

FTR MARKET RESIDUAL RISK MANAGEMENT

Problem / Opportunity Statement

In 2020, PJM implemented a series of enhanced risk management tools to address counterparty risk. These included “know your customer” reforms, tightened timelines for collateral call payments, financial risk models, and others. Additionally, PJM made a FERC filing in June, 2022 which included revisions to the Financial Transmission Right (FTR) credit requirements in order to better align collateral collected to portfolio risk.

While these recent changes help manage overall FTR market and counterparty risk, additional changes are needed to manage residual risk to protect the integrity of the FTR market. Circumstances that result in residual risk that needs to be mitigated include:

- Events that result in greater than 97% CI
- Liquidation period takes longer than two auction cycles and/or large positions cause markets to move significantly as a result of liquidation
- Future event that has not happened in the past, and therefore not covered by the HSIM analysis