

Company	Feedback
<b>4.1 Market Participation</b>	
<b>Q1. What criteria should be evaluated in determining whether a member application should be rejected?</b>	
AEP	Consider a cross-default mechanism across RTOs; must remain in good standing across RTOs considering affiliates as well.
MMU	We need criteria, such as when there is security fraud or other enforcement against the company or an officer. Perhaps a passive investor does not need to be captured in the criteria. We should consider practices of other organizations.
<b>Q2. How much discretion should PJM have in the rejection of an applicant, or termination of an existing member, because of unsatisfactory results in its background check, or that of its principals?</b>	
Direct Energy	Identify what discretion refers to and what type of discretion, discretion to make a collateral call versus discretion to stop trading or take other actions. Look at other commodity trading entities to see what rules exist, as they relate to who can be admitted, as well as financial management.

<b>Q3. The Report suggests an internal appeal mechanism (C3.1). What is the right body for appeals to be made to?</b>	
Exelon	The committee needs to include both the CRO and CFO.
<b>Q4. What sort of test could PJM employ – beyond just confirming their existence – to form a meaningful assessment of participant risk management processes?</b>	
Exelon	PJM should have a third party assess participant risk management processes for new members (i.e. perform background checks on new members). A new certification is not enough. There needs to be an ongoing process including FERC 741 data submitted by companies. Potential flags could include legal actions against principals, sanctions against principals, and others.
Public Power	Requested education on what is working in other markets and commodity markets; is there another standard for how the other markets would evaluate the quality?
AEP	Consider bifurcating the type of participant relative to this question – ask if it is hedging versus speculative behavior.
DC Energy	Bifurcation may not be possible or easily delineated. How would PJM determine if a member is it is hedging or speculative? Many participants are performing both.
SMECO	The CME Membership criteria section in the report should be held to closely.
<b>Q5. Should stricter criteria be applied for participation in FTR and other financial markets, as compared to cash/spot market participation?</b>	
DC Energy	It should be comparing the risk profile differences by product so the question is should the financial requirements be stricter for portfolios with different risk profiles matching size, tenure, etc.

Nodal Exchange	Exchanges don't operate by themselves. It is a false comparison of what PJM could do versus what they could do by an exchange. It's a two-tiered risk structure that does the "know your customer" function versus guaranteeing the performance of the players. It's a community that works together to solve this problem. After baseline by CFTC but embellished by the clearing members as appropriate. All clearing members have criteria.
<b>Q6. What is a reasonable minimum level of capitalization in order to participate in financial markets?</b>	
AEP	If you have a margin call, due to an increase in exposure then you have to have the cash or cash equivalents to meet that. Net worth isn't as important versus do you have the cash. Composition of capitalization is much more important.
DC Energy	Requested PJM to review their FERC complaint for their feedback on this question.
<b>Q7. For those unable to participate directly (e.g., due to capitalization requirements) in PJM-operated financial markets, should an intermediary structure be established?</b>	


**Q8. Should there be formal training and certification requirements for individual traders to transact in the PJM's financial markets, akin to those applicable in most futures markets?**

Exelon	Do formal trainings or certifications exist for futures markets? Exelon's view is that there should not be a specific training process or requirement by PJM. PJM should focus on background checks. Each individual company should be required to make certain their staff is appropriately trained.
CitiGroup	This is part of FERC Order 741 requirements that we all certify to. When submitting FERC 741 data you have to attest that your traders are adequately trained.
Direct Energy	Training would not have changed the outcome of GreenHat and Tower defaults. All the training in the world wouldn't have prevented this or changed behavior. The behavior is expected to be discovered by PJM.
The Energy Trading Institute	Supported Direct Energy's positions. We didn't have a robust enough credit policy; that is the real issue.

**4.2 Financial Product Range**

**Q9. Should PJM continue to offer FTR auctions?**

Direct Energy	FTRs are a critical way to help reduce the costs we offer to our customers. They are absolutely critical and we are very happy with the product. Direct was a champion of long-term FTRs but there is a need to keep the modeling consistent. We are not sure if we are there with the modeling yet. We want to make sure that load is getting the appropriate return.
PJM ICC	Some additional education is warranted and may be a springboard for further conversations. We hear the comments around the value of FTR products from LSEs and Generators but from a customer perspective, perhaps it isn't as transparent. Those types of conversations will help us understand better if there need to be further tweaks to the product.

EDP Renewables	Seconded Direct Energy's statements
MMU	What is the product definition and what is it doing? Examine if it is doing what it is supposed to be doing and is it structured the right way. If not, we need to fix that.
Exelon	We would be happy to bring education and conversations forward. Our response is very consistent with Direct Energy's and we find they are very beneficial with hedging. Absent the product, we would be looking at potential price increase for customers. We believe that PJM should continue to offer a long-term product.
CAPS	Supports additional education but a review of the products is also needed, not just education. We need to understand the benefits they provide.
DTE Energy	Create limits for absolute amounts of the products offered on a long-term basis; also create position limits on any given company.
<b>Q10. Should PJM continue to offer long-term FTRs auctions?</b>	
<b>Q11. Should FTR options continue to be offered?</b>	
Exelon	We believe that options are a less risky product and should be continued to be offered. We don't believe that these were an issue with respect to GreenHat.
The Energy Trading Institute	Options should be continued to be offered. There is a more limited risk.


