



FTR Credit Requirements

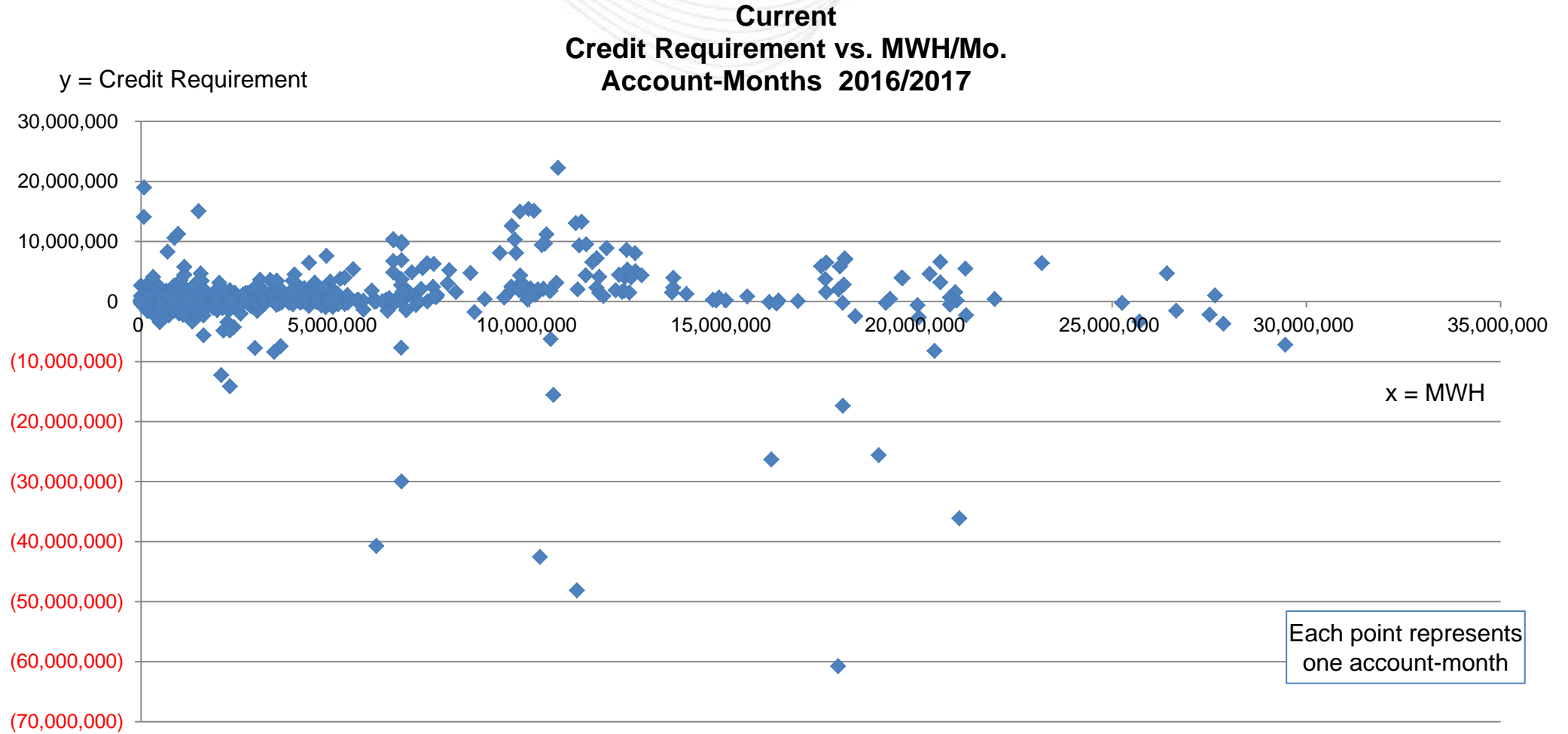
Harold Loomis
Credit Subcommittee
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- An FTR credit requirement change to mitigate exposure from major transmission upgrades has been endorsed by PJM stakeholders and filed with the FERC. Pending FERC approval, implementation is planned to coincide with the 2018/2019 FTR Annual Auction.
- Additional open Issue Charges related to FTR credit remain outstanding:
 - Consider alternatives to the FTR Undiversified Adder
 - “Explore ways to mitigate exposure for large portfolios with small credit requirements”

