RTO/ISO Credit Principles and Practices; Credit Reforms in Organized Wholesale Electric Markets Supplemental Notice of Technical Conference

As first announced in the Notice of Technical Conference issued in this proceeding on November 4, 2020, the Federal Energy Regulatory Commission (Commission) will convene a staff-led technical conference in the above referenced proceeding on Thursday, February 25, 2021 from 9:00 a.m. to 5:00 p.m. and Friday, February 26, 2021 from 9:00 a.m. to 1:00 p.m. Eastern Time. The conference will be held electronically and broadcast on the Commission’s website. Commissioners may attend and participate. This conference will discuss principles and best practices for credit risk management in organized wholesale electric markets.

We note that discussions at the conference may involve issues raised in proceedings that are currently pending before the Commission. These proceedings include, but are not limited to:

DC Energy, LLC v. PJM Interconnection, L.L.C., Docket No. EL18-170;

Shell Energy North America (US), L.P., Docket No. EL20-49;

PJM Interconnection, L.L.C., Docket No. ER21-520;


Attached to this Supplemental Notice is an agenda for the technical conference, which includes the final conference program and speakers. The conference will be open for the public to attend. Registration for the conference is not required, however members of the public may preregister online at: https://ferc.webex.com/ferc/onstage/g.php?MTID=e2b36f2a0411532188b8cd973144668ff. Anyone who registers by Monday, February 22, 2021 will be given instructions on how to access the event. Information on the technical conference will also be posted on the Calendar of Events on the Commission’s web site, http://www.ferc.gov, prior to the event. The conference will be transcribed. Transcripts of the conference will be available for a fee from Ace-Federal Reporters, Inc. (202-347-3700).

For more information about this technical conference, please contact:

Kimberly D. Bose,
Secretary.
Day 1 – Thursday, February 25, 2021

9:00 am – 9:15 am: Welcome and Opening Remarks

9:15 am – 10:45 am: Panel 1: Credit Principles and Practices in RTO/ISO Markets

Scott Miller, Principal, Whitehall Bay Energy Services

Bob Wasserman, Chief Counsel, Division of Clearing and Risk, U.S. Commodity Futures Trading Commission

Vince Kaminski, Professor in the Practice of Energy, Rice University

Geoffrey Harris, Knowledge Leader II, Federal Reserve Bank of Chicago

Erik Heinle, Assistant People’s Counsel, Office of the People’s Counsel for the District of Columbia

Ted Thomas, Chairman, Arkansas Public Service Commission

This panel will explore the fundamental principles underlying credit risk management and the panelists’ understanding of how those principles are applied within RTO/ISO markets. Panelists will discuss how credit risk is managed and regulated in other industries and whether any best practices can be applied to the RTO/ISO markets. This panel will also discuss the RTO/ISO credit policy requirements set forth in Order No. 741

participants pose?

2. What are the key components of an effective credit policy? What principles and best practices of credit risk management are applicable to RTO/ISO markets?

3. What impact has Order No. 741 had in reducing credit risk? Are there aspects of credit policy beyond those addressed by Order No. 741 which should be explored? Are there areas where the Commission can and should provide additional guidance or regulations to mitigate credit risk?

4. What types of credit structures or market designs (in terms of moving some products to financial exchanges or central clearing parties, increasing mark-to-market frequency, collateral practices, liquidity) could be set up to reduce the likelihood that non-defaulting market participants bear the costs of a market participant defaulting? How would such structures or designs affect participants’ access to the markets?

10:45 am – 11:00 am: Break

11:00 am – 12:30 pm: Panel 2: RTO/ISO Comparison of Risk Management Structure, Credit Enhancements and Lessons Learned

Ryan Seghesio, Vice President, Chief Financial Officer and Treasurer, California ISO

Scott Smith, Director of Treasury and Risk Management, Southwest Power Pool

Melissa Brown, Senior Vice President and Chief Financial Officer, Midcontinent ISO

NigeriaBloczynski, Chief Risk Officer, PJM Interconnection, LLC

Sheri Prevratil, Manager of Corporate Credit, New York ISO

This panel will compare and contrast the risk management structures, credit practices, and recent credit enhancements implemented by the RTOs/ISOs. This panel will present an overview of each RTOs’/ISOs’ experience in managing credit risk and will allow the panelists to ask questions of one another to facilitate the exchange of best practices. The panel may include a discussion of the following topics and questions:

1. How is the risk management function in your RTO/ISO structured? What are the tools and resources (in terms of personnel, data, software, etc.) your risk department uses to implement the RTO’s/ISO’s credit policy? How do you evaluate a new or existing market participant’s risk of default? When and how do you communicate with market participants to obtain information or to convey
1. To what extent do you communicate with other departments within the RTO/ISO regarding credit risk concerns in the RTO/ISO markets?

