

Minimum FTR Collateral Requirements

DC Energy Proposal

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PJM is discussing changes to its credit policy to address a FTR portfolio of concern

New FTR Collateral Proposal (PJM)

- **PJM has proposed using a planning model to calculate future congestion**
- **PJM’s proposal fails to address a major issue with the current collateral process that allows participants to hold substantial FTR portfolios with little or no collateral posted. The current proposal would not address these under collateralized portfolios and is still open to 'gaming' around the new PROMOD modified reference prices. DC Energy proposed that PJM address this issue with either a minimum collateralization to participate in LT markets or a tiered \$/MWh collateral rate that will require all portfolios to post a minimum amount of collateral to participate.**
- **The use of PROMOD results in its collateral calculator does not necessarily provide additional transparency. It may raise more issue around key assumptions that PJM has made about the future. Instead of taking a public stance about the value of future congestions – essentially making PJM a “market forecaster” – we suggest that PJM should keep its views of the future confidential.**



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New FTR Collateral Policy: DC Energy Recommendation

- **Require a minimum participation collateral threshold either through an outright minimum or \$/MWh**
- **If PJM wishes to utilize PROMOD, it should be one of several tools, e.g., supplemented by 3rd party data vendors who currently provide congestion forecasts to the industry.**
 - This will empower them to focus situations where a participant's portfolio is significantly at risk. This would trigger future actions such as freeze that company's trading ability until a higher collateral amount is maintained.
- **Another tool PJM should have is a Mark-to-Market test.**
 - PJM would collect extra collateral from a participant based on the difference the purchase and the current market value of an FTR portfolio. This tool has the benefit in that it is based on public information.
- **Establish higher capitalization requirements for participants that engage in the riskiest products, subject to hedging exemptions.**
 - Virtual trader < Monthly FTR Trader < Multi-month FTR Trader < Annual FTR Trader < 3-year FTR Auction Trader



DC Energy suggests the following minimum collateral requirement alternatives and believes the Portfolio Level approach provides better coverage

Portfolio Level

Open MWh	Marginal Credit Rate
First 1MM MWh	\$0.50 / MWh
1MM – 10MM MWh	\$0.25 / MWh
10MM – 100MM MWh	\$0.10 / MWh
Above 100 MM MWh	\$0.01 / MWh

Monthly Level

Open MWh	Marginal Credit Rate
First 100k MWh	\$0.25 / MWh
100k – 1MM MWh	\$0.10 / MWh
1MM – 10MM MWh	\$0.05 / MWh
Above 10 MM MWh	\$0.01 / MWh