FTR Revenue Adequacy

Final Proposals

Markets and Reliability Committee
January 26, 2012

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FTR Task Force

- FTR Task Force created in April by MIC to address FTR Revenue Inadequacy
- Mission: The FTRTF will investigate the causes of the FTR Revenue Inadequacy that has occurred in the 2010/2011 Planning Period and identify potential improvements including modeling that could be made to minimize the Revenue Inadequacy going forward.
- PJM cannot guarantee that FTR Revenue Inadequacy will be eliminated or reduced regardless of any changes.

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Timeline

- FTR Task Force developed three proposals for MIC
- Proposal Alternatives Report posted to FTR Task Force Web page
  - Narrative of details of final three FTR task force proposals
  - Includes comparative Summary
  - Includes Links to documents
- Two alternative proposals added at 12/13/11 MIC
- Five packages voted on at 12/13/11 MIC

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December MIC voting results

MIC Proposal	Description	MIC Results
Alternative 1 Proposal (FTRTF Package 1)	Process Improvements and approved zero cost rule change only	75.9% in favor
Alternative 2 Proposal (FTRTF Package 27)	Alternative 1 proposal plus reduced Long term auction capability, 4 day monthly outage modeling, Residual ARRs, and change in uplift calculation	63.3% in favor
Alternative 3 proposal (FTRTF Package 28)	Alternative 1 proposal plus 4 day monthly outage modeling and change in Marginal Loss allocation.	29.9% in favor
Alternative 4 Proposal (FTRTF package 8)	Alternative 1 proposal plus removal on Balancing Congestion from FTR bucket. Implementation for 12/13 planning period.	46% in favor
Alternative 5 Proposal (FTRTF package 8)	Alternative1 proposal plus removal on Balancing Congestion from FTR bucket. Implementation for 13/14 planning period.	40% in favor

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Final Proposed Packages

MRC Main motion (MIC Alternative 1 Proposal)

- Only process improvements and an approved general auction rule change in which consensus was already reached.
- Process Improvements – Already have been initiated
  - ✓ Enhanced notification of switching or special operating procedures.
  - ✓ Increased transparency and description of actual transmission outages associated with circuit breaker or disconnect switch status changes.
  - ✓ Increased awareness and opportunity to model shorter duration transmission outages in monthly auctions that could cause revenue inadequacy.

- Rule Change – already approved by membership and FERC.
  - ✓ Zero cost rule change which involves not allowing bids to clear in which the clearing price equals zero and there are no binding constraints in the auction period on which the FTR path sensitivity is non-zero.

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Final Proposed Packages

MRC Alternative motion (MIC Alternative 2 Proposal)

- All components of Alternative 1 proposal
- Reduce Long Term Auction Capability – 75%
  - Reduction is in addition to the already reduced capability under existing rules in which the existing Annual ARRs are assumed to be included in the model for all Long Term Auction study years.

- Hybrid 2: Allocate Residual ARRs for prorated stage 1 ARRs associated with transmission outage modeling.

- Model all outages four days or longer in Monthly Auctions
  - Criteria for modeling outages in the monthly auction reduced from five days to four days.

- Change end of year uplift and hourly calculation to include all positive target allocations and do not allow negative target allocations to offset positive target allocations within a members portfolio

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Hybrid 2 Approach –Residual ARRs (Component of Alternative 2 proposal)

- Allocate Residual ARRs for periods of year where modeled annual transmission outage that caused stage 1 proration is not scheduled out of service.
- Single Period Clearing - Same as current process
- Annual ARR Allocation and FTR Auction – Same as current process
  - Model transmission outages for entire period
- Residual ARR value determined from monthly prompt auction clearing price for months the Residual ARR is effective. Residual ARR value can only be positive.
- Capped at Network Service Peak Load or Firm Transmission Service
- No Self Scheduling of Residual ARRs.
- Monthly Revenue for Residual ARR period only used for funding ARRs
  - Annual and Long Term Revenues would not fund Residual ARRs
  - Excess monthly revenue after Residual ARR payout continues to go to FTR Revenue bucket for funding FTRs
  - Deficient Monthly Revenues to fund Residual ARRs will result in Residual ARRs being prorated pro-rata based on expected payout ratio. No opportunity for excess from previous or later months to fund deficiencies.

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Change in Uplift Calculation (Component of Alternative 2 proposal)

- Change end of year uplift and hourly calculation to include all positive target allocations and do not allow negative target allocations to offset positive target allocations within a members portfolio.

Uplift Example Current:

End of year uplift required for entire market= $1 million

Participant A:	Positive Target Allocations = $1 million
	Negative Target Allocations = -$1 million
	Net Target Allocations = 0
	Uplift Charge= 0
Participant B:	Positive Target Allocations = $4 million
	Negative Target Allocations = 0
	Uplift Charge= $1 million

Uplift Example proposed:

End of year uplift required for entire market= $1 million

Participant A:	Positive Target Allocations = $1 million
	Negative Target Allocations = -$1 million
	Uplift Charge= $1million *($1 million/$5 million) = $200,000
Participant B:	Positive Target Allocations = $4 million
	Negative Target Allocations = 0
	Uplift Charge= $1 million *($4 million/$5 million)= $800,000

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Next steps

- Vote at January MRC
- First read at January MC
- Vote at February MC

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