



FTR / ARR Senior Task Force Final Proposal Report - **DRAFT**

June 8, 2015

Issue Summary

[Problem Statement](#)

[Issue Charge](#)

[Charter](#)

Problem Statement/Issue Charge approved at Markets and Reliability Committee on May 29, 2014

Number of Meetings covering this topic: 18

1. Senior Task Force Results

There was no solution package that received a simple majority vote. In total, 12 packages were voted upon at two different times. Packages 11, 12, 12A and 18-22 were voted in April 2015. Packages 12B and 23-25 were voted in May 2015. Only proposal 22 was close to a simple majority vote, with 49% in favor. However, the results of the non-binding poll question during the May vote indicated 75% of stakeholders in favor of a change from the status quo. Proposals were offered by FirstEnergy, Monitoring Analytics, LLC, and PJM Interconnection, LLC.

Appendix I: Proposals Not Meeting the Threshold

Proposal 11 is based on the principle that FTRs should provide the proper day-ahead generation to load price hedging mechanism they were intended to provide at their inception. In order to do so, FTRs need to be fully funded and ARR's need to be fully allocated. This solution package contains the following key attributes:

- Real Time Balancing Congestion: FirstEnergy proposes real-time congestion be allocated to market instruments that resemble users of the transmission system, i.e., load (real-time load, exports, decrement bids (DECs), up-to congestion transactions (UTC) (withdrawal side only)).
 - Since the single cause or beneficiary of real-time congestion cannot reasonably be determined, such costs should be allocated broadly to users of the transmission system.
 - The PJM Independent Market Monitoring (IMM) Unit has shown that virtual transactions such as INCs, DECs and UTCs affect PJM dispatch and thus contribute to negative balancing congestion. ○
- ARR Allocation: FirstEnergy proposes that PJM escalate the 10 year ARR Allocation process using forecasted growth rate +3%.
 - Adjustments to the Tariff to identify transmission system weaknesses earlier will avoid or reduce the time between new transmission upgrades being identified and put into service. These adjustments will help to maintain proper allocation.



- **Transition Period:** FirstEnergy proposes that any changes to the PJM OATT regarding FTRs/ARRs should include a transition period to recognize previously made commitments. Changes to ARR/FTR rules shall be approved prior to the start of the ARR allocation process of the year the rules are implemented. The rules will be implemented no earlier than June 2016 for delivery year 2016/2017. In addition, the implementation date should ensure any rule changes are known and transparent prior to the beginning of the ARR allocation process for any future delivery year. This will provide market participants the necessary transparency prior to making commitments associated with establishing their ARR/FTR portfolios.

Proposals 12, 12A, 12B are designed to improve market transparency, improve the relationship between FTR target allocations and congestion rents, and increase the congestion revenue available to pay participant target allocations. All packages would provide these results by better aligning the FTR model with the expected physical grid and eliminating several existing cross subsidies within the FTR/ARR market. The packages are identical but for two elements: the proration of Stage 1A ARR allocations and seasonal ARR/FTR periods. Package 12 includes prorating Stage 1A ARR allocations, packages 12A and 12B do not. Package 12B is the only package that does not support a seasonal market period approach.

All of the IMM's solution packages include elements to improve the accuracy of the FTR market model relative to the physical grid's capability including probabilistic transmission outage modeling and adjustments to facilities that are persistently revenue inadequate.

Proposals 18-22 are designed to provide more confidence in the FTR and ARR products through optimal FTR Revenue Adequacy and ARR allocations. Four of the PJM proposed packages are designed to help ensure that the FTR Product provides a Day-ahead congestion hedge. The packages are all variations of each other, designed with different design components in an effort to gain stakeholder consensus. The most significant design change in most of the packages is to allocate only the balancing congestion caused by emergency outages differently¹ and only if the emergency outages reduce funding below the approved ARR capability. PJM staff recommends this limited reallocation of balancing congestion in recognition of the fact that FTR funding levels have improved for the current FTR planning period and to ensure that this focused reallocation of balancing congestion is not associated with capability auctioned to financial players.

