



Long Term FTR Auctions

Problem/Opportunity Statement

PJM conducts a Long Term FTR Auction for the next three consecutive planning periods. The Long Term FTR Auction includes three rounds taking place in June, September and December. FTRs purchased in prior rounds may be offered for sale in subsequent rounds. FTRs obtained in the Long Term Auctions may have terms of any one year or a single term of all three years. FTR products available in the Long Term Auction include 24-hour, on peak and off peak FTR obligations. FTR option products are not available in Long Term FTR Auctions. The capacity offered for sale in Long Term FTR Auctions is the residual system capability assuming that all ARRs allocated in the prior annual ARR allocation process are self scheduled as FTRs. These ARRs are modeled as fixed injections and withdrawals in the Long Term FTR Auction. Future transmission upgrades are not included in the model.

The available FTRs for the second, third and three year long term products are based on forecasts of the transmission system including outages. Such forecasts are subject to significant uncertainty.

Clearing prices in the Long Term FTR Auction are significantly lower than prices in the Annual FTR Auction, providing an opportunity for participants to profit based on price differences between the Long Term and Annual FTR Auctions that result from modeling differences. Participation in the more speculative FTR products available is highly concentrated among a small number of financial participants, demonstrating a lack of interest in the product.

The Market Monitor recommends that the Long Term FTR Auction be reviewed to determine whether the Long Term FTR Auction is meeting its intended purpose in an efficient and transparent manner and whether the Long Term FTR Auction should be modified to better meet its intended purpose, to improve efficiency and/or to improve transparency.

Description

In July 2006, FERC issued a Final Rule mandating the creation of long term firm transmission rights in transmission organizations with organized electricity markets (FERC Docket No. RM06-8-000; Order No. 681).¹ FERC's intention was that "load serving entities be able to request and obtain transmission rights up to a reasonable amount on a long-term firm basis,

¹ 116 FERC ¶ 61,077 (2006).

instead of being limited to obtaining exclusively annual rights.” Despite that order, in PJM’s Long Term FTR Auction market design, LSEs are not able to request ARRs nor are LSEs guaranteed rights to the revenue from Long Term FTR Auctions.

The three year product was developed to “align with retail access auctions,” but 97.5 percent of the three year FTRs awarded in the last five FTR Long Term FTR auctions were acquired by a small number of financial participants. Table 1 shows the HHI for three year FTRs sold in the last five long term FTR auctions, broken out by On Peak or Off Peak and prevailing or counter flow. (An HHI of 10000 means that only one market participant purchased the product.) On average over the last four Long Term FTR Auctions, financial participants purchased 78.8 percent of the cleared single year long term products.

Table 1 HHIs for Three-year FTRs

Class Type	Direction	2014/2017	2015/2018	2016/2019	2017/2020
On Peak	Prevailing	9489	9778	4646	8863
	Counter	10000	10000	4524	6760
Off Peak	Prevailing	9708	9816	5749	9324
	Counter	10000	10000	5671	9522

Long Term FTR Auction prices do not match the prices from the Annual FTR Auction in which they are effective. For the last four Long Term FTR Planning periods, participants purchased long term FTRs at a discount from annual auction prices of \$334.7 million in auction revenue.

The Long Term FTR Auction is not meeting the established goals of increased liquidity, price discovery or accurate long term congestion offsets.² The concentration of ownership of the Long Term FTRs is very high, the concentration of ownership of the three year FTRs is higher, and the prices produced from the Long Term FTR Auction do not accurately reflect the prices in the contemporaneous annual FTR auctions.

The Long Term FTR Auction process is not transparent. There is no clear statement of how the base model used for each round of the Long Term FTR Auction is constructed, and there is no transparent process document of the outage and transmission system upgrade selection processes and how inclusion decisions are made.

² 124 FERC ¶61,087, at P. 14. (2008).