

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

FirstEnergy Solutions Corp.)	
Allegheny Energy Supply Company, LLC,)	
)	Docket No. EL13-47-000
v.)	
)	
PJM Interconnection, L.L.C.)	
)	

COMMENTS OF THE INDEPENDENT MARKET MONITOR FOR PJM

Pursuant to Rule 211 of the Commission’s Rules and Regulations,¹ Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM² (“Market Monitor”), submits these comments responding to the complaint filed by FirstEnergy Solutions Corp. and Allegheny Energy Supply Company, LLC (“FirstEnergy”) on February 15, 2013 (“February 15th Complaint”). In this proceeding, FirstEnergy renews an earlier complaint filed December 28, 2011, in Docket No. EL12-19, that sought to modify the PJM market rules governing the calculation of Transmission Congestion Credits that are available to fund Financial Transmission Rights (“FTRs”) (“December 28th Complaint”). FirstEnergy has not shown that there is anything unjust and unreasonable about the way PJM calculates Transmission Congestion Credits.

Revenue adequacy is misunderstood. FTR holders, with the creation of ARR, do not have the right to financially firm transmission service and FTR holders do not have the

¹ 18 CFR § 385.211 (2011).

² Capitalized terms used herein and not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff (“OATT”).

right to revenue adequacy. FTR holders appropriately receive revenues based on actual congestion in both day ahead and real time markets. When day ahead congestion differs significantly from real time congestion, as has occurred only recently, this is evidence that there are reporting issues, cross subsidization issues, issues with the level of FTRs sold, and issues with the differences between modeling in the day ahead and real time. Such differences are not an indication that FTR holders are being underallocated total congestion dollars.

FirstEnergy is incorrect in asserting that FTR holders have a right to any specific payout.³ FirstEnergy fails to provide any support for this claim. In the absence of a right to a specific payout, there is no support for a claim of losses.

FirstEnergy is incorrect in its description of the role of FTRs in LMP markets. FirstEnergy fails to recognize that ARRs now serve the role initially identified for FTRs and that special role is no longer served by FTRs.⁴

FirstEnergy misplaces reliance on its theory of cost causation.⁵ FirstEnergy states that FTR Holders do not cause real-time congestion. The Market Monitor agrees, and would also agree that FTR Holders do not cause day-ahead congestion either. Holding an FTR does not cause any energy market result. Holding an FTR means holding a right to a share of congestion revenues.

Contrary to FirstEnergy's apparent belief, ARRs were a more effective hedge against congestion than were FTRs in 2012.⁶ ARRs served their role in 2012. If FirstEnergy wants to restore the rights of FTR holders, the most straightforward way to do so would be to

³ February 15th Complaint at 21.

⁴ *Id* at 19–21.

⁵ February 15th Complaint at 21.

⁶ *See* 2012 State of the Market Report for PJM at 369.

eliminate the separation between ARRs and FTRs and return to the state in which there are no ARRs and all FTRs are directly allocated to load.

The Commission dismissed the December 28th Complaint, “in light of the absence of sufficient evidence as to the root cause of the FTR underfunding and PJM’s commitment to develop a comprehensive report detailing the circumstances resulting in the FTR underfunding for stakeholder review and discussion.”⁷ Dismissal was without prejudice to a future complaint “based on PJM’s report if the stakeholder proceedings prove unavailing.”⁸

The report issued by PJM April 30, 2012, the report contemporaneously issued by the Market Monitor, additional presentations and analysis by the Market Monitor and the PJM stakeholder process have identified a number of issues and potential ways to address the level of funding available for FTRs.

No evidence supports the claim that balancing congestion itself constitutes a “root cause of the FTR underfunding.” Balancing congestion is not a root cause but a symptom of a number of root causes. In addition, FTR funding levels could be restored to relatively high levels by ensuring that PJM reports payout ratios properly and that specific cross subsidies are eliminated.

As a symptom, balancing congestion has served its critical function in alerting PJM members that there are fundamental issues with the FTR process. It would be unfortunate to kill the messenger in this case rather than to address the message.

The relief requested by FirstEnergy, “that real-time congestion costs be allocated broadly to all transmission users,” does not address the FTR revenue adequacy issue. This approach instead would conceal the FTR revenue inadequacy problem by requiring an unjust, unreasonable and illogical transfer of funds from all transmission customers to FTR

⁷ *FirstEnergy Solutions, Corp., et al. v. PJM Interconnection, L.L.C.*, 138 FERC ¶ 61,158 at PP 1, 46 (2012).

