127 FERC ¶ 61,017
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Suedeen G. Kelly, Marc Spitzer,
and Philip D. Moeller.

PJM Interconnection, L.L.C. Docket No. ER09-650-000

ORDER ACCEPTING PROPOSED TARIFF REVISIONS,
SUBJECT TO CONDITIONS

(Issued April 3, 2009)

1. On February 3, 2009, PJM Interconnection, L.L.C. (PJM), submitted for filing, pursuant to section 205 of the Federal Power Act (FPA),[1] proposed revisions to the PJM Open Access Transmission Tariff (OATT) and Amended and Restated Operating Agreement (Operating Agreement). In its filing, PJM proposes to revise its existing credit policies by implementing: (i) weekly billing and payment in place of monthly billing and payment for a majority of invoice line items; (ii) a corresponding reduction in the per-member Unsecured Credit Allowance; (iii) elimination of the Unsecured Credit Allowance for future Fixed Transmission Rights (FTR) trading; and (iv) procedures authorizing PJM, upon the occurrence of a default, to close out and liquidate the defaulting participant's forward FTR positions.

2. For the reasons discussed below, we accept PJM's proposed tariff changes, subject to conditions, to become effective, as requested, on April 6, 2009, as to PJM's FTR-specific tariff changes (i.e., with respect to PJM's proposed rules eliminating the use of unsecured credit in FTR markets and introducing FTR close out and liquidation remedies in the event of a default). We accept PJM's remaining tariff revisions to become effective, as requested, on June 1, 2009.

[1] 16 U.S.C. § 824d (2006).

Background

3. PJM states that its filing is the second in a series of three anticipated filings addressing PJM's credit policies.[2] PJM states that its third filing, which it expects to make on or before June 1, 2009, will address, among other things, clarification and definition of the commercial and legal relationship of PJM to its market participants in the context of both pool and non-pool transactions.

A. Weekly Billing and Payment

4. PJM proposes to revise section 7 of the PJM OATT (and add a new companion provision in the PJM Operating Agreement) to address billing and payment matters. PJM proposes to retain its monthly billing practices of certain transactions for which weekly billing are not feasible. PJM states, however, that for all other transactional activity, covering approximately 95 percent of the value of all market transactions, weekly billing will be utilized. PJM states that, as such, the existing payment interval will be reduced from 13 days to generally less than three days (non-inclusive of certain holiday allowances). PJM states that with this change, PJM's billing and payment exposure cycle will be reduced from 60 days to approximately 20 days. PJM also proposes revisions in Attachment Q to the calculation of a participant's Peak Market Activity (used to determine its total credit requirement) to reflect weekly billing and settlement activity. PJM adds that the implementation of weekly billing will also reduce the level of unsecured credit required to support a participant's market transactions.

B. Unsecured Credit Allowance

5. PJM states that while the implementation of weekly billing will reduce a participant's unsecured credit obligations, weekly billing will also require a corresponding reduction in a participant's Unsecured Credit Allowance. PJM explains that, currently, a participant's maximum Unsecured Credit Allowance ($150 million) is based on a 60-day exposure cycle, i.e., on an exposure period that, under weekly billing (as noted above), will be reduced to only 20 days. PJM states that, as such, its existing Unsecured Credit Allowance, if not changed, would permit approximately 70 percent of

[2] *See PJM Interconnection, L.L.C.*, 126 FERC ¶ 61,084 (2009) (implementing a shortened period to cure defaults and making other revisions). PJM states that additional filings addressing these issues were submitted by PJM in 2008 in response to defaults in the annual FTR auction for the 2008-2009 planning period. *See PJM Interconnection, L.L.C.*, 123 FERC ¶ 61,323 (2008); *PJM Interconnection, L.L.C.*, Docket No. ER08-570-000 (April 3, 2008) (unpublished letter order); *PJM Interconnection, L.L.C.*, 122 FERC ¶ 61,279 (2008), *order on compliance*, Letter Order, Docket No. ER08-376-001, *et al.* (April 10, 2008) (unpublished letter order).

all PJM transactional activity to occur without the support of posted financial security, an allowance that would effectively triple the current maximum daily average unsecured transaction level.

