

ARR/FTR Comments

AFMTF

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Purpose of ARR/FTR Is to Assign Congestion

- **“Finally, the Market Monitor and Joint State Commissions reiterate the proposal, as made in their earlier filings, that the Commission should support a market redesign to ensure loads receive all congestion revenues. We reject the arguments that the sole purpose of FTRs is to return congestion revenue to load, and the market should therefore be redesigned to accomplish that directive. FTRs were designed to serve as the financial equivalent of firm transmission service and play a key role in ensuring open access to firm transmission service by providing a congestion-hedging function.”**

Congestion Before and After LMP

- **Average cost under LMP is equivalent to vertically integrated average cost service only if load is assigned the congestion it pays under LMP.**

PJM paper pp. 1-2

Bill Does Not Include Actual Congestion

- **Bill includes CLMP charges and credits from self supply, not network cost to serve the load.**
- **Unless the contract exactly matches the network use there is a difference between congestion paid and the what the bill shows as net CLMP credits.**
- **Unless congestion rights match network use, load is not assigned the congestion it pays.**



Revenue Adequacy Is Not Evidence of Efficiency

- **FTR revenue adequacy is not evidence that there is hedging efficiency.**
- **There is no such thing as underfunding in aggregate**
 - **Cross subsidies can exist**
- **No evidence that revenue adequacy improved the value of the offset to ARR holders**

LTFR Product is Flawed

- **LTFR market selling rights that are not made available to ARR holders**
 - **Result of misalignment between historic paths and actual network use**
- **So called LTFR liquidity effect at the expense of load**
 - **Internal to FTR market; trading among FTR holders**
 - **Third party resellers profit from selling undervalued FTRs in annual/monthly auctions**

FTRs Do Not Affect Incentives to Follow Dispatch

- **LMP determines the incentives to follow dispatch**
- **Incentives would be the same without FTRs**
 - **FTR is lump sum payment, does not affect marginal incentives**
- **Incentives would be the same if load were assigned the rights to congestion**
- **Generation and load always better off following LMP signal**
 - **LMP defines incentive to generate or not to generate.**
 - **LMP defines incentive to consume or not to consume.**

Next Steps in FTR Design

- **Examine biddable points that are not consistent with physical delivery**
- **IARR reform**
- **LTFTTR reform**
- **Bilateral reform**

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