In addition, PJM proposes a package that does not include any changes to the allocation of balancing congestion but does include all the IMM recommendations that PJM supports. This package 22 was proposed because PJM staff recognizes the stakeholder division on the issue of balancing congestion and the difficulty in reaching consensus. Further, PJM staff also supports elimination of netting the positively and negatively valued FTR positions in a given FTR holder's portfolio prior to determining positively valued FTR payout ratios. This final package also includes an additional design component to change the 10 year Stage 1A analysis to use a more conservative approach for ensuring Stage 1A rights are feasible for the 10 year period. This change will only increase the Zonal Base Load used in the 10 year analysis.

¹ Proposed allocation is to Load + Exports+ DECs+ UTCs (Withdraw Portion)

Proposals 23-25 are variations of PJM staff proposed solution packages that include an additional design component to address retirement of ARR Stage 1 historical resources. Proposal 24 addresses Stage 1A 10 year process and the report of monthly payout ratios:



- Escalation of current ARR results using zonal load forecast growth rate +1.5%
- Use negative target allocations as increase in congestion revenue in reporting of monthly payout ratios

In addition to the above, Proposal 25 addresses the treatment in settlements of portfolio netting of FTRs and historical Stage 1 resources whereas Proposal 23 maintains status quo for portfolio netting but does support a change for Historical Stage 1 Resources, identical to Proposal 25:

- Retirements replaced with a capacity offered resource with the closest electrical proximity that is not already a historical resource and has been in service for a minimum of five years. If no resource has been in service for a minimum of five years than the next oldest resource as determined by in service date and electrical proximity will be utilized as the replacement.
- Replacement resource MWs will be equivalent to the MWs of retired unit. If retired unit historical ARR MWs < replacement resource MWs then replacement resource MWs will be set equal to retirement resource MWs. If historical resource MWs > replacement resource MWs then additional replacement resources will be added up to the capacity of the retirement resource MWs.
- If the replacement resource creates additional incremental Stage 1A infeasible MWs, as determined using the 10 year Stage 1A analysis, then the next capacity offered resource with the closest electrical proximity that does not cause any additional incremental 10 year Stage 1A infeasible MWs will be used as the replacement

Appendix II: Voting Report

	April Vote	May Vote
Summary Results	#	#
Individual Respondents	53	38
Member Companies	111	62
Total Votes	186	158

April Vote		
Package 11	#	Percentage
Yes	27	15%
No	155	85%
Abstain	4	

April Vote		
Package 12	#	Percentage
Yes	47	27%
No	127	73%



Abstain	12	
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April Vote		
Package 12A	#	Percentage
Yes	36	21%
No	138	79%
Abstain	12	

April Vote		
Package 18	#	Percentage
Yes	30	17%
No	150	83%
Abstain	6	

April Vote		
Package 19	#	Percentage
Yes	28	17%
No	149	83%
Abstain	9	

April Vote		
Package 20	#	Percentage
Yes	32	18%
No	148	82%
Abstain	6	

April Vote		
Package 21	#	Percentage
Yes	45	25%
No	132	75%
Abstain	9	

April Vote		
Package 22	#	Percentage
Yes	87	49%
No	89	51%
Abstain	10	



May Vote		
Package 12B	#	Percentage
Yes	40	26%
No	117	74%
Abstain	1	

May Vote		
Package 23	#	Percentage
Yes	13	8%
No	143	92%
Abstain	2	

May Vote		
Package 24	#	Percentage
Yes	37	24%
No	119	76%
Abstain	2	

May Vote		
Package 25	#	Percentage
Yes	27	18%
No	123	82%
Abstain	8	

Appendix III: Supplemental Documents

[FTRSTF Education Document](#)

[FirstEnergy - Proposal 11 Executive Summary](#)

[IMM Proposals 12, 12A Executive Summary](#)

[PJM Proposals 18-22 Executive Summary](#)

[PJM Proposals 23-25 Executive Summary](#)