6. To address this mismatch, PJM proposes to reduce, by two-thirds, the Unsecured Credit Allowance for individual member companies, including a reduction in the maximum allowance, from $150 million to $50 million. PJM is proposing separate rules for affiliates because it asserts the financial failure of one company can cascade across affiliated companies. PJM reasons that the pool will be made less risky if the exposure presented by Unsecured Credit Allowances is not overly concentrated among a subset of related participants. Therefore, PJM proposes to establish a $150 million affiliated group aggregate Unsecured Credit Allowance cap.

7. PJM states that, currently, a participant that has maintained a net sell position in PJM's markets for each of the prior 12 months, i.e., the sellers to whom PJM has owed money, is allowed a Net Seller Credit as an additional form of unsecured credit equal to two-thirds of the participant's third smallest monthly net sell position over that 12-month period. PJM states, however, that with weekly billing, a reduction in the amount of this credit is necessary in order to reflect the shorter net sell position period that may be accumulated by a participant. Thus, PJM proposes to set the Seller Credit Allowance at 60 percent of a member's thirteenth lowest week in the past 52 weeks. Therefore, PJM proposes to change the eligibility requirements for the Net Seller Credit Allowance from participants that have maintained a Net Sell Position in PJM for each of the prior 12 months to participants that have maintained a Net Sell Position in PJM for each of the prior 52 weeks.

C. Unsecured Credit Allowance for FTR Transactions

8. PJM proposes to eliminate the use of an Unsecured Credit Allowance for all FTR transactions. PJM asserts that the credit risks associated with FTRs are different (i.e., more risky) than the risks presented by any other PJM service. PJM states that this is so because the forward elements of the product present risk that its value may move before delivery is due. According to PJM, the value of an FTR is derivative of future congestion, which in turn is dependent on numerous difficult to project factors, such as the weather and the availability and performance of physical assets on the system. Finally, PJM explains that the FTR products are relatively illiquid and infrequently traded, making price discovery and the dynamic valuation of positions challenging. While PJM seeks an April 6, 2009 effective date for its FTR credit changes (in time for PJM's upcoming FTR auctions for 2009-2010 planning period), PJM states that its FTR credit changes would not apply to open positions acquired in previously conducted auctions.

D. Termination and Liquidation of Defaulting Members FTR Positions

9. PJM states that, currently, it does not have the authority to close out and liquidate the forward month FTR positions of defaulting members, an absence of authority which, it claims, leads to increased risks for its members who are required to cover the default. PJM states that keeping these positions open also produces uncertainty regarding the valuation of the default and can complicate any claim or remedy to be pursued by PJM to collect the defaulted amount.

10. Accordingly, PJM proposes new tariff language, at Attachment K of the PJM OATT (and in a companion provision in the PJM Operating Agreement), authorizing PJM, upon a default of a PJM member, to close out and liquidate forward that member's FTR positions.[3] PJM states that if it is unable to liquidate the FTR positions of the defaulting member, the close-out will be deemed null and void and the full final value of the FTR positions will be realized at the normal time for performance of these positions. PJM states that termination of a defaulting member's FTR positions followed by a liquidating auction and a close out netting of any proceeds against liabilities will allow PJM to potentially recoup a portion of a defaulting member's liability that may arise from the default. PJM adds that the authority it seeks is consistent with the practices in place in both over-the-counter markets and exchange type markets.

