Discussion of IMM's Proposed Changes to Counterflow FTR Payouts

November 12, 2014

Summary

- The IMM appears to misunderstand how PJM's current netting rules are applied and how their proposed rules would impact FTR settlements
- The IMM states[1]:

> - **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**

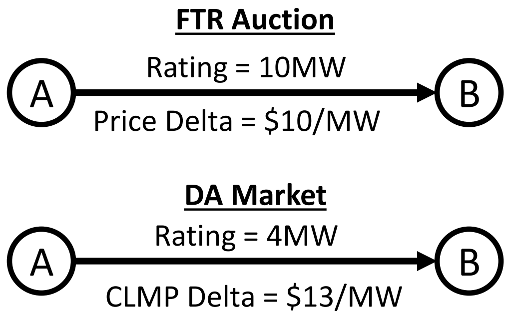
- Selling an FTR should have the same economic impact as buying a counterflow FTR of the same quantity
- Under the current rules this is always true
- Under the IMM's proposed rules this would be false, unless funding were 100%

1. http://www.pjm.com/~/media/committees-groups/task-forces/ftrstf/20141112/20141112-imm-counterflow-proposal.ashx, P3

Example

Assumptions:

- The system has only one transmission line from node A to node B with a rating of 10MW, PJM makes the full capacity of the line available in the FTR auction
- The price at node B exceeds the price at node A by $10 in the FTR auction(s)
- The sum of the CLMPs at node B exceeds the sum of the CLMPs at node A by $13 over the relevant liquidation period
- In the DA market the line is derated to 4MW, PJM collects $52 of excess congestion rents
- There are two participants in the market, P1 and P2



Scenario	Participant	FTR	Buy / Sell	MW	Price	Cost	Target Allocation	Payout Ratio with Netting (Status Quo)	Payout Ratio with No Netting (IMM)	Congestion Credit (Status Quo)	Congestion Credit (IMM)	Profit with Netting (Status Quo)	Profit With No Netting (IMM)
1	P1	A->B	Buy	10	$10	$100	$130	40%	40%	$52	$52	($48)	($48)
2	P1	A->B	Buy	10	$10	$100	$130	40%	40%	$26	$26	($24)	($24)
		A->B	Sell	5	$10	($50)	($65)						
	P2	A->B	Buy	5	$10	$50	$65			$26	$26	($24)	($24)
3	P1	A->B	Buy	10	$10	$100	$130	40%	60%	$26	$13	($24)	($37)
		B->A	Buy	5	($10)	($50)	($65)						
	P2	A->B	Buy	5	$10	$50	$65			$26	$39	($24)	($11)

selling same as buying

selling/buying different

Notes:

- Scenarios 2 and 3 require a second participant, a FTR can not be sold and counterflow cannot be purchased without two participants in the market (assuming PJM is not buying back oversold capacity)
- In scenario 3 with the IMM's proposed rules P1 is effectively providing P2 with a $13 subsidy