

### FTR Credit Enhancement

#### **Problem / Opportunity Statement**

PJM's credit policy fails to account for various potential risk mitigants to generator ownership of FTRs. Consequently, PJM's application of the credit policy may yield generator default risk assessments associated with FTR ownership that are too high, resulting in excessive collateralization requirements for certain generator accounts.

For purposes of collateral assessment for FTR ownership, Generator accounts may merit distinct consideration due to apparent natural risk mitigants. For example, during the normal course of market activity, PJM is typically in a net payable position to generators that hold in the same account as the generation asset. Consequently, PJM can retain generator revenues from that account in the event of default. Further, the credit policy fails to consider the offsetting risk that a generator's physical output at the source or sink of an FTR path provides. Such inverse correlation should be considered in assessing generator default risk and required collateral for FTR ownership.