Solution Package Feedback: *Proposed Modifications*

FTR Group

AFMTF

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Key Takeaways

- In response to stakeholder feedback, PJM is proposing four updates to its initial proposal in the following areas:
  - Self-scheduling flexibility
  - Surplus allocation methodology
  - Residual ARR allocation
  - Attachment EE – customer funded IARR process

- PJM currently supports initial proposal and modifications detailed herein

- PJM remains open to additional feedback and modifications
  - Most notably, a seasonal FTR approach (concerns detailed on slide 7)

Self-scheduling Flexibility

- LEI recommendation: "*Add flexibility to self-scheduling rules*"

- PJM original design option: replace self-schedule option with directly allocated FTR conversion option

- Major Concern: Directly allocated FTRs would shift with load, akin to ARRs, however unlike ARRs, the FTR value is not known until DA settlement

- PJM modification: Retain self-scheduling option but add ability to self-schedule by class type

Surplus Allocation Methodology

- LEI recommendation: "*Explore alternative allocation approaches for distributing surplus congestion*"

- PJM original design option: 100% surplus auction revenue and congestion revenue allocated to ARR holders, pro-rata at end of Planning Period

- Major concerns:
  - Impact on FTR revenue adequacy and value of ARRs in long run
  - PJM proposal is a bridge too far when combined with other design options

- PJM modification: 100% annual auction revenues returned to ARR holders pro-rata at end of Planning Period; LT/BOPP auction revenues serve as FTR target deficiency cushion first (assuming ARR targets are fully funded), return to ARR holders pro-rata at end of Planning Period if FTR target credits are fully funded

Residual ARR Allocation

- LEI recommendation: N/A
- PJM original design option: eliminate Residual ARR allocation and replace value with additional up-front MW guarantee and 100% surplus allocation
- Major concern: Residual allocation accurately captures path-specific value whereas surplus allocation is done pro-rata
- PJM modification: retain Residual ARR allocation

Attachment EE – Customer Funded IARRs

- LEI recommendation: N/A

- PJM original design option: eliminate customer funded IARR process due to admin burden and lack of value added over recent years

- Major concern: process has been successfully utilized in the past and can be streamlined to ensure value added

- PJM modification: retain customer funded IARR process but limit eligible path selections for study to valid Stage 1 ARR paths (Gen, zone, interface – Load aggregate)

- Two viable options:
  - Option 1: Create an additional quarterly FTR product for the annual/BOPP process and re-introduce the super overlapping period
  - Option 2: Eliminate annual product for FTRs and ARRs and replace with quarterly products

- Option 2 is preferred by PJM staff but not recommended at this time:
  - Concern 1: SFT to ensure revenue sufficiency must utilize similar models for ARR allocation and FTR auction
  - Concern 2: Performance with four overlapping periods will degrade and impact FTR auction schedule (members recently voted to eliminate this concept)
  - Concern 3: Potential “liquidity gaps” in YR2 and YR3 LT quarters

Potential Benefits / Costs of Seasonal Approach

Benefits:

- More accurate network capability modeled
- Increased hedging efficiency

Initial Thoughts

Costs:

- ARR value will vary by season
- No guarantee seasonal will equal increased ARR value
- Increased admin burden
- End of planning period events would occur at end of season?
- Load shifting details would need to be worked out
- LSE participant interest?

Contact

Facilitator:
David Anders,

David.Anders@pjm.com

Secretary:
Ankit Kharod

Ankit.Kharod@pjm.com

SME/Presenter:
FTR Group

FTRGroup@pjm.com

Member Hotline

(610) 666 – 8980

(866) 400 – 8980

custsvc@pjm.com