Day Ahead Surplus Congestion and FTR Auction Revenue Surplus Funds

Problem / Opportunity Statement

During a recent FERC proceeding wherein PJM and the Commission sought to address inequitable transfers of funds from ARR holders to FTR holders in the ARR/FTR process (FERC Docket Numbers EL16-6 and ER16-121[1] [2]), significant changes to the ARR/FTR construct (i.e. ARR Stage 1 source eligibility) and congestion cost responsibility (i.e. balancing congestion) were made. The premise behind these changes is that because firm ~~customers~~ transmission customers have paid, and continue to pay, to construct and maintain the transmission system that enables the transfer of generation to load, they should receive the first opportunity to obtain a hedge funded by congestion revenues that result from these transfers. In the recent FERC Order, FERC found that certain aspects of PJM's existing ARR/FTR market design had been rendered unjust and unreasonable in the context of this premise. Specifically, when the modeling assumptions used by PJM in the ARR/FTR process to ensure full funding of FTRs result in a reduced allocation of ARRs to firm transmission customers and an increase in FTR funding, FERC found that the net effect is an inequitable transfer from firm transmission customers/ARR holders to FTR holders. The sponsors of this problem statement believe that ~~, in order to be consistent with this logic,~~the current treatment under the PJM governing documents and manuals of ~~any~~ Day Ahead Surplus Congestion Funds and FTR Auction Revenue Surplus Funds ~~excess funds in the ARR/FTR process~~ that exist due to PJM modeling assumptions in the ARR/FTR process ~~should be returned to firm transmission customers~~is inconsistent with this precedent.

~~The sponsors of this problem statement believe additional governing document/manual changes are may be necessary to ensure firm transmission customers are fully compensated for these excess funds . Specifically, congestion revenues collected through the day ahead energy market in excess of those revenues needed to fund FTR target allocations ("Day Ahead Surplus Congestion Funds") and FTR auction revenues in excess of those needed to fund ARR Target Allocations ("FTR Auction Revenue Surplus") should be paid to firm transmission customers.~~

Day Ahead Surplus Congestion Funds

The FTR construct was developed as a means to provide an incremental value to firm transmission customers over and above simply refunding congestion revenues, by creating a hedging product that allows congestion

[1] P 53 1/31/2017 Order on Rehearing EL16-6 EL16-121 "...The Commission found that such a showing had been made in this proceeding, given PJM's measures to remedy persistent underfunding of FTRs (i.e., its more conservative modeling of transmission outages in the simultaneous feasibility review process), and the effects of these measures (i.e., the reduction in the allocation of Stage 1B ARRs and the resulting increase in FTR funding). The Commission found that, under these circumstances, the continued inclusion of balancing congestion in the definition of FTRs would result in either the chronic under-funding of FTRs, or the unrealized value of ARRs for certain load serving entities, to the detriment of both participants in PJM's real-time markets and, under certain circumstances, the holders of the underlying transmission rights."

[2] P 93 9/15/16 Order EL16-6 EL16-121 "By the time of the PJM filing in this case under section 206, circumstances had changed considerably. PJM's response to persistent underfunding of FTRs was to "more conservatively model" transmission outages in the simultaneous feasibility review process which – in effect – reduced the allocation of Stage 1B ARRs to reduce the over-allocation of ARRs thereby increasing funding of FTRs. The record demonstrates that the pervasive problem associated with including balancing congestion in the definition of FTRs is either chronic under-funding or the unrealized value of ARRs for certain LSEs. These problems affect not only participants in the real-time market, but also holders of the original transmission rights under certain circumstances."

costs on a given path to be fixed (or eliminated) by purchasing (or being directly allocated) the FTR product. "Fixing" of congestion costs is accomplished by paying the holder of an FTR a monthly payment equal to monthly congestion costs (on a $/MWh basis) on the applicable path, known as an FTR Target Allocation. Consistent with their funding of the transmission system, firm transmission customers are provided the first opportunity to obtain these hedges.

