



Proposed Changes to the FTR Undiversified Credit Requirement

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Credit Subcommittee
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FTR Undiversified Alternatives - Poll Results

	Support	Do Not Support	Percent Support
#1 - 1X Undiversified Adder	16	62	21%
#2 - 1¢/MWH Minimum	22	55	29%
#3 - 2¢/MWH Minimum	34	43	44%
#4 - 3¢/MWH Minimum	18	59	23%
#5 - 15% Historical Counterflow Adjustment	80	1	99%
#6 - 15% Historical Counterflow Adjustment & 1¢/MWH Minimum	56	21	73%
#7 - 1.1 times Positive Credit Requirement	25	49	34%
#8 - 1.1 times Positive Credit Requirement & 1¢/MWH Minimum	13	60	18%
#9 - 20% Historical Counterflow Adjustment	26	51	34%
#10 - 20% Historical Counterflow & 1¢/MWH Minimum	25	52	32%

	Strong Preference	Moderate Preference	Could Support	Do Not Support	Unsure
#1 - 1X Undiversified Adder	0	0	16	62	19
#2 - 1¢/MWH Minimum	0	0	22	55	20
#3 - 2¢/MWH Minimum	1	16	17	43	20
#4 - 3¢/MWH Minimum	1	1	16	59	20
#5 - 15% Historical Counterflow Adjustment	71	1	8	1	16
#6 - 15% Historical Counterflow Adjustment & 1¢/MWH Minimum	3	30	23	21	20
#7 - 1.1 times Positive Credit Requirement	0	3	22	49	23
#8 - 1.1 times Positive Credit Requirement & 1¢/MWH Minimum	0	0	13	60	24
#9 - 20% Historical Counterflow Adjustment	0	0	26	51	20
#10 - 20% Historical Counterflow & 1¢/MWH Minimum	0	0	25	52	20

Appendix



Proposed Changes to the FTR Undiversified Credit Requirement

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- The current PJM FTR credit requirement has two components:
 - Underlying credit requirement
 - The primary requirement for most FTR portfolios
 - Based on difference between price and historical monthly value for each FTR
 - Mean historical value adjusted 10%
 - Calculated for each month, and positive months' requirements summed to portfolio total
 - Undiversified Adder
 - Based solely on cleared price for each month's total portfolio
 - Net negative cleared portfolio-month price triggers adder for that month
 - Cannot be applied until market is in process of clearing
 - One-day collateral call issued if needed
 - Can cause auction clearing delays and credit uncertainty for Participants

- In support of a Problem Statement and Issue Charge, PJM has been analyzing alternatives to the current FTR Undiversified credit adder
- Objectives for a viable alternative include:
 - Elimination of auction clearing delays
 - Elimination of member credit uncertainty from FTR Undiversified collateral calls
 - Targeting of counterflow FTR exposure
 - Same or better exposure coverage
 - Similar or lower credit requirement
 - Low implementation risk
 - No material FTR screening performance degradation

- PJM analyzed over three dozen alternatives and variations
- Ten alternatives were considered and discussed at the Credit Subcommittee
 - Two met all of the objectives in varying degrees
 - Others met some but not all of the objectives
 - All ten alternatives are shown in the appendix
- The ten alternatives were subject to a Credit Subcommittee poll
- Only the two alternatives meeting all of the objectives received over 50% support
- PJM is reviewing additional data for additional impacts

- “Option 5”
 - Increase the historical adjustment factor for historically counterflow paths to 15%
 - Retain 10% adjustment for prevailing flow paths
 - 99% Support
 - Including 88% indicating “Strong Preference”
- “Option 6”
 - Same as Option 5, but also establishes a 1¢/MWH minimum credit requirement per portfolio per month
 - 58% support

* Survey question asked for each alternative:
Strong preference, Moderate preference,
Could Support, Do Not Support, Unsure
“Support” includes first three answers

