Balancing Congestion Conference Call

February 6, 2013

Agenda

I. Introduction / Background

II. Proposal: 3 Components

Component #1:

Part 1: remove net Market-to-Market (M2M) payments under the MISO/PJM Joint Operating Agreement (JOA) from the balancing congestion account and allocate to BOR for deviations account.

Part 2: request that PJM and the IMM separate M2M balancing congestion costs for MISO facilities from M2M balancing costs for PJM facilities.

Component #2: Options/timeframes for addressing remaining FTR underfunding;

Component #3: Request to PJM and the IMM to provide data assessing the impact of Up To Congestion (UTC) transactions on balancing congestion and FTR revenue adequacy.

III. Discussion

FTR Underfunding/Balancing Congestion - Introduction

I. Introduction / Background:

- Current FTR revenue adequacy: < 75% for June 2011-December 2012.
- Two main drivers of FTR revenue inadequacy are increases in:
  1. M2M payments paid under the MISO/PJM JOA;
  2. Negative balancing congestion on M2M-related facilities (consists of both PJM & MISO facilities on which PJM sells FTRs).
- Both 1 and 2 are a piece of the balancing congestion component of the FTR funding pool.

FTR Underfunding/Balancing Congestion - Introduction

I. Introduction / Background: (continued)

Current FTR Funding equation:

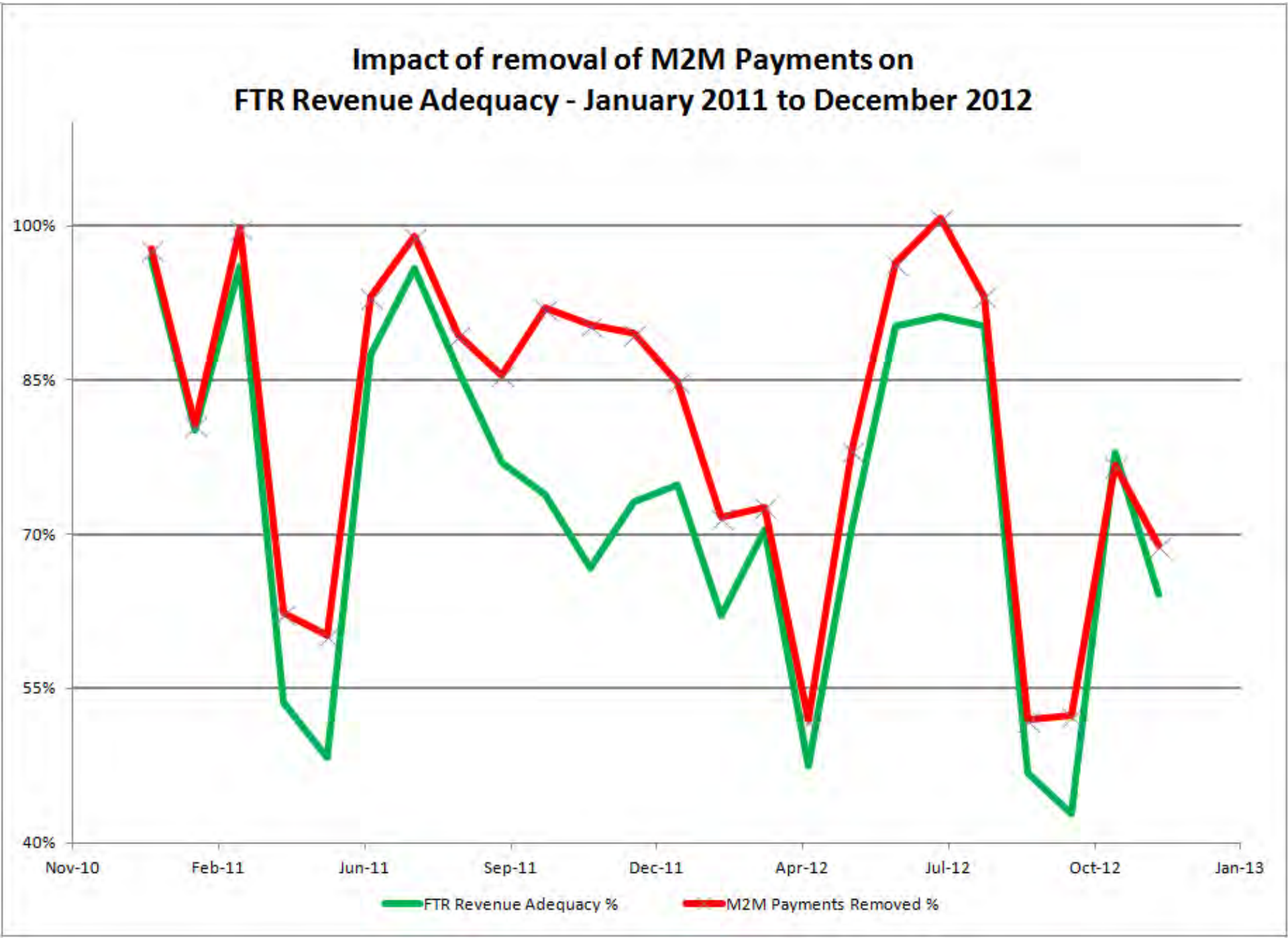
- FTR Auction Revenues + Day-Ahead Congestion + Balancing Congestion.

