

Market Monitor Report

MC Webinar
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Monitoring Analytics

Estimated up to congestion Credit Risk: September 8, 2014 through December 31, 2015

Uplift (\$/MWh)	Credit Risk if uplift is applied to both sides of UTC
\$0.05	\$20,134,462
\$0.10	\$40,268,925
\$0.15	\$60,403,387
\$0.20	\$80,537,850
\$0.25	\$100,672,312
\$0.30	\$120,806,775
\$0.35	\$140,941,237
\$0.40	\$161,075,700
\$0.45	\$181,210,162
\$0.50	\$201,344,624
\$0.55	\$221,479,087
\$0.60	\$241,613,549
\$0.65	\$261,748,012
\$0.70	\$281,882,474
\$0.75	\$302,016,937
\$0.80	\$322,151,399
\$0.85	\$342,285,861
\$0.90	\$362,420,324
\$0.95	\$382,554,786
\$1.00	\$402,689,249

Estimated up to congestion Credit Risk: September 8, 2014 through December 31, 2015

Company	Percent of Total	Cumulative Percent
1	14.91%	14.91%
2	9.40%	24.31%
3	5.92%	30.23%
4	4.09%	34.32%
5	3.78%	38.11%
6	3.55%	41.65%
7	3.49%	45.15%
8	2.87%	48.02%
9	2.80%	50.82%
10	2.59%	53.40%
All Others	46.60%	100.00%

FTR Issue: Elimination of Portfolio Netting

- **Under current rules, portfolio structure influences revenue received when there is revenue inadequacy**
 - **Treats positive and negative target allocation FTRs differently**
 - **Shields participants from revenue inadequacy depending on portfolio structure**
- **Proposed rule to eliminate netting would treat FTRs equally regardless of portfolio and eliminate perverse incentive to hold negative target allocations within a portfolio**
 - **Properly treats negative target allocations as a source of revenue to pay positive target allocations**
 - **Does not increase revenue collected, but results in higher payout ratio for positive target allocations**
 - **Does not increase amount negative target allocations must pay**



FTR Issue: Portfolio Netting Results in Unequal Treatment of FTRs Example

- **Example contains three distinct scenarios**
 - **Each scenario provides different distributions of positive and negative FTRs**
- **Net target allocations = \$9,500 in each scenario with congestion collected = \$4,750**
- **Calculated positive TA Payout Ratio provides an after the fact metric of what percentage of positive target allocations an individual participant is actually receiving with and without portfolio netting**
 - **$(\text{Revenue Received} - \text{Negative Target Allocations}) / \text{Positive Target Allocations}$**



Portfolio Netting Results in Unequal Treatment of FTRs

Scenario	Participant	Positive Target Allocations	Negative Target Allocations	Net Target Allocations	Reported Payout Ratio	With Netting		Without Netting	
						Revenue Received	Calculated Positive TA Payout Ratio	Revenue Received	Calculated Positive TA Payout Ratio
1	1	\$9,500.00	\$0.00	\$9,500.00	50.0%	\$4,750.00	50.0%	\$4,750.00	50.0%
2	1	\$10,450.00	(\$950.00)	\$9,500.00	50.0%	\$4,750.00	54.5%	\$4,750.00	54.5%
3	1	\$1,000.00	(\$750.00)	\$250.00	50.0%	\$125.00	87.5%	(\$204.55)	54.5%
	2	\$750.00	(\$200.00)	\$550.00	50.0%	\$275.00	63.3%	\$209.09	54.5%
	3	\$8,700.00	\$0.00	\$8,700.00	50.0%	\$4,350.00	50.0%	\$4,745.45	54.5%

- Scenario 1 and 2 Calculated Positive TA Payout Ratio are equivalent with and without netting because there is one participant
- Scenario 3 illustrates that positive FTRs are treated differently dependent on portfolio construction with portfolio netting
 - This is effectively a subsidy to negative target allocation FTRs
 - Eliminating portfolio netting eliminates this subsidy and treats all FTRs equally

