



FEDERAL ENERGY REGULATORY COMMISSION

NEWS

March 26, 2008
Docket Nos. ER08-376-000, ER08-455-000 and
ER08-520-000

News Media Contact
Barbara A. Connors -202.502.8680

FERC Accepts PJM Tariff Revisions to Address Volatility, Risk

The Federal Energy Regulatory Commission (FERC) has accepted two of three proposals by the PJM Interconnection L.L.C. to revise its credit policy regarding Financial Transmission Rights (FTRs) in the wake of defaults by Power Edge LLC in PJM's market. These tariff provisions establish collateral requirements that will help PJM manage the risk and volatility of certain positions taken by traders in the FTR auction markets PJM has established.

The order requires PJM to make a compliance filing with respect to a few provisions related to financial security and bidding requirements. The proposals take effect April 1.

"These two PJM proposals better correlate collateral requirements with risk exposure in the FTR market, and help ensure continued reliable and reasonably priced electric power for PJM customers," FERC Chairman Joseph T. Kelliher said. "It is critical that PJM establishes adequate credit requirements for all participants."

In the third proposal, PJM proposed to set off a company's FTR default against FTR market revenues that PJM would otherwise have paid to the defaulting company's affiliates. The FERC order found that such a proposal would not address the perceived flaw in PJM credit policies, which may be present regardless of whether a company is affiliated with other participants in the market. Accordingly, the order rejected PJM's proposal to offset affiliate revenue.

With respect to that proposal, FERC noted that its Office of Enforcement began a non-public investigation in January into the activities of Power Edge and its affiliates in PJM's FTR markets. That investigation, FERC said, is the appropriate context in which to examine whether rules have been violated and, if so, whether a remedy is warranted.

"PJM's proposal to generically treat affiliated corporate structures differently than single companies participating in the FTR market will not address the perceived flaw in its credit policies, which may be present whether a company is or is not affiliated with other participants in the market," FERC said.

PJM, a mid-Atlantic regional transmission organization (RTO), is required to make long-term firm transmission rights or equivalent tradable financial transmission rights, available under FERC regulations. These rights allow load-serving entities (LSEs) to deliver their output or purchased energy using the transmission grid to meet the LSE's service obligations. FTRs permit load to schedule delivery of energy from the source generator to the load without having to pay congestion costs over the transmission line. FTRs act as a hedge against expected transmission congestion costs.

To monitor PJM's progress, FERC directed PJM to file status reports on its credit policy every 90 days for two years beginning May 1, 2008.

(30)

R-08-24

