



Options for Hill FTR Portfolio

MC Special Session
February 2, 2022

- View of Hill Portfolio and Exposure
- Options for Resolving Hill Portfolio
- PJM Initial Recommendations
- Timing
- Next Steps



View of Hill Portfolio and Exposure

Period	Long/Short MW Obligation Positions	Settled/MTA Value (Includes Feb. 2022 Auction Results)
Jan. 2022	232.9 / 654.8	-\$3,239,702
Feb. 2022	303.9 / 960	-\$2,530,357
Mar. 2022	438.1 / 640.7	\$841,356
Apr. 2022	480.2 / 432.8	\$674,136
May 2022	551.5 / 537.4	\$732,033
2022/23	287.6 / 298.5	-\$5,989,615
2023/24	428 / 339	\$980,035
2024/25	581.4 / 289.3	\$431,839
Total		-\$8,100,275

Total Collateral PJM Holds: **\$6.1 million**

Settled through Jan. 27

FTRs will go to settlement

2022/2023 through 2024/2025 MTA value from December Long-Term Auction

Includes January settled through Jan. 27

Hill's Portfolio also includes option positions from Feb. 2022 thru May 2022 (Feb. = 2,029.1, Mar. = 5,572.1, Apr. = 14,779.1, May = 10,714.1)

Majority of Hill's positions are in the balance of the 2021/2022 Planning Period.

Under OA Schedule 1, section 7.3.9, PJM is required to bring forth to the members an approach to resolve this portfolio.

The following options are available:

1. Allowing the positions to go to settlement
2. Liquidating the positions by offering for sale in an upcoming auction
3. Other appropriate actions to minimize potential losses to members

January and February 2022 positions will go to settlement as a result of the timing of the default.

7.3.9 Addressing Defaulting Member's Financial Transmission Rights.

In the event a Member fails to meet creditworthiness requirements or make timely payments when due pursuant to the Operating Agreement or Tariff, the Office of the Interconnection shall, as soon as practicable after declaring the Member to be in default as provided in Operating Agreement, section 15.1.5, ***use reasonable efforts to initiate within two applicable auctions the following procedures to settle, liquidate or otherwise resolve each Financial Transmission Rights position held by the defaulting Member:***

b) As to each Financial Transmission Rights position held by the defaulting Member immediately prior to the termination of the defaulting Member's rights under subsection (a) above, the Office of the Interconnection shall determine and execute an appropriate course of action for addressing such Financial Transmission Rights position, based on the specific circumstances of the default as determined by the Office of the Interconnection in exercise of its reasonable judgment, ***such as (1) liquidating the position by offering it for sale in an upcoming applicable Financial Transmission Rights auction, (2) liquidating the position by offering it for sale in an auction called and scheduled for the specific purpose of liquidating one or more positions held by the defaulting Member ("Special Auction"), (3) allowing the position to go to settlement, or (4) another course of action the Office of the Interconnection determines to be appropriate under the circumstances that is designed to minimize potential losses to PJM Members.*** The Office of the Interconnection will provide reasonable advance notice to PJM Members of the approach or course of action it has determined to be appropriate prior to implementing that approach or course of action. The Office of the Interconnection is not required to apply a single approach to the defaulting Member's entire Financial Transmission Rights portfolio, and may determine that the appropriate course of action for addressing a defaulting Member's portfolio includes a combination of the above approaches as applied to different positions within the defaulting Member's overall Financial Transmission Rights portfolio.

7.3.9 Addressing Defaulting Member's Financial Transmission Rights. (cont.)

c) The Office of the Interconnection will ***seek to minimize the losses to PJM Members associated with settling, liquidating or otherwise*** resolving the defaulting Member's Financial Transmission Rights portfolio and may base its determination in subsection (b) above on several factors, including but not limited to, the following:

1. the Office of the Interconnection's assessment of which approach will provide the greatest degree of protection to the financial integrity of the PJM Markets;
2. the size of the defaulting Member's Financial Transmission Rights portfolio, both in absolute terms and relative to overall market volume;
3. the term of the Financial Transmission Rights positions held by the defaulting Member as considered for a single position or on a portfolio basis;
4. whether liquidation is feasible or not, and on what timeline, due to the cessation or curtailment of trading at PJM for all Financial Transmission Rights or a subset of Financial Transmission Rights positions;
5. prevailing market conditions, such as but not limited to market liquidity and volatility; and
6. timing of the default and the actions taken to address the default.