⁸ *Id.* at P 47.

holders. In effect, FirstEnergy would have load pay twice for a congestion hedge. FirstEnergy would have load first pay for the physical transmission system which makes congestion relief possible and then would have load pay FTR holders to guarantee their payout. Accordingly, the relief requested by FirstEnergy should be denied and the complaint should be dismissed with prejudice.

There are a number of significant proposals to address some of the fundamental issues related to FTR funding. FirstEnergy's filing of stale and unsupported assertions should not be allowed to distract from the continued progress. If adequate progress cannot continue to be made, the Commission should consider requiring Settlement proceedings.

I. COMMENTS

A. Background: Revenue Adequacy.

Congestion revenue is created in an LMP system when all loads pay and all generators receive their respective LMPs. When load pays more than the amount that generators receive, excluding losses, positive congestion revenue exists and is available to cover the target allocations of FTR holders. The load MW exceed the generation MW in constrained areas because part of the load is served by imports using transmission capability into the constrained areas. That is why load, which pays for the transmission capability, receives ARRs to offset congestion in the constrained areas. Generating units that are the source of such imports are paid the price at their own bus which does not reflect congestion in constrained areas. Generation in constrained areas receives the congestion price and all load in constrained areas pays the congestion price. As a result, load congestion payments are greater than the congestion-related payments to generation.⁹ That

⁹ For an illustration of how total congestion revenue is generated and how FTR target allocations and congestion receipts are determined, see Table G-1, "Congestion revenue, FTR target allocations and FTR congestion credits: Illustration," *MMU Technical Reference for PJM Markets*, at "Financial Transmission and Auction Revenue Rights."

is the source of the congestion revenue to pay holders of ARRs and FTRs. In general, FTR revenue adequacy exists when the sum of congestion credits is equal to or greater than the sum of congestion across the positively valued FTRs. If PJM allocated FTRs equal to the transmission capability into constrained areas, FTR payouts would equal the sum of congestion.

FTR revenues are primarily comprised of hourly congestion revenue, from the day ahead and balancing markets, and net negative congestion.¹⁰ FTR revenues also include ARR excess which is the difference between ARR target allocations and FTR auction revenues.

Table I-1 shows the reported FTR payout ratio by planning period from the 2003/2004 planning period through the first seven months of the 2012/2103 planning period.

Table I-1 Reported FTR payout ratio by planning period

Planning Period	FTR Payout Ratio
2003/2004	97.7%
2004/2005	100.0%
2005/2006	90.7%
2006/2007	100.0%
2007/2008	100.0%
2008/2009	100.0%
2009/2010	96.9%
2010/2011	85.0%
2011/2012	80.6%
2012/2013*	74.8%
*2012/2013 Through 31-Dec-12	

¹⁰ Hourly congestion revenues may be negative.

Table I-1 shows that the FTR revenue inadequacy problem, as FirstEnergy indicates,¹¹ is a fairly recent development. It is only in the last three of ten periods that the payout ratio has been less the 95 percent.

B. FTR Holders Are Not Guaranteed Revenue Adequacy; ARR Holders Are Entitled to the Equivalent of Physically Firm Transmission Rights.

FirstEnergy reviews the history of the development of FTRs in the LMP model generally and in PJM specifically.¹² FirstEnergy correctly points out that the existence of FTRs permitted loads, which pay for the transmission system via fixed payments, to receive the benefits of that transmission as a natural part of the LMP system, without requiring physical transmission rights that are difficult to define and enforce.¹³ When introduced, FTRs were directly allocated to loads. There were no substantial funding issues. If PJM had continued with a system that included only directly allocated FTRs, it is unlikely that the underfunding issue would have emerged.

PJM introduced a new instrument designed to allocate the value of the congestion hedge associated with FTRs to loads, Auction Revenue Rights or “ARRs.” FirstEnergy discusses but does not adequately recognize the significance of the introduction of the current structure that includes both ARR and FTRs.¹⁴ It is ARR which now have the characteristics and rationale that were associated with FTRs when FTRs were introduced. FirstEnergy fails to note this critical distinction. ARR are directly allocated to loads in recognition of the fact that loads pay for the transmission system which permits low cost

¹¹ February 15th Complaint, Exhibit B (Affidavit of Robert B. Stoddard) (“Stoddard Affidavit”) at paras. 7–8.

¹² February 15th Complaint at 5–8.