Notice of Filing and Responsive Pleadings

11. Notice of PJM's filing was published in the *Federal Register*, 74 Fed. Reg. 7414 (2009), with protests and interventions due on or before February 24, 2009. Motions to intervene and notices of intervention were timely filed by the Indiana Utility Regulatory Commission (Indiana Commission); Reliant Energy, Inc. (Reliant); Exelon Corporation (Exelon); American Municipal Power – Ohio, Inc. (AMP-Ohio); Illinois Municipal Electric Agency (IMEA); Hess Corporation (Hess); North Carolina Electric Membership Corporation; PSEG Companies (PSEG); Allegheny Energy Companies; Macquarie Cook Power Inc.; Constellation Energy; Dominion Resources Services, Inc.; Old Dominion Electric Cooperative; DC Energy, LLC (DC Energy); Dayton Power and Light Company (DP&L) and PJM Industrial Customer Coalition (Industrial Customers). Motions to intervene out-of-time were submitted February 26, 2009, by Pepco Holdings, Inc.

[3] PJM states that these closed out positions would be offered for sale by PJM in the next available monthly FTR auction (or in a special auction in the event that the next regularly scheduled FTR auction is scheduled more than two months subsequent to the date that the member is declared in default) at an offer price designed to maximize the likelihood of liquidation.

(Pepco), and March 6, 2009, by American Electric Power Service Corporation (AEP). Comments in support were filed by the Indiana Commission, Reliant, the Industrial Customers, DC Energy, and DP&L. Protests and comments were submitted by, Exelon, AMP-Ohio, IMEA, Hess, PSEG, Pepco, and AEP. On March 10, 2009, PJM filed a motion for leave to answer and answer to protests. Motions for leave to answer and answers were filed by Hess on March 16, 2009 and DC Energy on March 19, 2009.

12. Comments generally supportive of PJM's filing were submitted by the Indiana Commission, Reliant, DP&L, DC Energy and the Industrial Customers. The comments generally assert that the revisions will strike the appropriate balance between the need for adequate market liquidity and the need to protect the financial integrity of the wholesale markets by reducing credit risk exposure to PJM's members. While the Industrial Customers believe that the proposed revisions will reduce both the frequency and severity of default to PJM members, while not unduly burdening market participants, it also states that the Commission should now begin to address market design elements that create increased customer exposure to credit risks. The protests and other comments, however, raise concerns with PJM's proposals related to accelerated settlements, Seller Credit, and Unsecured Credit Allowances.

13. Hess argues that while the move from monthly to weekly settlements for the collection of amounts due to PJM would create benefits, it is also not without cost. According to Hess, the traditional billing cycle for end-use customers is a monthly billing cycle, as is required by state regulatory authorities so Load Serving Entities (LSEs) face a real working capital expense of paying PJM weekly for amounts that it can only recover monthly. Hess also objects to PJM's proposal to accelerate the payments PJM makes to generators and other providers of services in PJM's markets. Hess argues that this creates a mismatch for LSEs because it results in generators receiving a windfall at the expense of LSEs and end-use customers. Therefore, Hess proposes that generators be required to mitigate any resulting cost impact on LSEs through interest payments. Hess asserts that this can be achieved by requiring that a deduction be taken from the amounts paid to entities choosing to be paid on a weekly basis, based on the Commission's refund rate. Hess argues that this proposal represents a direct, zero-sum transfer of capital from LSEs to generators without any risk mitigation or other benefits to the market.

14. Pepco also protests PJM's proposed timing of settlements in which payments will usually be due to PJM on Fridays while payments from PJM to members will usually be made on Monday. Pepco's concern is of the lag time between payments required to and payments received from PJM. Pepco states that this may hamper cash-flow and result in additional interest expense that is not experienced under the existing same-day settlement system. Pepco does not believe this change advances the stated goal of the instant filing, i.e. to reduce credit risk exposure to PJM members, and may result in inequities to certain members.

