

## Issue Source

PJM initiated this problem statement in recognition of the fact that FTR funding relative to target allocations remains at unacceptably low levels and, given the identified drivers of low FTR funding relative to target allocations, a redesign of the ARR and FTR processes may be warranted.

## Stakeholder Group Assignment

PJM proposes this work be completed at a new senior task force reporting to the Markets and Reliability Committee.

## Key Work Activities

1. Provide education regarding:
  - a. The historical development of FTR and ARR products, including their original functions and their evolution!
  - b. Causes of the disconnect between target allocations and congestion collected.
  - c. Causes of the disconnect between congestion collected and FTR payouts
  - d. The uses of FTRs by different types of market participants;
  - e. derivations Derivations and causes of underfunding;  
and And discuss as appropriate which could result in expansion of items in scope.
2. Determine stakeholder expectations regarding ARRs, FTRs, FTR target allocations, congestion and FTR payouts. for the functions of FTRs in the future (e.g. hedge against congestion in the Day Ahead market, distribution of congestion revenues.)
3. Once item 2 is complete, determine whether enhancements changes can be made to the current ARR and FTR processes to improve FTR funding levels through:
  - a. improving the alignment of the ARR allocation process with actual transmission system usage;
  - b. Consideration of recommendations made by the Independent Market Monitor in the 2014 State of the Market Report including:
    - i. Report correct monthly payout ratios to reduce overstatement of underfunding problem on a monthly basis.
    - ii. Eliminate portfolio netting to eliminate cross subsidies across FTR marketplace participants.
    - iii. Eliminate subsidies to counter flow FTR holders by treating them comparably to prevailing flow FTR holders when the payout ratio is applied.
    - iv. Eliminate cross geographic subsidies.
    - v. Improve transmission outage modeling in the FTR auction models.

vi. Reduce FTR sales on paths with persistent underfunding including clear rules for what defines persistent underfunding and how the reduction will be applied.

vii. Implement a seasonal ARR and FTR allocation system to better represent outages.

viii. Eliminate over allocation requirement of ARRs in the Annual ARR Allocation process.

c. Consideration of the treatment of balancing congestion in the valuation of FTRs.

~~2.4.~~ If enhancements are identified, implement the Consensus Based Issue Resolution process to assess the need for market rule changes.

~~3.5.~~ Determine whether a transition mechanism should be implemented such that any ARR and/or FTR process changes take effect over time.

### Out of Scope Items

1. The existence of the annual ARR allocation.

2. The requirement to trigger RTEP upgrades due to long-term (10-year) infeasibility of Stage 1A ARRs.

3. The existence of the long-term, annual and monthly balance of planning period FTR auctions.

~~3.4.~~ Consideration of the treatment of balancing congestion in the valuation of FTRs.

### Expected Deliverables

1. Enhancements to the design of the ARR and FTR processes to improve the relationship between congestion collected, FTR payouts, funding levels, and target allocations.

### Expected Overall Duration of Work

1. PJM anticipates all developed changes Objective Item 2 to be determined by October 30, 2014 in the first quarter of 2015.

2. Any additional Recommendations will be made to the MRC by June 1, 2015.

### Decision-Making Method

The objective is to use the Tier 1, consensus-based, decision-making methodology (unanimity) on a single proposal (preferred default option), or Tier 2, multiple alternatives.

Red Changes = IMM

Purple Changes = Ed Tatum

Blue Changes = PJM