2. To what extent does the RTO/ISO need discretion to implement its credit policy to protect the markets from the risk of market participant defaults? Does your RTO/ISO currently have such discretion? How should this discretion be balanced with the need to ensure non-discriminatory treatment of market participants? What remedies, if any, do you currently have available to market participants suspended or rejected for posing an unreasonable credit risk to the RTO/ISO markets?

3. What significant enhancements has your RTO/ISO made to its credit policy in recent years? What tools and resources did it require to implement these enhancements? What lessons has your risk department learned in implementing these enhancements? What would you recommend to other RTOs/ISOs considering similar enhancements?

4. Do certain RTO/ISO products (such as virtuals) or aspects of market design pose greater credit risk than others? How, if at all, have recent market design changes impacted the credit risk in the RTO/ISO markets, particularly the Financial Transmission Rights (FTR) markets (e.g., limiting the available FTR contract paths, altering the FTR capacity available at auction, or changing the frequency of long-term FTR auctions)? To what extent is the risk department involved in discussions of market design changes?

5. What Know Your Customer protocols do RTOs/ISOs have in place, and are they adequate? Are RTOs/ISOs able to share information with one another to assist in implementing Know Your Customer protocols? Have market participants indicated concerns about such information sharing (within the RTO/ISO departments, and with other RTOs/ISOs) and if so, how have they been addressed? Are there barriers or rules the Commission should modify to facilitate the exchange of information among RTOs/ISOs? If not, are there ways that information could be shared securely and confidentially? What impact, if any, would the sharing of additional information have on the mitigation of credit risk? What concerns exist for the confidential treatment of information and how could those concerns be addressed? Who is best positioned to address those concerns?

12:30 pm – 1:30 pm: Lunch

1:30 pm – 3:00 pm: Panel 3: Internal Resources and Expertise within RTOs/ISOs

Robert Anderson, Executive Director, Committee of Chief Risk Officers

Melissa Brown, Senior Vice President and Chief Financial Officer, Midcontinent ISO
This panel will (1) address what internal resources and expertise are needed for the RTOs/ISOs to protect their markets and market participants from defaults, and (2) explore best practices for efficiently building expertise on credit risk management. The panel may include a discussion of the following topics and questions:

1. What are key principles for the organization and governance of risk management departments, and how should those principles be applied to the RTOs/ISOs?

2. Are there best practices such as minimum experience requirements, training, or certifications that RTOs/ISOs should consider that ensure their risk departments have sufficient staff, training, and resources to identify and mitigate credit risks efficiently and effectively? What are the key responsibilities of staff and management in the risk departments of RTOs/ISOs?

3. What data and technological systems do the RTOs/ISOs need to manage risk? How often are the efficiency and effectiveness of these systems assessed?

4. How frequently should the risk departments communicate with other departments within the RTO/ISO? Should the risk departments at one RTO/ISO communicate with the other RTOs/ISOs? What communication protocols are currently in place to elevate concerns regarding risk? Is there a need for additional protocols or standards for sharing data among the RTOs/ISOs, and if so who should be responsible for setting those standards? Have market participants indicated concerns about such information sharing (within the RTO/ISO departments, and with other RTOs/ISOs) and if so, how have they been addressed?

5. Are there any additional resources that RTOs/ISOs should obtain or practices they should adopt to help reduce the risk of defaults?

3:00 pm – 3:15 pm: Break

3:15 pm – 4:45 pm: Panel 4: Impact of Market Design on Credit Risk

Abram Klein, Managing Partner, Appian Way Energy Partners

Keith Collins, Executive Director of Market Monitoring Unit, Southwest Power Pool, Inc.
The purpose of this panel will be to discuss how market design impacts the credit risk in RTO/ISOs markets, particularly the FTR markets. This panel will highlight how RTOs/ISOs and market participants view the risk posed by different market products (including virtuals and FTRs with different contract lengths, locations, auction calendars, and tenors) and how this helps shape the credit policy of the market products. This panel will also discuss how differences between comparable market products shape credit policy differences between the RTOs/ISOs. The panel may include a discussion of the following topics and questions:

1. How do differences in market design across RTOs/ISOs shape credit risk and policies among similar market products? What role does a market products’ liquidity play in shaping the credit risk in RTO/ISO markets?