15. Exelon and AEP protest PJM's proposed changes in the eligibility requirements applicable to PJM's Net Seller Credit Allowance. Exelon argues that in place of PJM's proposal (tying the Net Seller Credit Allowance to the requirement that a seller maintain a net seller position for each of the prior 52 weeks), eligibility should continue to be tied to the maintenance of a net sell position for each of the last 12 months. Exelon states that weekly settlements represent only a percentage, albeit a significant percentage, of the total monthly charges and credits, but final settlements do not occur until the end of each month. Exelon argues that imposing a weekly criterion is unreasonable because of the unpredictability of events that may affect market positions in any given week, including after-the-fact PJM billing adjustments, unit trips, and rule changes.[4] AEP agrees, noting that these unexpected events, the effect of which may place a supplier in a short term net payer position, may last for only a short time (a few days to a week). AEP asserts that the continuation of a monthly determination would not impose a significant credit risk, and this has been recognized by PJM and its stakeholders in recent stakeholder meetings in which it has been proposed and voted on to retain the Net Seller Credit on a monthly basis.

16. Hess also protests PJM's proposal to reduce the availability of unsecured credit by two-thirds. First, Hess argues that that this proposal is premature, given a related proposal currently being considered within PJM's stakeholder committees to revise PJM's existing utilization of an annual peak month exposure methodology as a measure of a market participant's total credit requirement. Hess argues that the annual peak requirement metric may be excessively conservative and asserts that until PJM can transition from a peak month metric there will be a heavy reliance on unsecured credit. Therefore, according to Hess, the availability of unsecured credit needs to remain constant in order to enable market participants to meet PJM's inflexible and often excessive total credit requirements. Second, Hess argues that there is no nexus, as PJM asserts, between the implementation of weekly settlements and a proposal to reduce the availability of unsecured credit. Hess adds that absent a change to a particular market participant's creditworthiness, there is no need to reduce the existing availability of unsecured credit.

17. PSEG argues that a reduction or elimination of Unsecured Credit Allowances is not an effective means for reducing credit default risk. According to PSEG, reducing or eliminating unsecured credit will dampen the ability of market participants to participate in a variety of markets so there will be fewer transactions, less liquidity, and higher costs to be borne by consumers. PSEG supports a less drastic approach in which PJM exercises skilled and informed judgment as to which entities has sufficient credit and extends those entities appropriate levels of unsecured credit. PSEG argues that PJM

[4] As noted below, PJM, in its answer, concurs.

should focus on evaluating risky transactions and not investment grade companies that are not credit risks, but that participate in "risky" transactions.

18. Exelon, AMP-Ohio, PSEG, AEP and IMEA object to PJM's proposed elimination of unsecured credit for FTR transactions. Exelon and AEP assert that this proposed change is unnecessary because PJM has already implemented significant reforms to the credit requirements associated with participating in the FTR market.[5] Exelon further asserts that PJM's proposed change will result in the constriction of the FTR market. AMP-Ohio agrees, noting that the more credit that municipals are forced to exhaust in order to participate in PJM's FTR market, the less they will have available for financing generation, transmission and distribution projects. AMP-Ohio argues that, in place of PJM's proposal, PJM's FTR credit requirements should be based on the specific risk to which a participant exposes the market.[6]

19. Finally, IMEA argues that PJM's FTR credit proposal should be rejected because the proposal would be inappropriately applied to all FTR transactions. IMEA asserts, to the contrary, that not all FTR products are the same. IMEA notes, in particular, that counterflow FTRs that sink at a LSE's load location present a lower risk than forward flow transactions. IMEA argues that, accordingly, the purchasers of such counterflow FTRs should not be subject to additional, unnecessary credit requirements.[7] IMEA argues that instead, the proposed removal of unsecured credit for FTR purchases should be implemented only when the complimentary proposal to remove from the undiversified credit calculation the purchase of negative cost FTRs to serve load is fully developed and implemented.

