FTR Credit Enhancements

Credit Subcommittee
February 12, 2018

Current FTR Credit Calculations

- The FTR credit requirement starts with a monthly credit requirement calculated for each FTR
  - Monthly price minus discounted historical value for each month for each FTR
  - Historical value is the weighted average of the path congestion value over the past three years (50%- 30%- 20%), on a monthly basis
  - Separate historic values used for on-peak, off-peak and 24-hour FTRs
- Within each month, individual FTR credit requirements are added to form a single credit requirement for that month
  - For cleared FTRs only, negative individual FTR credit requirements net against positive requirements within the same month.
- ARR credits in the account are subtracted from credit requirements each month
- An undiversified adder, if applicable, is applied on a monthly basis
- The total credit requirement for an account is the sum of all positive monthly subtotals

Scenario Considerations

- Separate analysis for each of three planning periods 14/15, 15/16, 16/17
- PJM looked at all FTRs in effect for each planning period
  - Current portion of LTFTRs
  - Annual and monthly FTRs
- Collateral required for years outside of the planning period is not included, as that is required to cover the exposure in those future years
- A single measure was calculated for each account for each year analyzed
  - The greatest run-out under-collateralization, or
  - The smallest run-out over-collateralization

Over-collateralization is required collateral that exceeded net loss

Under-collateralization is net loss that exceeded required collateral

Scenario Considerations

- Several factors are being considered as possible adjustments to the credit calculation
  - Prevailing Flow historical value adjustment
  - Counter Flow historical value adjustment
  - Undiversified deduction
  - Per MWh minimum requirement
    - Flat rate
    - Tiered

Preliminary Observations

- Under-collateralization (i.e. exposure) has increased significantly over the past few years
- Exposure is highly concentrated – the top few companies hold the large majority of the exposure
- Over-collateralization (i.e. excess) has also been increasing but at a slower rate than exposure
- Minimum per MWh credit requirement appears to offer significant exposure reduction relative to the increase in excess collateral