During the Annual and subsequent ARR/FTR processes, PJM grants FTRs based on its assessment of the transmission system's ability to accommodate congestion in an upcoming FTR planning year (or subset period). The FTRs granted respect transmission system limitations and outages as modeled by PJM, such that FTR Target Allocations can be paid with the congestion revenues collected through the day ahead energy market. To ensure sufficiency of these congestion revenues to meet FTR Target Allocations, PJM generally grants FTRs in an amount that will result in total FTR Target Allocations that are *less than* the total congestion revenues collected through the day ahead market. This ensures "full funding" of FTRs, something deemed desirable to those who buy and sell FTRs, but leaves some portion of day ahead congestion revenue – "Day Ahead Surplus Congestion Funds" – unsold through the ARR/FTR process. Stated another way, "Day Ahead Surplus Congestion Funds" represent day ahead market revenues in excess of those needed to fund all FTR Target Allocations, as sold through the ARR/FTR process. The FTR product, then, entitles the holder of that product to congestion revenues up to the FTR Target Allocation[3], but not the "Day Ahead Surplus Congestion Funds", as these funds were not sold through the ARR/FTR construct, and were unavailable to firm transmission customers as a hedging product.

Under the existing ARR/FTR tariff provisions FTR holders are currently paid "Day Ahead Surplus Congestion Funds". The problem statement sponsors believe this ~~is~~ may be inconsistent with the recent FERC ~~ruling~~precedent, as ~~detailed above~~these funds were unavailable to firm transmission customers through the ARR/FTR process due to PJM modeling assumptions. ~~and that "Day Ahead Surplus Congestion Funds" should be paid to firm transmission customers~~.

FTR Auction Revenue Surplus

Auction Revenue Rights (ARRs) provide an opportunity for firm transmission customers to exchange their entitlement to allocated FTRs for a single fixed payment that remains consistent across a planning year. ARRs are entitled to a share of funds collected through FTR auctions based on FTR auction clearing prices; these entitlements are reflected as an ARR Target Allocation. ARRs are granted by PJM and allocated to firm transmission customers ensuring that any such ARRs respect transmission system limitations and outages modeled by PJM, in much the same manner as the process used to create FTRs. As in the process for granting FTRs, PJM limits the number of ARRs it grants to ensure that sufficient FTR auction revenues will be collected to fund total ARR Target Allocations, and this limitation often results in an excess of total FTR auction funds being collected relative to the total ARR Target Allocations.

FTR auction revenues come from FTR holders' payments in exchange for an entitlement to congestion revenues collected through the day ahead market. The FTRs are paid these day ahead congestion revenues, regardless of whether the payments made to purchase FTRs is allocated to ARR holders, or not, due to PJM modeling

[3] OATT Attachment K Appendix Sec 5.2 – "The hourly economic value of a Financial Transmission Right Obligation is based on the Financial Transmission Right MW reservation and the difference between the Day-ahead Congestion Price at the point of delivery and the point of receipt of the Financial Transmission Right."

limitations on granting of ARRs. As such, day ahead congestion revenues are sold through the FTR transaction, and the associated payments from FTR holders are owed to firm transmission customers.

Under the existing ARR/FTR tariff provisions, however, FTR holders are currently paid FTR Auction Revenue Surplus Funds. The problem statement sponsors believe this may be inconsistent with the recent FERC precedent, as these funds were unavailable to firm transmission customers through the ARR/FTR process due to PJM modeling assumptions.~~The problem statement sponsors believe this is may be inconsistent with firm transmission customers' entitlement to revenues associated with FTR auction sales.~~

This problem statement seeks to initiate a discussion about the disposition of ~~to develop the PJM governing document and manual revisions necessary to return~~ "Day Ahead Surplus Congestion Funds" and FTR Auction Revenue Surplus Funds in the current ARR/FTR process, in light of the recent FERC ruling/precedent~~,~~; and, if deemed appropriate, to consider any PJM governing document and manual revisions necessary to ~~return such funds to firm transmission customers,~~ ensure consisten~~t~~cy with the FERC precedent. Any changes resulting from these discussions will be effective beginning with the 2018/2019 planning year.