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**

Monitoring Analytics, LLC
2621 Van Buren Avenue
Suite 160
Eagleville, PA
19403
(610) 271-8050

MA@monitoringanalytics.com
www.MonitoringAnalytics.com