



Problem Statement – Liquidation of FTR Portfolio due to an event of Default

Problem Statement

PJM declared GreenHat Energy, LLC in payment default on June 21, 2018. The FTR portfolio on which GreenHat defaulted includes positions for the current planning year and the subsequent two planning years.

As stipulated in the Operating Agreement, during the July 2018 FTR auction, PJM commenced liquidation of the significant volume of August 2018 through May 2019 FTR positions on which GreenHat defaulted. This liquidation process directs PJM to offer the positions for liquidation “at an offer price designed to maximize the likelihood of liquidation of those positions.”

When PJM reviewed the bids submitted on the positions offered for liquidation in the July 2018 FTR auction, the potential impact of the existing liquidation process became evident. For example, even to liquidate half of the FTR positions in certain months beyond August 2018 would have required paying as much as six times the clearing prices for the same paths in the FTR auction conducted in June 2018.

The default allocation assessment for the GreenHat default will include the costs of liquidating any FTR positions on which GreenHat defaulted. With that in mind, PJM decided it was not prudent for PJM to liquidate FTRs for all the remaining months in the current planning period from the GreenHat portfolio in the FTR auction conducted in July 2018. Unlike other PJM markets, there are no mechanisms (such as price caps or offer caps) to guard against temporary price shocks to FTR values for unusual items, such as offering significant volumes of FTRs for liquidation. PJM believes it is important to take a pause to engage the members on the current liquidation process and possibly some alternatives to the current liquidation process before locking in multiple months' liquidation costs.

PJM filed a waiver request at FERC on July 26, 2018 asking that PJM only be required to attempt to liquidate FTR positions for one month forward in any of the FTR auctions to be conducted in July 2018 through October 2018. This waiver is intended to allow PJM time to talk with the members, and file any changes to the current FTR liquidation process, if the members wish to do so after PJM and stakeholder discussion.

Issue Charge – FTR Portfolio Liquidation due to a Default Event

Includes Problem/Opportunity Statement

Issue Source

PJM

Stakeholder Group Assignment

Special Markets and Reliability Committee Sessions

Key Work Activities

The initiative is expected to:

1. Review existing FTR Liquidation provisions of the Tariff and Operating Agreement.
2. Review and discuss options to liquidate current planning year and long-term FTR positions in the portfolio of a member in default.
3. Review and discuss current waiver filed by PJM on July 26, 2018.
4. Discuss potential clarification to the \$10,000 cap on the per member portion of the Default Allocation Assessment to apply to an annual period or an individual default event, regardless of whether the timing of the billing of the Default Allocation Assessment bridges multiple calendar years.
5. Discuss potential associated changes to PJM Governing Documents and Manuals.

Expected Deliverables

As necessary, deliverables include the following:

1. Revisions to PJM Governing Documents and Manuals to implement the recommended enhancements.

Decision-Making Method

1. Conduct a non-binding poll prior to the September 27, 2018 Markets and Reliability Committee (MRC) meeting to narrow options for further consideration and to determine the voting order of proposals at the MRC meeting.
2. Vote on packages, mutually non-exclusive of each other (non-truncated voting), at the September 27, 2018 MRC meeting.
3. Packages that receive greater than two-thirds support would be moved to a vote at the September 27, 2018 Members Committee (MC) meeting. The package receiving the highest sector vote of at least two-thirds at the September 27, 2018 MRC meeting will be the main motion for purposes of voting at this MC meeting.

Expected Duration of Work Timeline

The stakeholder effort should take 2 months. The start date will be August 2018. Priority level is High, Timing is Near Term, and Meeting Frequency is Semi-Monthly.



Approved at August 23, 2018
Markets and Reliability Committee Meeting

Start Date	Priority Level	Timing	Meeting Frequency
	<input type="checkbox"/> High <input type="checkbox"/> Medium <input type="checkbox"/> Low	<input type="checkbox"/> Immediate <input type="checkbox"/> Near Term <input type="checkbox"/> Far Term	<input type="checkbox"/> Weekly <input type="checkbox"/> Monthly <input type="checkbox"/> Quarterly