MANAGED FUNDS ASSOCIATION

February 15, 2008

VIA FERC EFILING:

Ms. Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E., Room 1A
Washington, D.C. 20426

Re: PJM Interconnection, LLC, Docket No. ER08-455-000

Dear Ms. Bose:

Managed Funds Association ("MFA")[1] appreciates the opportunity to comment on the proposed tariff change submitted by PJM Interconnection, LLC ("PJM") to the Federal Energy Regulatory Commission ("FERC" or the "Commission") on January 18, 2008 (the "Filing").

In submitting this letter, MFA is not expressing any views on the specific facts related to the PJM matter that led to the Filing or supporting any of the parties involved. MFA is, however, concerned about the adverse effects the proposed tariff change would have on the financial transmission rights ("FTR") market in which certain MFA members are active participants. To that end, we encourage PJM and the other parties involved to seek less severe means of addressing the concerns raised by PJM.

PJM's Proposed Tariff Change

In the Filing, PJM, a regional transmission operator, proposes to change the default allocation provisions of its existing Operating Agreement. Specifically, the proposed change would allow PJM to recover losses of a defaulting market participant with a "net short portfolio of FTR positions" by offsetting collateral submitted by, and FTR payments otherwise due to, affiliates of the defaulting entity. PJM has requested that the proposed change to the Operating Agreement be made effective as of January 19, 2008, with a retroactive effect on FTRs that were purchased prior to the effective date.

[1] MFA is the voice of the global alternative investment industry. Its members include professionals in hedge funds, funds of funds and managed futures funds. Established in 1991, MFA is the primary source of information for policy makers and the media and the leading advocate for sound business practices and industry growth. MFA members represent the vast majority of the largest hedge fund groups in the world who manage a substantial portion of the approximately $2 trillion invested in absolute return strategies. MFA is headquartered in Washington, D.C., with an office in New York.

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MFA Comments

MFA believes that PJM's proposal has more far-reaching implications for the FTR market than those set forth by PJM in the Filing.[2] PJM's proposed change raises a host of issues related to its retroactive effect and the imposition of liability on affiliates that are not party to or otherwise involved in a defaulting transaction. In addition, MFA is concerned that affected market participants have not had an adequate opportunity to consider and respond to such a market-altering proposal due to the insufficient time given by FERC for responses.

A. Retroactive Nature of the Proposal

The retroactive nature of the proposal is a cause of great concern to MFA members who participate in the FTR market. The proposal seeks to give PJM the power to change terms in parties' contractual commitments in the FTR market after the parties to those contracts have reached a final agreement. It also seeks to allow PJM to impose liability on market participants for losses incurred by an affiliated entity without any notice that such liability was a possible consequence of participation in PJM's FTR market.

We find this aspect of the proposal to be problematic because it would create serious legal and commercial uncertainty for market participants going forward. If PJM is permitted to unilaterally modify previously agreed-upon contractual commitments, market participants will not be able to adequately assess the risks and potential liabilities associated with participation in PJM's FTR market. The inability to assess these risks and potential liabilities will have the effect of discouraging market participation, thereby limiting the liquidity of the FTR market. As a result, we believe that PJM's proposal will seriously affect the market's credibility and vitality in the future.

B. Affiliate Liability

MFA believes that PJM's proposal to seek recovery of a defaulting entity's losses from the entity's affiliates ("affiliate liability") is legally inappropriate and contrary to traditional notions of corporate separateness. Corporate separateness rests on the long-standing principle of limited liability that the owners of companies generally are not liable for the debts or actions of other companies, even if the companies are affiliated with one another. This principle applies both to individuals and companies that are affiliated with other companies. Consequently, MFA is concerned that the proposal's disregard for corporate separateness will expose market participants to private actions by their investors.

Further, affiliate liability raises significant concerns for market participants that are subject to other regulatory requirements, which may limit or preclude a market

[2] Filing at pp. 3, 12-16.

participant from assuming liability for affiliate activities or using its assets to cover a default by an affiliated entity, as contemplated by the PJM proposal. PJM's proposed change may, therefore, effectively prohibit certain entitites from participating in PJM's markets or result in market participants facing conflicting regulatory requirements and exposure to enforcement actions by other regulatory authorities for violations of their requirements.

C. Short Comment Period

FERC gave interested parties four weeks from the date of PJM's January 18th Filing to provide comments on the rule proposal. MFA believes that such a short comment period for a proposed change of this nature and magnitude is inadequate and greatly limits the ability of market participants to provide the Commission with meaningful comments. Given the potential effects on the FTR market that could result from PJM's proposal, a four-week comment period is too short for interested participants to review, consider and comment on the implications of PJM's proposed change. The need for meaningful market participant comment is particularly important given the serious implications for the FTR market. Therefore, MFA requests that FERC extend the comment period by thirty (30) days so that the Commission may benefit from well-developed comments of interested parties before moving forward in its review process.

Conclusion

PJM's proposed tariff change presents significant concerns for participants in the FTR market. If it is approved, as proposed, the liquidity and viability of the FTR market is likely to be negatively impacted, and certain market participants would likely become exposed to enforcement actions for violations of their obligations under other regulatory regimes, as well as investor lawsuits. In light of the concerns discussed above, MFA urges the Commission to reject the changes proposed by PJM.

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We appreciate this opportunity to comment on the proposal and would be pleased to meet with you to discuss our comments further. Please feel free to call me at (202) 367-1140.

Respectfully submitted,

John G. Gaine
Special Advisor

cc: The Hon. Joseph T. Kelliher, Chairman
The Hon. Suedeen G. Kelly, Commissioner
The Hon. Philip D. Moeller, Commissioner
The Hon. Mark Spitzer, Commissioner
The Hon. Jon Wellinghoff, Commissioner