PJM's Answer

20. On March 10, 2009, PJM submitted an answer to the protests. PJM responds to Hess' argument that PJM's weekly billing proposal creates a new cost shortfall for LSEs by requiring that the LSE pay weekly for amounts it can only recover on a monthly basis. PJM responds that while there may be some carrying costs associated with the initial move to accelerated settlements, these carrying costs over time will subside as weekly settlements are regularly implemented. PJM states that Hess' description of the generators' "windfall" is not as expansive as Hess claims. PJM adds that every PJM member and indeed every company subject to regulation must necessarily operate on a

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[5] Exelon protest at 5, *citing PJM Interconnection, L.L.C.*, 122 FERC ¶ 61,279 (2008) (increasing the amount of credit required by certain FTR market participants).

[6] *See also* PSEG protest at 7.

[7] As noted below, PJM, in its answer, concurs.

basis that assumes the incurrence of regulatory lead-lag costs. Further, PJM explains that the conceptual flaw in Hess' point is that it is premised on the incorrect assumption that suppliers should be obliged to finance Hess' cash working capital. PJM asserts that there is no logic in asking a creditor who has extended, and who continues to extend, credit to also pay interest to a debtor.

21. Similarly, PJM responds to Pepco's argument that the lag between payments made to and payments received from PJM will hamper cash flow. PJM states that continuing same day financial settlements is a very difficult task and the number of payouts has more than doubled to over 200 per settlement. PJM notes that other ISOs and RTOs have long recognized the difficulty and have Commission-approved settlement periods in which payouts are made typically two days after receipts. PJM states that it has proposed to limit the lag to one day recognizing that such lags should be kept to a minimum. PJM notes that rather than an average delay of 35 days between accrual and actual receipt of funds in a monthly settlement, under weekly billing, those same participants will experience no more than a 15 day delay between accrual and receipt of funds. Hence, Pepco's insistence upon 12 days, instead of the proposed 15 days, seems inconsistent considering that the proposed time between accrual and receipt of funds will be less than half of the current delay. Finally, PJM argues that the lag is reasonable in light of the inherent administrative process required to manage weekly settlements, once that the observed benefits outweigh the perceived costs.

22. PJM also responds to Exelon's and AEP's argument that PJM's Net Seller Credit Allowance should continue to be tied to the maintenance of a net sell position for each of the last 12 months, not based on a prior 52-week period. PJM explains that under the proposed rules, if a market participant experienced an exogenous event, such as a unit trip, it could disqualify the participant from receiving Net Seller Credit for an entire year, even if the participant maintained a net sell position for the remaining 51 weeks. PJM states that while such physical events could occur under the current credit rules, the use of a monthly measurement period smoothes out such events. PJM agrees that amending the eligibility requirements for Net Seller Credit to require a seller to maintain a net sell position for each of the prior 52 weeks is not imperative. PJM notes that its proposed revision is nominally equivalent to its existing requirement and is not otherwise imperative with respect to the objectives its instant filing seeks to achieve. PJM states that the long-term requirement that a seller maintain a net sell position for each of the individual 52 prior weeks is not necessarily tied to the implementation of weekly billing and settlements and could, in practice, eliminate the benefits attendant to providing Net Seller Credit in the first place. Accordingly, PJM believes that a reversion to the current 12-month measurement process would not violate the intent of the changes and would mitigate Exelon and AEP's concerns and so if directed by the Commission, PJM would offer tariff revisions to remedy this situation as part of any compliance filing as required.

23. PJM responds to PSEG's argument that PJM should rely upon skilled and informed judgment in evaluating participants' creditworthiness. PJM argues that, in fact, it has been called upon to exercise judgment in evaluating a participant's creditworthiness. PJM adds, however, that skilled judgment alone is not perfect because the information required to exercise judgment is not always available on a timely basis or available at all. PJM further states that judgment is allowed and used as a backstop to other metrics, but the primary means of managing credit should be through clear credit policies, as consistent with the Commission's preference.

