

ARR/FTR Market Design: Addressing Risk

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Proposed Design of FTR Market

- **Each LSE has the option to sell up to 100 percent of the bus-specific rights to the variable congestion revenue in return for a fixed payment, the FTR.**
 - **PJM operated auction or sale by individual LSE**
 - Design options
 - **LSE strike price**
 - LSEs can define the lowest price willing to accept
 - Can set supply curve
 - **Credit options**
 - Can be managed by PJM
 - Can be managed by LSE seller/buyer arrangement

Path Based Model Creates Risk

- **Insolvency/losses/shortfalls on one path affect all paths under current approach**
- **Counter flow positions create risk for other participants.**
- **Liquidation affects value of all positions**
- **Path specific value can reverse relative to sale price due to changes in physical model relative to FTR market model.**



Proposed FTR Design Reduces Risk

- **No paths means:**
 - **No counter flow positions**
 - **No reversal of FTR value from positive to negative**
 - No negative congestion paths
 - **No cross subsidies caused by path specific approach**
 - **No binary outage modeling**
 - **No Stage 1A issues.**
 - **No cross subsidies among LSEs**
 - **No more than 100 percent of congestion rights can be sold.**



Proposed FTR Design Reduces Risk

- **Elimination of path based system eliminates system wide risk in current design:**
 - **No interdependencies in positions.**
 - **No counter flow paths**
 - **No path value reverses relative to sale price**
 - FTR can be more or less valuable, but value cannot be negative
 - **If FTR holder fails, congestion rights revert to owner.**
 - Owner only loses constant revenue stream from defaulter.
 - Owner can resell rights.
 - No effect on other positions

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