Objective function of the overall plan is therefore to minimize the potential cost (losses) to the PJM membership while also providing as much certainty as possible within a reasonable period. Most recent MTA values provide some guidance as to the maximum loss PJM should be willing to take to liquidate the positions. Expectations for future congestion on Grays Pt.–Harmony Village will also need to be considered.

Allow Hill FTR positions to settle against day-ahead prices for certain periods or throughout life of portfolio (through May 2025).

Considerations

- Risk of significant losses if congestion persists or system conditions change
- Positions remain “on the books”
- More practical for near-term positions
- Uncertainty of market congestion for a long period of time

¹<https://www.pjm.com/-/media/committees-groups/committees/mc/2022/20220126/20220126-item-02-pjm-notice-and-consultation-with-the-transmission-owners-and-mc.ashx>

Auction			
Normal FTR Auction		Special Auction	
Single Aggregate Path	Individual Paths	Single Aggregate Path	Individual Paths

Offer Hill FTR Portfolio for sale in an applicable auction at a price that minimizes cost to PJM stakeholders

- Allows market to determine value
- Should PJM apply a reserve price, and if so, how should it be determined?
- Removes all risk of future exposure for positions that clear
- Risk premium unknown

Special “countdown/highest bidder” auction, outside of FTR auction engine

- Allows market to determine value
- Should PJM apply a reserve price, and if so, how should it be determined?
- Removes all risk of future exposure for positions that clear
- Can be done in tranches over multiple rounds
- Risk premium unknown

Liquidation in normal auction

- Allows for market to determine value in a proven robust method
- Removes risk exposure of open positions that clear, especially for longer-term FTRs

Liquidation allows PJM to use multiple reserve prices to minimize cost of default

FTR paths with higher risk can have a lower reserve price

Final reserve prices to be determined during auction clearing process.

- If market clears at prices with losses \leq expected valuation, then allow to clear.
- If market clears at prices with losses $>$ expected valuation, then don't allow to clear.

Guidelines for reserve price determination

- MTA Valuation
- PJM Modeling
- Other?

PJM still considering how it would determine the appropriate reserve price.

Terminate all effective Hill FTR positions.

Considerations

- Removes FTR positions
- May create revenue inadequacy (FTR and Load Entities) because original positions cleared in a feasible model
 - FTRs would have cleared differently in original auction and subsequent auctions
- Consider for paths with minimal impact on feasibility
- Out of market

Seeking feedback from stakeholders on whether to employ this option.

Offer for sale the entire portfolio or by period to highest bidder.

Considerations

- Transfers a group of FTR positions or entire portfolio at a competitive cost
- PJM can determine the acceptability of bids/offers
- Removes all risk of future exposure
- Not part of normal auction (i.e., only transfer of positions, including original auction costs)

Perform Liquidation Test to test if there are potential “Market Disruptions”

- If there is limited “Market Disruption,” then PJM could liquidate the defaulted portfolio in single auction.
- If there is significant “Market Disruption,” PJM could divide the defaulted portfolio into smaller parts.

PJM Note: Method similar to PJM “Liquidate in Auction Method” where final reserve prices determined during the clearing process.

Certainty on Dominion congestion and FERC response on PJM filing on PF important

Timing of actions to resolve portfolio important to provide clarity around expected market conditions.