Impacts of FTR Portfolio Netting

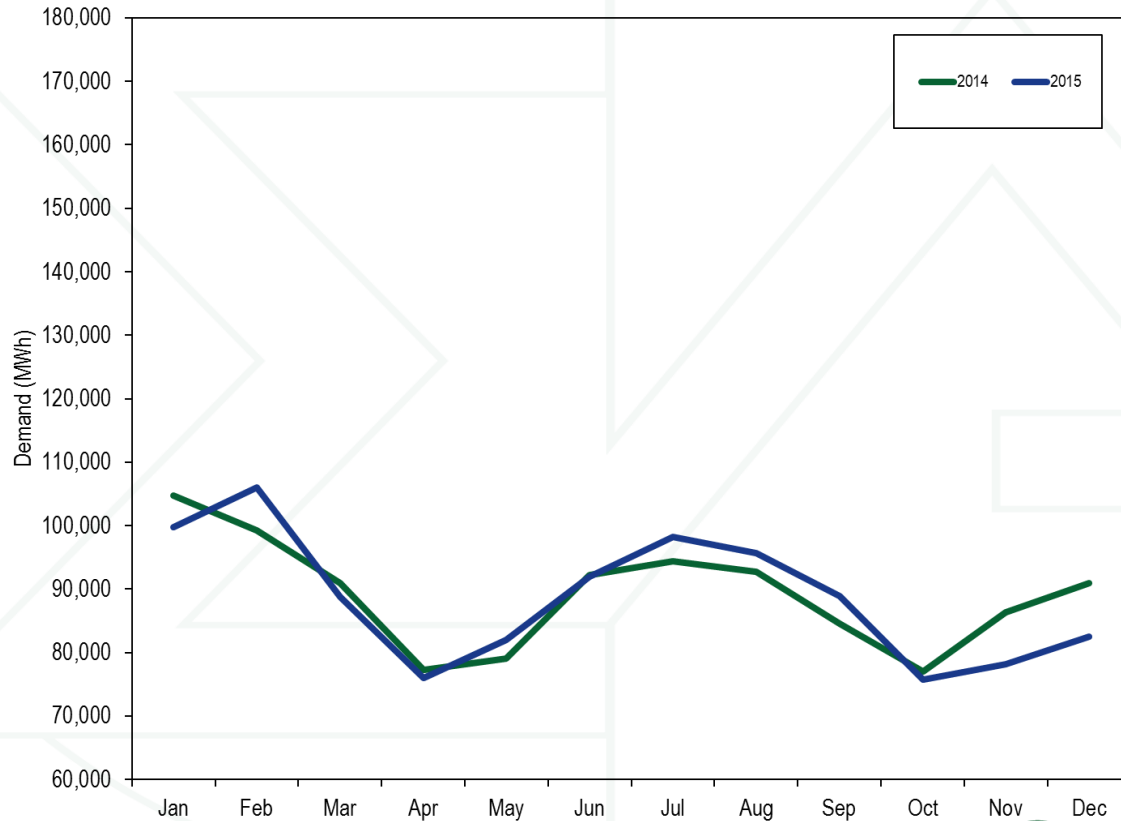
	Net Positive Target Allocations	Net Negative Target Allocations	Per FTR Positive Target Allocations	Per FTR Negative Target Allocations	Total Congestion Revenue	Reported Payout Ratio (Current)	No Netting Payout Ratio (Proposed)
Jun-13	\$ 86,723,727	\$ (4,836,912)	\$ 164,066,220	\$ (82,101,063)	\$64,060,468	79.5%	89.1%
Jul-13	\$ 134,302,957	\$ (6,017,378)	\$ 255,724,128	\$ (127,113,708)	\$113,548,567	89.3%	94.1%
Aug-13	\$ 51,545,380	\$ (5,741,003)	\$ 104,601,365	\$ (58,796,985)	\$43,059,687	94.7%	97.4%
Sep-13	\$ 126,168,822	\$ (10,172,695)	\$ 279,972,757	\$ (163,977,565)	\$66,719,631	61.0%	82.4%
Oct-13	\$ 69,748,034	\$ (5,779,197)	\$ 158,354,017	\$ (94,365,761)	\$47,353,545	76.2%	89.5%
Nov-13	\$ 71,460,441	\$ (4,566,566)	\$ 156,649,135	\$ (89,755,253)	\$44,748,426	69.1%	85.9%
Dec-13	\$ 123,125,598	\$ (7,182,127)	\$ 256,139,289	\$ (140,195,812)	\$84,974,997	74.9%	87.9%
Jan-14	\$ 1,081,718,330	\$ (37,626,711)	\$ 2,042,537,214	\$ (998,445,595)	\$815,789,461	78.9%	88.8%
Feb-14	\$ 257,630,277	\$ (14,286,013)	\$ 581,660,982	\$ (338,316,718)	\$167,731,282	70.7%	87.0%
Mar-14	\$ 381,568,930	\$ (14,281,323)	\$ 823,861,546	\$ (456,573,940)	\$245,465,062	68.2%	85.2%
Apr-14	\$ 115,047,446	\$ (2,753,503)	\$ 255,732,814	\$ (143,428,606)	\$60,894,528	55.4%	79.9%
May-14	\$ 126,329,939	\$ (13,141,697)	\$ 362,871,684	\$ (249,683,438)	\$65,163,098	62.0%	86.8%
2012/2013 Total	\$ 992,878,752	\$ (86,061,137)	\$ 1,897,830,880	\$ (990,471,801)	\$614,014,377	70.5%	84.5%
2013/2014 Total	\$ 2,625,369,880	\$ (126,385,125)	\$ 5,442,171,151	\$ (2,942,754,444)	\$1,819,508,754	74.1%	87.5%

