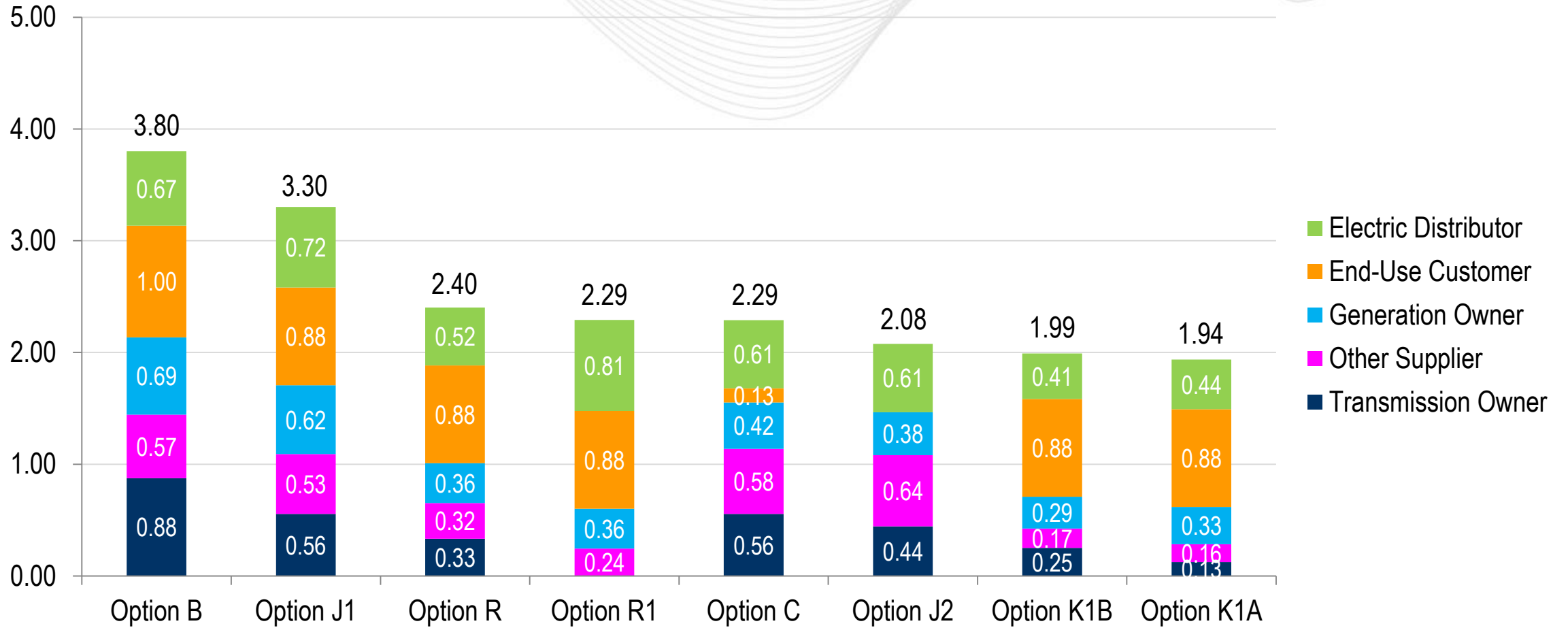


Potential FTR Liquidation Process Alternatives

Suzanne Daugherty
Markets and Reliability Committee Special Session
FTR Default Liquidation Provisions
September 18, 2018

- August 10 – Special Markets and Reliability Committee (MRC) education session
- August 23 – MRC approved problem statement and issue charge
- Special MRC Meetings – September 7 and September 18, with non-binding sector-weighted poll during week of September 14
- September 27 – MRC and Members Committee voting on packages developed during Special MRC meetings that received highest non-binding sector-weighted support via poll

Potential FTR Liquidation Process Alternatives (Options with Highest Poll Results)



1. FERC approval would be required for any revisions to the current Tariff and Operating Agreement FTR liquidation provisions.
2. PJM cannot predict the final total Default Allocation Assessment under any option or even directionally which options might result in a higher or lower final total Default Allocation Assessment compared with another option.
3. Past periods' (a) congestion patterns and levels; (b) default allocation assessment amounts; (c) liquidation prices; and (d) auction bidding volumes are not indicators of what any of these amounts may be in any future periods.

