

## Mission

The Markets and Reliability Committee (MRC) approved the creation of the FTR/ARR Senior Task Force (FTRSTF) on May 29, 2014 to evaluate causes for FTR underfunding and determine whether enhancements can be made to the current ARR and FTR processes to improve FTR funding levels. The Charter was subsequently updated and expanded during the June 26, 2014 MRC.

## Issue Charge

## Group Objectives

The FTR/ARR Senior Task Force stakeholder group will conduct the following key work activities and produce the stated deliverables as described in the Issue Charge:

1. Provide education regarding:
  - a. The historical development of FTR and ARR products, including their original functions and their evolution;
  - b. Causes of the disconnect between target allocations and congestion collected
  - c. Causes of the disconnect between congestion collected and FTR payouts
  - d. The uses of FTRs by different types of market participants
  - e. Dderivations and causes of underfunding.
  - a.f. ~~a. And discuss as appropriate which could result in expansion of items in scope.~~
2. Determine stakeholder expectations regarding ARRs, FTRs, FTR target allocations, congestion and FTR payouts for the functions of FTRs in the future (e.g. hedge against congestion in the Day Ahead market, distribution of congestion revenues.)
- 1.3. ~~Determine~~ Once item 2 is complete, determine whether changes can be made to the current ARR and FTR processes to improve FTR funding levels through:
  - a. ~~a.~~ Improving the alignment of the ARR allocation process with actual transmission system usage;
  - b. Consideration of recommendations made by the Independent Market Monitor in the 2014 State of the Market Report including:
    - i. Report correct monthly payout ratios to reduce overstatement of underfunding problem on a monthly basis.

- ii. Eliminate portfolio netting to eliminate cross subsidies across FTR marketplace participants.
- iii. Eliminate subsidies to counter flow FTR holders by treating them comparably to prevailing flow FTR holders when the payout ratio is applied.
- iv. Eliminate cross geographic subsidies.
- v. Improve transmission outage modeling in the FTR auction models.
- vi. Reduce FTR sales on paths with persistent underfunding including clear rules for what defines persistent underfunding and how the reduction will be applied.
- vii. Implement a seasonal ARR and FTR allocation system to better represent outages.
- viii. Eliminate over allocation requirement of ARRs in the Annual ARR Allocation process.

~~—Consideration of the treatment of balancing congestion in the valuation of FTRs.~~

~~2.4.~~ If enhancements are identified, implement the Consensus Based Issue Resolution process to assess the need for market rule changes.

~~3.5.~~ Determine whether a transition mechanism should be implemented such that any ARR and/or FTR process changes take effect over time.

## Expected Deliverables

1. Enhancements to the design of the ARR and FTR processes to improve the relationship between congestion collected, FTR payout and FTR target allocations funding levels.
2. Develop revisions to Governing Agreements and PJM Manuals, as necessary.

## Expected Duration of Work

- ~~1. PJM anticipates all developed changes-Objective Item 2~~ to be determined by October 30, 2014 in the first quarter of 2015.
- ~~2. RAny additional recommendations t~~will be made to the MRC by June 1, 2015.

## Administrative

1. The group will report to the Markets and Reliability Committee.
2. The group will be facilitated by:
  - Dave Anders, Facilitator
  - Brian Chmielewski, Secretary
3. All PJM Stakeholders may appoint representatives to the task force.
4. The group will conduct its activities in accordance with the protocols found in the PJM Stakeholder Process Manual (M-34)
5. The group will accomplish the scope of work identified above and only the work above. Approval from the parent Standing Committee sought before engaging in any activity outside this scope. Specifically, the following items are out of scope:
  - a. The existence of the annual ARR allocation.
  - b. The requirement to trigger RTEP upgrades due to long-term (10-year) infeasibility of Stage 1A ARRs.
  - c. The existence of the long-term, annual and monthly balance of planning period FTR auctions.
6. The group will periodically report progress on its chartered scope of work to its parent Standing Committee.
7. This group will be using Tier 1 decision making method as described in the PJM Stakeholder Process Manual (M-34).
8. Membership in the group is open and will be identified by volunteerism. Group members are not required to sign a confidentiality agreement or non-disclosure agreement.
9. Meeting minutes (notes) and all meeting materials will be published on the PJM web site.

Red Changes = Ed Tatum

Purple Changes = IMM

Blue Changes = PJM