



### Liquidation of FTR Portfolio due to an event of Default

#### Problem Statement

PJM declared GreenHat Energy, LLC in payment default on June 21, 2018. The FTR portfolio on which GreenHat defaulted includes positions for the current planning year and the subsequent two planning years.

As stipulated in the Operating Agreement, during the July 2018 FTR auction, PJM commenced liquidation of the significant volume of August 2018 through May 2019 FTR positions on which GreenHat defaulted. This liquidation process directs PJM to offer the positions for liquidation “at an offer price designed to maximize the likelihood of liquidation of those positions.”

When PJM reviewed the bids submitted on the positions offered for liquidation in the July 2018 FTR auction, the potential impact of the existing liquidation process became evident. For example, even to liquidate half of the FTR positions in certain months beyond August 2018 would have required paying as much as six times the clearing prices for the same paths in the FTR auction conducted in June 2018.

The default allocation assessment for the GreenHat default will include the costs of liquidating any FTR positions on which GreenHat defaulted. With that in mind, PJM decided it was not prudent for PJM to liquidate FTRs for all the remaining months in the current planning period from the GreenHat portfolio in the FTR auction conducted in July 2018. Unlike other PJM markets, there are no mechanisms (such as price caps or offer caps) to guard against temporary price shocks to FTR values for unusual items, such as offering significant volumes of FTRs for liquidation. PJM believes it is important to take a pause to engage the members on the current liquidation process and possibly some alternatives to the current liquidation process before locking in multiple months' liquidation costs.

PJM filed a waiver request at FERC on July 26, 2018 asking that PJM only be required to attempt to liquidate FTR positions for one month forward in any of the FTR auctions to be conducted in July 2018 through October 2018. This waiver is intended to allow PJM time to talk with the members, and file any changes to the current FTR liquidation process, if the members wish to do so after PJM and stakeholder discussion.