

# IMM Proposals: Portfolio Netting and Counter Flow FTR Adjustment

FTRSTF

November 12, 2014

Seth Hayik



Monitoring Analytics

# Portfolio Netting: Non Parallel Treatment of FTR Portfolios

- **Without portfolio netting, FTR portfolios are not parallel**
  - **Dependent on distribution of positive and negative target allocations**
- **On a portfolio basis, selling an FTR should be the same as buying a counter flow for the same quantity**
  - **Under current rules, this is not true**
  - **Under proposed rules, this becomes true**

# Portfolio Netting: Accounting Example

CLMP	
A	\$ 2.00
B	\$ 15.00

Flow	Congestion
4.0	\$52.00

Scenario	FTR Transaction	MW	Price	Cost	TA	Profit Netting	Profit No Netting
1	Simple FTR A-B Buy	10.0	\$10.00	\$100.00	\$130.00	(\$48.00)	(\$48.00)
2	FTR Buy and Sell A-B Sell	-5.0	\$10.00	(\$50.00)	\$0.00	\$2.00	\$2.00
3	Prevailing and Counter Flow A-B Buy B-A Buy	10.0	\$10.00	\$100.00	\$130.00	\$15.00	\$2.00

- **Scenario 1: Simple FTR bought and kept. Profits match with and without portfolio netting**
- **Scenario 2: FTR bought, half of capacity sold. Profits match with and without portfolio netting**
- **Scenario 3: FTR bought, counter flow purchased. Profits do not match with and without portfolio netting**

# Counter Flow Adjustment: Revenue Received

- **Counter flow FTRs and prevailing flow FTRs are not treated the same**
- **Current rules insulate counter flow FTRs from any revenue deficiencies, while prevailing flow FTRs have no insulation available**
- **The payout ratio should be calculated to split revenue deficiency penalties evenly among all FTRs, counter flow or prevailing flow**

# Counter Flow Adjustment: Calculation

- **Adjusted payout ratio calculated from available revenue to fund FTRs**
- **Payout ratio of negative target allocation counter flow FTRs calculated from this adjustment**
- **These calculations equally split revenue deficiency penalty between prevailing flow and counter flow FTRs**
- **Adjustment creates additional revenue to fund FTRs**

# Counter Flow Adjustment: Payout Ratio

- **Currently, payout ratio based on revenues available to pay target allocations**
- **This includes congestion revenue, negative prevailing flow target allocations and negative counter flow target allocations**

Currently:

$$Payout = TA_{pos} * PR = Congestion - TA_{neg} - CF TA_{neg}$$

Proposed:

$$Payout = TA_{pos} * PR = Cong - TA_{neg} - CF TA_{neg} * (1 + (1 - PR))$$

# Congestion Flow Adjustment: Payout Ratio

- **Payout ratio can be calculated so that not only positive target allocations are impacted by revenue inadequacies**
- **New payout ratio applied to negative counter flow target allocations should mirror that applied to positive target allocations**



# Counter Flow Adjustment: Final Payout Ratios

- Rearranging the available revenues leads to two equations for payout ratios
- Payout ratios are percentages, so  $1+(1-PR)$  produces payout ratio over 100% in underfunding situations

$$TA_{pos} * PR = Cong - TA_{neg} - 2CFTA_{neg} + CFTA_{neg} * PR$$

$$PR(TA_{pos} - CFTA_{neg}) = Cong - TA_{neg} - 2CFTA_{neg}$$

$$PR_{TA_{pos}} = \frac{Cong - TA_{neg} - 2CFTA_{neg}}{TA_{pos} - CFTA_{neg}}$$

$$PR_{CFTA_{neg}} = 1 + \left(1 - \min\left(PR_{TA_{pos}}, 1\right)\right)$$



# Results of Counter Flow Adjustment

	Positive Target Allocations	Negative Target Allocations	Total Target Allocations	Total Reported Congestion Revenue	Reported Payout Ratio*	Total Revenue Available	Adjusted Prevailing Flow Payout Ratio	Adjusted Counter Flow Payout Ratio	Adjusted Counter Flow Revenue Available	Adjusted Counter Flow Revenue Available
Jan-14	2,042,537,213.90	(998,445,595.01)	\$1,044,091,619	\$815,789,461	78.1%	\$1,814,235,056	91.9%	108.1%	\$150,770,760	\$150,770,760
Feb-14	581,660,982.15	(338,316,718.47)	\$243,344,264	\$167,731,282	68.9%	\$506,048,000	95.6%	104.4%	\$244,362,737	\$244,362,737
Mar-14	823,861,545.64	(456,573,939.94)	\$367,287,606	\$245,465,062	66.8%	\$702,039,002	98.1%	101.9%	\$102,592,928	\$102,592,928
Apr-14	255,732,814.32	(143,428,606.41)	\$112,304,208	\$60,894,528	54.2%	\$204,323,135	87.3%	112.7%	\$244,550,556	\$244,550,556
May-14	362,871,684.13	(249,683,438.50)	\$113,188,246	\$65,163,098	57.6%	\$314,846,537	92.5%	107.5%	\$146,446,632	\$146,446,632
Jun-14	218,239,157.67	(132,125,293.49)	\$86,113,864	\$88,974,913	100.0%	\$221,100,206	100.0%	100.0%	\$221,100,206	\$221,100,206
Jul-14	215,524,070.28	(131,065,806.70)	\$84,458,264	\$103,981,118	100.0%	\$235,046,924	100.0%	100.0%	\$235,046,924	\$235,046,924
Aug-14	158,672,445.33	(109,435,463.69)	\$49,236,982	\$69,520,938	100.0%	\$178,956,402	100.0%	100.0%	\$178,956,402	\$178,956,402
Sep-14	230,425,061.55	(155,432,941.15)	\$74,992,120	\$88,683,326	100.0%	\$244,116,267	100.0%	100.0%	\$244,116,267	\$244,116,267
Total 2013/2014	\$5,442,171,151	(\$2,942,754,444)	\$2,499,416,707	\$1,819,508,754	72.8%	\$4,762,263,198	91.0%		\$4,950,708,852	\$4,950,708,852
Total 2014/2015	\$822,860,735	(528,059,505.03)	\$294,801,230	\$351,160,295	100.0%	\$879,219,800	100.0%		\$879,219,800	\$879,219,800

- **Equation equally divides revenue deficiency penalty between prevailing and counter flow FTRs**
  - **As funding increases, counter flow adjustment decreases**
  - **When fully funded, both prevailing and counter flow FTRs have a payout ratio of 100%**

**Monitoring Analytics, LLC**  
**2621 Van Buren Avenue**  
**Suite 160**  
**Eagleville, PA**  
**19403**  
**(610) 271-8050**  
**MA@monitoinganalytics.com**  
**ww.MonitoringAnalytics.com**