Description: Do not offer any more positions for liquidation.

Considerations:

- Members will know monthly Default Allocation Assessment (DAA) amounts at the same time that PJM issues each applicable month-end invoice (or possibly on a one-month lag basis).
- Members will know the total DAA amount for each planning year the month after the planning year ends.
- The DAA amount will be the actual net losses on each remaining month's positions.
- Members could hedge risk exposure on open positions via acquisition of offsetting or negatively correlated positions.
- Bilateral FTRs may be assumed by Indemnifying Counterparty for FTRs for which the most recent FTR auction clearing price, before the default was declared, is less than the purchase price.
- The \$10,000 per member maximum portion of the DAA applies once to a default for which the DAA charges span multiple calendar years.

Implementation risk – low

PJM assessment of regulatory acceptance risk – low

Description: Liquidate Long-Term FTRs in Annual Auction; however, do not offer for liquidation the remaining 2018/2019 positions.

Considerations:

- For the 2018/2019 planning year, Members will know monthly DAA amounts at the same time that PJM issues each applicable month-end invoice (or possibly on a one-month lag basis).
- DAA for long-term FTRs will known after the applicable annual auction in which the positions are liquidated, if possible to liquidate.
- The DAA amount for any months that are not liquidated will be the actual net losses on each month's positions.
- Would offer positions in auctions for which the liquidity is higher than in the long-term FTR auctions. However:
 - There may be a shortfall in annual auction revenue to satisfy the ARR target allocations.
 - The Annual Auction prices, which determines the ARR values, may be significantly different than expectations.
 - There may be the potential for negative ARRs which could impact ARR requests.
- Bilateral FTRs may be assumed by Indemnifying Counterparty for FTRs for which the most recent FTR auction clearing price, before the default was declared, is less than the purchase price.
- The \$10,000 per member maximum portion of DAA applies once to a default for which the DAA charges span multiple calendar years.

Implementation risk – medium

PJM assessment of regulatory acceptance risk – low

Description: Cancel all defaulting FTRs in the default portfolio as of the 1st day of the calendar month after the default is declared

Considerations:

- No default allocation assessment for defaulting FTR positions after the positions in the month in which the default is declared have completed settlement.
- Revenue Adequacy may be affected by cancellation of positions.
- Bilateral FTRs *must* be assumed by Indemnifying Counterparty for FTRs for which the most recent FTR auction clearing price, before the default was declared, is less than the purchase price.
- The \$10,000 per member maximum portion of DAA applies once to a default for which the DAA charges span multiple calendar years.

Implementation risk – low

IMM assessment of regulatory acceptance risk – low

Description: Cancel all remaining FTRs in the default portfolio as of the 1st day of the calendar month after the default is declared; Assess a default allocation for the FTR Auction Charges

Considerations:

- DAA for the FTR Auction Charges for the remaining positions plus the costs of positions in the month in which the default is declared based on actual settled net losses or net profits.
- Revenue Adequacy may be affected by cancellation of positions.
- Any collateral on hand in excess of default allocation assessment would be contributed to the applicable planning year's FTR funding
- Bilateral FTRs *must* be assumed by Indemnifying Counterparty for FTRs for which the most recent FTR auction clearing price, before the default was declared, is less than the purchase price.
- The \$10,000 per member maximum portion of DAA applies once to a default for which the DAA charges span multiple calendar years.

Implementation risk – medium

PJM assessment of regulatory acceptance risk – high

Description: Only offer prompt month positions for liquidation in each auction.

Considerations:

- Members will know monthly DAA amounts approximately one month prior to when PJM issues each applicable month-end invoice.
- Members will know the total DAA amount for each planning year in April of each planning year.
- Positions offered for liquidation in the auctions for which trading volumes have historically been the highest for that month's positions.
- Changes in actual recent congestion may affect liquidation costs compared with liquidation costs that might have been incurred if positions were liquidated sooner.
- Bilateral FTRs may be assumed by Indemnifying Counterparty for FTRs for which the most recent FTR auction clearing price, before the default was declared, is less than the purchase price.
- The \$10,000 per member maximum portion of DAA applies once to a default for which the DAA charges span multiple calendar years.

