IMM Proposals: Portfolio Netting and Counter Flow FTR Adjustment

FTRSTF

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Seth Hayik
Portfolio Netting: Non Parallel Treatment of FTR Portfolios

• Without portfolio netting, FTR portfolios are not parallel
  • Dependent on distribution of positive and negative target allocations

• On a portfolio basis, selling an FTR should be the same as buying a counter flow for the same quantity
  • Under current rules, this is not true
  • Under proposed rules, this becomes true
Flow Congestion | CLMP
--- | ---
A | $2.00
B | $15.00

### Scenario 1: Simple FTR bought and kept. Profits match with and without portfolio netting

### Scenario 2: FTR bought, half of capacity sold. Profits match with and without portfolio netting

### Scenario 3: FTR bought, counter flow purchased. Profits do not match with and without portfolio netting
Counter Flow Adjustment: Revenue Received

• Counter flow FTRs and prevailing flow FTRs are not treated the same
• Current rules insulate counter flow FTRs from any revenue deficiencies, while prevailing flow FTRs have no insulation available
• The payout ratio should be calculated to split revenue deficiency penalties evenly among all FTRs, counter flow or prevailing flow
Counter Flow Adjustment: Calculation

• Adjusted payout ratio calculated from available revenue to fund FTRs
• Payout ratio of negative target allocation counter flow FTRs calculated from this adjustment
• These calculations equally split revenue deficiency penalty between prevailing flow and counter flow FTRs
• Adjustment creates additional revenue to fund FTRs
Counter Flow Adjustment: Payout Ratio

- Currently, payout ratio based on revenues available to pay target allocations
- This includes congestion revenue, negative prevailing flow target allocations and negative counter flow target allocations

Currently:
\[
Payout = TA_{pos} \times PR = Congestion - TA_{neg} - CF \times TA_{neg}
\]

Proposed:
\[
Payout = TA_{pos} \times PR = Cong - TA_{neg} - CF \times TA_{neg} \times (1 + (1 - PR))
\]
Congestion Flow Adjustment: Payout Ratio

• Payout ratio can be calculated so that not only positive target allocations are impacted by revenue inadequacies
• New payout ratio applied to negative counter flow target allocations should mirror that applied to positive target allocations
Counter Flow Adjustment: Final Payout Ratios

- Rearranging the available revenues leads to two equations for payout ratios
- Payout ratios are percentages, so $1+(1-PR)$ produces payout ratio over 100% in underfunding situations

\[ T_{A_{pos}} \times PR = Cong - T_{A_{neg}} - 2CFTA_{neg} + CFTA_{neg} \times PR \]
\[ PR \left( T_{A_{pos}} - CFTA_{neg} \right) = Cong - T_{A_{neg}} - 2CFTA_{neg} \]

\[
PR_{TA_{pos}} = \frac{Cong - T_{A_{neg}} - 2CFTA_{neg}}{T_{A_{pos}} - CFTA_{neg}} \\
PRCFTA_{neg} = 1 + \left( 1 - \min \left( PR_{TA_{pos}}, 1 \right) \right)
\]
Results of Counter Flow Adjustment

<table>
<thead>
<tr>
<th></th>
<th>Positive Target Allocations</th>
<th>Negative Target Allocations</th>
<th>Total Target Allocations</th>
<th>Reported Congestion Revenue</th>
<th>Total Revenue Available</th>
<th>Adjusted Prevailing Flow Payout Ratio*</th>
<th>Adjusted Counter Flow Payout Ratio</th>
<th>Adjusted Counter Flow Revenue Available</th>
<th>Additional Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-14</td>
<td>2,042,537,213.90</td>
<td>(998,445,595.01)</td>
<td>$1,044,091,619</td>
<td>$815,789,461</td>
<td>78.1%</td>
<td>$1,814,235,056</td>
<td>91.9%</td>
<td>108.1%</td>
<td>$1,874,258,807</td>
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<tr>
<td>Feb-14</td>
<td>581,660,982.15</td>
<td>(338,316,718.47)</td>
<td>$243,344,264</td>
<td>$167,731,282</td>
<td>68.9%</td>
<td>$506,048,000</td>
<td>95.6%</td>
<td>104.4%</td>
<td>$528,451,343</td>
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<tr>
<td>Mar-14</td>
<td>823,861,545.64</td>
<td>(456,573,939.94)</td>
<td>$367,287,606</td>
<td>$245,465,062</td>
<td>66.8%</td>
<td>$702,039,002</td>
<td>98.1%</td>
<td>101.9%</td>
<td>$736,678,623</td>
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<tr>
<td>Apr-14</td>
<td>255,732,814.32</td>
<td>(143,428,606.41)</td>
<td>$112,304,208</td>
<td>$60,894,528</td>
<td>54.2%</td>
<td>$204,323,135</td>
<td>87.3%</td>
<td>112.7%</td>
<td>$218,931,616</td>
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<tr>
<td>May-14</td>
<td>362,871,684.13</td>
<td>(249,683,438.50)</td>
<td>$113,188,246</td>
<td>$65,163,098</td>
<td>57.6%</td>
<td>$314,846,537</td>
<td>92.5%</td>
<td>107.5%</td>
<td>$329,096,401</td>
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<tr>
<td>Jun-14</td>
<td>218,239,157.67</td>
<td>(132,125,293.49)</td>
<td>$86,113,864</td>
<td>$88,974,913</td>
<td>100.0%</td>
<td>$221,100,206</td>
<td>100.0%</td>
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<td>$221,100,206</td>
</tr>
<tr>
<td>Jul-14</td>
<td>215,524,070.28</td>
<td>(131,065,806.70)</td>
<td>$84,458,246</td>
<td>$103,981,118</td>
<td>100.0%</td>
<td>$235,046,924</td>
<td>100.0%</td>
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<tr>
<td>Aug-14</td>
<td>158,672,445.33</td>
<td>(109,435,463.69)</td>
<td>$49,236,982</td>
<td>$69,520,938</td>
<td>100.0%</td>
<td>$178,956,402</td>
<td>100.0%</td>
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<tr>
<td>Sep-14</td>
<td>230,425,061.55</td>
<td>(155,432,941.15)</td>
<td>$74,992,120</td>
<td>$88,683,326</td>
<td>100.0%</td>
<td>$244,116,267</td>
<td>100.0%</td>
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</tr>
<tr>
<td>Total 2013/2014</td>
<td>$5,442,171,151</td>
<td>($2,942,754,444)</td>
<td>$2,499,416,707</td>
<td>$1,819,508,754</td>
<td>72.8%</td>
<td>$4,762,263,198</td>
<td>91.0%</td>
<td>$4,950,708,852</td>
<td>$188,445,654</td>
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<tr>
<td>Total 2014/2015</td>
<td>$822,860,735</td>
<td>(528,059,505.03)</td>
<td>$294,801,230</td>
<td>$351,160,295</td>
<td>100.0%</td>
<td>$879,219,800</td>
<td>100.0%</td>
<td>$879,219,800</td>
<td>$0</td>
</tr>
</tbody>
</table>

• Equation equally divides revenue deficiency penalty between prevailing and counter flow FTRs
• As funding increases, counter flow adjustment decreases
• When fully funded, both prevailing and counter flow FTRs have a payout ratio of 100%