24. PJM also responds to IMEA and AMP-Ohio's arguments that the Unsecured Credit Allowance should not be eliminated with respect to all FTR transactions, namely, for those transactions involving counterflow FTR positions used to hedge a LSE's load. According to PJM, neither it nor its members recognized certain consequences that would follow from applying the instant proposed revisions in concert with earlier enhancements to PJM's credit policy. PJM explains that the Commission has previously been cautious in accepting revised credit rules in order to only affect those participants with net counterflow positions and not the credit requirements of LSEs that hedge load they serve by purchasing counterflow FTRs. PJM notes that in its instant filing, it did not intend to increase the credit requirements of LSEs that hedge purchases to serve load. PJM acknowledges that LSEs utilizing counterflow FTRs that sink at a LSE's load location (for the purpose of offsetting congestion costs at that location), present less risk than counterflow FTRs not sinking at a LSE's load location.[8] Accordingly, PJM agrees with IMEA and AMP-Ohio's concerns and would support the Commission accepting PJM's proposed rule changes eliminating unsecured credit in the FTR markets while, at the same time, directing a compliance filing to avoid an overly and unnecessarily expansive impact of this rule change to LSEs. PJM explains that it has worked with its stakeholders to identify the revisions necessary to avert this unintended impact to LSEs and the stakeholders have endorsed two tariff revisions that would mitigate the impact.

25. PJM also responds to Exelon's and PSEG's argument that PJM's existing Unsecured Credit Allowance should be retained with respect to all FTR transactions. In response, PJM reiterates the arguments advanced in its filing (and summarized above), namely, that the FTR market presents unique risks supporting its proposed tariff revisions.

[8] This is so, PJM explains, because a physical load-serving responsibility with negative congestion charges provides its own hedge against counterflow FTR positions, i.e., if the FTR experiences negative congestion, the physical energy flow associated with the load serving responsibility will experience opposite (offsetting) congestion.

Answers

26. Hess filed an answer in response to PJM's answer regarding accelerated collection of payments. Hess argues that PJM has not carried its burden in proving that its tariff revisions are just and reasonable. Hess claims that contrary to PJM's argument, as long as payments are collected from market participants on a weekly basis there will be additional costs to consumers as compared to monthly collections. According to Hess, it does not assume that generators will pay its working capital costs, but that the additional costs created by PJM's recommended risk reduction proposal should be minimized in order to ensure that the benefits of the wholesale marketplace are realized by end use customers to the greatest extent possible.

27. DC Energy also filed an answer to PJM's answer. DC Energy has no objection to the Commission accepting PJM's answer, but that it should review PJM's further amendments with caution and only accept the revisions by confining the exemption from secured credit to the narrowest possible class. DC Energy agrees with PJM that there are real risks with FTRs, but doesn't agree that it is an absolute that LSE's FTR transactions present less risk. First, DC Energy states that there is no guarantee that the LSE is actually serving its own load over that path and instead, the LSE could be serving its own load from other sources over different paths, and in this case taking a speculative FTR position that alone presents similar risk to any other market participant. Second, DC Energy states that even if the LSE is serving its load through the path in question, another problem arises in that an LSE's Auction Revenue Rights allocation is up to its peak load, which, by definition is a rare occurrence as it represents the maximum load it serves. This implies that the vast majority of hours are potentially over-hedged, resulting in potential settlement risk that is not offset by energy sales/purchases. DC Energy asserts that PJM and the proponents of this change for unsecured credit could argue that they are serving load from a specific baseload resource (thereby keeping the MW volume constant), but again, the problem is that baseload resources are not always available, and, in fact, it may be precisely when the unit trips off line unexpectedly that there might be significant congestion. DC Energy suggests that if the exemption is granted, the exemption should simply be afforded to public power entities as they present much different risk profile than for-profit corporations.

Discussion

A. Procedural Matters

28. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2008), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding. In addition, given their interests, the early stage of this proceeding, and the absence of undue prejudice or delay, we grant the unopposed late-filed interventions submitted by Pepco and AEP.

29. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2008), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept the answers filed by PJM, Hess, and DC Energy because they have provided information that assisted us in our decision-making process.

