3/19/2015

Financial Transmission Rights (FTR) and Auction Revenue Rights (ARR)

FirstEnergy Proposal Executive Summary

Overriding principles:

- FTRs should provide the proper day-ahead generation to load price hedging mechanism they were intended to provide at their inception.
- In order to do so, FTRs need to be fully funded. ARRs need to be fully allocated.
    - FTRs should be fully funded, otherwise they fall short of providing a complete hedge.
    - ARRs should be allocated at levels that reflect historic levels to provide loads the opportunity to properly hedge load to generation sources. Recently, ARR allocations have been reduced due to physical limitations that have not been addressed through new transmission build and conservative PJM FTR modeling such that funding for remaining FTRs could be improved.

FTRSTF proposed package key attributes:

- Real Time Balancing Congestion: FirstEnergy proposes real-time congestion be allocated to market instruments that resemble users of the transmission system, *i.e.*, load (real-time load, exports, decrement bids (DECs), up-to congestion transactions (UTC) (withdrawal side only)).
    - Since the single cause or beneficiary of real-time congestion cannot reasonably be determined, such costs should be allocated broadly to users of the transmission system.
    - The PJM Independent Market Monitoring (IMM) Unit has shown that virtual transactions such as INCs, DECs and UTCs affect PJM dispatch and thus contribute to negative balancing congestion.
- ARR Allocation: FirstEnergy proposes that PJM escalate the 10 year ARR Allocation process using forecasted growth rate +3%.
    - Adjustments to the Tariff to identify transmission system weaknesses earlier will avoid or reduce the time between new transmission upgrades being identified and put into service. These adjustments will help to maintain proper allocation.
- Transition Period: FirstEnergy proposes that any changes to the PJM OATT regarding FTRs/ARRs should include a transition period to recognize previously made commitments. Changes to ARR/FTR rules shall be approved prior to the start of the ARR allocation process of the year the rules are implemented. The rules will be implemented no earlier than June 2016 for delivery year 2016/2017. In addition, the implementation date should ensure any rule changes are known and transparent prior to the beginning of the ARR allocation process for any future delivery year. This will provide market participants the necessary transparency prior to making commitments associated with establishing their ARR/FTR portfolios.