

Hill Energy Resource & Services Default

MRC

January 26, 2022

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Jan. 10 – PJM issued an approx. \$921,000 margin call to Hill because its December positions, which were positive, rolled off our books. Margin was due Jan. 11.

Jan. 11 – Hill did not meet collateral call and declared in default. PJM withheld payment to Hill of outstanding December and January settlement amounts of \$735,000 to partially satisfy collateral call. PJM currently holds \$6.1 MM in cash from Hill.

Jan. 12 – Members notified of default.

Jan. 13 – PJM issued additional collateral calls.

Jan. 24 – Payment default

- Hill was a member in good standing since 2012.
- Hill's FTR portfolio represented 0.3% of overall FTR Market transactions as of Dec. 31, 2021.
- Know Your Customer and background check completed in 2021 with no adverse findings.
- PJM followed updated credit rules and procedures.
- Following the Dec. 22, 2021, FTR auction, Hill's FTR portfolio was revalued as required.
 - The FTR portfolio had a positive Mark-to-Auction value and an FTR credit requirement of \$5.1 MM (\$4.1 MM FTR requirement and \$1 MM additional restricted collateral).
 - Prior to the December auction, Hill had significant excess collateral posted with PJM. After the auction, Hill requested a return of excess collateral, leaving \$5.4 MM in place against a requirement of \$5.1 MM.
 - FTR portfolio goes through May 2025.

Following default, analysis begins of open positions of Hill’s portfolio to assess exposure. Analysis showed a subset of the portfolio experiencing volatile congestion losses in January due to a short position on Greys Pt. – Harmony Village constraint in the Dominion zone. The short position across the constraint extends from January 2022 through May 2023 for a total of approx. 174,000 MWh, creating risk of significant degradation of portfolio value from the December Mark-to-Auction values shown below. PJM is reviewing other portfolios that may be experiencing losses and issuing collateral calls.

Hill Energy Resource & Services Portfolio Value*	
Jan. month to date (Jan. 20)	\$(2.8) MM
Jan. 21–31, 2022	TBD
Feb. 2022–May 2022	\$ (0.3) MM (Mark-to-Auction value as of Jan. 2022)
June 22 through end of life	\$ (4.6) MM** (Mark-to-Auction value as of Dec. 2021)

* These values are subject to change and are dependent on market conditions. Actual results may differ.
 ** PJM will have a market-based view of that portion of the portfolio at the March long-term auction, at which point we will provide an updated view on total portfolio exposure. PJM currently holds \$6.1 MM in collateral.

Under OA Schedule 1, section 7.3.9, PJM is required to bring forth to the members an approach to resolve this portfolio.

The following options are available:

1. Allowing the positions to go to settlement
2. Liquidating the positions by offering for sale in an upcoming auction
3. Other appropriate actions to minimize potential losses to members

January and February 2022 positions will go to settlement as a result of the timing of the default.

7.3.9 Addressing Defaulting Member's Financial Transmission Rights.

In the event a Member fails to meet creditworthiness requirements or make timely payments when due pursuant to the Operating Agreement or Tariff, the Office of the Interconnection shall, as soon as practicable after declaring the Member to be in default as provided in Operating Agreement, section 15.1.5, ***use reasonable efforts to initiate within two applicable auctions the following procedures to settle, liquidate or otherwise resolve each Financial Transmission Rights position held by the defaulting Member:***

b) As to each Financial Transmission Rights position held by the defaulting Member immediately prior to the termination of the defaulting Member's rights under subsection (a) above, the Office of the Interconnection shall determine and execute an appropriate course of action for addressing such Financial Transmission Rights position, based on the specific circumstances of the default as determined by the Office of the Interconnection in exercise of its reasonable judgment, ***such as (1) liquidating the position by offering it for sale in an upcoming applicable Financial Transmission Rights auction, (2) liquidating the position by offering it for sale in an auction called and scheduled for the specific purpose of liquidating one or more positions held by the defaulting Member ("Special Auction"), (3) allowing the position to go to settlement, or (4) another course of action the Office of the Interconnection determines to be appropriate under the circumstances that is designed to minimize potential losses to PJM Members.*** The Office of the Interconnection will provide reasonable advance notice to PJM Members of the approach or course of action it has determined to be appropriate prior to implementing that approach or course of action. The Office of the Interconnection is not required to apply a single approach to the defaulting Member's entire Financial Transmission Rights portfolio, and may determine that the appropriate course of action for addressing a defaulting Member's portfolio includes a combination of the above approaches as applied to different positions within the defaulting Member's overall Financial Transmission Rights portfolio.

