

ARR / FTR Market Task Force Proposal Executive Summary

In 2018 PJM, the IMM, and stakeholders committed to a general review of the FTR market in order to evaluate the risks and rewards of potential structural reforms. Many perspectives have been shared over the last three years, including a thorough, independent report by an external consultant. PJM believes the following proposal addresses the consultant recommendations, IMM concerns, and stakeholder feedback consistent with the consultant’s conclusion that the existing FTR product is fulfilling its intended purpose of serving as a financial equivalent to firm transmission service and ensuring open access to firm transmission service by providing a congestion-hedging function.

Auction Revenue Rights

This section of the proposal is designed to address the primary concern that the ability for some load to efficiently hedge congestion costs can be deteriorated at times when a misalignment occurs between the allocations of congestion rights (ARRs) and congestion charges paid by load. The principles of this proposal are intended to: preserve the existing point-to-point construct, strengthen assurance of load’s priority rights to congestion revenues, enhance alignment of allocated rights with actual congestion costs, advance flexibility for load to claim or sell rights, and eliminate low value added processes.

Solution Option	Justification
Guaranteed ARRs 60% of Network Service Peak Load & eliminate monthly residual ARR process	Protect zonal native load hedging ability with additional up-front capability
Expanded source/sink combinations in ARR allocation	<ul style="list-style-type: none"> • Ensure priority rights to congestion revenues • Enhance alignment of ARRs to congestion paid through cLMP billing
100% of auction revenue surplus allocated to ARR holders	
Directly allocated FTR option at no cost for load	Advance load choice flexibility and reservation pricing
Eliminate Customer Funded (att. EE) IARR Option	High administrative burden with very low value

Financial Transmission Rights

This section of the proposal contains features intended to advance the efficiencies of the FTR auctions. These efficiencies include market liquidity and future price discovery, both of which add value and contribute to a robust, competitive market.

Solution Option	Justification
Additional class types to account for on-peak weekend hours	Increase hedging flexibility
Additional bid limits in all FTR auctions (15,000)	Advance market liquidity
\$1/mw-period-class floor clearing price for FTR Option paths	Ensure value added

Transparency and Simplicity

The final section of this proposal includes advancements to the transparency of the network model and related files utilized in the FTR auctions.

Solution Option	Justification
Post network model user guide	Advance transparency and simplicity for market participants to find and use applicable auction model data and results
Post market limits utilized for binding constraints	Advance transparency for verifying and reproducing auction results

PJM believes these options will address the majority of concerns raised to-date and strikes an appropriate balance between maintaining what is working and addressing gaps to ensure a successful and durable market design. While the FTR and transparency changes can be implemented for the 22/23 planning period, PJM recommends the ARR changes be implemented for the 23/24 planning period in order to allow sufficient time to implement and for market participants to prepare for the changes.