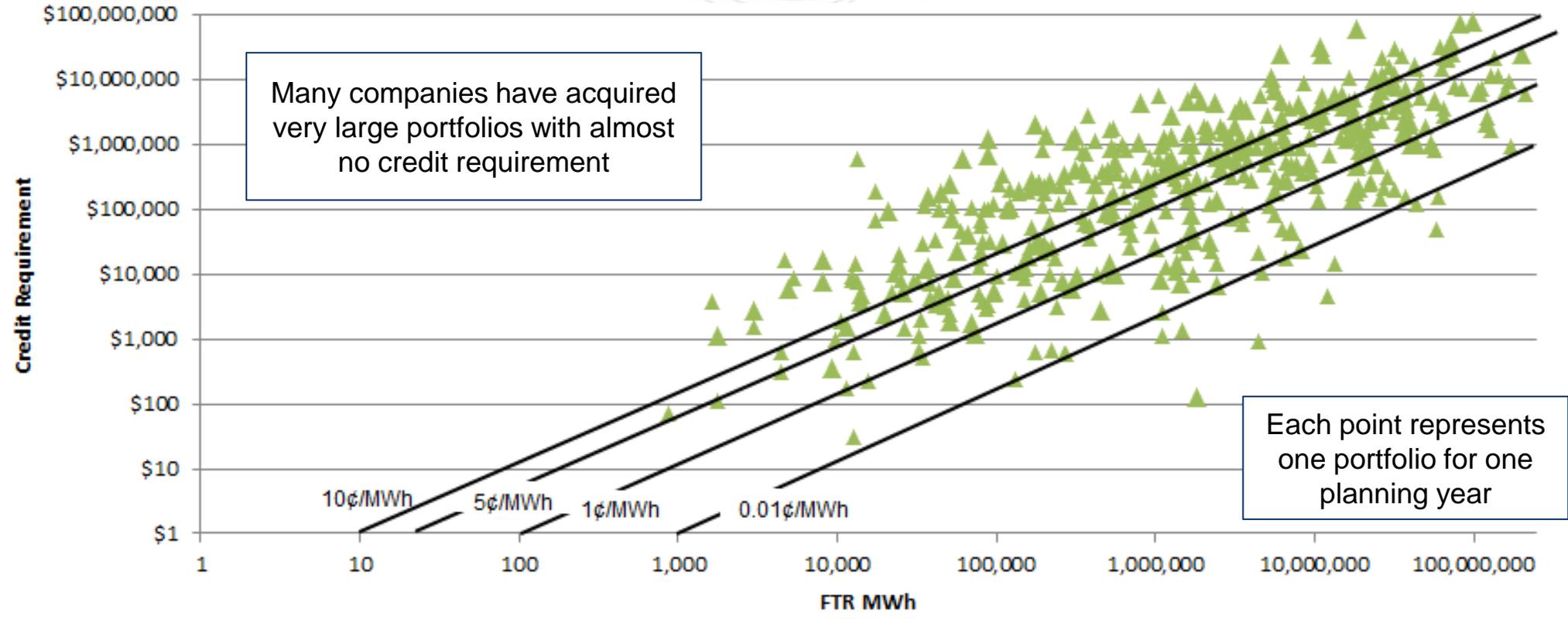


# FTR Credit Enhancements

Bridgid Cummings  
Assistant Credit Manager  
Members Committee  
July 26, 2018

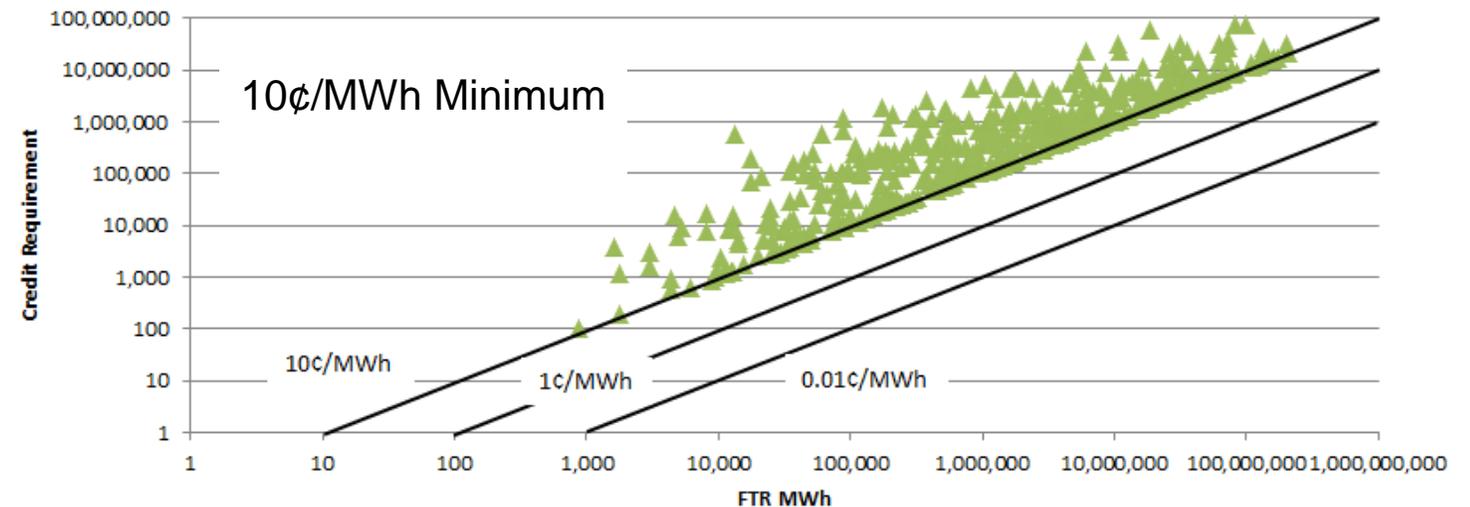
