

FTR Liquidation Process – Current Practice and Initial Objectives

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- Discuss PJM's current FTR default cost allocation practice
- Provide an illustrative example
- Discuss preliminary objectives of the FTR liquidation process



- Currently, PJM does not have a FTR liquidation process to unwind a defaulted FTR portfolio
- Rather, defaulted FTR positions are held till settlement and default allocated
- FTR default costs are allocated to applicable members during the month-end settlement invoicing process



Current FTR Default Cost Allocation Process - Continued

- Applicable members that will be allocated defaults costs are:
 - Those members that were active as of 5 p.m. eastern prevailing time on the date PJM declares a Member in default
 - Few members are exempt: for example, State Consumer Advocates, etc.
- Applicable members are billed on a monthly basis, utilizing two cost allocation components
 - Membership based (10%)
 - Activity based (90%)



Current FTR Default Cost Allocation Process - Continued

- 10% of the default cost is allocated equally among the applicable members (i.e. Membership based cost allocation component)
 - \$10,000 not to exceed \$10,000 per member per calendar year
- 90% of the default cost is prorated based on activity levels (i.e. Activity based cost allocation component)
 - Prorated amount is calculated based on three months of gross billing (for the month of default and two previous months)
 - Each month's line item absolute values are calculated separately and summed before summing across months

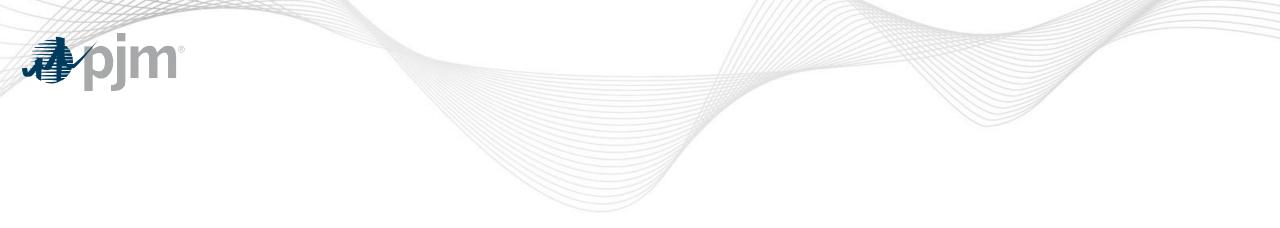


- \$100,000 Default Amount among 5 applicable members
 - 10%: \$10,000 Membership Component
 - 90% : \$90,000 Account Component

	Three month invoice values					THEORY
				90% Activity Allocation	10% Membership	Total Cost
Member	Gross	Absolute	Prorata %	Component	Allocaiton Component	Allocation
A	\$1,000	\$1,000	10%	\$9,000	\$2,000	\$11,000
B	(\$1,000)	\$1,000	10%	\$9,000	\$2,000	\$11,000
С	\$5,000	\$5,000	50%	\$45,000	\$2,000	\$47,000
D	(\$2,000)	\$2,000	20%	\$18,000	\$2,000	\$20,000
E	\$1,000	\$1,000	10%	\$9,000	\$2,000	\$11,000
		\$10,000	100%	\$90,000	\$10,000	\$100,000

pjm^{FTR} Liquidation Process – Preliminary Discussions Pertaining to Objectives

- Considerations of the FTR liquidation process:
 - Unwind defaulted FTR positions as quickly as possible
 - Minimize market distortions
 - Maximize the likelihood of liquidation
 - Minimize complicated/costly solutions



Appendix



Current Practice – Operating Agreement Provision

PJM's methodology for the allocation of defaults is outlined in Section 15.2.2 of the Operating Agreement.

§15.2.2 Default Allocation Assessment

(a) "Default Allocation Assessment" shall be equal to (0.1(1/N) + 0.9(A/Z)), where:

- N = the total number of Members, calculated as of five o'clock p.m. eastern prevailing time on the date PJM declares a Member in default, excluding ex officio Members, State Consumer Advocates, Emergency and Economic Load Response Program Special Members, and municipal electric system Members that have been granted a waiver under section 17.2 of this Agreement.
- A = for Members comprising factor "N" above, the Member's gross activity as determined by summing the absolute values of the charges and credits for each of the Activity Line Items identified in section 15.2.2(b) of this Agreement as accounted for and billed pursuant to section 3 of Schedule 1 of this Agreement for the month of default and the two previous months.
- Z = the sum of factor A for all Members excluding ex officio Members, State Consumer Advocates, Emergency and Economic Load Response Program Special Members, and municipal electric system Members that have been granted a waiver under section 17.2 of this Agreement.*

The assessment value of (0.1(1/N)) shall not exceed \$10,000 per Member per calendar year, cumulative of all defaults. If one or more defaults arise that cause the value to exceed \$10,000 per Member, then the excess shall be reallocated through the gross activity factor.

(b) Activity Line Items shall be each of the line items on the PJM monthly bills net of load reconciliation adjustments and adjustments applicable to activity for the current billing month appearing on the same bill.

* Additionally, OA §11.7 (b) (vii) provides that Associate members are also exempt