

DC Energy Comments on Independent Reviews of PJM's ARR/FTR Market

February 2021



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In 2020 two independent assessments of PJM's FTR Market concluded they are well functioning markets providing benefits to consumers

- **PJM and London Economics, Inc (LEI) both produced independent reports supporting the current construct of the PJM FTR/ARR market design**
- **LEI Cost Benefit Analysis**
 - LEI concluded the benefits include reduction in long run marginal costs, lower transaction cost for hedging as well as reduction in the cost of capital to retailers
 - DC Energy supports LEI's conclusion that the benefits to consumers outweigh the costs by a wide margin (i.e., \$300 million to almost \$1 billion **per year**)
 - This margin actually is even wider as LEI did not include the cost of capital reduction benefit in its analysis
- **PJM's assessment is consistent with LEI's**
 - DC Energy supports PJM's conclusions
 - "The paper presents analysis and explanation demonstrating that the current FTR product is fulfilling its intended purpose, and that the long-term FTR product and participation by financial traders add value to the market." Pg 1



DC Energy agrees PJM's FTR market structure provides benefits to consumers

- **LEI's Auction Structure Conclusions**

- “Based on our qualitative and quantitative analyses, LEI finds that the path-based, dual property rights system should be retained because it creates value to load and supports various commercial arrangements, as discussed in great detail in Section 6. LEI finds the current FTR auction design reasonable and generally achieving the intended purposes, and therefore, only minimal changes to that mechanism are necessary at this time. LEI's recommendations for enhancement are primarily focused on the ARR construct.” Pg 106
- “The forward market continues to be a critical element of the overall wholesale energy market design to support the investment signal and re-allocate (hedge) the market price risks associated with a volatile spot market price.” Pg 3
- “Overall, FTR auctions are generally efficient and should be retained with minimal changes.” Pg 51

- **PJM also concludes the FTR auction structure works as intended**

- “The existing construct has been successful in promoting load serving entity (LSE) and firm point-to-point customer participation, alongside financial participants, to efficiently value the transmission system and secure hedging mechanisms against congestion costs for up to three years in the future, while also providing a guarantee of a minimum hedge to firm transmission customers for ten years into the future.” Pg 1



Transparency is a basic tenet of well functioning markets

- **DC Energy supports LEI’s conclusions on advancing transparency in the ARR/FTR market construct**
 - “Finally, in terms of transparency and simplicity, several changes should be explored in order to enhance stakeholder satisfaction with the ARR/FTR outcomes and expand stakeholder understanding of the network model.” Pg 24
 - “LEI suggests that PJM seek ways to provide more detailed documentation of changes made between releases of the network model. Based on what is done in other markets, stakeholders may find value from a network model manual that PJM would publish. Such a manual could contain descriptions of key procedures, definitions, and address software (compatibility) questions.” Pg 24



DC Energy also supports the LEI report's other conclusions

- **Forfeiture Rule**

- DC Energy supports LEI's conclusions on the FTR forfeiture rule
- "PJM should also revisit the FTR forfeiture rule based on the experiences of other ISOs/RTOs." Pg 22
- "LEI also observed that PJM was unique in application of its current FTR forfeiture rule." Pg 25

- **Technology**

- DC Energy supports the discussion in the report that technology upgrade should be a focus, as LSEs and others suggested.
- "Secondly, several LSEs felt that the technology for uploading FTR bids to PJM's system is antiquated and inflexible." Pg 145
- "...and update PJM's software technology to improve performance." Pg 156



NEXT STEPS

Stakeholder Process

- **DC Energy looks forward to bringing forward incremental improvements to the FTR auction structure and engaging stakeholders on other design element recommendations (e.g., ARR allocation and design) included in the report that are important to them**
- **LEI thoroughly explained the two fundamental purposes of the FTR/ARR market construct (i.e., Facilitate the return of overpayment in locational marginal prices (“LMP”) (known as congestion charges) back to load; and Enable hedging of the marginal cost of congestion in LMPs between different nodes and support forward market activity through the offering of FTRs).**
- **We believe most stakeholders understand and appreciate the inter-related nature of these two purposes. The next steps should be solely focused on improvements that support the inter-related nature of these principles.**



NEXT STEPS

PJM/IMM

- **DC Energy recommends PJM and the IMM allow stakeholders, in the next phase of this task force, to make recommendations and observe how these recommendations are received in the stakeholder process before PJM or the IMM put anything forward or make their own recommendations.**
- **Stakeholders understand PJM's positions on the FTR/ARR market construct as it was detailed in depth in the Financial Transmission Rights Market Review April 2020 report.**
- **Stakeholders also understand the IMM's positions on the FTR/ARR market construct from the IMM's presentations and materials provided to this Task Force**