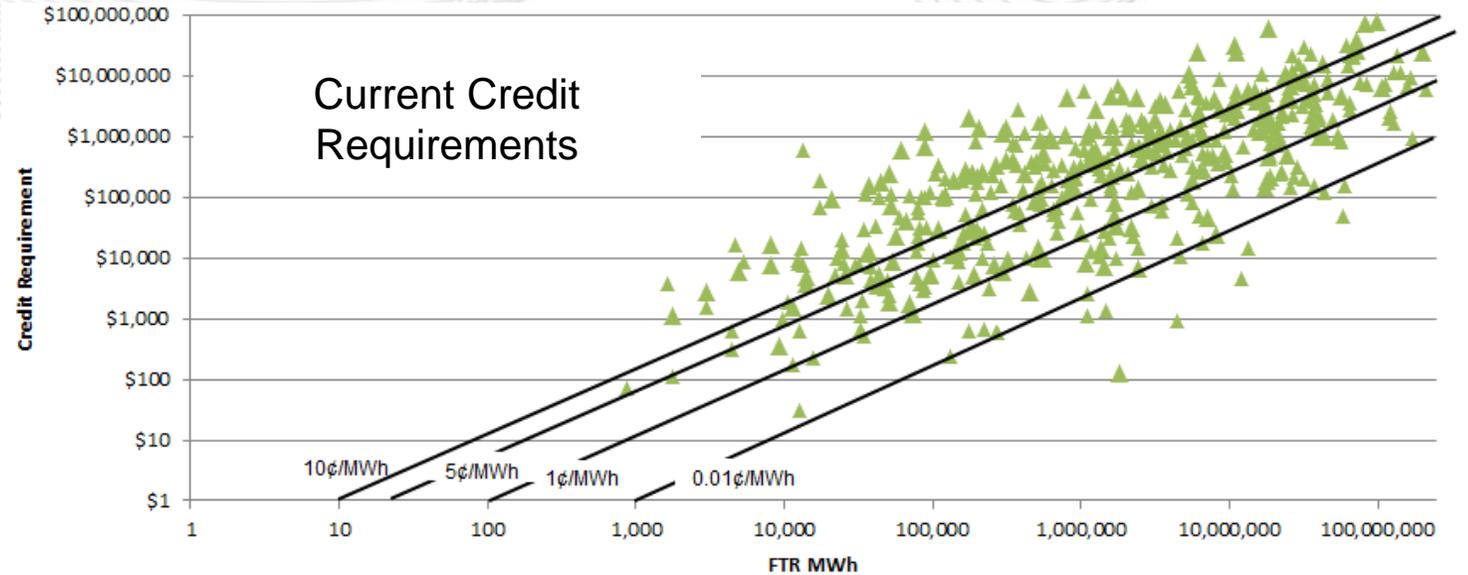
- FTR positions, even some very large positions, may have little or no credit requirement
- Proposed Solution: Implement a per-MWh minimum credit requirement

