FTR Liquidation: Cancelling FTRs

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Defaulting FTR Participants

• PJM’s new credit and KYC rules should help to minimize the risk of defaults.
• Initial Margin requirements being considered by the stakeholders will also reduce the risk to participants.
Proposal: Eliminate FTR Positions of Defaulting Member

- Isolates FTR participant default risk to FTR market
  - No impacts on rest of market
  - No unknown default allocation assessment
- Reduces market disruptions
  - No sell off of potentially large positions
- Lower cost than liquidation
  - No price taker logic
Cancelled FTRs Increase Capacity and Available Revenue

- Prevailing flow FTR target allocations are cancelled
  - Positive target allocations are payments made to FTR holders.
  - Increases funds to pay remaining FTRs.
  - DA congestion surplus increases.
Cancelled FTRs Increase Capacity and Available Revenue

• Counter flow FT target allocations are cancelled
  • Negative target allocations are payments made from FTR holders
  • Decreases funds to pay remaining FTRs
  • DA congestion surplus decreases
Capacity Changes in Auction

• Cancelled paths are reconfigured by market at market prices
• Auction revenue may be reduced, but offering capacity at market price is less risky than offering paths at arbitrarily low prices
• No discretion necessary, capacity is awarded based on auction clearing
Properties of Default FTR Cancellation

• ARR surplus may be affected
  • Fewer negative target allocations could affect surplus
  • ARR target allocations have always been fully funded by auction revenue

• PJM can alter market models to increase ARR funding if necessary
  • PJM does this currently in the annual auction to improve funding

• Costs contained in ARR/FTR market
  • No cross market default allocation assessment across all members

• No need to offer specific paths
  • No need to mask participants