

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





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