## Total FTR MWh versus Credit Requirement by Planning Period Annual Buy Obligations Only



- **Proposal with 95% Support at the MIC:**
  - Implement a 10¢/MWh minimum monthly credit requirement applicable to both FTR bids submitted in auctions and cleared positions held in FTR portfolios
  - 92% Support over the Status Quo
  - 80% Support at the Credit Subcommittee

- Each dot represents one portfolio's FTR Annual Auction position for Buy Obligations Only
- Current requirements allow portfolios (even large ones) to have effectively no credit requirement (less than \$.0001/MWh in this historical analysis)
- A 10¢/MWh monthly minimum assures that all portfolios have at least a modest credit requirement



- Target ~~implementation October 2018~~ effective date **September 3, 2018**
- Applied to existing positions and all future FTR activity
- Transition plan for members who experience an increase to credit requirements for existing portfolios upon implementation of the Per-MWh proposal:
  - Synchronized with existing transition plan from the spring 2018 FTR credit change for Transmission Upgrades
  - With further restriction to only sell existing FTR positions, either through FTR auctions **or bilaterally**, provided that the sale lowers the credit requirement
  - Expires spring 2019

- Stakeholder Timeline

– Credit Subcommittee	Poll	June 11, 2018
– Market Implementation Committee	First Read	June 6, 2018
	Endorsement	July 11, 2018
– Markets and Reliability Committee	First Read	June 21, 2018
	Endorsement	July 26, 2018
– Members Committee	Endorsement	July 26, 2018
– FERC Filing		July 31, 2018

