IMM Proposals: Portfolio Netting and Counter Flow FTR Adjustment

FTRSTF

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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**

Portfolio Netting: Accounting Example

CLMP		
A	$	2.00
B	$	15.00

Flow	Congestion
4.0	$52.00

Scenario		FTR	Transaction	MW	Price	Cost	TA	Profit Netting	Profit No Netting
1	Simple FTR	A-B	Buy	10.0	$10.00	$100.00	$130.00	($48.00)	($48.00)
		A-B	Buy	10.0	$10.00	$100.00	$130.00		
2	FTR Buy and Sell	A-B	Sell	-5.0	$10.00	($50.00)	$0.00	$2.00	$2.00
	Prevailing and	A-B	Buy	10.0	$10.00	$100.00	$130.00		
3	Counter Flow	B-A	Buy	5.0	($10.00)	($50.00)	($65.00)	$15.00	$2.00

- **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:

$$Payout = TA_{pos} * PR = Congestion - TA_{neg} - CF\ TA_{neg}$$

Proposed:

$$Payout = TA_{pos} * PR = Cong - TA_{neg} - CF\ TA_{neg} * \left(1 + (1 - PR)\right)$$

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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**

$$TA_{pos} * PR = Cong - TA_{neg} - 2CFTA_{neg} + CFTA_{neg} * PR$$

$$PR\left(TA_{pos} - CFTA_{neg}\right) = Cong - TA_{neg} - 2CFTA_{neg}$$

$$PR_{TA_{pos}} = \frac{Cong - TA_{neg} - 2CFTA_{neg}}{TA_{pos} - CFTA_{neg}}$$

$$PRCFTA_{neg} = 1 + \left(1 - min\left(PR_{TA_{pos}}, 1\right)\right)$$

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Results of Counter Flow Adjustment

	Positive Target Allocations	Negative Target Allocations	Total Target Allocations	Total Congestion Revenue	Reported Payout Ratio*	Total Revenue Available	Adjusted Prevailing Flow Payout Ratio	Adjusted Counter Flow Payout Ratio	Adjusted Counter Flow Revenue Available	Additional Revenue
Jan-14	2,042,537,213.90	(998,445,595.01)	$1,044,091,619	$815,789,461	78.1%	$1,814,235,056	91.9%	108.1%	$1,874,258,807	$60,023,751
Feb-14	581,660,982.15	(338,316,718.47)	$243,344,264	$167,731,282	68.9%	$506,048,000	95.6%	104.4%	$528,451,343	$22,403,342
Mar-14	823,861,545.64	(456,573,939.94)	$367,287,606	$245,465,062	66.8%	$702,039,002	98.1%	101.9%	$736,678,623	$34,639,621
Apr-14	255,732,814.32	(143,428,606.41)	$112,304,208	$60,894,528	54.2%	$204,323,135	87.3%	112.7%	$218,931,616	$14,608,482
May-14	362,871,684.13	(249,683,438.50)	$113,188,246	$65,163,098	57.6%	$314,846,537	92.5%	107.5%	$329,096,401	$14,249,864
Jun-14	218,239,157.67	(132,125,293.49)	$86,113,864	$88,974,913	100.0%	$221,100,206	100.0%	100.0%	$221,100,206	$0
Jul-14	215,524,070.28	(131,065,806.70)	$84,458,264	$103,981,118	100.0%	$235,046,924	100.0%	100.0%	$235,046,924	$0
Aug-14	158,672,445.33	(109,435,463.69)	$49,236,982	$69,520,938	100.0%	$178,956,402	100.0%	100.0%	$178,956,402	$0
Sep-14	230,425,061.55	(155,432,941.15)	$74,992,120	$88,683,326	100.0%	$244,116,267	100.0%	100.0%	$244,116,267	$0
Total 2013/2014	$5,442,171,151	($2,942,754,444)	$2,499,416,707	$1,819,508,754	72.8%	$4,762,263,198	91.0%		$4,950,708,852	$188,445,654
Total 2014/2015	$822,860,735	(528,059,505.03)	$294,801,230	$351,160,295	100.0%	$879,219,800	100.0%		$879,219,800	$0

- **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%**

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