

Residual ARR Solutions

October 5, 2016



Residual ARR

Month	Feasibility	Expected Value
June	Y	+
July	Y	+
August	Y	+
September	Y	+
October	N	+
November	N	+
December	Y	+
January	Y	+
February	Y	+
March	Y	+
April	Y	+
May	Y	+
Planning Year	N	+

Table 1 - Annual Process

Not all ARR requests in the annual process can be granted to load due to limitations of transmission capability in the annual model.

Transmission outage assumptions can also prevent the allocation of requested paths in the annual process (Table 1).

If capability comes back during the planning year, Residual ARRs may be granted.

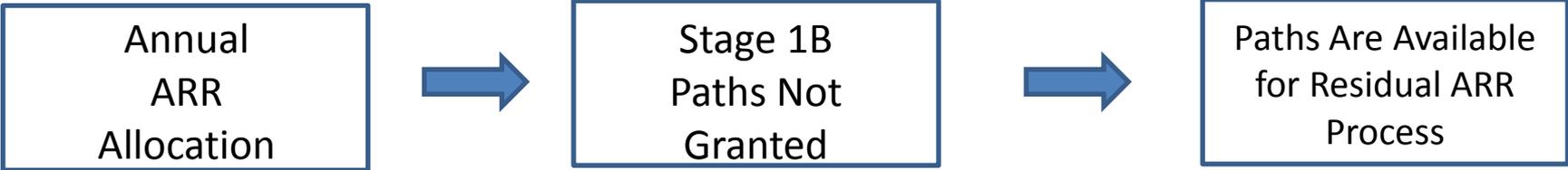
The economic value of these hedges may change due to updated assumptions in the Monthly FTR Auction model (Table 2).

Month	Feasibility	Expected Value
October	N	+
November	Y	-

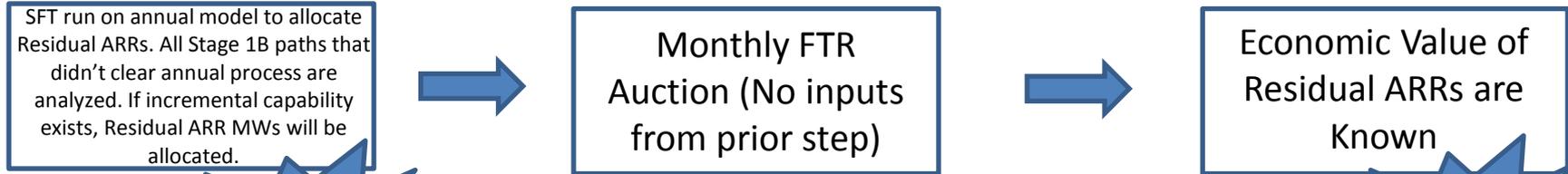
Table 2 - Monthly Process

Current Residual ARR Process

Annual Process



Monthly Process



Output:
Residual MW
Quantities

Output:
Residual MW
Prices

Package Solutions

Monthly Process – Exelon and Direct Energy

SFT run on annual model to allocate Residual ARR. All Stage 1B paths that didn't clear annual process are analyzed. If incremental capability exists, the paths will move onto economic screen.



Monthly FTR Auction (No inputs from prior step)



Economic Value of Residual ARRs are Known, if any negative paths, they will be removed and SFT will be re-run.



Monthly Process - PJM

SFT run on annual model to allocate Residual ARR. Market Participants will have the ability to opt out of the allocation on a path specific basis. If incremental capability exists, Residual ARR MWs will be allocated.



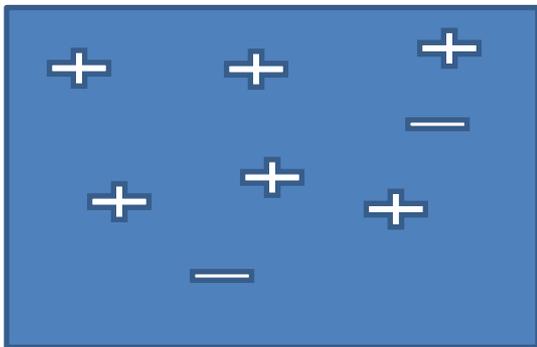
Monthly FTR Auction (No inputs from prior step)



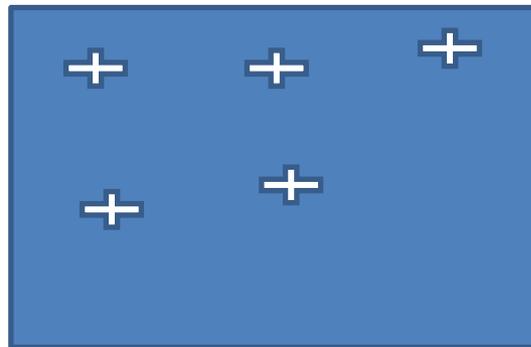
Economic Value of Residual ARRs are Known

Both packages will allow load serving entities to better manage the risk associated with Residual ARRs.

Market Impact – Residual ARR Availability



Current State



Future State

The proposed packages will **mitigate the risk of Residual ARRs** that are harmful to customers.

They will provide **improved certainty on finality of ARR revenues** which is a key interest for competitive suppliers.

These proposed market rule changes will have **no impact on the monthly FTR Auction outcomes** as the Residual ARRs are not an input into that process.