- Target ~~Implementation~~ Effective Date ~~October~~ September 3, 2018

# Appendix

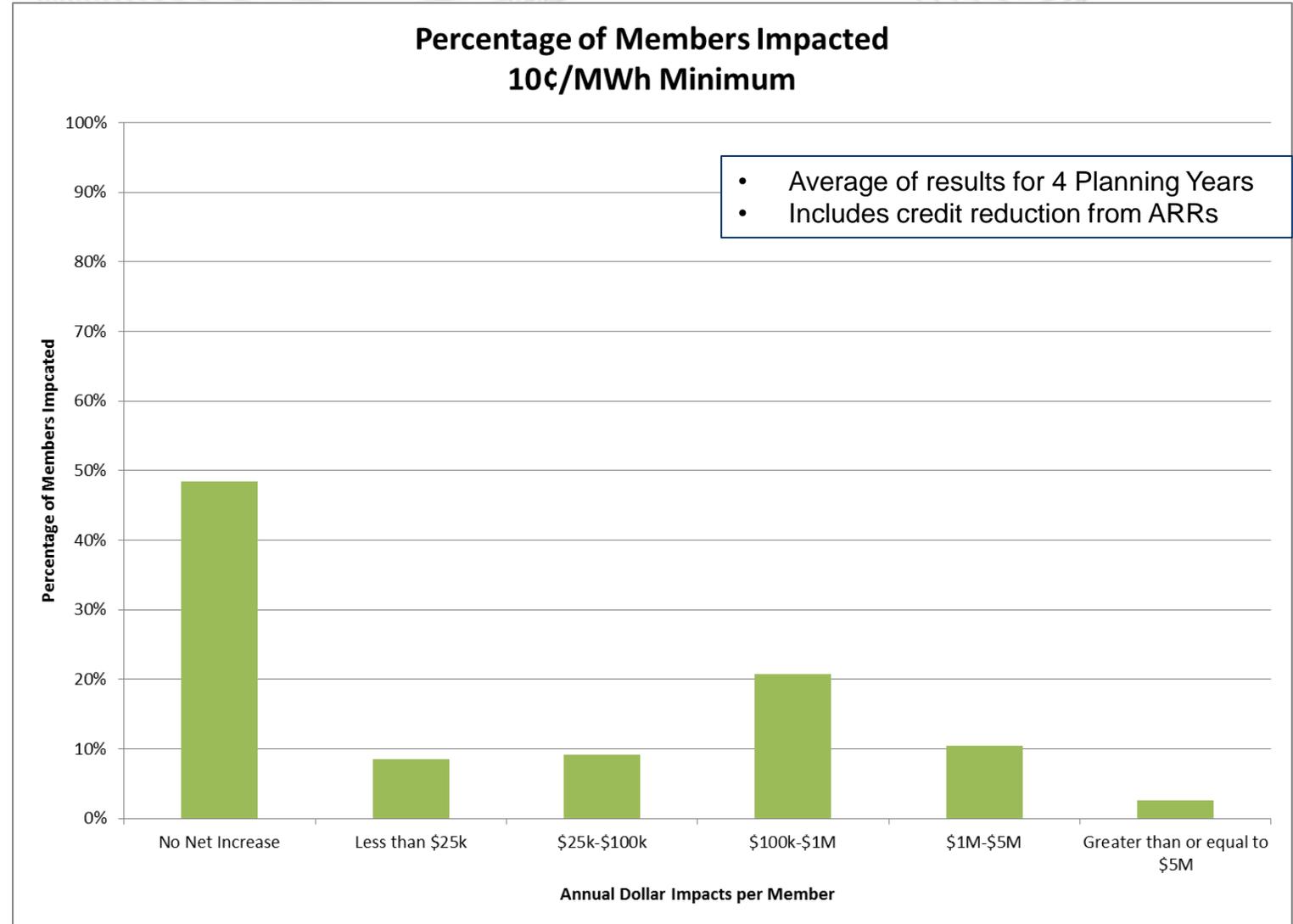
- Current FTR Credit Requirements are calculated monthly as:
  - $\Sigma_{\text{FTR}}$  (FTR cost - FTR Historical Value)
  - + Undiversified Adder (if any)
  - ARR Credits (if any)
  - For cleared FTRs, negative individual requirements net against positive requirements within the same month
- Positive monthly subtotals sum to the total FTR Credit Requirement

		Small Portfolio	Large Portfolio
A	MWh in portfolio	500,000	5,000,000
B	Path-based portfolio credit requirement (including sales profits/losses)	\$100,000	\$100,000
C	Undiversified adder	\$0	\$20,000
D	Total credit requirement for FTRs (B+C)	\$100,000	\$120,000
E	Per-MWh Minimum (A * 10¢)	\$50,000	\$500,000
F	Greater of D and E	\$100,000	\$500,000
G	ARR Credits	\$(20,000)	\$(20,000)
H	<b>Final FTR Credit Requirement (F+G)</b>	<b>\$80,000</b>	<b>\$480,000</b>

- MWh for FTRs of “Self-Scheduled” trade type will be included in the per-MWh calculation
  - But ARR credits will provide an offset
- MWh for FTRs of “Sell” trade type will be netted against MWh for “Buy” trade types once the auction is cleared
  - During the bid period, MWh for “Sell” trade types will be set to zero

- Minimum requirements will, by definition, increase credit requirements, but only for members with current low requirements relative to their FTR volume
- PJM analyzed the impact of the per-MWh proposal using four years of historical data on Annual Buy Obligations
  - Planning years 13/14, 14/15, 15/16, 16/17

- Almost half of PJM's FTR participants would see no impact from a per-MWh minimum
- Many more would have a small impact



- The dollar impact of a per-MWh minimum is concentrated in a few Participants with very large portfolios