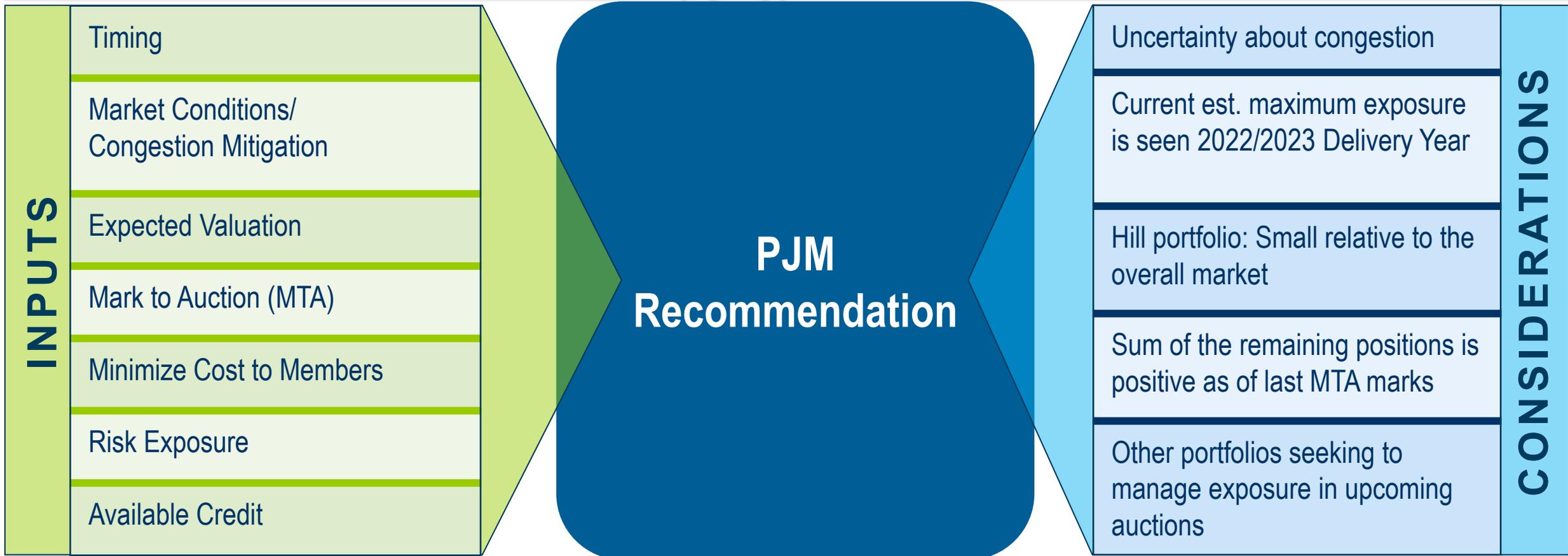
Impact of New Credit Rules

- Impact of credit rules may be different for each participant.
- Portfolio composition will be assessed and collateral required will be provided before bids are awarded.

Liquidity of Auctions

- Resolve in prompt month auctions for short-term positions
- Resolve in Annual Auction for 2022/2023 positions
- Resolve in long-term auctions for further-out positions

PJM is seeking to minimize the potential cost (losses) to the members while providing as much certainty as possible within a reasonable period per Operating Agreement, section 7.3.9.





PJM Initial Recommendation: Steps To Resolve Portfolio With Minimal Losses (Summary)

Step 1: Offer for sale the entire portfolio to highest bidder

Results in transfer of ownership (Auction costs included)	March, April, May, 2022/2023, 2023/2024, 2024/2025	Portfolio may be offered for two groups of paths once outcomes of congestion mitigation steps are known: <ul style="list-style-type: none"> ▪ Paths impacted by congestion of Lanexa outage ▪ Paths not impacted by congestion of Lanexa outage 	PJM reserves right to not accept any offers if cost exceeds available collateral or reasonableness.
Tentative Timeline	Offers accepted by Feb. 22, 5 p.m. EST via email.	Winner(s), if any, selected by Feb. 25 at 5 p.m. EST	Additional info to be posted

Step 2: Combination of Liquidate and Settle

Only if positions left after Step 1

April 2022 thru May 2025 positions	Multiple methods designed to minimize losses	March positions go to settlement if left after Step 1 <ul style="list-style-type: none"> ▪ Timing of Step 1 doesn't provide time to auction March positions ▪ Lower risk of March positions
LT Auction Round 5 – March 1, 2022	April Auction – March 15, 2022	Future LT auctions

