



Rolling FTR Auction Concept – Revisited

Presented by Vitol Inc.

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Overview



- *Vitol supports PJM's refocusing the efforts of the FRMSTF to address default risk items*
- *Vitol supports PJM's conceptual proposal from July 17, 2019, to increase the frequency of the LT FTR auctions, but with two caveats*
 - *Have 6 LT FTR auctions, not 5, per year (add an auction for Apr)*
 - *View this as an interim step to a better commercial design for the FTR market*
- *PJM's conceptual proposal from June 25, 2019, to develop a rolling monthly FTR auction seems to be a better design that improves default risk management AND commercial usage of FTRs*
- *Vitol is not making a formal proposal today, but we request stakeholders give more thought to the rolling monthly auction structure for future discussion*

A Basic Design Concept



<i>FTR Auction Frequency</i>	<i>Auctions occur monthly</i>
<i>FTR Auction Term</i>	<i>Auctions cover the same time horizon as today – four planning years</i>
<i>FTR Product Tenor</i>	<i>Each month is auctioned separately</i> <ul style="list-style-type: none"> <i>Alternative: LT FTRs auctioned as quarterly products</i>
<i>FTR Product Hours</i>	<i>Weekday peak hours (HE 8-23)</i> <i>Weekend/holiday peak hours (HE 8-23)</i> <i>Everyday off-peak hours (HE 1-7, HE 24)</i>
<i>FTR Auction Capacity</i>	<i>Upcoming PY</i> <ul style="list-style-type: none"> <i>Annual ARR capacity process</i> <i>Capacity sold over 2 auction cycles, a single multi-round auction cycle, or a combination of both</i> <i>BOPP</i> <ul style="list-style-type: none"> <i>Residual capacity prorated over remaining number of auctions</i> <i>LT</i> <ul style="list-style-type: none"> <i>Carve out ARR capacity; remaining prorated over all auctions leading into the applicable PY</i>
<i>ARR Process</i>	<i>Allocation/nomination/self-scheduling similar to today</i> <ul style="list-style-type: none"> <i>Prefer shorter time periods (months or quarters) for better precision</i>

Expected Benefits

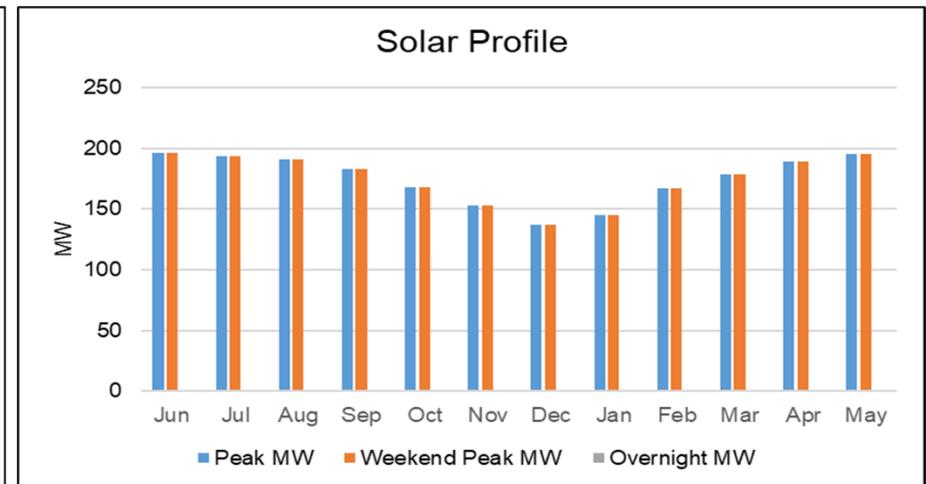
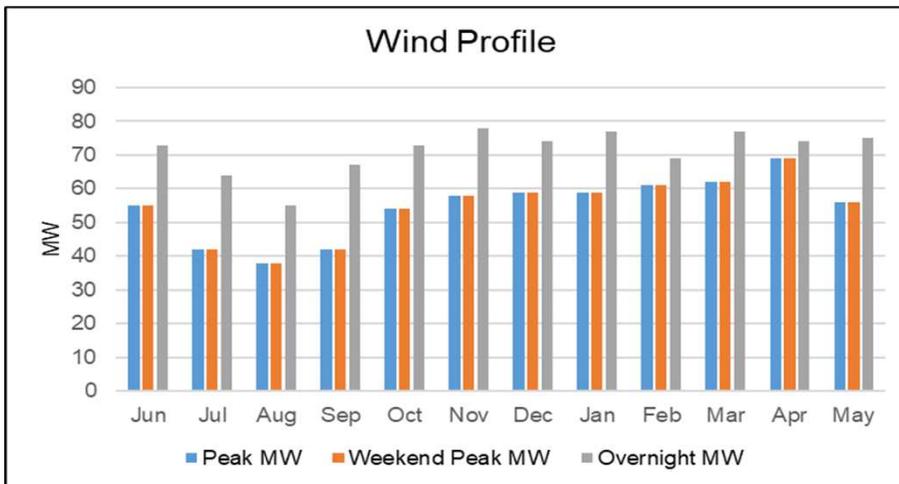


- *Improved default risk management*
 - *Shorter time-step for pricing FTRs leading to a timelier mark-to-auction measurement*
 - *Greater price transparency*
 - *Ease of liquidation with readily accessible auctions*
- *Improved commercial functionality*
 - *Greater precision in modeling transmission capacity and outages*
 - *Ease of transacting FTRs, particularly long-term FTRs, with more frequent auction access*
 - *Methodical and gradual FTR portfolio development*
 - *Tailored FTR portfolios (and capital allocation) to more precisely meet commercial needs*
- *Valuable for the transition to clean energy resources*
 - *Locational price/revenue certainty for development and financing needs*
 - *Locational hedging for existing resources*
 - *Granular forward price signals by location, month, and time of week/day*

Example of Varying Commercial Needs



- *Resources/customers have commercial needs which can vary by:*
 - *Time of day*
 - *Month*
 - *Planned outage schedules*
 - *Financing requirements*
 - *Layered hedge plans*
- *Consider renewable resources:*



- *These types of variation drive the need for an improved, flexible FTR product to meet forward locational hedging/financing needs*