B. Analysis

30. We accept PJM's proposed revisions to its credit policy, subject to conditions, to become effective, as requested, on April 6, 2009, as to PJM's FTR-related tariff changes, and on June 1, 2009, as to PJM's remaining tariff revisions. As discussed below, we also direct PJM to make a compliance filing within 30 days of the date of this order addressing the additional tariff revisions proposed by PJM in its answer.

31. PJM has filed to make the following changes in order to reduce credit exposure to PJM members: (i) accelerated billing and settlement; (ii) a corresponding reduction in the per-member Unsecured Credit Allowance; (iii) elimination of the Unsecured Credit Allowance for FTR transactions; and (iv) procedures authorizing PJM, upon the occurrence of a default, to close out and liquidate the defaulting participant's forward FTR positions. We find that these proposals are consistent with the principles enunciated by the Commission in its Policy Statement on Credit-Related Issues.[9]

1. Implementation of Weekly Billing and Settlement

32. We reject Hess' argument that generators, upon PJM's implementation of weekly billing and payment, should be required to mitigate any resulting cost impact on the LSE in the form of an interest payment. Although the switch to weekly billings may result in increased working capital costs to LSEs, PJM correctly concludes that LSEs continue to be beneficiaries of the extension of trade credit, even under a shortened settlement cycle. Therefore, there is no basis for requiring a generator to pay interest on its receipts of weekly settlements. Additionally, we agree with PJM that a regulated utility's lead-lag[10] working capital allowance should take into account the accelerated payments under

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[9] *See Policy Statement on Credit-Related Issues for Electric OATT Transmission Providers, Independent System Operators and Regional Transmission Organizations*, 109 FERC ¶ 61,186 (2004).

[10] A lead-lag study is used to analyze transactions throughout the year to determine the number of days between the time services are rendered and payment is received (revenue lag), and the number of days between the time expenditures are incurred and payment is made for such services (expense or payment lead). The lead-lag study determines the amount of capital which investors in a public utility must provide to meet the day-to-day operating costs of the public utility.

weekly billing. Moreover, any adverse effect from the shortened billing cycle is outweighed by the overall credit risk-mitigation benefits of accelerated settlements, including reductions in the magnitude of defaults and reduced member financial assurance requirements.

33. We also reject Pepco's argument that PJM's proposal to accelerate the payments will result in an unreasonable time lag and delayed cash flow and that PJM should revisit this aspect of its proposal. As PJM notes in its answer, companies often run on a lag time between payments made and payments received. The lag time associated with PJM's proposal, moreover, is not unreasonable, and is less than that of other ISOs/RTOs. PJM is minimizing the lag time to the proposed one business day due to the inherent administrative process required to manage its weekly settlements. Thus, we will not require PJM to revisit this aspect of its proposal.

2. Eligibility for Net Seller Credit Allowance

34. Exelon and AEP assert, and PJM does not object in its answer, to the continued use of the current 12-month measurement process for Net Seller Credit Allowance. We agree that this revision to PJM's instant proposal is appropriate. When the Commission initially approved PJM's Seller Credit provision, PJM had explained that if a forecast requires additional collateral, then as long as the participant has a Net Sell Position by the date of the issuance of the month-end invoice, then the temporary buy position or collateral call based on forecast will not preclude the participant from continuing to receive Seller Credit.[11] However, now that PJM is proposing weekly settlements, if a participant experiences a net-negative invoice in one week, it would preclude the participant from receiving Net Seller Credit for an entire year, even if the participant maintained a net sell position for the remaining portion of the 51 weeks. This does not appear reasonable because it could, in practice, eliminate the benefits of providing Net Seller Credit. Further, some products and services will continue to be billed monthly and final settlements for all products and services will not occur until the end of the month. Thus, we agree with PJM in its answer that the 12-month and 52-week timeframes are nominally the same and that the requirement that a seller maintain a net sell position for each of the individual 52 prior weeks is not necessarily tied to the implementation of weekly billing and settlements. Therefore, we accept PJM's proposal conditioned on its filing within 30 days of the date of this order to revise the Net Seller Credit Allowance tariff provisions in line with its answer.

