FTR Credit Requirement Enhancements: Advance Credit/Collateral Best Practices into the Tariff

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A) Advance Credit/Collateral Best Practices into the Tariff

- A1) Use the mark to auction values established in the more frequent auctions (see recommendation F) as the basis for "variation margin," charging as a current debt the value erosion between the purchase price and the current market value as determined by the latest auction.
  - A1.1) This will help to capture the credit risk for all FTRs, not just near term FTRs, and reduce the current volatility of margining due to infrequent auctions.
- A2) Retain the current 10¢/MWh minimum charge, in addition to purchase price, as a form of "original margin" until such time as more precise measurements become available to determine original margin.
- A3) Eliminate the FTR undiversified adder because it is uncorrelated to market risk.
- A4) Define a default as any participant that is unable to meet a monthly variation margin call within two business days.
  - A4.1) require that the default be declared promptly and without negotiation

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- A holistic approach to develop FTR Credit Requirements has additional considerations beyond those discussed in the previous slide
- An initial first step is to identify the components necessary to building a holistic proposal
- Preliminary components have been compiled and Stakeholder input is being sought to identify further considerations

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Preliminary Components

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Initial Margin

Status Quo

Three Main factors considered in the Current IM:
• Path-specific:
  ▪ Cleared price minus historical reference value
  ▪ Cleared price minus adjusted historical reference value (includes adjustments for RTEP upgrades)
• Undiversified adder
• 10¢ Per-MWh minimum
• ARR Credit Offset
 	
All positive monthly subtotals are then summed to determine the initial margin for the portfolio
 	
Full details of calculations are shown here

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Requirements for Options

Status Quo
Options are treated similarly to obligations in the current IM, however if the option is a buy and the historical value is less than zero, it is set to zero; if the FTR is a sell and the historical value is greater than zero, it is set to zero

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Realized Gains and Losses

Status Quo
Realized Gains and Losses are considered those profits and/or losses that are realized from buying and subsequently selling into an FTR Auction. Today, these are considered inherently in the IM calculation,

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Liquidation Period

Status Quo
N/A

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Monthly vs Portfolio Evaluations

Status Quo
The initial margin is calculated on a monthly basis, then summed over all positive months. It is then combined with the MTA value on a total portfolio level.

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Bid Collateral

Status Quo
Any individual monthly values less than zero are set to zero for that FTR. For bids placed on the same path, the requirement calculates the highest possible credit requirement

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Prompt Month Considerations

Status Quo
Calculated the same as non-prompt month periods, rolls off after issuance of the monthly bill

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Mark to Auction Value

Status Quo
The Mark-to-Auction is calculated on a monthly basis for each FTR as the most recently available cleared auction price applicable to the FTR minus the original transaction price of the FTR, multiplied by the transacted quantity.

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Total Credit Requirement

Status Quo
If the portfolio Mark-to-Auction is positive then the Total Credit Requirement is equal to the IM. If the portfolio Mark-to-Auction is negative the MTAVA is equal to Mark-to-Auction value.

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Intra-Auction Collateral Calls

Status Quo
Calculate requirements based on tentatively cleared solution. A Participant has until 4pm the next business day following an intra-auction collateral call to post the collateral or all bids are removed from the auction.

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Default timeline for MTA collateral calls

Status Quo
If a MTA Collateral Call is not satisfied within two Business Days, then such Market Participant shall be restricted in all of its credit-screened transactions. Such Market Participant may engage only in the selling of open FTR positions, either in FTR auctions or bilaterally, provided such sales would reduce the Market Participant's FTR Credit Requirements. If a Market Participant fails to satisfy MTA Collateral Calls for two consecutive auctions of overlapping periods, e.g. two balance of Planning Period auctions, an annual FTR auction and a balance of Planning Period auction, or two long term FTR auctions, (for this purpose the four rounds of an annual FTR auction shall be considered a single auction), the Market Participant shall be declared in default.

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Next Steps

- Compile feedback
- Develop an options matrix
- Provide estimated impacts to members to inform package development

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