¹³ *Id.* at 7–8.

¹⁴ *Id.* at 6 & n.13.

generation to be delivered to load and which creates the funds available to pay ARR holders to offset congestion costs.¹⁵

When ARRs and FTRs were created as separate instruments, FTRs no longer represented this basic feature of the LMP system which FirstEnergy recognizes by its citation to Professor Hogan.¹⁶ While FirstEnergy's discussion of the genesis of FTRs is helpful, that discussion is about ARRs in the current structure and not about FTRs. PJM created the split between ARRs and FTRs in order to both continue to provide the appropriate protection against congestion for load, and to permit any excess transmission capacity on the system to be made available to those market participants who wished to use FTRs to speculate or hedge positions based on the voluntary purchase of FTRs at a market value determined by auction.

When discussing comparability, FirstEnergy also fails to note that neither the California ISO (CAISO) nor the New York ISO (NYISO) have ARRs.¹⁷ Thus any reference to the method of FTR funding in those ISOs is referring to a product fundamentally different from the FTRs now traded in PJM. The product initially defined as an FTR in PJM, and which continues to be defined as an FTR in the CAISO and NYISO, is now defined as an ARR in PJM.

There has been no issue of revenue adequacy for ARRs.¹⁸ The revenue adequacy issue is related only to FTRs, which are no longer the vehicle used to ensure that load receives the equivalent of firm transmission service. Contrary to FirstEnergy's assertion, there is no guarantee of full revenue adequacy for FTRs. There is no basis for such a

¹⁵ For a good illustration of the source of funds, see the example included in the February 15th Complaint, Stoddard Affidavit at paras. 26–27.

¹⁶ February 15th Complaint at 6–8; Stoddard Affidavit at paras. 10–13, 25, 28–29, 30–31.

¹⁷ See February 15th Complaint at 23; Stoddard Affidavit at para. 34.

¹⁸ See 2012 State of the Market Report for PJM at 369.

guarantee to participants in a market who have no pre-existing entitlement that requires conversion into an instrument compatible with those markets, as was the case with recipients of firm transmission service and ARRs. This is a subtle but critical point. The mechanism that has the stated intent of assuring full revenue adequacy for FTRs is in fact a mechanism for self funding of revenue adequacy. FTR holders have agreed among themselves to compensate those who receive relatively less than expected based on target allocations out of the funds that would otherwise go to other FTR holders. Rather than a revenue adequacy mechanism, this can be more accurately described as a mechanism to ensure that revenue shortfalls on specific transmission paths are equalized among all FTR holders and that all FTR holders share in the shortfall proportionately. Despite their lengthy review of cost causation, FirstEnergy has not explained why this is not an equitable solution. FirstEnergy has not explained why, given their views of cost causation, they do not recommend assigning revenue shortfalls to the holders of FTRs on the paths where the shortfalls occur rather than requiring the holders of FTRs on paths with adequate revenues to subsidize the shortfalls.

Contrary to FirstEnergy's argument (at 2, 13, 21 & 27), FTR holders have not lost money. FTR holders have received a lower level of revenues than the total target allocation. The target allocation represents the maximum revenue that the FTR holder could receive, but does not represent a guarantee. A market participant buying an FTR should value that FTR based on its assessment of the likely congestion on the associated path and bid accordingly. Unlike the ARR holders, the FTR holders do not pay for the transmission system as the basis for receiving FTRs and are not guaranteed compensation equal to the level of congestion. If an ARR holder converts their ARRs to FTRs, that is a market choice to receive congestion revenues rather than the ARR value based on the FTR auction.

C. Balancing Congestion Does Not Cause FTR Revenue Inadequacy.

Contrary to the assertion of FirstEnergy, balancing congestion is not the cause of FTR underfunding. There have been negative balancing congestion levels since at least 2005 and there is no demonstrated causal relationship between balancing congestion levels and FTR revenue inadequacy. Following the order dismissing the December 28th Complaint, PJM, consistent the requirements of that order, issued on April 30, 2012 an FTR Revenue Stakeholder Report (“PJM FTR Report”).¹⁹ The Market Monitor issued its report on Options to Address FTR Underfunding on the same day (“IMM FTR Options Report”).²⁰ Both reports identified causes and proposed approaches to address those causes.

