



# FTR Credit Enhancement – Legal and Credit Considerations

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Risk Management Committee  
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## FERC Order 741

- Issued in 2010 (FERC Stats. & Regs. ¶ 31,317)
- Focused on improving credit polices and risk management of RTOs and ISOs
- Prohibits use of unsecured credit for FTR transactions
- Market Participants must fully collateralize FTR positions.
- Unsecured credit seen as posing significant risks because FTRs often involve substantial obligations over long periods of time.

PJM stated in initial Order 741 compliance filing (ER11-3972-000) that Tariff **would allow seller credit to be used for FTR transactions** because:

- Although seller credit is unsecured credit, only available to MPs that sell more in the PJM markets than they purchase.
- In the event of a default by MP with seller credit, it would be expected that its sell position would offset the default by netting offsetting obligations, and the risk to other MPs of defaults would be small.

FERC clarified in 2011 that seller credit based on Market Participant's transactions in the PJM markets **is still a form of unsecured credit.**

Thus, FERC found that PJM's compliance filing that had Tariff provisions permitting use of seller credit to meet the FTR requirements were contrary to Order 741's requirement to eliminate use of unsecured credit in the FTR Markets (136 FERC ¶ 61,190).

PJM amended Tariff to remove use of seller credit to meet FTR Credit Requirements.

## Greater risk in relying on retention of future revenues compared to cash collateral or LCs

### Uncertainty of Future Revenues



### Lack of Liquidity

- **Cash collateral:** immediately accessible upon default
- **LCs:** obligation of third-party financial institution; can be drawn upon quickly



### Collection and Enforceability Challenges (including bankruptcy)

- In bankruptcy, debtor's post-petition revenues generally cannot be used to further secure or satisfy pre-petition claim.
- May implicate rights of other third parties, such as lenders



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## **FTR Credit Enhancements**



### Member Hotline

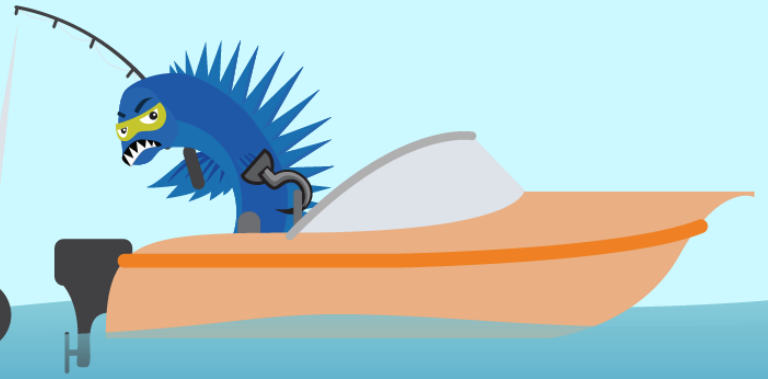
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