

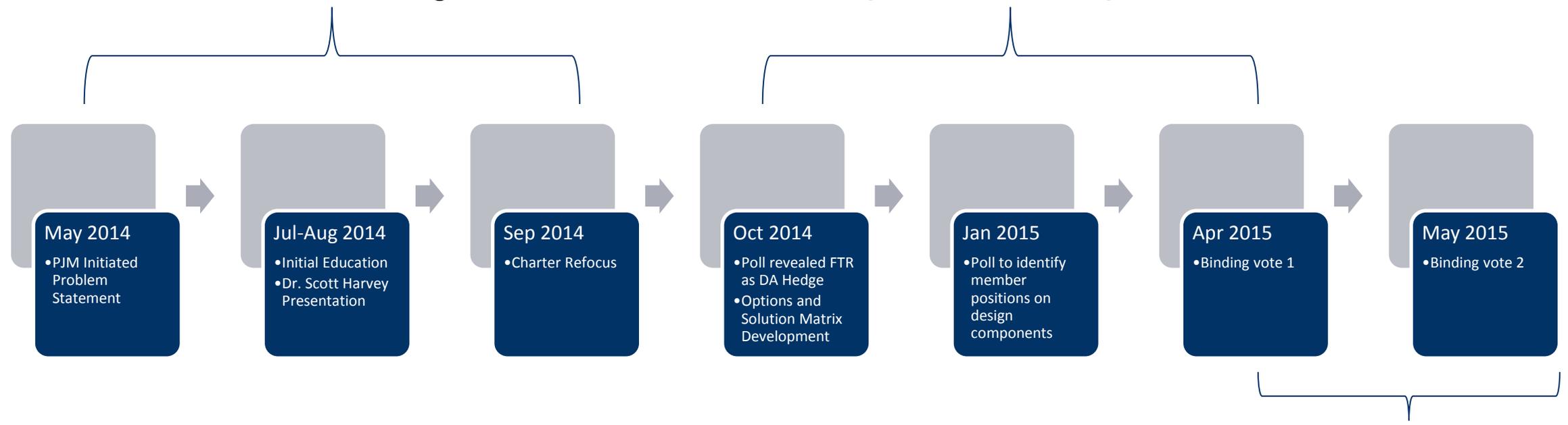
FTR / ARR Senior Task Force Update

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Markets and Reliability Committee
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- PJM initiated problem statement in the wake of unacceptably low FTR funding levels – MRC approve May 2014
- Charter adjusted in September 2014 to add determination of stakeholder expectations of ARRs and FTRs
- Non-binding poll revealed majority of members expect products to be a hedge against congestion costs in the Day-Ahead market
- Used Consensus Based Issue Resolution process to develop proposed solutions
- Polling reduced the number of packages for voting, but also split off certain design components for separate consideration

Problem Investigation

Proposal Development



Decision-making

- Voting on set of proposals addressing the first set of design components failed to produce a simple majority for one package
 - Solution Package 22 received 49.7% in favor
 - >60% prefers making a change over status quo
- Voting on set of proposals addressing the second set of design components also failed to produce a simple majority for one package
 - Solution Package 12B received 25.5% in favor
 - >75% prefers making a change over status quo

