

FTR Liquidation: Cancelling FTRs

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Defaulting FTR Participants

- **PJM's new credit and KYC rules should help to minimize the risk of defaults.**
- **Initial Margin requirements being considered by the stakeholders will also reduce the risk to participants.**

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 potentially large positions**
- **Lower cost than liquidation**
 - **No price taker logic**

Cancelled FTRs Increase Capacity and Available Revenue

- **Prevailing flow FTR target allocations are cancelled**
 - **Positive target allocations are payments made to FTR holders.**
 - **Increases funds to pay remaining FTRs.**
 - **DA congestion surplus increases.**

Cancelled FTRs Increase Capacity and Available Revenue

- **Counter flow FT target allocations are cancelled**
 - **Negative target allocations are payments made from FTR holders**
 - **Decreases funds to pay remaining FTRs**
 - **DA congestion surplus decreases**

Capacity Changes in Auction

- **Cancelled paths are reconfigured by market at market prices**
- **Auction revenue may be reduced, but offering capacity at market price is less risky than offering paths at arbitrarily low prices**
- **No discretion necessary, capacity is awarded based on auction clearing**

Properties of Default FTR Cancellation

- **ARR surplus may be affected**
 - Fewer negative target allocations could affect surplus
 - ARR target allocations have always been fully funded by auction revenue
- **PJM can alter market models to increase ARR funding if necessary**
 - PJM does this currently in the annual auction to improve funding
- **Costs contained in ARR/FTR market**
 - No cross market default allocation assessment across all members
- **No need to offer specific paths**
 - No need to mask participants

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