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[11] *PJM Interconnection, L.L.C.*, 123 FERC ¶ 61,323, at P 18 (2008).

3. Reduction of Unsecured Credit Allowance

35. We reject Hess' argument that PJM's proposal to reduce the availability of unsecured credit by two-thirds is premature. Hess' concern is with PJM's existing tariff provisions for determining a market participant's total credit requirement using the annual peak activity metric. This issue, Hess tells us, is currently being considered in PJM's stakeholder process. PJM is not proposing, in this filing, any changes to the peak activity metric that is the subject of Hess' concern. While the Commission encourages stakeholder discussion of potential improvements to other aspects of PJM's credit policy, Hess has not shown that consideration of the annual peak metric renders PJM's proposal to reduce unsecured credit by two-thirds unjust or unreasonable. The two-thirds reduction in the Unsecured Credit Allowance is consistent with the approximate two-thirds reduction in the maximum accumulated days exposure expected through implementation of weekly billing and settlements. Thus, it is reasonable to reduce the Unsecured Credit Allowance in accordance with the accelerated settlements because without the reduction, it is estimated that over 70 percent of PJM's market participants' total credit requirements would be unsecured, which would increase market activity beyond current levels without providing financial security to PJM. Thus, the credit exposure would increase and the benefit of the reduced exposure to the membership as a result of accelerated settlements may be nullified without the reduction in unsecured credit. We therefore find the proposed reduction in Unsecured Credit Allowances to be just and reasonable in light of PJM's proposed accelerated settlements.

4. Elimination of FTR Unsecured Credit Allowance

36. We reject intervenors' argument that PJM's proposed elimination of its Unsecured Credit Allowance is unwarranted as it relates to most FTR transactions. PJM explains in its filing, and we agree (consistent with our prior findings), that the FTR market presents unique risks that justify PJM's proposed credit policy revisions.[12] This heightened risk level exists, as PJM notes in its filing, because the value of an FTR is derivative of future congestion and is thus dependent on unforeseeable events, including unplanned outages and unanticipated weather conditions. In addition, FTRs are relatively illiquid, adding to the inherent risk in their valuation. PJM and its stakeholders decided that allowing unsecured credit for FTRs resulted in an unreasonable concentration of risk and voted to eliminate any unsecured credit for FTRs. Thus, contrary to PSEG's arguments, PJM is focusing on evaluating risky transactions and is exercising skilled and informed judgment and the Commission finds the proposal just and reasonable.

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[12] *See PJM Interconnection, L.L.C.*, 121 FERC ¶ 61,089 (2008) at P 7-9 (2007) and *PJM Interconnection, L.L.C.*, 122 FERC ¶ 61,279, at P 15 and 21.

37. AMP-Ohio and IMEA, however, assert that PJM's elimination of unsecured credit for LSEs that use counterflow FTRs to hedge purchases to serve load far exceed the risks attendant to this practice because the LSEs have physical assets that reduce the risk of default. PJM agrees in its answer that a modification to its collateral provisions with respect to LSEs is warranted and is currently working with stakeholders to identify the revisions necessary to avert the impact on LSEs. However, DC Energy argues that such modifications may not be appropriate for all LSEs. The Commission, therefore, conditions our acceptance on PJM filing within 30 days of the date of this order an explanation of what reductions are appropriate for LSEs along with the proposed tariff revisions it believes are warranted.

The Commission orders:

(A) PJM's proposed tariff revisions are hereby accepted, subject to conditions, as discussed in the body of this order, to become effective, as requested, on April 6, 2009, as to PJM's FTR-specific tariff changes, and on June 1, 2009, as to PJM's remaining tariff revisions.

(B) PJM is hereby directed to make a compliance filing within 30 days of the date of this order, as discussed in the body of this order.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.