

IMM Package 12 and 12A

The IMM has provided two solution packages (package 12 and package 12A) 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. Both 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 one element: the proration of Stage 1A ARR allocations. Package 12 includes prorating Stage 1A ARR allocations and package 12A does not.

While pro-rating Stage 1A ARRs (found in package 12) would allow the transmission model used in the FTR market to more closely resemble the actual physical capabilities of the system, thereby reducing cross subsidies, improving transparency and improving funding levels in the FTR market, the remaining common elements in IMM packages 12 and 12A will address many the transparency, cross subsidy and revenue adequacy issues in the FTR market.

Both of the IMM's solution packages include elements to improve the accuracy of the FTR market model relative to the physical grid's capability: a seasonal FTR auction model, probabilistic transmission outage modeling, and adjustments to facilities that are persistently revenue inadequate. A seasonal FTR auction will allow a more accurate set of market period specific outages to be used for allocating ARRs and FTRs, thereby better aligning the market period's system capability with the expected physical capability of the system in that period. In addition, the IMM has proposed the use of probabilistic outage modeling as a replacement, or enhancement, to the current binary (in or out of service) modeling used in PJM's FTR model. A probabilistic outage model would be used to calculate the average capability, using declared and/or expected outages (based on historic outages and line reductions), of modeled transmission elements for use the auction model. The IMM package also includes a proposal to reduce ARR/FTR capacity on individual paths/facilities that are persistently revenue inadequate. While PJM has implemented, in part, line specific capability reductions, the process for using this approach needs to be more clearly defined and documented, with clear indications of the reductions taken in each auction and the basis for the reduction.

To make the FTR market more transparent, the IMM packages include several proposals to eliminate cross subsidies among FTR holders. The first of these is to eliminate portfolio netting of positive and negative FTR target allocations. There is currently a cross subsidy from positive target allocation holders to negative target allocation holders that is dependent on how a participant's FTR portfolio is structured. This proposal aims to eliminate this cross subsidy, and make target allocation payouts independent of portfolio structure. There is also a cross subsidy present from prevailing flow FTRs to counter flow FTRs when there is revenue inadequacy. Currently, counter flow FTRs, unlike prevailing flow FTRs, have no change (no net reduction) in their revenue stream when there is revenue inadequacy. The failure to uniformly apply the effect of revenue inadequacy among all FTRs results in a subsidy from prevailing flow FTR holders to counter flow FTR holders. Counter flow FTRs should share in revenue inadequacies when present, thereby eliminating the subsidy and improving the payout ratio to prevailing

flow FTRs. Also included, as solely a reporting issue, is reporting the monthly payout ratio so that any negative target allocations are included as revenue, which will slightly increase the reported payout ratio and is not currently done.