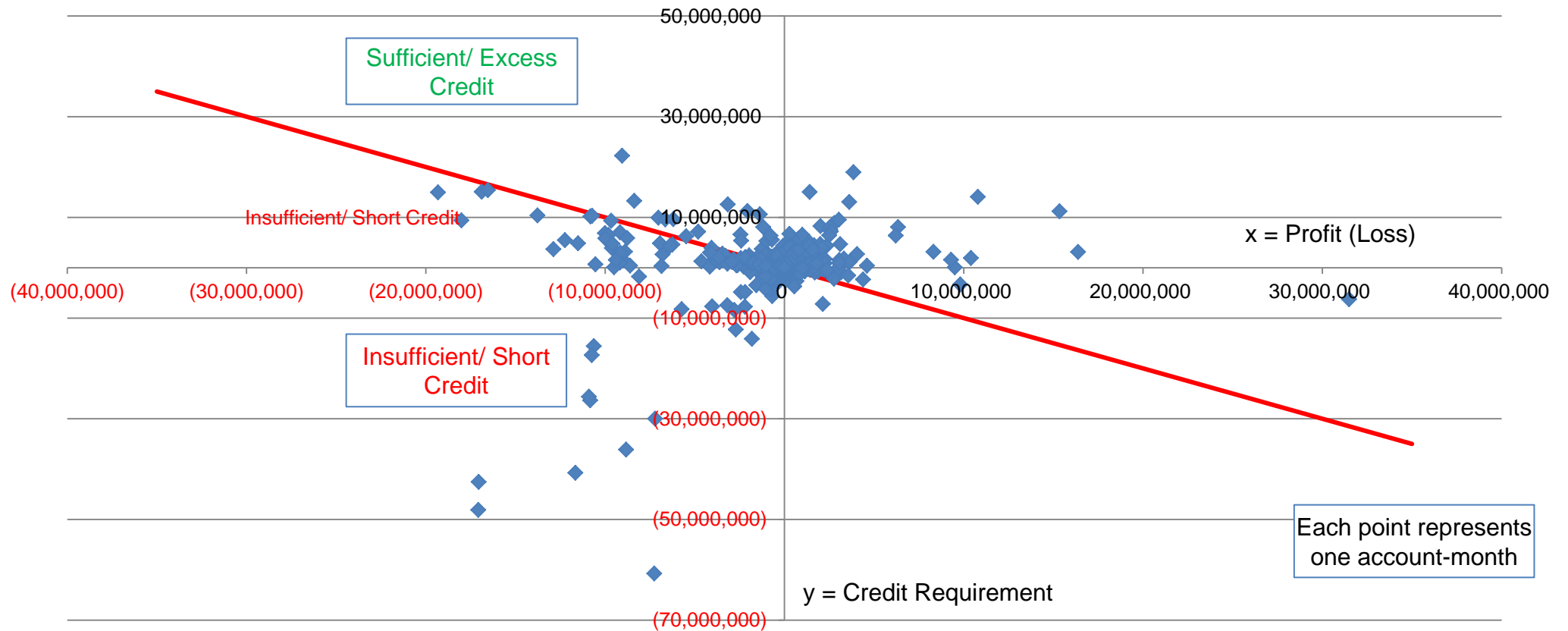
- Stakeholders previously considered a modification to the FTR historical value adjustment factor for counterflow paths as an undiversified adder alternative
 - By itself, however, this change was found to perform poorly on a stress test of two large 2007-2008 portfolios held by a defaulting member
- Another proposed alternative would retain the adder but with a “deductible”
 - This would eliminate most of the undiversified adder collateral calls by relying on alternative measures for small portfolios while retaining the adder for large portfolios
- Minimum FTR collateral requirements based on size could provide additional support for certain portfolios

- PJM has begun analysis on a combination of proposed FTR credit requirement modifications that may, together, improve overall FTR credit requirements
 - Historical value adjustment factor modification for counterflow paths
 - Undiversified adder “deductible”
 - Minimum per-MWH portfolio credit requirement