In an effort to convince the Commission to reverse dismissal of its December 28th Complaint, FirstEnergy filed a Motion to Lodge both reports.²¹ FirstEnergy argued that “it is clear that none of these documents addresses or affects the merits of the Complaint.” This was not an oversight. This is evidence that balancing congestion does not cause FTR revenue inadequacy, which speaks directly to the merit of FirstEnergy’s complaints.

Inclusion of balancing congestion revenues in the calculation of FTR revenues makes sense. This is the case both because the congestion hedge provided by the initial design of FTRs, now ARRs, was for all congestion and not limited to day ahead congestion, and given the way in which the modeling of FTRs occurs and the way in which the modeling of the day ahead and real time markets occurs. If, for example, the modeling of loop flow in the day ahead market is regularly inconsistent with actual loop flows, the use of balancing congestion is a convenient and appropriate way to ensure that the difference affects

¹⁹ PJM’s report can be accessed on its website at: <<http://www.pjm.com/~media/documents/reports/20120430-ftr-revenue-stakeholder-report.ashx>>.

²⁰ The Market Monitor’s report can be accessed on its website at : <http://www.monitoringanalytics.com/reports/Reports/2012/Options_to_Address_FTR_Underfunding_20120430.pdf>.

²¹ Motion to Lodge of the the FirstEnergy Companies, Docket No. EL12-19 (May 9, 2012).

funding for FTRs. Such differences should affect the funding of FTRs because the balancing congestion affects the total level of congestion revenues on the system that PJM collects in the course of delivering energy to load. The use of balancing congestion is a practical way to capture the impacts of modeling issues and ensure that any differences, whether positive or negative, affect funding for FTRs. It is appropriate to have the impacts of these imperfections in the application of the modeling process captured within the FTR revenues. It would not be appropriate to have these errors separated from FTR funding and allocated to some broad category of customers. The FTR funding mechanism should be left as it is because it appropriately assigns the dollars associated with any errors to the holders of FTRs. Purchasers are in the best position to evaluate the likely revenues that an FTR will likely generate. This is how FTRs should be properly valued in the market. No one else is better situated to perform that valuation.

In addition, if the modeling of loop flows can be improved, then FTR holders will have an incentive to encourage PJM to improve the modeling in order to improve FTR holders' ability to value FTRs. That is entirely appropriate. Allocating the dollar shortfall between PJM's models and actual experience to all transmission customers would attenuate the incentive and reduces the likelihood that the modeling and similar issues that inaccurately value FTRs will ever be addressed.

Neither the reports nor the stakeholder process following the Commission's order dismissing the December 28th Complaint identified balancing congestion charges as a cause of FTR revenue inadequacy. Balancing congestion charges predated the FTR revenue adequacy issue. There is no basis for an assertion that balancing congestion charges cause revenue inadequacy. Accordingly, the February 15th Complaint should be denied, with prejudice.

D. Including Balancing Congestion Creates the Correct Pricing Signals in FTR Markets.

The reasons for recent increased shortfalls in FTR funding, identified by PJM, support the continued use of the current definition of FTR revenues, which includes

balancing congestion. The reasons offered by PJM are reduced transmission capability and the difficulty of modeling Midwest Independent System Operator, Inc. (“MISO”) flowgates in the FTR Auction model. These both result in over selling FTRs.

Both of the cited reasons resulted in PJM selling more FTR capability in the FTR auctions than exists. This is not a criticism of PJM. This recognizes the reality that FTR auctions are run well before the time that congestion is experienced and reality does not always match the model used in the auction to define available FTRs.

The difficulty in predicting flows on PJM/MISO flowgates used in market-to-market congestion management and the reduction in overall transmission capability in turn results in differences between day-ahead models and actual experience in real time.

FTR holders do not have guarantees from PJM or PJM transmission customers that their payments would depend on modeling assumptions in the day-ahead market rather than total congestion. FTR holders cannot reasonably expect that such payments would ignore balancing congestion. It would be inappropriate to have FTR holders’ revenues depend solely on modeling assumptions rather than on actual total congestion, including balancing congestion.

Underfunding is a logical consequence of overselling FTRs. When FTRs are oversold, a decline in their value can be expected. A reduction in FTR revenue sufficiency is a market signal and a correct market signal. The level of FTRs sold reflects PJM’s judgment. The logical conclusion is not that underfunding must be eliminated through a change in the funding mechanism but that it is an expected consequence of the ongoing transmission upgrades on the system, the unanticipated level of congestion on MISO flowgates, and PJM’s choices about the level of FTRs sold. If full funding is the goal, fewer FTRs should be sold, reflecting the reduced capability of the transmission system.

