



Organization of PJM States, Inc. (OPSI)

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November 10, 2021

The PJM Board of Managers
c/o Mark Takahashi, Chairman
c/o Mr. Manu Asthana, PJM President and CEO
PJM Interconnection L.L.C.
2750 Monroe Boulevard
Audubon, Pennsylvania 19408

Dear Mr. Takahashi and Mr. Asthana,

Last month the PJM Members Committee endorsed proposed Tariff changes to establish Initial Margin requirements for collateral in the Financial Transmission Rights (FTR) markets. This proposal recommended establishing a 97% confidence interval for collateral requirements. OPSI notes that the proposal is inconsistent with the recommendation of PJM's Chief Risk Officer (CRO) that PJM adopt a 99% confidence interval, which is the established clearinghouse industry standard adopted by the Commodity Futures Trading Commission and other authorities worldwide.¹

Adopting a 99% confidence interval would substantially fortify the FTR market by protecting against market losses due to excessive speculation and low margin requirements which put participants and end use customers at greater risk of paying for defaults. Striving to adhere to established clearinghouse industry standards and the recommendations of PJM's CRO – charged with overseeing PJM's credit and collateral policies and defining appropriate mitigating controls – will help to insure this protection.

Having carefully considered the issue with regard to risk exposure and consequences to ratepayers, OPSI unanimously recommends the PJM Board of Managers direct PJM to amend Attachment Q of its tariff for use of a 99% confidence interval consistent with industry standards.

¹ These include but are not limited to the Australian Prudential Regulation Authority, the Japan Securities Clearing Corporation, the Basel Committee on Banking Supervision, and the International Organization of Securities Commissions.

In the alternative, if PJM wishes to make the 97% a first step to an eventual 99% confidence level OPSI requests the PJM Board to file at FERC, along with the proposed amendments to Attachment Q, a commitment that the 97% confidence level is a first step of a three year phase-in proposal to eventually reach a 99% confidence interval consistent with industry standards. To ensure the phase-in to 99%, OPSI requests that the tariff filing establish a 98% confidence level to go into effect in one year and then the 99% confidence level to go into effect one year later. In such a phase-in filing PJM should also clearly articulate why it believes the additional risk exposure to market participants and end use customers over the phase-in period is acceptable.

Although OPSI regrets that it was not able to provide its views prior to action by the Members Committee, it is compelled to opine on this important issue and thanks the PJM Board of Managers for its careful consideration of this matter.²

Sincerely,

A handwritten signature in black ink that reads "David L. Ober". The signature is written in a cursive style with a large initial "D" and "O".

David Ober, President
Organization of PJM States, Inc.

² Approved unanimously by the OPSI Board of Directors on November 8, 2021.