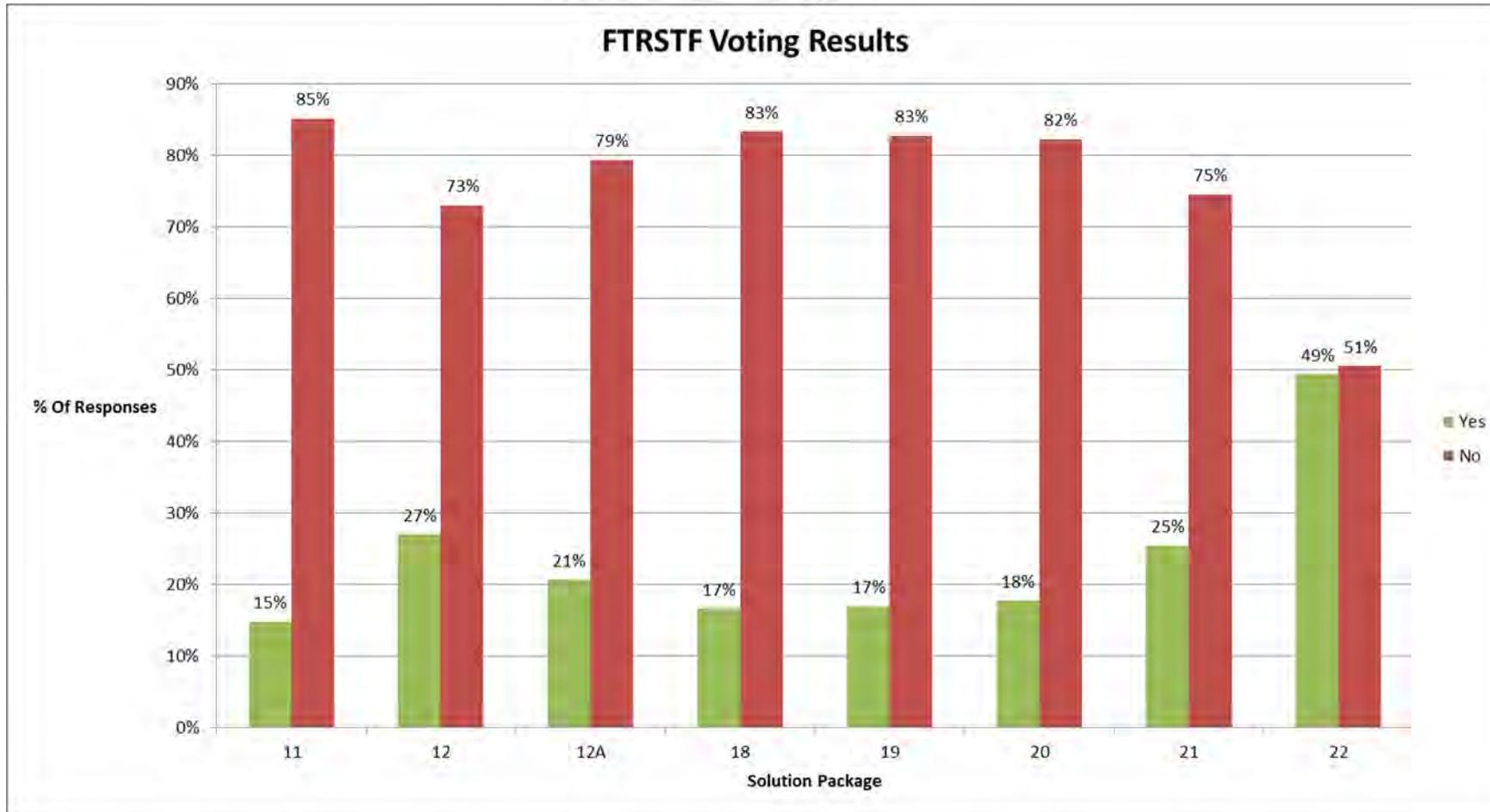
Appendix

	Package		
Design Components	11 - FirstEnergy	12 - IMM	12A - IMM
Allocation of Balancing Congestion surplus/deficiency	Real-Time Load + Exports + Decs + UTCs (withdraw portion only)	Status Quo	Status Quo
Allocation of M2M Payments surplus/deficiency	Real-Time Load + Exports + Decs + UTCs (withdraw portion only)	Status Quo	Status Quo
Allocation of FTR surplus/deficiency	Excess Day-ahead congestion after funding FTRs to be allocated to balancing congestion. DA deficiency to remain w/ FTR holders.	Status Quo	Status Quo
Residual ARR Conversion to FTRs	Provide a monthly conversion process that allows for residual ARRs allocated monthly to be converted to FTRs at the ARR grantees discretion	Status Quo	Status Quo
Transmission outage modeling in the FTR auction models*	Status Quo	Use probabilistic outage modeling to enhance/replace current binary outage modeling. Continue to use relaxed outages (lines coming back into service) to sell excess monthly capacity in monthly FTR auctions	Use probabilistic outage modeling to enhance/replace current binary outage modeling. Continue to use relaxed outages (lines coming back into service) to sell excess monthly capacity in monthly FTR auctions
Adjustment of FTR paths/payout with persistent underfunding*	Status Quo	Clearly define rules to reduce ARR/FTR availability on persistently underfunded paths	Clearly define rules to reduce ARR/FTR availability on persistently underfunded paths
External World Flow Contribution	Historical tie flows with known future changes	Status Quo	Status Quo
Proration of Stage 1A facilities*	Status Quo	Allow for proration to physical limits on all infeasible facilities	Status Quo
Transition Mechanism Element(s)	Consider counter flows, changes to allocations, & netting during the transition process (effective no earlier than June 1, 2016); Consider longer transition period as necessary taking into account longer term bilateral and retail transactions.	Status Quo	Status Quo
Stage 1A 10 Year process	Escalation of current ARR results using zonal load forecast growth rate +3%; Goal: allow for expedited RTP upgrades to render greater majority (goal 100%) of ARRs feasible by delivery date.	Status Quo	Status Quo
Report of monthly payout ratios*	Status Quo	Status Quo and Option A	Status Quo and Option A
Treatment in settlements of Portfolio netting of FTRs*	Do not allow positive FTRs to offset negative FTRs within a portfolio. Treat each FTR individually. (earliest implementation June 1, 2016)	Do not allow positive FTRs to offset negative FTRs within a portfolio. Treat each FTR individually	Do not allow positive FTRs to offset negative FTRs within a portfolio. Treat each FTR individually
Treatment in settlements of counter flow FTRs *	All settlements of FTR's have the same treatment for accounting settlement purposes. Underfunding and surplus revenues are shared equally in the systemic funding process. (earliest implementation June 1, 2016)	Payout ratio for counter flow FTRs is symmetric to the payout ratio experienced by prevailing flow FTRs	Payout ratio for counter flow FTRs is symmetric to the payout ratio experienced by prevailing flow FTRs
Annual ARR and FTR Available Periods/More granular Market Periods*	Seasonal allocation using annual NSPL	Seasonal/quarterly ARR/FTR Allocation/Auction (requires less ARR/Auction Rounds)	Seasonal/quarterly ARR/FTR Allocation/Auction (requires less ARR/Auction Rounds)



