Collateral Requirements for FTR Participants
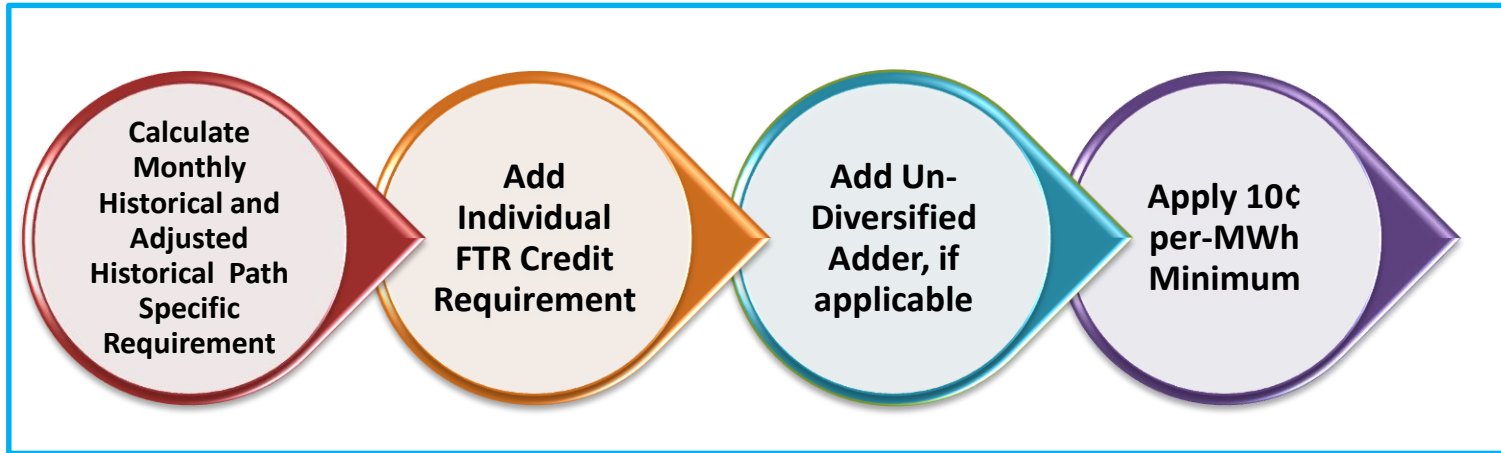
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Calculate Monthly Historical and Adjusted Historical Path Specific Requirement

Add Individual FTR Credit Requirement

Add Un-Diversified Adder, if applicable

Apply 10¢ per-MWh Minimum

Recommendation

- Replace with IM-H Methodology using Liquidation Period=2
- Captures exposure of portfolio
- Uses Best Practices

Apply 10¢ per-MWh Minimum

Recommendation

- Possibly continue to consider as part of calculation, if works with summation methodology
- Can serve as a floor

Subtract ARR Credits in Account

Today

- Used as an offset to FTR Credit Requirements
- Assumed to be guaranteed revenue
- Has resulted in a net zero credit requirement for some LSEs

Actual Settlement

- Final settlement of ARRs are reassigned on a daily basis
- At the time of default, load served by the defaulting party is shifted to the EDC
- This results in the ARR credits not being available at time of default

Question

Should ARR credits be considered an offset to the collateral requirements?

Recommendation

Consider scenarios with and without as discussions continue

MTA: Mark to Auction

Today
• Difference between the original cleared price and most recent auction price multiplied by the MW quantity
• Only applied if the most recent auction prices are indicating a portfolio experiencing a loss

Recommendation
Net MTA appropriately on both sides, in line with best practices

- Realized Gains and Losses
  - The gains or losses are a result of selling FTR(s) in an auction
    - Does not include bilateral transactions
  - At time of settlement, the gains are a payment and the losses are a charge

Recommendation
Recognize these in the collateral requirements, in line with actual settlement

- The IM and component calculations consider only obligation hedge types

- For the purposes of this exercise, the netting of the cost of options within a portfolio were calculated

- For each option, the option was calculated as the original cleared price times the MW quantity

- The net cost was summed for the planning year

Recommendation
Apply cost of options to the calculation for Obligations

- Modify the **IM** by the unrealized cashflow from **MTA**

- Two scenarios – Apply and do not apply **ARR Credits** to the IM

- Cap reduction at **10¢-PerMWh**

- Apply **Realized Gains and Losses**

- Apply **Cost of Options**

Possible Total Credit Requirement with ARRs:

$$\text{Max}\{\text{Max}\,(IM_t - MTA_t - ARRCredits_t, PerMWh) - RealizedGainsLosses_t + CostOfOptions, 0\}$$

Possible Total Credit Requirement without ARRs:

$$\text{Max}\{\text{Max}\,(IM_t - MTA_t, PerMWh) - RealizedGainsLosses_t + CostOfOptions, 0\}$$

Compare requirements using today's calculation to the proposed calculation (99th percentile, Liquidation Period of 2)

Comparison of Total Collateral Held

	Collateral under Today's Requirements ($MM)	With ARR		Without ARR	
		Collateral under Proposed Calculation ($MM)	Percentage Increase	Collateral under Proposed Calculation ($MM)	Percentage Increase
5/7/2019	1,094	1,332	22%	1,606	47%
5/31/2019	1,011	1,317	30%	1,588	57%
6/30/2019	1,075	1,338	24%	1,598	49%
7/31/2019	1,033	1,289	25%	1,504	46%
8/31/2019	998	1,109	11%	1,268	27%
9/30/2019	1,069	1,344	26%	1,507	41%
10/31/2019	1,027	1,437	40%	1,569	53%
11/29/2019	1,006	1,668	66%	1,824	81%
12/31/2019	1,098	1,750	59%	1,883	71%
1/30/2020	1,015	1,680	66%	1,790	76%
2/29/2020	925	1,260	36%	1,345	45%

Compare requirements using today's calculation to the proposed calculation (99th percentile, Liquidation Period of 2)

Comparison of Requirements
Today vs Proposed

Current Requirement ($MM)	Average Increase With ARR Credits		Average Increase Without ARR Credits	
	%	$MM	%	$MM
<.1	491%	0.16	806%	0.26
.1-1	235%	0.76	322%	0.98
1-4	105%	2.40	125%	3.05
4-10	50%	3.32	52%	3.47
>10	18%	1.71	21%	2.22

- Alternate proposals to calculating a Total Credit Requirement
- Individualized impact to Member Portfolios
- Finalize approach to bid collateral