- “Option 5” – Increase the historical adjustment factor for historically counterflow paths to 15% (from 10%)
 - ✓ Eliminates auction clearing delays
 - ✓ Eliminates uncertainty from undiversified FTR collateral calls
 - ✓ Targets counterflow risk
 - ✓ Increases overall membership exposure coverage ~1%* in sample period
 - ✓ Decreases overall membership credit requirement ~2%* in sample period
 - ✓ No implementation risk (no coding change – just a table change in FTR Center)
 - ✓ No material FTR screening performance degradation

* Individual members may see decreases or increases

- “Option 6” – Same as Option 5 (15% historical adjustment) but also applies a 1¢/MWH minimum credit requirement for each portfolio month
 - ✓ Eliminates auction clearing delays
 - ✓ Eliminates uncertainty from undiversified FTR collateral calls
 - ✓ Primarily targets counterflow risk
 - ✓ Increases overall membership exposure coverage ~4%* in sample period
 - Increases overall membership credit requirement ~3%* in sample period
 - Minor implementation risk from code change required
 - Possible minor FTR screening performance degradation

* Individual members may see decreases or increases

- Proposed implementation
 - Effective prior to 2017-2018 annual auction (early April 2017)
 - After annual update of historical values for Long-term FTRs (LTFTRs)
 - Annual update may involve collateral calls
 - Long-term FTR (LTFTR) credit requirements recalculated with new requirements
 - June 1, 2017 – May 31, 2020
 - FTR credit requirements frozen for existing April and May 2017 FTRs
 - Additional FTRs acquired in the May 2017 monthly auction would be subject to new requirements

- Proposed transition
 - No collateral calls initially issued for accounts with credit shortfall (from existing position) after recalculation
 - Collateral calls may still be issued after annual LTFTR historical value adjustment
 - Transitional FTR Credit Adjustment (“TFCA”) applied to each “short” account
 - Causes zero balance to be reported by eCredit and utilized by FTR Center
 - TFCA reduced any time credit available (with TFCA) is greater than credit requirement
 - FTR monthly roll-off
 - Reductions due to transactions
 - Additional credit applied to account
 - Until account shortfall is eliminated, Participant can only enter FTR transactions that reduce credit requirements
 - Other transactions may be done in separate accounts with their own credit

	Introduction	Endorse/ Approve
Credit Subcommittee (CS)	Jul-Aug 2016	Aug 2016
Market Implementation Committee (MIC)	Sep 14, 2016	Oct 5, 2016
Markets and Reliability Committee (MRC)	Sep 29, 2016	Oct 27, 2016
Members Committee (MC)		Nov 17, 2016
FERC Filing – FERC Approval	Dec 1, 2016	Feb 1, 2017

Appendix

FTR Undiversified Credit Requirement Alternatives

	1	2	3	4	5	6	7	8	9	10
	1X Undiv Adder	1¢ Min	2¢ Min	3¢ Min	15% Hist. Cflow	15% Hist. Cflow & 1¢ Min	1.1 * Pos. Credit Req.	1.1 * Pos. Credit Req. & 1¢ Min	20% Hist. Cflow	20% Hist. Cflow & 1¢ Min
Same or Better Exposure Coverage	X	X	✓	✓	✓	✓	✓	✓	✓	✓
% Coverage compared to current	(4%)	(2%)	1%	4%	1%	4%	5%	8%	7%	9%
Similar or Lower Credit Requirement	✓	✓	✓	-	✓	-	✓	X	X	X
% Requirement compared to current	(16%)	(12%)	(4%)	4%	(2%)	3%	1%	7%	19%	24%
Targets Counterflow Exposure, Especially Tail Risk	✓	X	X	X	✓	✓	X	X	✓	✓
Low Implementaion Risk	✓	-	-	-	✓	-	-	-	✓	-
No Material FTR Screening Performance Degredation	✓	-	-	-	✓	-	✓	-	✓	-
Elimination of Auction Clearing Delays	X	✓	✓	✓	✓	✓	✓	✓	✓	✓
Elimination of Member Credit Uncertainty from FTR Undiversified Collateral Calls	X	✓	✓	✓	✓	✓	✓	✓	✓	✓