



Hill Energy Resource & Services Default

Risk Management Committee
January 25, 2022

Nigeria Bloczynski, VP, Chief Risk Officer
Chris O'Hara, SVP, General Counsel

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 the 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 in the constrained area extends from January 2022 through May 2023, 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. 18)	\$(2.6) MM
Jan. 19–31, 2022	TBD
Feb. 2022–May 2022	\$2.9 MM ** (Mark-to-Auction value as of Dec. 31, 2021)
June 22 through end of life	\$ (4.6) MM *** (Mark-to-Auction value as of Dec. 31, 2021)

* These values are subject to change and are dependent on market conditions. Actual results may differ.
 ** We will have updated numbers once the February auction results are final.
 *** 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.

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

- Filing a complaint and request for expedited discovery against Hill Energy Resource & Services and its principal Lijin Chen a.k.a. Lee Chen
- Filing 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

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