Implementation risk – low

PJM assessment of regulatory acceptance risk – low

Description: Liquidate Long-Term FTRs in Annual Auction; offer for liquidation the remaining 2018/2019 positions in prompt month.

Considerations:

- Members will know monthly DAA amounts approximately one month prior to when PJM issues each applicable month-end invoice.
- Positions offered for liquidation in the auctions for which trading volumes have historically been the highest for that month's positions.
- DAA for long-term FTRs will be known after the applicable annual auction in which the positions are liquidated, if possible to liquidate.
- Would offer positions in auctions for which the liquidity is higher than in the long-term FTR auctions. However
 - There may be a shortfall in annual auction revenue to satisfy the ARR target allocations
 - The Annual Auction prices, which determines the ARR values, may be significantly different than expectations.
 - There may be the potential for negative ARRs which could impact ARR requests.
- The DAA amount for any months that are not liquidated will be the actual net losses on each month's positions.
- Bilateral FTRs may be assumed by Indemnifying Counterparty for FTRs for which the most recent FTR auction clearing price, before the default was declared, is less than the purchase price.
- The \$10,000 per member maximum portion of DAA applies once to a default for which the DAA charges span multiple calendar years.

Implementation risk – medium

PJM assessment of regulatory acceptance risk – low



Option K1B – Cancel All Defaulting Long-Term FTRs; Default Allocation Assessment for FTR Auction Charges; Settle 2018/2019 *Non-binding sector weighted poll support = 1.99*

Description: Cancel all defaulting Long-Term FTRs in the default portfolio; Assess a default allocation for the Long-Term FTR Auction Charges to which the defaulting member had committed; Settle 2018/2019 remaining positions

Considerations:

- For the remaining 2018/2019 positions-
 - Members will know monthly DAA amounts when PJM issues each applicable month-end invoice (or possibly on a one-month lag basis).
 - The DAA amount will be the actual net losses on each month's positions.
 - Members could hedge risk exposure on open positions via acquisition of offsetting or negatively correlated positions.
- DAA for long-term FTRs will known after the applicable annual auction in which the positions are liquidated, if possible to liquidate.
- Revenue Adequacy may be affected by cancellation of positions.
- Any collateral on hand in excess of default allocation assessment would be contributed to the applicable planning year's FTR funding
- Bilateral FTRs *must* be assumed by Indemnifying Counterparty for FTRs for which the most recent FTR auction clearing price, before the default was declared, is less than the purchase price.
- The \$10,000 per member maximum portion of DAA applies once to a default for which the DAA charges span multiple calendar years.

Implementation risk – medium

PJM assessment of regulatory acceptance risk – medium

Description: Cancel all defaulting Long-Term FTRs in the default portfolio; Settle 2018/2019 remaining positions

Considerations:

- For the remaining 2018/2019 positions-
 - Members will know monthly DAA amounts at the same time that PJM issues each applicable month-end invoice (or possibly on a one-month lag basis).
 - The DAA amount will be the actual net losses on each month's positions.
 - Members could hedge risk exposure on open positions via acquisition of offsetting or negatively correlated positions.
- Revenue Adequacy may be affected by cancellation of positions.
- Any collateral on hand in excess of default allocation assessment would be contributed to the applicable planning year's FTR funding
- Bilateral FTRs *must* be assumed by Indemnifying Counterparty for FTRs for which the most recent FTR auction clearing price, before the default was declared, is less than the purchase price.
- The \$10,000 per member maximum portion of DAA applies once to a default for which the DAA charges span multiple calendar years.

Implementation risk – low

PJM assessment of regulatory acceptance risk – high

- September 27th MRC and MC Meetings: Voting on alternative FTR liquidation process options
- If an alternative FTR liquidation process is approved by the Members Committee on September 27th, FERC filing by October 1st with requested December 1, 2018 effective date.
- If no alternative FTR liquidation process is approved by the MC on September 27th, then the status quo would be effective from December 1, 2018 forward.