**Silent Auction
with sealed bids**

**Entire
Portfolio**

**PJM ability to reject all offers
eliminates unlimited exposure**

Minimize Losses

*May group by paths impacted
by congestion if congestion
expected to persist*

**Complete Before Long-Term
Auction Round 5**

*Allows implementation of potential
Step 2, if necessary*

Collateral Requirements

**Reserve Price aligned with MTA exposure and
expected modeling**

*February actual values and potential congestion
mitigation may impact reserve price.*

Postings

*Timeline, FTR available positions, auctions costs and
MTA value to be posted.*

Cost for acquiring portfolio

Ownership of the acquired portfolio

Incur the effective auction costs

Collateral requirements determined by portfolio of the winning bidder
(Any incremental collateral will need to be posted before clearing.)

Step 2 only conducted if positions remain after Step 1

April–May 2022 HILL Positions

GO TO SETTLEMENT

March Positions

Allows Step 1 to be complete

LIQUIDATE (GUIDELINES)

Guidelines for reserve price determination

- MTA Valuation
- PJM Modeling
- Other?

Step 2 only conducted if positions remain after Step 1

June 2022–May 2023 HILL Positions

LIQUIDATE (GUIDELINES)

Guidelines for reserve price determination

- MTA Valuation
- PJM Modeling
- Other?

Potential Special Auction

Positions not liquidated in Long-Term Auction Round 5 or Annual Auction

Step 2 Details: Long-Term Positions 2023/2024 and 2024/2025 Planning Period

Step 2 only conducted if positions remain after Step 1

2023/24 and 2024/25 HILL Positions

LIQUIDATE (GUIDELINES)

Guidelines for reserve price determination

- MTA Valuation
- PJM Modeling
- Other?

Step 3 only conducted if positions remain after Steps 1 and 2

Remaining HILL Positions

GO TO SETTLEMENT

Only positions not liquidated in:

- Long-Term Round 5
- Annual Auction
- Long-Term
- Future Annual Auctions
- Special Auction or 2022/2023 monthly BOPP auctions

Period of Positions	Process	Description	Timing
Feb. 2022	None	<ul style="list-style-type: none"> N/A – FTRs go to settlement 	
Mar. 2022	Step 1 only	<ul style="list-style-type: none"> March FTRs go to settlement if remain after Step 1 April and May positions go to Step 2 if remain after Step 1 	<p>Step 1</p> <ul style="list-style-type: none"> Offers accepted by Feb. 22 at 5 p.m. EST via email. Winner(s), if any, selected by Feb. 25 at 5 p.m. EST. Additional info to be posted. <p>Step 2</p> <ul style="list-style-type: none"> Begins with April FTR Auction (Mar. 15, 2022)
Apr. 2022	<ul style="list-style-type: none"> Step 1 Step 2 		
May 2022	<ul style="list-style-type: none"> Step 1 Step 2 		

Period of Positions	Process	Description	Timing
2022/2023	<ul style="list-style-type: none"> • Step 1 • Step 2 	2022/2023 positions go to Step 2 if remain after Step 1	Notification by Feb. 28
		Step 2 <ul style="list-style-type: none"> • 2022/2025 Long-Term Auction Round 5 (March 1, 2022) • 2022 Annual Auction (only if remaining portfolio not highly impacted by congestion) (April 5, 2022) • Liquidate in future monthly auctions as necessary 	
2023/2024	<ul style="list-style-type: none"> • Step 1 • Step 2 	2023/2024 and 2024/2025 positions go to Step 2 if remain after Step 1	Notification by Feb. 28
2024/2025	<ul style="list-style-type: none"> • Step 1 • Step 2 	Step 2 <ul style="list-style-type: none"> • 2022/2025 Long-Term Auction Round 5 (March 1, 2022) • 2023/2026 Long-Term Auctions • 2023/2024 Annual Auctions • 2024/2027 Long-Term Auction • Liquidate in special auction (timing TBD) if necessary 	

**Consider
Additional
Feedback
From
Stakeholders**

Feb. 11
Post
Final Decision
for Course of
Action

Feb. 15
Post
Details of
Process

**Proceed
With Plan**



FEBRUARY 2022