Until the fundamental issues underlying FTR funding can be addressed, that level of revenue sufficiency will continue to be a correct market signal. FTR holders can pay less for FTRs if they believe that their value has been reduced, or PJM can make fewer FTRs available. These are very similar outcomes.

E. The Market Monitor Has Identified Issues That Would Eliminate A Substantial Portion Of The Revenue Issue.

1. The Calculation of the Payout Ratio.

The payout ratio reported by PJM is understated. The reported payout ratio does not appropriately consider negative target allocations as a source of revenue to fund FTRs. For 2012 the reported payout ratio is 73.5 percent while the correctly calculated payout ratio is 76.9 percent. The MMU recommends that the calculation of the FTR payout ratio appropriately include negative target allocations as a source of revenue, consistent with actual settlement payout.²²

The reported payout ratios for the planning period equal congestion revenue divided by the sum of the net positive and net negative target allocations for each hour. But this does not correctly measure the payout ratio actually received by positive target allocation FTR holders. The payout ratio is intended to measure the proportion of the target allocation received by the holders of FTRs with positive target allocations in an hour. In fact, the actual payout ratio includes the net negative target allocations as a source of funding for FTRs with net positive target allocations in an hour. Revenue from FTRs with net negative target allocations in an hour are included with congestion revenue when funding FTRs with net positive target allocations.²³ The actual payout ratio received by FTR holders equals congestion revenue plus the net negative target allocations divided by the net positive target allocations for each hour. The actual payout ratio received by the holders of positive target allocation FTRs is greater than reported by PJM.

Table I-2Table I-2 shows the reported and actual payout ratio for each month and the calendar year 2012. In September, the reported payout ratio is 8.8 percentage points

²² IMM presentations at the January 28, 2013 MC Webinar, the February 15, 2013 FTR Task Force meeting, and in more detail again in the February 25, 2013 MC Webinar

²³ See PJM. "Manual 28: Operating Agreement Accounting," Revision 56 (October 1, 2012), p. 50

below the actual payout ratio. For 2012 the reported payout ratio is 3.4 percentage points below the actual payout ratio. For 2012 the reported payout ratio is 73.5 percent while the correctly calculated payout ratio is 76.9 percent.

Table I-2 Reported and Actual Payout Ratios for 2012.

	Reported Payout Ratio	Actual Payout Ratio
Jan-12	80.1%	82.3%
Feb-12	66.9%	71.2%
Mar-12	83.6%	86.7%
Apr-12	55.2%	62.7%
May-12	76.7%	79.6%
Jun-12	92.9%	93.6%
Jul-12	88.9%	90.0%
Aug-12	97.3%	97.5%
Sep-12	46.8%	55.6%
Oct-12	41.8%	50.2%
Nov-12	87.2%	88.5%
Dec-12	72.2%	74.6%
Total	73.5%	76.9%

2. Holders of Positive Value FTRs Are Required to Subsidize Holders of Negative Value FTRs.

Currently FTR target allocations are netted within each organization in each hour.²⁴ This means that within an hour, positive and negative target allocations within an organization's portfolio are offset prior to the application of the payout ratio to the positive target allocation FTRs. The payout ratios are also calculated based on these net FTR positions.

The current method requires those with fewer negative target allocation FTRs to subsidize those with more negative target allocation FTRs. The current method treats a

²⁴ The IMM raised this issue at the MC Webinar on February 25, 2013 and at the FTR Task Force on August 30, 2011. PJM made a similar proposal in the 2011 FTR Task Force.

positive target allocation FTR differently depending on the portfolio of which it is a part. The correct method would treat all FTRs with positive target allocations exactly the same, which would eliminate this form of cross subsidy.

For example, a participant has \$200 of positive target allocation FTRs and \$100 of negative target allocation FTRs and the payout ratio is 80 percent. Under the current method, the positive and negative positions are first netted to \$100 and then the payout ratio is applied. In this example, the holder of the portfolio would receive 80 percent of \$100, or \$80.

The correct method would first apply the payout ratio to FTRs with positive target allocations and then net FTRs with negative target allocations. In the example, the 80 percent payout ratio would first be applied to the positive target allocation FTRs, 80 percent of \$200 is \$160. Then the negative target allocation FTRs would be netted against the positive target allocation FTRs, \$160 minus \$100, so that the holder of the portfolio would receive \$60.