Round 1 Packages - PJM

Design Components	Package				
	18	19	20	21	22
Allocation of Balancing Congestion surplus/deficiency	Only Balancing Congestion(including M2M Payments) associated with Emergency Outages (Transmission and Generation) may be allocated to Load + Exports + DECS + UTCs (withdraw portion) IF the value of the allocated ARR capability is greater than the FTR funding dollars. Capped at the Balancing Congestion dollars associated with emergency outages.	Only Balancing Congestion(including M2M Payments) associated with Emergency Outages (Transmission and Generation) may be allocated to Load + Exports + DECS + UTCs (withdraw portion) IF the value of the allocated ARR capability is greater than the FTR funding dollars. Capped at the Balancing Congestion dollars associated with emergency outages.	Only Balancing Congestion(including M2M Payments) associated with Emergency Outages (Transmission and Generation) may be allocated to Load + Exports + DECS + UTCs (withdraw portion) IF the value of the allocated ARR capability is greater than the FTR funding dollars. Capped at the Balancing Congestion dollars associated with emergency outages.	Only Balancing Congestion(including M2M Payments) associated with Emergency Outages (Transmission and Generation) may be allocated to Load + Exports + DECS + UTCs (withdraw portion) IF the value of the allocated ARR capability is greater than the FTR funding dollars. Capped at the Balancing Congestion dollars associated with emergency outages.	Status Quo
Allocation of M2M Payments surplus/deficiency	Only Balancing Congestion(including M2M Payments) associated with Emergency Outages (Transmission and Generation) may be allocated to Load + Exports + DECS + UTCs (withdraw portion) IF the value of the allocated ARR capability is greater than the FTR funding dollars. Capped at the Balancing Congestion dollars associated with emergency outages.	Only Balancing Congestion(including M2M Payments) associated with Emergency Outages (Transmission and Generation) may be allocated to Load + Exports + DECS + UTCs (withdraw portion) IF the value of the allocated ARR capability is greater than the FTR funding dollars. Capped at the Balancing Congestion dollars associated with emergency outages.	Only Balancing Congestion(including M2M Payments) associated with Emergency Outages (Transmission and Generation) may be allocated to Load + Exports + DECS + UTCs (withdraw portion) IF the value of the allocated ARR capability is greater than the FTR funding dollars. Capped at the Balancing Congestion dollars associated with emergency outages.	Only Balancing Congestion(including M2M Payments) associated with Emergency Outages (Transmission and Generation) may be allocated to Load + Exports + DECS + UTCs (withdraw portion) IF the value of the allocated ARR capability is greater than the FTR funding dollars. Capped at the Balancing Congestion dollars associated with emergency outages.	Status Quo
Allocation of FTR surplus/deficiency	Positive FTR Surplus allocated to Load + Exports + DECS + UTCs (withdraw portion). All deficiencies allocated to FTR Holders pro-rata based on FTR Target Allocations.	Status Quo	Positive FTR Surplus allocated to Load + Exports + DECS + UTCs (withdraw portion). All deficiencies allocated to FTR Holders pro-rata based on FTR Target Allocations.	Status Quo	Status Quo
Stage 1A 10 Year process	Escalation of current ARR results using zonal load forecast growth rate +1.5%	Escalation of current ARR results using zonal load forecast growth rate +1.5%	Escalation of current ARR results using zonal load forecast growth rate +1.5%	Escalation of current ARR results using zonal load forecast growth rate +1.5%	Escalation of current ARR results using zonal load forecast growth rate +1.5%
Report of monthly payout ratios*	Use Negative Target Allocations as increase in congestion revenue in reporting of monthly payout ratios	Use Negative Target Allocations as increase in congestion revenue in reporting of monthly payout ratios	Use Negative Target Allocations as increase in congestion revenue in reporting of monthly payout ratios	Use Negative Target Allocations as increase in congestion revenue in reporting of monthly payout ratios	Use Negative Target Allocations as increase in congestion revenue in reporting of monthly payout ratios
Treatment in settlements of Portfolio netting of FTRs*	Do not allow positive FTRs to offset negative FTRs within a portfolio. Treat each FTR individually.	Do not allow positive FTRs to offset negative FTRs within a portfolio. Treat each FTR individually.	Status Quo	Status Quo	Do not allow positive FTRs to offset negative FTRs within a portfolio. Treat each FTR individually.