- FTR revenue inadequacy is currently allocated pro-rata to prevailing flow FTRs based on FTR target allocations.

FTR Underfunding/Balancing Congestion – Component 1

II. Component #1, Part 1:

1. **Remove 100% of M2M payments paid under the MISO/PJM JOA from the balancing congestion account and allocate M2M payments to the BOR for deviations account.**
   - Effective 6/1/13 for the 13/14 Planning Year (PY).
   - M2M payments: $46 MM in 2012; $79.6 MM for 11/12 PY.
   - Negative balancing congestion, excluding M2M payments, was $251 MM in 2012 and $254.8 MM in the 11/12 PY.
   - If the unit that relieves PJM's overuse of a binding flow-gate in MISO is located in PJM, the cost of the unit is assigned to BOR. However, if the unit that relieves PJM's overuse of a binding flow-gate in MISO is located in MISO, the cost of the unit is assigned to FTR holders.
   - Removal of M2M payments would improve FTR funding.


Impact of removal of M2M Payments on
FTR Revenue Adequacy - January 2011 to December 2012
100%
85%
70%
55%
40%
Nov-10
Feb-11
Jun-11
Sep-11
Dec-11
Apr-12
Jul-12
Oct-12
Jan-13
FTR Revenue Adequacy %
M2M Payments Removed %

FTR Underfunding/Balancing Congestion – Component 1

II. Component #1, Part 2:

2. A major component of FTR Underfunding is negative balancing congestion on M2M Flowgate facilities.

- M2M flow-gate facilities consists of both PJM and MISO facilities on which PJM directly or indirectly sells FTRs.
- Request: PJM & IMM jointly work to isolate the $ quantity of M2M balancing congestion as to PJM facilities and MISO facilities, respectively. Request detailed information to be provided by April 15 (48 bus. days from today; 32 days from February 28 MRC/MC).
- Once split of M2M balancing congestion between PJM and MISO facilities is completed, will evaluate options to allocate MISO-related M2M balancing congestion. Consistent with 12/20/12 MRC vote, will not alter status quo allocation of balancing congestion on PJM M2M facilities.