Benefits of Eliminating FTR Portfolio Netting

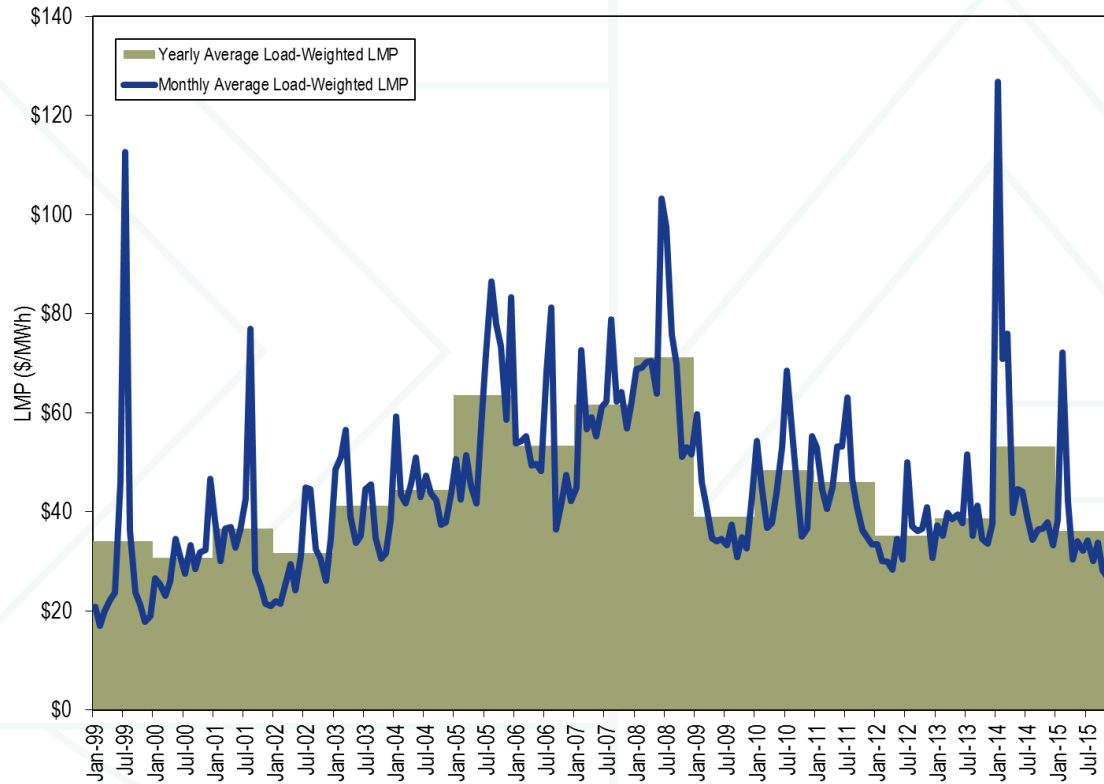
- **Only by eliminating portfolio netting are FTRs treated equally independent of portfolio construction**
- **Not properly considering negative target allocations a source of revenue allows participants to shield themselves from revenue inadequacy**
 - **Negative target allocations net out positive, reducing that participant's exposure to revenue inadequacy at the expense of other participants with fewer negative target allocations**
- **Eliminating portfolio netting would increase the payout ratio for positive target allocations**
- **No net increase in revenue collected**
 - **Congestion revenue and revenue collected from counter flow/negative target allocation prevailing flow FTRs unchanged**



PJM real-time monthly average hourly load: 2014 and 2015



PJM real-time, monthly and annual, load-weighted, average LMP: 1999 through 2015



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