2. How can market design minimize credit risk? To what extent should the consideration of potential market design changes consider the impact of such changes on credit risk? How should the RTO/ISO credit policies and market design strike an appropriate balance between protecting their markets from defaults while also ensuring sufficient competition and ease of entry?

3. Could greater coordination with the risk department within an RTO/ISO during the market design process help to reduce the overall risk in the markets?

4. What are potential benefits and drawbacks to the RTOs/ISOs and to market participants with third party clearing of FTRs? What are the potential benefits and drawbacks of the RTO/ISOs clearing financially settled products using a model similar to those used by other exchanges?
Lauren David, Director of Credit and Collateral Management, Exelon Corporation

Noha Sidhom, CEO, Viribus Fund LP

This panel will address how RTOs/ISOs understand and address the counterparty risks of market participants through minimum capitalization requirements, creditworthiness documentation, RTO/ISO review processes and Know Your Customer protocols. In particular, this panel will discuss whether minimum participation requirements create undue burdens for market participants, and whether increased or decreased uniformity in such requirements would be beneficial. This panel will provide an overview of the tools available to RTOs/ISOs to conduct and proactively manage counterparty risk, as well as best practices and opportunities for increased efficiency. Additionally, the panel will explore opportunities for increased information sharing across RTOs/ISOs, as well as RTO/ISO authority and burden. The panel may include a discussion of the following topics and questions:

1. What is the fundamental purpose of minimum capitalization requirements? Are the barriers to entry created by current minimum capitalization requirements commensurate with a reduction in risk to the RTO/ISO markets?

2. How, if at all, should minimum capitalization differ for different types of market participants, either based on their structure or on the RTO/ISO markets in which they participate? How, if at all, should minimum capitalization levels scale with the size of a market participant’s portfolio? Should a market participant’s participation in another RTO/ISO affect minimum capitalization requirements? Should different market products have different minimum capitalization requirements?

3. What are current best practices for Know Your Customer protocols? Are there tools and practices available that the RTOs/ISOs should consider adopting? Are different practices needed for different market products or for different types of market participants based on type of entity, ownership structure, or business strategy? Are tools specific to the RTOs/ISOs necessary or would commercially available, off-the-shelf tools be adequate?

4. What burden does the Know Your Customer process pose on market participants? Are there ways the RTOs/ISOs could make the Know Your Customer process more efficient without reducing its effectiveness?

5. What level of discretion should all RTOs/ISOs have to reject or suspend a market participant based on information discovered during initial or periodic reviews of a market participant’s risk? How should this be balanced against market participants’ rights?

10:45 am – 11:00 am: Break
The purpose of this panel will be to explore the principles underlying initial margin (the initial amount of collateral required to enter into a contract) and variation margin (the change in collateral required as the value of a contract changes over time) and how RTOs/ISOs apply these principles to the markets they administer, particularly to FTR markets. This panel will highlight the key differences in FTR credit practices, as well as recent changes in FTR credit policy. The panel may include a discussion of the following topics and questions:

1. What are basic principles underlying initial and variation margin and how are they applied in the RTO/ISO markets? Do current RTO/ISO practices adhere to general principles for setting initial and variation margin? Are there any metrics and assumptions (e.g. collateral confidence levels and re-assessment/true-up intervals, and position closeout assumptions) that should be examined to see how well RTO/ISO practices ensure that initial and variation margin levels are adequate?

2. What are some of the best practices in terms of measuring a market participant’s FTR portfolio’s anticipated exposure? What are the potential benefits and downsides of using Mark-to-Auction collateral requirements, incorporating future transmission changes into models, or other methods of incorporating forward-looking price information into FTR collateral requirements? Should all the RTOs/ISOs consider implementing minimum collateral requirements for FTRs?

3. How long should collateral be held by the RTOs/ISOs? Do any RTOs/ISOs hold collateral longer than necessary or not long enough to adequately protect their
markets from the risk of market participant defaults?

4. Are the forms of collateral currently accepted by the RTOs/ISOs sufficient? What are benefits and drawbacks of RTOs/ISOs accepting surety bonds as a form of collateral? What must an RTO/ISO consider when determining whether to accept surety bonds as a form of collateral?

12:30 pm – 12:45 pm: Closing Remarks
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