Round 2 Packages

Design Components	Package			
	12B - IMM	23 - PJM	24 - PJM	25 - PJM
Transmission outage modeling in the FTR auction models*	Use probabilistic outage modeling to enhance/replace current binary outage modeling. Continue to use relaxed outages (lines coming back into service) to sell excess monthly capacity in monthly FTR auctions	Status Quo	Status Quo	Status Quo
Adjustment of FTR paths/payout with persistent underfunding*	Clearly define rules to reduce ARR/FTR availability on persistently underfunded paths	Status Quo	Status Quo	Status Quo
Historical Resources	Status Quo	Retirements replaced with a capacity offered resource with the closest electrical proximity that is not already a historical resource and has been in service for a minimum of five years. If no resource has been in service for a minimum of five years than the next oldest resource as determined by in service date and electrical proximity will be utilized as the replacement.	Status Quo	Retirements replaced with a capacity offered resource with the closest electrical proximity that is not already a historical resource and has been in service for a minimum of five years. If no resource has been in service for a minimum of five years than the next oldest resource as determined by in service date and electrical proximity will be utilized as the replacement.
		Replacement resource MWs will be equivalent to the MWs of retired unit. If retired unit historical ARR MWs < replacement resource MWs then replacement resource MWs will be set equal to retirement resource MWs. If historical resource MWs > replacement resource MWs then additional replacement resources will be added up to the capacity of the retirement resource MWs.		Replacement resource MWs will be equivalent to the MWs of retired unit. If retired unit historical ARR MWs < replacement resource MWs then replacement resource MWs will be set equal to retirement resource MWs. If historical resource MWs > replacement resource MWs then additional replacement resources will be added up to the capacity of the retirement resource MWs.
		If the replacement resource creates additional incremental Stage 1A infeasible MWs, as determined using the 10 year Stage 1A analysis, then the next capacity offered resource with the closest electrical proximity that does not cause any additional incremental 10 year Stage 1A infeasible MWs will be used as the replacement		If the replacement resource creates additional incremental Stage 1A infeasible MWs, as determined using the 10 year Stage 1A analysis, then the next capacity offered resource with the closest electrical proximity that does not cause any additional incremental 10 year Stage 1A infeasible MWs will be used as the replacement
Stage 1A 10 Year process	Status Quo	Escalation of current ARR results using zonal load forecast growth rate +1.5%	Escalation of current ARR results using zonal load forecast growth rate +1.5%	Escalation of current ARR results using zonal load forecast growth rate +1.5%
Report of monthly payout ratios*	Status Quo and Option A	Use Negative Target Allocations as increase in congestion revenue in reporting of monthly payout ratios	Use Negative Target Allocations as increase in congestion revenue in reporting of monthly payout ratios	Use Negative Target Allocations as increase in congestion revenue in reporting of monthly payout ratios
Treatment in settlements of Portfolio netting of FTRs*	Do not allow positive FTRs to offset negative FTRs within a portfolio. Treat each FTR individually	Status Quo	Status Quo	Do not allow positive FTRs to offset negative FTRs within a portfolio. Treat each FTR individually.
Treatment in settlements of counter flow FTRs *	Payout ratio for counter flow FTRs is symmetric to the payout ratio experienced by prevailing flow FTRs	Status Quo	Status Quo	Status Quo

Voting Percentages