Table I-3 demonstrates the impact of payments with and without portfolio netting. Under the current rules, positive and negative FTRs within a portfolio are first netted and then the payout ratio is applied. For participant 1, positive and negative FTR positions are netted to \$100 and the 80 percent payout is applied to result in a payment of \$80. Under the proposed method the payout ratio is first applied to a participant's positive target allocations. For participant 1, the 80 percent payout is applied to the positive FTR position of \$200 to result in \$160 and then the negative FTR position is subtracted to result in a payment of \$60. The current method, by allowing netting prior to application of the payout ratio, results in more favorable treatment for positive FTRs in portfolios with some negative FTRs. For participant 1, the effective payout ratio applied to the positive FTRs is 90 percent rather than the 80 percent that participant 3 receives.

Table I-3 Example payments with and without portfolio netting

Participant	Payout Ratio = 80%			
	Positive TA	Negative TA	With Netting Total Payment	Without Netting Total Payment
1	\$200.00	(\$100.00)	\$80.00	\$60.00
2	\$100.00	(\$200.00)	(\$100.00)	(\$120.00)
3	\$100.00	\$0.00	\$80.00	\$80.00
4	\$0.00	(\$100.00)	(\$100.00)	(\$100.00)

If done correctly, the payout ratio would also change, although the total net payments to or from participants would not change. The sum of all positive and negative target allocations is the same in both methods. The net result of this change would be that holders of portfolios with smaller shares of negative target allocation FTRs would no longer subsidize holders of portfolios with larger shares of negative target allocation FTRs.

Under the current system all participants with a net positive target allocation in a month are paid a payout ratio based on each participant's net portfolio position. The correct approach would calculate payouts to FTRs with positive target allocations, without netting in an hour. This would treat all FTRs the same, regardless of a participant's portfolio. This approach would also eliminate the requirement that participants with larger shares of positive target allocation FTRs subsidize participants with larger shares of negative target allocation FTRs.

If netting within portfolios were eliminated and the payout ratio were calculated correctly, the payout ratio in 2012 would have been 88.1 percent instead of the reported 73.5 percent. The MMU recommends that netting of positive and negative target allocations within portfolios be eliminated.

Table I-4 Monthly positive and negative target allocations and payout ratios with and without hourly netting in 2012

	Net Positive Target Allocations	Net Negative Target Allocations	Per FTR Positive Target Allocations	Per FTR Negative Target Allocations	Total Congestion Revenue	Reported Payout Ratio (Current)	No Netting Payout Ratio (Proposed)
Jan-12	\$69,520,143	(\$7,730,433)	\$126,702,422	(\$64,766,863)	\$49,465,924	80.1%	90.2%
Feb-12	\$66,139,499	(\$8,722,011)	\$124,792,575	(\$67,369,848)	\$38,390,571	66.9%	84.7%
Mar-12	\$71,521,584	(\$13,706,751)	\$147,644,281	(\$89,829,450)	\$48,331,587	83.6%	93.6%
Apr-12	\$88,301,660	(\$14,712,532)	\$190,422,018	(\$116,820,311)	\$40,645,388	55.2%	82.7%
May-12	\$79,061,876	(\$9,760,027)	\$177,551,934	(\$108,239,496)	\$53,188,585	76.7%	90.9%
Jun-12	\$69,557,299	(\$6,623,560)	\$121,217,938	(\$58,280,956)	\$58,463,402	92.9%	96.3%
Jul-12	\$89,179,225	(\$9,034,200)	\$173,602,611	(\$93,421,963)	\$71,254,665	88.9%	94.9%
Aug-12	\$60,694,118	(\$5,115,960)	\$111,642,193	(\$55,976,928)	\$54,064,320	97.3%	98.6%
Sep-12	\$99,154,010	(\$16,477,176)	\$179,647,915	(\$96,844,326)	\$38,699,241	46.8%	75.4%
Oct-12	\$68,051,707	(\$9,827,426)	\$137,698,279	(\$79,454,756)	\$24,321,860	41.8%	75.4%
Nov-12	\$66,233,739	(\$6,557,217)	\$124,142,020	(\$64,424,379)	\$52,049,442	87.2%	93.8%
Dec-12	\$54,866,078	(\$4,610,245)	\$110,328,974	(\$59,848,711)	\$36,295,666	72.2%	87.1%
Total	\$882,280,937	(\$112,877,538)	\$1,725,393,160	(\$955,277,987)	\$565,170,652	73.5%	88.1%

3. Holders of Prevailing Flow FTRs Are Required to Subsidize Holders of Counterflow FTRs.

The current rules create an asymmetry between the treatment of counter flow and prevailing flow FTRs. Counter flow FTR holders make payments over the planning period, in the form of negative target allocations. These negative target allocation FTRs are paid at 100 percent regardless of whether positive target allocation FTRs are paid at less than 100 percent.

