FTR Polling Results

FTRSTF
October 2, 2014
Poll Guidelines

• Purpose of poll is to assist in determining stakeholder expectations of the FTR product

• PJM CBIR - Polling is not “Voting”

• Responders requested to indicate support of:
  – FTRs as a hedge against Day-Ahead Congestion
  – FTRs as a tool to allocate Total Congestion (Day-Ahead + Balancing + M2M)
  – Whether to remove Balancing Congestion from the FTR Funding Bucket
  – Consider all or part of the IMM 8 recommendations for improved revenue adequacy

• 127 responses received
Question #1: The current formula for funding FTRs includes day-ahead, balancing congestion and M2M payments. As a concept, do you believe that FTRs should be defined as a hedge against day-ahead congestion or as a method for allocating total congestion (day-ahead + balancing congestion + M2M payments), or other?

Question #2: Do you believe the FTRSTF should pursue eliminating balancing congestion and M2M payments from the FTR funding calculation?

Question #3: Do you believe the FTRSTF should pursue all or part of the IMM 8-part method?

Question #4: Do you believe the FTRSTF should pursue eliminating balancing congestion and M2M payments and consider all or part of the IMM 8-part method?
The current formula for funding FTRs includes day-ahead, balancing congestion and M2M payments. As a concept, do you believe that FTRs should be defined as a hedge against day-ahead congestion or as a method for allocating total congestion (day-ahead + b)?
Do you believe the FTRSTF should pursue all or part of the IMM 8-part method?

- Yes: 84.00%
- No: 16.00%

Do you believe the FTRSTF should pursue eliminating balancing congestion and M2M payments and consider all or part of the IMM 8-part method?

- Yes: 57.60%
- No: 42.40%
• **Question #5:** If balancing congestion and M2M payments are removed from the FTR funding calculation, who do you believe should pay for balancing congestion and M2M payments (or receives surplus)?
• All market participants that contribute to system imbalances - load, generators, imports, certain financial products

• ARR’s are a property right. This is not debatable or refutable. PJM broadly and this TF specifically need to recognize this and move on from any attempt to alter this fact. The IMM includes some good recommendations and so this TF after a close examination of each item should pursue some subset of the IMM’s 8-part method. To the extent acceptable revenue levels cannot be obtained after the implementation of some subset of the IMM’s recommendations, current trends with the falloff in UTCs, and any changes resulting from the comprehensive review in survey question 3, the TF should then, and only then, consider changes in balancing congestion and M2M payments.
ARR’s are a property right--this is not debatable or refutable. Both PJM broadly and the FTRSTF specifically need to recognize ARRs as property rights and move on from any attempt to alter this fact. The IMM has offered recommendations to better fund total congestion without diluting or eliminating the property rights of ARRs. The FTRSTF, after a close examination of each of the IMM's proposals, should pursue some subset of the IMM’s 8-part method. To the extent that adequate revenue levels cannot be obtained after 1) the implementation of some subset of the IMM’s recommendations, 2) investigating and addressing how more payouts for UTCs trend with inadequate funding, and 3) any changes resulting from the comprehensive review of this survey question by other participants [for reference, I am currently answering question #3 in the survey], THEN, AND ONLY THEN, may changes in balancing congestion and M2M payments be considered.
• As much as possible, the principle of cost-causation should apply. If no direct causes are identifiable, then an overall allocation should be used.
• Balancing congestion and M2M payments (or surplus) should be allocated based upon cost causation principles.
• Balancing congestion and M2M payments should be allocated based on cost causation. If balancing congestion is a result of Real Time flows. Real time load or generation should pay.
• Balancing congestion and M2M payments should be allocated under the principle of cost causation (x3)
• Balancing congestion and M2M payments should not be removed from the FTR funding calculation. FTR holders do not have rights to financially firm (physical) transmission service, ARR holders do. Thus, FTR holders should be held to payments equivalent to no more than that which they would be entitled to as congestion rents with respect to actual physical transactions. Moreover, there is no basis for separating congestion by the day-ahead and real-time markets. Congestion occurs in the transmission system which operates only once on an experienced basis. Also, load pays both day-ahead and balancing congestion (i.e. the total of experienced congestion on the transmission system). Flaws in the FTR market and in modeling related to that market should be borne by the voluntary participants of that market.
• Balancing congestion is an uplift and therefore should be spread as wide as possible (i.e., all energy market transactions — total load and generation as well as virtual and UTC transactions).

• Do not support balancing congestion and M2M to be removed

• FTR holders

• Goal should be to improve FTR revenue adequacy through modeling improvements and elimination of allocation of infeasible rights. Simply shifting existing costs (e.g. balancing congestion) to other market participants is not a solution.