FTR Underfunding/Balancing Congestion – Component 2

II. Component #2 - Addressing Remaining FTR Underfunding

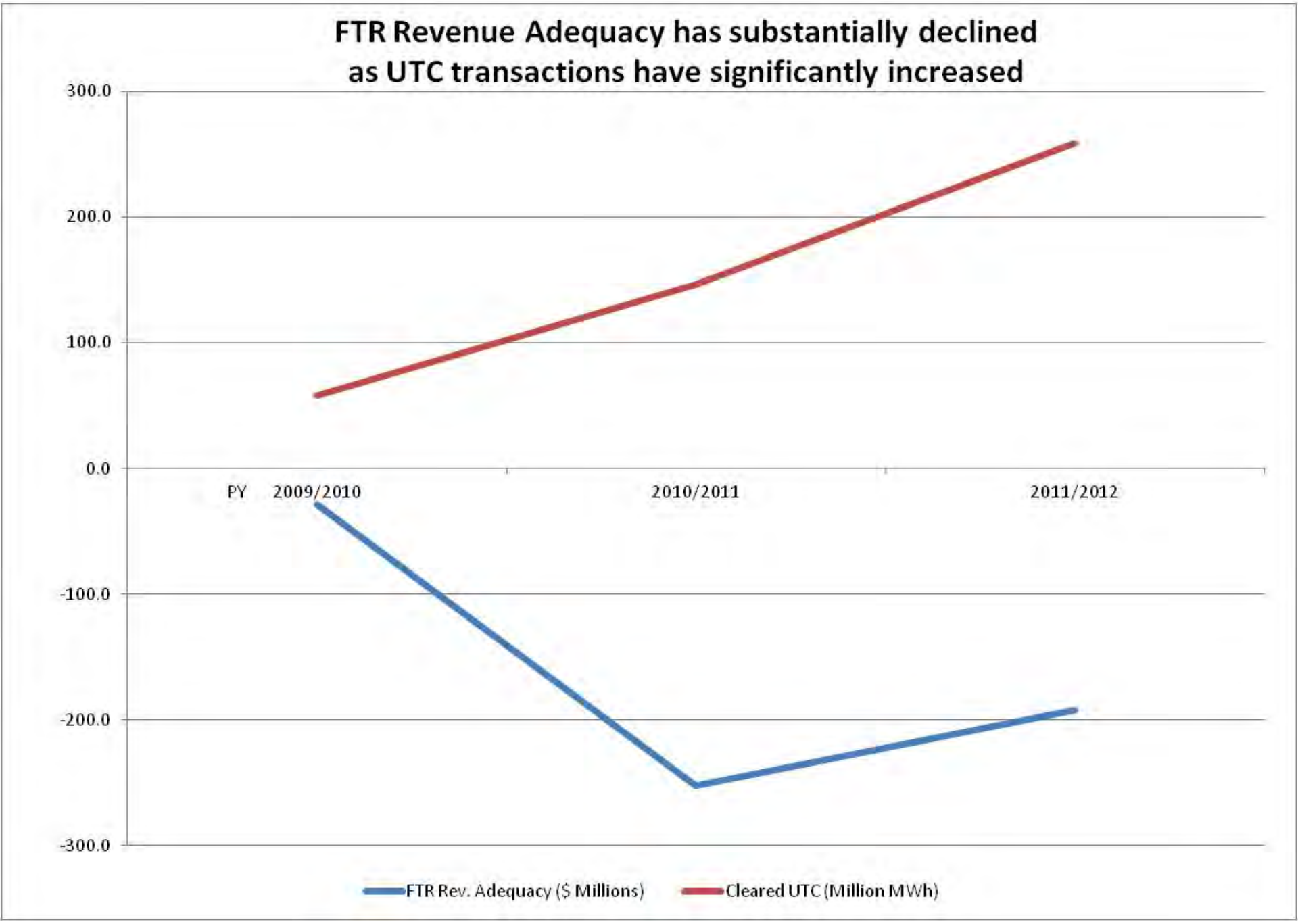
- After removal of M2M payments from balancing congestion, several options for addressing remaining FTR underfunding exist:
  1. Retain Status quo: allocate FTR revenue inadequacy pro-rata to positive flow FTRs based on FTR target allocations;
  2. Retain the basic underfunding formula but allocate FTR revenue inadequacy pro-rata based on the positive difference between the target allocation and total congestion of each FTR;
  3. Retain the basic underfunding formula but include counter flow FTRs in the allocation, as discussed in the IMM's 1/28/31 MC Webinar presentation.
- Timeframe: once the requests for information are completed, will propose a method for addressing remaining FTR underfunding.

FTR Underfunding/Balancing Congestion – Component 3

II. Component #3 - Request for information from PJM/IMM

3. **Request: that PJM and the IMM jointly provide data assessing the impact UTC transactions have on balancing congestion and FTR underfunding.**
   - Detailed information to be provided by April 15.
   - Once report and analysis is provided, will evaluate allocation of balancing congestion related to UTC activity, if appropriate.

- Growth in UTCs has been significant in past several years, from 57.9 MM MWh (09/10 PY) to 258.6 million MWh (11/12 PY).
- At the same time, FTR revenue adequacy has been noticeably deteriorated (please see next slide for comparison of UTC growth and FTR rev. adequacy).


FTR Revenue Adequacy has substantially declined
as UTC transactions have significantly increased
300.0
200.0
100.0
0.0
-100.0
-200.0
-300.0
PY 2009/2010
2010/2011
2011/2012
FTR Rev. Adequacy ($ Millions)
Cleared UTC (Million MWh)