ARR/FTR Market Design: Addressing Risk

FRMSTF
June 25, 2019

Joseph Bowring
Howard Haas

Monitoring Analytics
Proposed Design of FTR Market

• Each LSE has the option to sell up to 100 percent of the bus-specific rights to the variable congestion revenue in return for a fixed payment, the FTR.
  • PJM operated auction or sale by individual LSE
    o Design options
  • LSE strike price
    o LSEs can define the lowest price willing to accept
    o Can set supply curve
  • Credit options
    o Can be managed by PJM
    o Can be managed by LSE seller/buyer arrangement
Path Based Model Creates Risk

- Insolvency/losses/shortfalls on one path affect all paths under current approach
- Counter flow positions create risk for other participants.
- Liquidation affects value of all positions
- Path specific value can reverse relative to sale price due to changes in physical model relative to FTR market model.
Proposed FTR Design Reduces Risk

• No paths means:
  • No counter flow positions
  • No reversal of FTR value from positive to negative
    o No negative congestion paths
  • No cross subsidies caused by path specific approach
  • No binary outage modeling
  • No Stage 1A issues.
  • No cross subsidies among LSEs
  • No more than 100 percent of congestion rights can be sold.
Proposed FTR Design Reduces Risk

• Elimination of path based system eliminates system wide risk in current design:
  • No interdependencies in positions.
  • No counter flow paths
  • No path value reverses relative to sale price
    o FTR can be more or less valuable, but value cannot be negative
  • If FTR holder fails, congestion rights revert to owner.
    o Owner only loses constant revenue stream from defaulter.
    o Owner can resell rights.
    o No effect on other positions