• If balancing congestion and M2M payments are taken out of the calculation it should be metered load that pays for it.
• Load (x5)
• Load Serving Entities
• Load, just as with Marginal Line Loss over collection.
• Load. Because Load never paid the real-time congestions.
• Loads should pay and be credited for any cost/revenues. Better modeling between DA & RT should alleviate many of the balancing congestion costs. Any shift in costs needs to have a transition mechanism to allow impacted parties the ability to account for those costs.
• participants in PJM's day-ahead and real-time markets
Question #5 Reponses Cont.

• RT load
• RT Load and deviations
• Somewhat similar construct to CAISO -- in event payment is required any overfunding should be used as offset and the rest charged to demand. In event of surplus, demand should benefit.
• There is no reason to assign this cost to load.
• They shouldn't be removed.
• This should be allocated to physical load.
• Those that deviate from their schedule and cause balancing congestion charges should pay for them.
• We do not agree that this is a question for consideration at this time. The threshold question is how FTRs are to be viewed, and as we believe they are a method for allocating total congestion, removing a piece of that total would not be appropriate. Removing balancing congestion for the same of fully funding FTRs and then assigning it to other parties has no basis in market principles that we can see.

• To be clear, under no circumstances should balancing congestion be removed from the FTR funding equation. Any proposal to have load pay balancing congestion is wrong in principle.
There are two drivers for negative balancing congestion (1) mismatch between day-ahead and real-time transmission (e.g. due to transmission outages or modeling errors) and (2) injection/withdrawal deviations. Cost causation principles would suggest exploring methods that can better link the allocation of negative balancing congestion to these two factors. Some examples for would be an assignment of negative balancing congestion to virtual transactions in some cases (e.g. as approved by the FERC in CAISO’s Energy Imbalance Market for constraints not modeled day-ahead) or to entities responsible for unexpected transmission outages. However, the practicality of such changes in PJM is unclear in the near term.
• In the interim, an approach that assigns balancing congestion (positive or negative) to load serving entities (LSEs) instead of FTRs would make for a more efficient FTR market. The principle concern with such a change in PJM has been the argument that this would result in a cost shift to LSEs. However, this concern ignores the ARR/FTR ownership by LSEs and the fact that any non LSE ownership of FTRs is based on purchases in auctions with auction proceeds being returned to LSEs.
• **Question #6:** What other issues do you believe need to be addressed in regards to the FTR product?
• We believe there should be discussion on whether to remedy the cross-subsidization issue and its contribution to underfunding, and that we should look at other issues that may be contributing. In asking stakeholders to broaden the scope of the task force, PJM also noted that they expect the underlying causes of underfunding to improve, and as we are seeing improvements currently we should not press for unnecessary wholesale changes.
With regard to the 8-part Monitoring Analytics proposal, *Company X* would encourage primary focus on steps to reduce the quantity of outstanding FTRs (such as improving outage modeling in FTR auctions and, reducing FTR availability on persistently underfunded paths/facilities) in preference to steps that simply push underfunding around (such as eliminating counter-flow subsidizations). If PJM decides to reduce Stage 1A allocations, we would want first to see up-to-date information clearly indicating not just that there are some infeasibilities in this ARR set, but that the set of Stage 1A ARR paths in aggregate cannot be fully funded from available congestion revenues. Some infeasibilities are bound to occur on some flow gates, but are not the real problem or driver of underfunding to the extent that they are offset by under-allocation on other flow gates and can still be fully funded by themselves. In addition, if PJM decides to reduce Stage 1A allocations, we would generally not want PJM to proceed to award significant additional FTR capacity in the annual and monthly FTR Auctions. While we recognize that there may be certain regions with particular underfunding problems that may need to be addressed, it is generally neither sensible nor appropriate for PJM to declare that funding is such a grave issue that Stage 1A ARR allocations must be curtailed, and yet that it is reasonable to award large amounts of additional FTR capacity in the auctions. This is particularly true to the extent that this incremental FTR capacity is awarded at clearing prices significantly less than the settlement value of those ARRs, and PJM should consider focusing on this clearing-price/settlement-value mismatch, which exacerbates funding problems.
• Support discussing the seasonal ARR and FTR allocation and auction within the IMM 8-part method
• Oppose IMM Recommendation #8 - believe there should be a proper review of the pros/cons of using historical resources (especially those that have retired) as sources for ARRs and FTRs and the need to adjust the load settlement areas that have change. For seasonal ARR/FTRs – believe that PJM could solve for the seasonal differences within the annual auction (effectively “running quarterly auctions” within the annual auction) and still produce a single solution. This allows for the system to be modeled for known outages removing the subjectivity of whether to include the outage.
• We need to ensure that the FTR product maintains the historic rights of members and load prior to entry in the PJM market. Further, the FTR product needs market rules in place that once again allow it to act as a hedge in the market. Both methodologies (eliminating balancing congestion and M2M payments and utilizing all or part of the IMM 8-part method) are currently under consideration and need additional analysis before it can be determined which method should be pursued.

