

FTR Undiversified Credit Requirement

Problem Statement

The current undiversified credit adder for net counterflow FTR portfolios was designed in 2008 in response to defaults on portfolios that had net counterflow positions in an area that experienced congestion over an extended period. A recent high-level analysis of credit requirements for net counterflow portfolios showed that there were noticeable numbers of net counter flow portfolio months with high credit requirements and low exposure as well as noticeable numbers of net counterflow portfolios with low credit requirements and high exposure. It seems appropriate to consider whether alternative credit requirements might be able to target the exposure posed by net counterflow portfolios better than the current requirements.

Issue Source

This issue was first identified in a 2013 survey of the Credit Subcommittee. Members identified several issues which they were interested in PJM analyzing, with this issue being one of the higher rated priorities.

Stakeholder Group Assignment

The issue charge will be presented at the April 4, 2014 Credit Subcommittee for an initial read.

Key Work Activities

1. Data acquisition (FTR group).
2. Analysis of the relationship between the undiversified credit adder for net counterflow FTR portfolios and actual exposure (Credit group).
3. Analyze the effect of alternative credit requirements on actual exposure (Credit group).

Expected Deliverables

1. Decision as to whether or not to recommend any changes to FTR undiversified credit requirements.
2. If changes are recommended:
 - a. Tariff and manual changes will be required
 - b. The FTR system will require coding changes.

Expected Overall Duration of Work

Analysis timeframe will be impacted by data complexity and resource availability.

Decision-Making Method

Tier 1, consensus (unanimity)