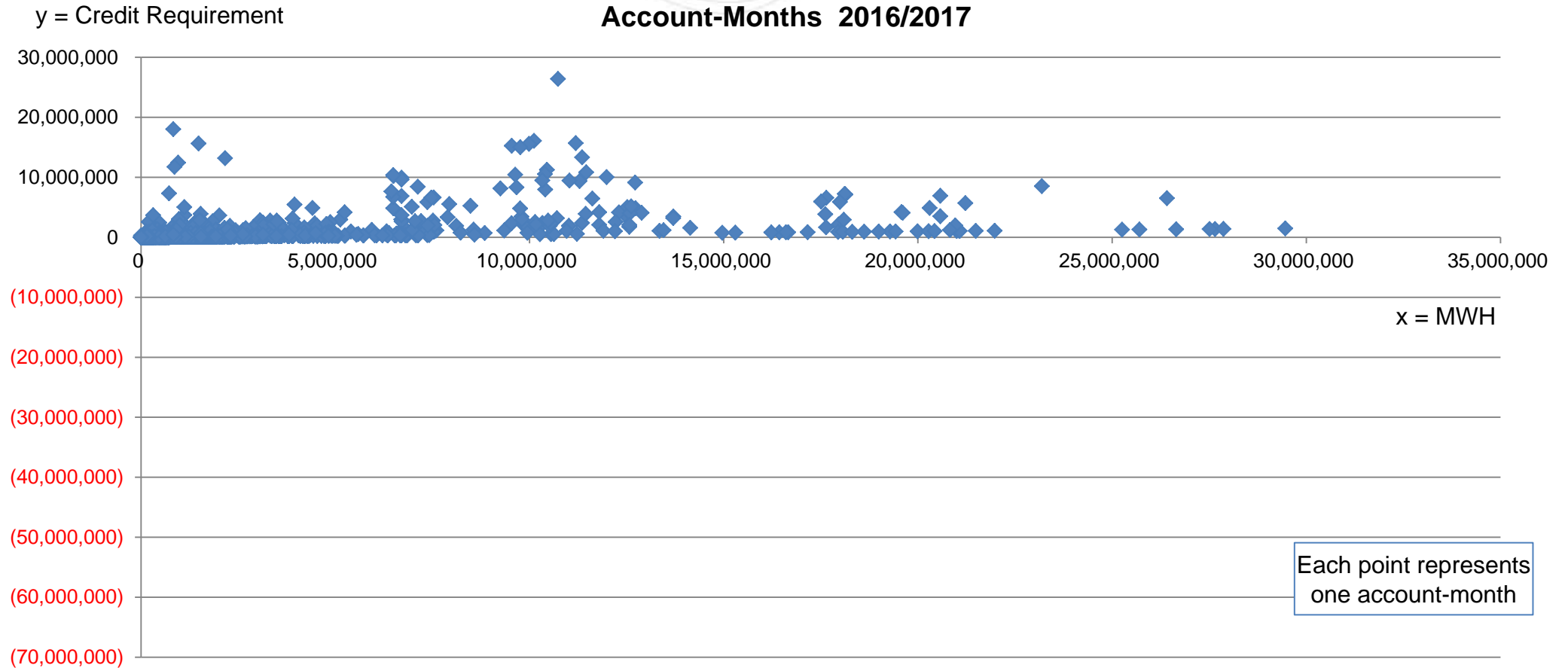
- Objectives for an improved FTR Credit Requirement include:
 - Reduction or elimination of FTR Undiversified collateral calls
 - Reduces auction clearing delays and collateral uncertainty
 - Continued mitigation from counterflow FTR exposure
 - Same or better exposure coverage
 - Similar or lower credit requirement
 - Low implementation risk
 - No material FTR screening performance degradation



**Current
Credit Requirement vs. Profit (Loss)
Account-Months 2016/2017**



25% Cflow adj & \$1MM/Mo. Undiv Ded & 5¢ Min/MWH
Credit Requirement vs. MWH
Account-Months 2016/2017



Scenario - Revised Credit Requirement vs. Profit (Loss)

25% Cflow adj & \$1MM/Mo. Undiv Ded & 5¢ Min/MWH
Credit Requirement vs. Profit (Loss)
Account-Months 2016/2017