• We believe there should be discussion on how to remedy the cross-subsidization issue and its contribution to underfunding, and that we should look at other issues that may be contributing. In asking stakeholders to broaden the scope of the task force, PJM also noted that they expect the underlying causes of underfunding to improve, and as we are seeing improvements currently we should not look for wholesale changes.
• None. The IMM’s 8-part method, if properly implemented, should resolve at least 90% of the FTR product – underfunding issues.
• Address allocation of infeasible ARRs. Estimate the impact of virtual transactions (including UTCs) on underfunding.
• Underfunding is the primary concern. No other issues at this time.
• - Reform of ARR stage 1A process - Better allocation of capacity in all auctions - Much more clarity and discussion of close-looped interfaces (definitions, time frames, purpose, modeling in FTR auctions)
• I'm not sure we're discussing in enough detail the need, methodology and timing to reduce the over allocation of ARR's in the Annual ARR allocation process. We feel that the system was extremely oversubscribed last year which resulting in Market Participants not being able to procure the proper amount of FTR's in the annual FTR auction. Also, are changes to the allocation process expected to occur for the 2015-2016 Annual Allocation process?

• While it appears UTC's may be less of an impact now than they were 1-2 months ago, we should look into the impact of UTC's and virtual transactions. Should they be included or not. There was a point made to review the transmission system capability, which I believe we need to do.
• Unsure.
• Separate balancing congestion from broader discussions
• NO
• The integrity of the two settlement system must be preserved; DA is financial security and RT has risk exposure
• Transparency in general could be improved - for example PJM could post daily balancing congestion on the web.
• After clearly reaffirming ARRs are a property right intended to return the value of the transmission system to those paying for it, then expectations for FTR funding levels and variability may be discussed and improvements be considered. The scope of improvements should include a review of certain types of activity and products (e.g. UTCs, zero or low clearing price paths, same station counter flow, options, prompt month load nodes, etc.) and their impact on revenue adequacy. Understanding that insufficient funding may persist regardless, ways to more equitably share the burden of underfunding should also be explored (e.g. elimination of portfolio netting, scaling up the payout required for counter flow FTRs in the same way that prevailing flow FTRs are prorated down when funding is insufficient).
• Resolve the fundamental causes of FTR under-funding - over-selling of transmission capacity, better DA modeling, etc - don't simply shift cost responsibility. Take the higher, tougher, yet proper road to resolving the problem.
• PJM should look more deeply at transmission reinforcements needed to make all required ARRs feasible.
• How UTC transactions are impacting the funding and whether or not changes should be made with regard to UTC transactions.
• ARR over-allocation; improving FTR auction models to better represent expected transmission availability
• With regard to the second question above, we believe it is too limiting and *Company X* submits the following clarification. (1) There have been many alternatives suggested to address the FTR Underfunding problem. (2) *Company X* only agrees with a minority of the IMM 8 recommended 'solutions'. (3) Many of the IMM recommendations do not address the FTR Underfunding problem at all but instead are a cost allocation among FTR participants. (4) From discussion at the TF many agree with this sentiment and PJM should take this fact into account when distributing the results of the survey.
• After clearly reaffirming ARRs are a property right intended to return the value of the transmission system to those paying for it, the expectations on FTR funding levels and variability should be discussed and improvements should be considered. This should include a review of certain types of activity and products (e.g. UTCs, zero or low clearing price paths, same station counter flow, options, prompt month load nodes, etc.) and their impact on revenue adequacy.

• none at this time
• We don't really have a choice about what FTRs are supposed to do. The assertion that they hedge congestion on the physical grid is the basis of their exemption from CFTC regulation. If we abandon that principle, sooner or later someone is going to bring it to the attention of the CFTC, even if Member X doesn't.

• I think PJM needs to refocus on the Stage 1A ARR allocation as this was the reason this task force was started.
Majority believe FTRs should serve as a hedge for Day-Ahead Congestion

Members roughly split on removing balancing congestion
  - Develop polling questions for possible allocation methodologies

Majority want to incorporate some or all of IMM recommendations

Stage 1A ARR Allocation Infeasibilities, modeling, UTC transactions notable concerns