A counter flow FTR is profitable if the hourly negative target allocation is smaller than the hourly auction payment they received. A prevailing flow FTR is profitable if the hourly positive target allocation is larger than the auction payment they made.

For a prevailing flow FTR, the target allocation would be subject to a reduced payout ratio, while a counter flow FTR holder would not be subject to the reduced payout ratio. The profitability of the prevailing flow FTRs is affected by the payout ratio while the profitability of the counter flow FTRs is not affected by the payout ratio.

There is no reason to treat counter flow FTRs more favorably than prevailing flow FTRs. Counter flow FTRs should also be affected when the payout ratio is less than 100 percent. This would mean that counter flow FTRs would pay back an increased amount that mirrors the decreased payments to prevailing flow FTRs. The adjusted payout ratio

would evenly divide the burden of underfunding among counter flow FTR holders and prevailing flow FTR holders by increasing negative counter flow target allocations by the same amount it decreases positive target allocations. This increased payout ratio would apply only to negative target allocations associated with counter flow FTRs.

The combined result of correctly calculating the payout ratio, of removing portfolio netting and of applying a payout ratio to counter flow FTRs would increase the calculated payout ratio in 2012 from the reported 73.5 percent to 91.2 percent. The MMU recommends that counter flow and prevailing flow FTRs be treated symmetrically with respect to the application of a payout ratio.

Table I-5 Counter flow FTR payout ratio adjustment impacts.

	Positive Target Allocations	Negative Target Allocations	Total Target Allocations	Total Congestion Revenue	Reported Payout Ratio*	Total Revenue Available	Adjusted Counterflow Payout Ratio	Adjusted Counter Flow Revenue Available
Jan-12	\$126,702,422	(\$64,766,863)	\$61,935,560	\$49,465,924	79.9%	\$114,232,786	92.6%	\$117,367,780
Feb-12	\$124,792,575	(\$67,369,848)	\$57,422,727	\$38,390,571	66.9%	\$105,760,419	88.7%	\$110,681,339
Mar-12	\$147,644,281	(\$89,829,450)	\$57,814,831	\$48,331,587	83.6%	\$138,161,037	95.2%	\$140,519,040
Apr-12	\$190,422,018	(\$116,820,310)	\$73,601,707	\$40,645,388	55.2%	\$157,465,699	87.0%	\$165,641,014
May-12	\$177,551,934	(\$108,239,496)	\$69,312,438	\$53,188,585	76.7%	\$161,428,081	93.3%	\$165,734,697
Jun-12	\$121,217,938	(\$58,280,956)	\$62,936,981	\$58,463,402	92.9%	\$116,744,359	97.1%	\$117,660,567
Jul-12	\$173,602,611	(\$93,421,963)	\$80,180,649	\$71,254,665	88.9%	\$164,676,628	96.1%	\$166,755,703
Aug-12	\$111,642,193	(\$55,976,928)	\$55,665,265	\$54,064,320	97.1%	\$110,041,248	98.9%	\$110,403,489
Sep-12	\$179,647,915	(\$96,844,326)	\$82,803,589	\$38,699,241	46.7%	\$135,543,567	82.3%	\$147,775,239
Oct-12	\$137,698,279	(\$79,454,756)	\$58,243,523	\$24,321,860	41.8%	\$103,776,616	82.5%	\$113,612,324
Nov-12	\$124,142,020	(\$64,424,379)	\$59,717,640	\$52,049,442	87.2%	\$116,473,822	95.3%	\$118,341,423
Dec-12	\$110,328,974	(\$59,848,711)	\$50,480,263	\$36,295,666	71.9%	\$96,144,377	90.5%	\$99,840,410
Total	\$1,725,393,160	(\$955,277,987)	\$770,115,174	\$565,170,652	73.4%	\$1,520,448,638	91.2%	\$1,574,333,025

* Reported payout ratios may vary due to rounding differences when netting

4. Fundamental FTR Issues Need to Be Addressed.

In addition to addressing these issues, the approach to the question of FTR funding should also look at the fundamental reasons that there has been a significant and persistent difference between day ahead and balancing congestion. These reasons include the inadequate transmission outage modeling which ignores all but long term outages known in advance; the different approach to transmission line ratings in the day ahead and real time markets, including reactive interfaces; differences in day ahead and real time modeling including the treatment of loop flows, the treatment of outages, the modeling of PARs and the nodal location of load; the overallocation of ARRs; the appropriateness of seasonal ARR allocations; the role of subsidies between FTRs in areas with positive values and FTRs in

areas with negative values; and the role of up-to congestion transactions. The MMU recommends that these issues be reviewed and modifications implemented where possible. Funding issues that persist as a result of modeling differences should be borne by FTR holders operating in the voluntary FTR market.