7.3.9 Addressing Defaulting Member's Financial Transmission Rights. (cont.)

c) The Office of the Interconnection will ***seek to minimize the losses to PJM Members associated with settling, liquidating or otherwise*** resolving the defaulting Member's Financial Transmission Rights portfolio and may base its determination in subsection (b) above on several factors, including but not limited to, the following:

1. the Office of the Interconnection's assessment of which approach will provide the greatest degree of protection to the financial integrity of the PJM Markets;
2. the size of the defaulting Member's Financial Transmission Rights portfolio, both in absolute terms and relative to overall market volume;
3. the term of the Financial Transmission Rights positions held by the defaulting Member as considered for a single position or on a portfolio basis;
4. whether liquidation is feasible or not, and on what timeline, due to the cessation or curtailment of trading at PJM for all Financial Transmission Rights or a subset of Financial Transmission Rights positions;
5. prevailing market conditions, such as but not limited to market liquidity and volatility; and
6. timing of the default and the actions taken to address the default.

Allow Hill FTR positions to settle against DA prices for certain periods or throughout life of portfolio (through May 2025).

Considerations:

- Risk of significant losses if congestion persists or system conditions change
- More practical for near-term positions

Auction			
Normal FTR Auction		Special Auction	
Single Aggregate Path	Individual Paths	Single Aggregate Path	Individual Paths

Offer Hill FTR portfolio for sale in an applicable auction at a price that minimizes cost to PJM stakeholders

- Allows market to determine value
- Reserve price?
- Removes all risk of future exposure
- Risk premium unknown

Special “countdown/highest bidder” auction, outside of FTR auction engine

- Allows market to determine value
- Reserve price?
- Removes all risk of future exposure
- Can be done in tranches over multiple rounds
- Risk premium unknown

PJM interested in how much advance notice stakeholders desire before liquidating in an auction.

- Other options to be considered
- PJM seeks stakeholder feedback on options to resolve the defaulted portfolio

Jan. 26

MRC

Discussion of
Options

Feb. 2

Special MC

Discussion of
Approach

Feb. 4

Feedback Due

Member Feedback
on Approach

Feb. 9

Notice to Members on Approach

Upcoming FTR Auctions

Feb. 10

March 2022 Auction

Mar. 1

2022/2025 Long-Term
Auction

Mar. 15

Apr. 2022 Auction

Apr. 5

2022/2023 Annual Auction

FEBRUARY 2022

- Filed complaint and request for expedited discovery against Hill Energy Resource & Services and its principal Lijin Chen a.k.a. Lee Chen
- Filed in Texas to eliminate personal jurisdiction issues with Lee Chen

Claims:

- Breach of Contract (Operating Agreement)
- Taking Actions to Avoid Credit Obligations
- Piercing the Corporate Veil/Alter Ego
- Pursuing injunction to seek to secure funds in the amount of the unsatisfied Collateral Calls

The Operating Agreement, section 15.2.2 establishes a default allocation assessment formula to be used at the direction of the PJM Board of Managers.

- In summary, 10% of the default would be charged to every member (\$10,000 annual cap), and 90% is activity based. The activity is based on three months of gross billings.
- For the Hill default, the factor would include gross billings from November 2021, December 2021 and January 2022.

PJM has a more detailed sample calculation on PJM.com at the following link: <https://www.pjm.com/-/media/markets-ops/ftr/example-pjm-default-allocation-calculation.ashx>

By Feb. 14,
PJM will upload
companies' default
allocation assessment
factor in eCredit.

PJM will discuss the proposed
settlement timetable at the Feb.
24, 2022, MRC meeting.

Operational Data | Data Directory | Interregional Data Map | PJM Tools | Energy Market | Capacity Market (RPM) | **Financial Transmission Rights** | Historical FTR Monthly Auction Results | Ancillary Services | Demand Response | Billing, Settlements & Credit

Home » Markets & Operations » Financial Transmission Rights

Financial Transmission Rights

Financial Transmission Rights or FTRs allow market participants to offset potential losses (hedge) related to the price risk of delivering energy to the grid. FTRs are a financial contract entitling the FTR holder to a stream of revenues (or charges) based on the day-ahead hourly congestion price difference across an energy path. [Learn more](#) about financial transmission rights at the Learning Center.

FTR Default	Date
Hill Energy Resource and Services default information	
Members Committee Update PDF	1.24.2022
Example PJM Default Allocation Calculation PDF	1.25.2022
Email FTR Questions	

Contact PJM

Member Community >

(866) 400-8980
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[Member Relations](#)

Please direct questions/comments to FTRquestions@pjm.com.