

New FTR Credit Requirements for 2008/2009 Planning Period

On December 26, 2007 (Docket No. ER08-376-000) and January 31, 2008 (Docket No. ER08-520-000), PJM filed revisions to its credit policies with respect to its Financial Transmission Rights (FTR) markets. In a March 25 order, FERC accepted the filings with an effective date of April 1, 2008, with implementation applicable to FTRs that commence in the next planning period. The approved revisions will be implemented starting with the 2008/09 annual FTR auction.

Also in the March 25 order, FERC accepted PJM's agreement to file a revised bidding credit requirement if a participant submits multiple bids at different prices to buy FTRs between identical points and for identical terms. In order for PJM to implement the proposed bidding credit requirements, however, PJM requires additional action from the FERC either approving the revised tariff sheets or conferring other authorization before proceeding with implementation.

The implementation of the credit requirement revisions is summarized below:

- (1) FTR credit requirement will be calculated on a monthly basis rather than an annual basis. A monthly credit requirement will be determined for each FTR by offsetting the total monthly FTR cost by the FTR's monthly historical value adjusted by 10 percent. A monthly credit requirement subtotal will be calculated for each FTR portfolio by summing the monthly credit requirement for each FTR and an overall FTR credit requirement will be calculated by summing monthly credit requirement subtotals for only those months where the subtotals are positive. Further explanation and an example of this new credit requirement calculation can be found at <http://www.pjm.com/markets/ftr/downloads/credit-example-2008-2009.pdf>.
- (2) A credit requirement calculator to assist participants in determining the credit requirement of anticipated bids is located at <http://www.pjm.com/markets/ftr/downloads/credit-calculator-2008-2009-without-same-path-option.xls>. This calculator does not include the revised method for calculating bid credit for multiple bids to buy FTRs between identical points and for identical terms. The calculator will be updated to include the revised method as soon as PJM receives authorization to implement. The new logic will only affect the credit required of multiple bids to buy FTRs between identical points and for identical terms and can only result in a smaller amount of required bid credit.
- (3) Using a tentative cleared auction solution, PJM will determine if portfolios are: (i) "FTR Flow Undiversified," meaning net counterflow, and if so, (ii) whether they are "FTR Geographically Undiversified," meaning such portfolios are made less economic by planned transmission outages or other network changes. If the portfolio fails the first test, an additional incremental amount of credit equal to two times the absolute value of the

net FTR Portfolio Auction Value shall be required. In addition, if the portfolio is FTR Geographically Undiversified, then a factor of three rather than two applies. For the 2008/09 annual FTR auction, the geographic concentration of FTR Flow Undiversified portfolios will be tested against the outages listed at <http://www.pjm.com/markets/ptr/downloads/outages-for-2008-2009-geographically-credit-checking.xls>.

Because the flow and geographic diversification test requires a tentative cleared auction solution, the incremental credit requirement associated with a portfolio's failure of these tests is not captured by the credit requirement calculator referenced in (2) above.