

FTR Liquidation: Cancelling FTRs

FRMSTF

09.29.2020

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Defaulting FTR Participants

- **PJM's new credit and KYC rules should reduce the risk of defaults.**
- **Initial margin requirements should reduce the risk of defaults.**



IMM Proposal

- **Eliminate FTR positions of defaulting member**
- **Isolates FTR participant default risk to FTR market**
 - **No impacts on rest of market**
 - **No unknown default allocation assessment**
- **Reduces market disruptions**
 - **No sell off of large positions**
- **Lower cost than selling FTRs**
 - **No reduced prices to encourage sale**
 - **No higher payments for counter flow FTRs**
- **Similar cost to taking to settlement but costs contained within the ARR/FTR market**



IMM Proposal

- **Counter flow FTR target allocations are cancelled**
 - **Negative target allocations are payments made from FTR holders**
 - **Decreases funds to pay remaining FTRs.**
 - DA congestion surplus decreases.
 - **DA surplus decrease, ARR surplus increase**
 - In bankruptcy likely that FTR effect > ARR effect
 - **Counterflow can be offered in subsequent auctions**
 - Only clears if it increases total revenue to auction
 - Reduced cost relative to liquidation

IMM Proposal

- **Cancelled FTRs are reconfigured by market at market prices**
- **Auction revenue may be reduced, but revenue a result of market prices rather than PJM choice of arbitrarily low price**
- **No discretion necessary, capacity is awarded based on auction clearing**



IMM Proposal

- **Total surplus may be affected**
 - **Counter flow**
 - Fewer negative target allocation payments: reduce surplus
 - Lower payments from ARR surplus: increase surplus
 - Net result is no more expensive than going to settlement
 - **Prevailing flow**
 - Fewer positive target allocation payouts: increase surplus
 - Lower payments to ARR surplus: reduce surplus
 - Sale of prevailing flow capacity: increase surplus
 - Net result is no more expensive than going to settlement



IMM Proposal

- **PJM can manage market models to increase ARR funding if necessary**
- **PJM currently manages market model in the annual auction to improve funding**



IMM Proposal: Properties

- **Costs contained in ARR/FTR market**
 - **No cross market default allocation assessment across all members**
 - **No more expensive than going to settlement**
- **No need to offer specific paths**
 - **No need to mask participants**



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