F. The FTR Task Force Has Made Progress Identifying Causes of FTR Revenue Inadequacy and Proposing Real Solutions.

The FTR Task Force has identified three measures to alleviate underfunding focused on reducing the amount of FTRs oversold in the various auctions. The first proposal from the FTR Task Force is to allow the use of actual ratings on facilities that were over allocated in the Stage 1A ARR allocation. PJM is required to increase capability on facilities to allocate all Stage 1A ARRs, but the proposed idea would reduce those capability limits as much as possible in the subsequent FTR Auctions. PJM will use the lowest limit it can achieve in the simultaneous feasibility test, pro-rata based on Stage 1A infeasibility volume, while still maintaining ARR full funding, self scheduled FTR feasibility and positive net auction revenue. This proposal would limit the amount of FTR over selling on those facilities made infeasible in the Stage 1A ARR Allocation, reducing revenue inadequacy, but reducing auction revenues through limiting the FTR Auction.

A second proposal from the FTR Task Force is to allow member counter flow bids to reduce base case infeasibilities in the monthly auctions. Under this proposal, PJM would post a list of future transmission outages anticipated to cause monthly auction infeasibilities. On these facilities, PJM will accept member counter flow bids without accepting corresponding prevailing flow bids, until the facility is feasible, when it will start accepting prevailing flow bids that remain under the facility limit. Counter flow bids will only be accepted as long as net monthly auction revenues are positive, and ARR full funding is not impacted. This would make fewer prevailing flow FTRs available on a facility, thus reducing the over selling of FTRs on that facility, but reducing auction revenues through the purchase of counter flow FTRs. This proposal does not address the root issues as it simply requires that participants be paid out of available funds to take a

counter flow position. This does not solve the underlying problem nor does it increase available revenues.

A third proposal from the FTR Task Force is to reduce capability limits on historically underfunded facilities. Under this proposal, PJM will examine the previous planning period and identify revenue inadequate facilities. Once identified, a facility's capability may then be reduced by the average flow difference between the FTR model and real-time market, consistent with FTR model feasibility. Only facilities with revenue inadequacy of more than \$5 million would be included. This would lower the capability of facilities in auctions, reducing the over selling of FTRs on the facility and improve revenue adequacy.

A final proposal from the FTR Task Force is to reduce the capability in the Long Term FTR Auction by 50 percent. Providing fewer FTRs for purchase in a market modeled so far in advance would reduce the risk of over selling FTRs for the associated planning period. This would reduce auction revenue available, but provide a more feasible FTR model, given that PJM does not include outages at a level consistent with actual experience. In the Long Term FTR Auctions, all ARRs are modeled as self scheduled, so there is very little FTR volume for sale. As a result, the impact of this reduction will be minimal overall.

II. CONCLUSION

The Market Monitor respectfully requests that the Commission afford due consideration to these comments as the Commission resolves the issues raised in this proceeding.

Respectfully submitted,



Jeffrey W. Mayes

Joseph E. Bowring
Independent Market Monitor for PJM
President
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Valley Forge Corporate Center
Eagleville, Pennsylvania 19403
(610) 271-8051
joseph.bowring@monitoringanalytics.com

General Counsel
Monitoring Analytics, LLC
2621 Van Buren Avenue, Suite 160
Valley Forge Corporate Center
Eagleville, Pennsylvania 19403
(610) 271-8053
jeffrey.mayes@monitoringanalytics.com

Dated: March 18, 2013

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Eagleville, Pennsylvania,
this 18th day of March, 2013.



Jeffrey W. Mayes

General Counsel

Monitoring Analytics, LLC

2621 Van Buren Avenue, Suite 160

Valley Forge Corporate Center

Eagleville, Pennsylvania 19403

(610) 271-8053

jeffrey.mayes@monitoringanalytics.com