**Q12. Should all current locations be available for financial trading? If not, which locations should trading be limited to?**

Exelon	PJM should continue to allow all current locations to be available for financial trading.

**Q13. Should individual nodes require bona fide physical activity in order to be traded?**

Exelon	Does not think individual nodes should be used and expressed there are concerned with liquidity.

### 4.3 FTR Auction Execution

#### Q14. What is an appropriate auction frequency for different FTR tenors and expiries?

Vitol	It is appropriate to go to a Monthly auction for the FTR products and we need to look at the structure a little differently. We think that we should break the market up to distinct monthly time steps and offer up products on a monthly basis. It really makes the product and transaction capabilities align with how markets outside of PJM are structured. It helps resolve the default risk management issue outlined in the report.
Direct Energy	At this point, Direct is not where Vitol is and is not clear on the benefits of the long-term monthly auction. We believe there are revenues that are being taken out of the market that are not going back to our customers. We want to understand the impacts to what customers get at the end of the day. We remain concerned with modeling errors regardless of auction frequency.
The Energy Trading Institute	Now when market participants notice a modeling error they need to wait until the base case modeling; it may provide more opportunity to track. Agreed that we all need some additional understanding. We also need to focus on technologies. ERCOT will release a monthly model and Nexant runs the market for ERCOT. We need to get additional insight into this.
DC Energy	There needs to be additional transparency around the market to give individuals an opportunity to identify modeling errors.

### 4.4 Structural

#### Q15. Should PJM outsource the credit risk management of FTRs, and potentially other financial products, to an external clearing house. i.e., a CFTC-regulated, Derivatives Clearing Organization (DCO)?

Nodal Exchange	Proposal to support the clearing of FTRs through nodal exchange and have many insights into how this would work. We also have some good transparency from the regulators and separating CFTC and FERC jurisdiction. We have been meeting with individuals and doing education surrounding the proposal. It would not only be available to PJM but to other RTOs as well. One of the ISOs we are working with is ISONE and expects to be moving forward with a clearing service in 2020. Happy to meet with anyone who wants to find out more.

<b>Q16. If external clearing is utilized, should it be mandatory or voluntary?</b>	
Nodal Exchange	The Nodal Exchange proposal is a voluntary proposal by necessity because that is the structure which keeps the FERC and CFTC separate. Mandatory would require the CFTC to have jurisdiction over the FTR market/auctions. CFTC would take over jurisdiction once it moves to the clearing house. Participation should be risk-based. PJM could use Nodal's model for margin requirement.
<b>Q17. If not outsourced, should financial markets form a separate risk pool to other trading activity? i.e., with defaults socialized only amongst the participants in those markets, rather than amongst the membership as a whole.</b>	
AEP	Is it possible to limit the default to participants in those markets?
DC Energy	Isolating FTR product default to that product; conversation needs to be a little more in depth if we are going to change the procedure – not just the default but how the product and market are structured.
PJM ICC	Interested in exploring if defaults in the FTR space should be fenced and be discussed further; retail customers are questioning why they should be serving as a back stop for speculative activity.
The Energy Trading Institute	Agree this shouldn't happen in a vacuum. We pointed this out and yet we are sharing a portion of this as well and share the frustration. This needs to be done in a manner so that it is not unduly discriminatory.



**Q20. What factors should determine the size of position limits?**

DC Energy

They should be metric based; based on capitalization and credit worthiness.

AEP

Agreed with DC Energy; if we come up with a potential future exposure, it should be mirrored with the capitalization to meet the potential future exposure and then ability to meet margin call.

**Q21. What criteria should be required for exemption from position limits?**

**Q22. Should PJM introduce a concentration limit, and what should its threshold be?**


**Q23. Should full collateralization also be applied to cash markets (DAM, RTM, etc.)?**


**4.6 Stakeholder Governance**

**Q24. Is it appropriate to establish explicit skillset requirements for stakeholder process participation?**

Direct Energy	Not a bad idea to try to get qualified people but the issue is how you do it. Thinking of a representative delegated but not an expert in the material. Companies would not be happy if there were discussions ongoing regarding FTRs but they were not represented.
Public Power Coalition	Similar cautions to Direct Energy. It is unclear how an advocate or agent relationship would be supported. Understand that we want some genuine experience and expertise but it wouldn't work to exclude others. We need to have the ability to take things back and present them.
PJM ICC	Also agreed and adds one of the tricky things to consider is that there is specialized knowledge in everything we do. We wouldn't want to find ourselves in a tricky area for example DR we would want experts but not to exclude others. We would have challenges with determining which we want specialized knowledge. It is an area to be careful.
CAPS	Concerned that they are being asked to take on costs but not participate in the process. If the consumers are having the risks and costs,



**Q25. Is an existing committee appropriate for the purpose, and if so, which?**

DC Energy

PJM stakeholders have spent a long time determining the committee structure and we are good for now.

**Q26. If not, what should the new committee look like, and which existing committees should it supplant, in order to avoid creating more, committees?**

**Other**

**Q27. Are there any additional questions stakeholders believe should be addressed in this discussion?**

OPSI

Would like to understand the costs that go into Schedule 9-2; costs of FTR Service.

