FTR Liquidation: Cancelling FTRs

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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.
    o DA congestion surplus decreases.
  • DA surplus decrease, ARR surplus increase
    o In bankruptcy likely that FTR effect > ARR effect
• Counterflow can be offered in subsequent auctions
  o Only clears if it increases total revenue to auction
  o 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
    o Fewer negative target allocation payments: reduce surplus
    o Lower payments from ARR surplus: increase surplus
    o Net result is no more expensive than going to settlement
  • Prevailing flow
    o Fewer positive target allocation payouts: increase surplus
    o Lower payments to ARR surplus: reduce surplus
    o Sale of prevailing flow capacity: increase surplus
    o 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