBD, for this response.
Our preference in this binary choice reflects the fact that we do not see the External Clearing Model as a viable solution today for PJM's FTR market. However, we feel strongly that PJM should avoid overly sophisticated and intricate model calculations, relying instead on a simple and transparent margin model, supplemented by external market providers of FTR risk calculations and robust industry standard know-your-customer and credit monitoring policies.
PJM current credit policy has worked extremely well to manage the credit risk for the prompt month FTR positions. Looking at the historical defaults in PJM FTR market, from PJS Capital and Power Edge to Green-Hat, the default amount of the prompt month FTR positions of those companies could have been covered by their collaterals. Those companies went to default and had a big impact because they had large FTR positions beyond the prompt month. Therefore, PJM ought to focus more on the credit risk caused by taking FTR positions longer than prompt month.
PJM should not reinvent the wheel. It will likely cost more to develop and implement than going with Nodal Exchange. PJM should pursue common-sense reforms for the other markets based on the Independent Consultants Report on the Green-Hat default.
See above. Further, PJM has not given stakeholders a PJM Enhanced Model. What is PJM going to do that it hasn't done thus far.
Stakeholders need more information on both models and both models have significant attributes and drawbacks.
Start with PJM enhanced, then move it to external, all of it!
suggests that future discussion papers and proposals begin incorporating into the risk management components certain concepts/rules that recognize the risk differences between the FTR Obligation and FTR Option product. For instance, please begin to discuss how initial margining may be calculated for the option vs obligation product. Also, we would like to see the above comments be incorporated into the market participant risk scoring modeling.

<p>The clearing model needs more study to see how it could be made to work within the PJM framework.</p>
<p>The Nodal Exchange proposal should be investigated as an option to members so long as those members electing the option bear the cost and outstanding issues can be resolved.</p>
<p>We believe separate risk pools are important. FTR default risk should only be borne by FTR market participants. If FTRs are transferred to an external exchange, the risk should be eliminated altogether from PJM participants. Risk from FTRs left in PJM should be attributed to participants who have not transferred their FTRs outside of PJM. Only as a last resort should non FTR market participants be exposed to FTR credit risk, and adequate rules should be implemented to avoid that situation to the extent possible. That said, while we support external clearing, if PJM were able to develop collateral call mechanisms as strict as those from Nodal Exchange, this might eliminate the need for external clearing. This should be further explored.</p>
<p>We need more information on the costs of PJM's credit enhanced FTR market vs the costs of the bifurcated Nodal/PJM Proposal.</p>
<p>We need to know more information regarding both how PJM Enhanced Model and the Nodal Exchange proposal would work in order to determine our position so we do not have a preference [question forced me to answer one so I just left it at first option].</p>
<p>we should enhance the PJM model or make clearing mandatory, we don't currently support voluntary clearing</p>
<p>We voted on one of the choices only because we had to vote for one or the other. We believe additional discussion/analysis/information is required to make an informed decision of which option to choose.</p>
<p>Without more details regarding the costs and logistics of the External Clearing Model (and what PJM would still do in parallel), this is difficult to answer.</p>
<p>Without more structured proposals, it is too soon to express a preference.</p>