

FEDERAL ENERGY REGULATORY COMMISSION  
WASHINGTON, D.C. 20426

October 14, 2005

In Reply Refer To:  
PJM Interconnection, L.L.C.  
Docket No. ER05-1351-000

PJM Interconnection, L.L.C.  
955 Jefferson Avenue  
Valley Forge Corporate Center  
Norristown, PA 19403-2497

Attention: Matthew Morais  
Counsel for PJM Interconnection, L.L.C.

Reference: Revisions to Section IV.A of Attachment Q, PJM Credit Policy of PJM  
Open Access Transmission Tariff

Dear Mr. Morais:

1. On August 16, 2005, you submitted on behalf of PJM Interconnection, L.L.C. (PJM), revisions to section IV.A of Attachment Q, PJM Credit Policy (Credit Policy), of the PJM Open Access Transmission Tariff (Tariff). The purpose of the revisions is to expand the scope of investment options that PJM may offer to PJM Market Participants, Transmission Customers, and PJM Members (collectively, Participants).
2. Notice of PJM's filing was published in the *Federal Register*, 70 Fed. Reg. 50,314 (2005), with interventions or protests due on or before September 6, 2005. DC Energy, LLC (DC Energy) filed a motion to intervene and comments. Mittal Steel USA ISG Inc. filed a motion to intervene. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2002), the timely unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.
3. Section IV of the Credit Policy prescribes the forms of financial security that are authorized under the Tariff, if necessary, for participation in the relevant PJM markets and/or for receipt of transmission service within the PJM region. PJM states that it accepts only cash and letters of credit as financial security, in accordance with the Credit

Policy. Section IV.A of the Credit Policy addresses the manner in which PJM is required to manage cash that PJM members post as financial security. The Credit Policy specifically requires that PJM place cash deposits in a depository account, where the funds earn interest at PJM's overnight bank rate; no other investment options/alternative forms of cash equivalent collateral are authorized.

4. According to PJM, in response to the request of a PJM Member that PJM offer alternative investments for cash deposits, PJM investigated alternative investment options/forms of cash equivalent collateral that would strike the appropriate balance between ensuring that the principles of the Credit Policy are not compromised, and providing the opportunity for Participants to increase their return on cash deposited with PJM pursuant to section IV.A of the Credit Policy. PJM further explains that it is proposing to discount the value of alternative forms of collateral consistent with the degree of risk in order to not compromise the effectiveness of the Credit Policy. Accordingly, PJM states, a Participant who elects to place its cash deposit in a discounted investment alternative would be required to post additional financial security to account for the discount.

5. PJM proposes in the instant filing to amend section IV.A of the Tariff to permit PJM to establish "an array of investment options . . . [which] shall be comprised of high quality debt instruments, as determined by PJM . . . ." As explained above, the proposed Tariff revision also would permit PJM to identify discounts in collateral value that will be taken to reflect any liquidation, market and/or credit risk presented by the alternative investments.

6. The proposed revision also provides that, "[w]here practicable, PJM may establish a means for the Participant/Member to communicate directly with the bank or financial institution to permit the Participant/Member to direct certain activity in the PJM account in which the Participant/Member's financial security is held." PJM explains in its transmittal letter that this proposal will facilitate the expeditious transfer of Participants' funds to and between alternative investment options, though PJM acknowledges that it has not fully investigated the details of this option and will exercise this provision only if it determines that the provision poses no material risk to the liquidity or value of the cash collateral received.

7. The proposed revision also requires PJM to establish and publish procedural rules, identifying the investment options and respective discounts. PJM notes in its transmittal letter that it has developed draft procedural rules which were presented to stakeholders prior to the final endorsement votes on the Tariff revisions.

8. DC Energy, explaining that it requested the PJM membership consider alternative forms of collateral, supports the proposed Tariff changes and requests that the Commission accept the proposed amendments. At the same time, DC Energy also requests that the Commission encourage PJM to offer a wider variety of low-risk securities and to allow Participants to frequently change their investment selection. DC Energy explains that PJM is now considering four investment options, of which market participants may choose one, and that PJM will allow Participants to change investment choices once per year.<sup>1</sup> DC Energy argues that the proposed revisions would have more value with more than four investment options and with the ability of Participants to more frequently move their funds among the various alternatives.

9. The Commission finds that the proposed revisions to the Credit Policy provide Participants with increased flexibility in handling their own collateral by providing the ability to earn a greater return on cash deposits made with PJM, while not exposing the larger membership to greater credit risk. The revised Credit Policy is, therefore, accepted to become effective October 15, 2005, as requested. The Commission recognizes that PJM is still examining the investment vehicles it will offer, and PJM may offer Participants as extensive an array of investment options and as much flexibility to move deposits among the available investment options as is reasonable and practicable so long as doing so does not jeopardize its creditworthiness protections.

By direction of the Commission.

Magalie R. Salas,  
Secretary.

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<sup>1</sup> The Commission notes that nowhere in the instant filing or in the proposed revised Tariff sheets does PJM describe these choices, though, as stated above, PJM does refer in a footnote to draft procedural rules that have been developed and presented to stakeholders.