

Residual ARR Process Enhancement

Problem / Opportunity Statement

Current PJM business practices permit the assignment of negatively valued Residual ARRs to LSEs subsequent to the Annual ARR Allocation, imposing an unhedgable and undesired risk to the cost of serving load.

During the Annual ARR Allocation process, market participants select Annual ARRs based on perceived value for an entire planning year. Current rules permit PJM to subsequently allocate Residual ARRs that become feasible after the annual allocation process in specific months where transmission capability becomes available to accommodate the ARRs. Market participants have no choice regarding whether to accept or reject Residual ARRs allocated subsequent to the Annual ARR Allocation process. Residual ARRs allocated for a portion the planning year (e.g. for one or two months only) may have a value that is vastly different than the value of the same ARR across the entire planning year, and in some cases can be negatively valued where the Annual ARR would have been valued positively. As a result, LSEs may be saddled with an undesired, unexpected and unhedgable reduction in expected ARR credits.

LSEs utilize ARR credits to offset congestion costs associated with delivering energy to consumers, resulting in a lower overall cost to serve load. Unexpected reductions in ARR credits during the ARR/FTR planning year due to the allocation of residual ARRs with negative values has become a material concern for LSEs in the last two planning years. If this risk remains or worsens, it may impact LSEs' confidence in the finality of the ARR credits resulting from the Annual Allocation, and ultimately the portion of that credit that can be used to reduce consumer costs.

PJM began allocating monthly Residual ARRs for transmission outages effective August 1, 2012 as a result of a FERC order in Docket No. EL12-50-000. Prior to the FERC order, Residual ARRs were limited to incremental feasibility created by new transmission facilities being put into service during the planning year. This change resulted in Residual ARRs being granted for monthly periods in which transmission outages that were modeled in the Annual ARR Allocation are expected to be in service. In the current process, Residual ARRs are those made feasible via the increased transmission capability created by new transmission facilities not modeled in the annual allocation or returning facilities that were modeled as out of service in the annual process.

This problem is timely for stakeholders to address as Annual Stage 1B Allocation volumes are at all-time lows, increasing the likelihood of potential Residual ARR activity. The goal of the problem statement is to initiate deliberation regarding market design reforms that will protect customers from the allocation of negative revenue streams when the monthly economic value is much less than the annual economic value, in balance with other market design interests.