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OPSI RESOLUTION 2016-4
CONCERNING FINANCIAL TRANSMISSION RIGHTS

WHEREAS, Financial Transmission Rights ("FTRs") were created as a means to return congestion revenue to firm transmission customers ("consumers") in recognition that consumers pay for the construction and maintenance of the transmission system and pay congestion. The transmission system makes possible the flow of low priced energy to load centers.

WHEREAS, Transmission constraints impede the flow of low priced energy into constrained areas, requiring load to pay for higher priced energy from generators dispatched out of merit order to meet consumer demand inside the constrained area.

WHEREAS, Consumers pay the higher price for all energy consumed within the constrained area and generators receive payments based on the LMPs where they are located. The difference between the revenues paid to generators outside the constraint for power that flows into the constrained area and the revenues paid to generators inside the constraint, is defined to be congestion revenue.

WHEREAS, FTRs were used to convert the pre-existing physical right of utility customers to low priced energy from generators outside of constrained areas into a financial right to that low priced energy. FTRs were directly allocated to load serving entities (for simplification, the EDCs) based on historic generation to load paths of the vertically integrated utilities.

WHEREAS, On June 1, 2003, the direct allocation of FTRs was replaced with an allocation of Auction Revenue Rights (ARRs). FERC explicitly affirmed that the new allocation of ARRs was designed to "protect loads against the cost of congestion."[1]

WHEREAS, Unlike the original definition of FTRs as the financial right to low-priced energy, the new ARRs conferred on consumers a right to the revenues realized in new FTR auctions with an option to convert ARRs to FTRs. Under the new ARR/FTR construct, ARRs and FTRs take the shape of derivatives.

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1 *PJM Interconnection, L.L.C.*, 102 FERC ¶ 61,276, at P 12, 18 (2003)

Approved unanimously on August 18, 2016, and adopted by OPSI's Board of Directors:Chairman Dallas Winslow (Delaware PSC); Commissioner Joanne Doddy Fort (PSC of District of Columbia); Commissioner John Rosales (Illinois CC); Chair Carol A. Stephan (Indiana URC); Commissioner Daniel E. Logsdon Jr. (Kentucky PSC); Commissioner Anne E. Hoskins (Maryland PSC); Commissioner Rachael Eubanks(Michigan PSC); President Richard S. Mroz (New Jersey BPU); Chairman Edward S. Finley (North Carolina UC); Commissioner M. Beth Trombold (PUC of Ohio); Vice Chairman John F. Coleman (Pennsylvania PUC); Chairman Herbert H. Hilliard (Tennessee RA) Chairman Mark C. Christie (Virginia SCC); Commissioner Brooks McCabe (PSC of West Virginia)

WHEREAS, ARRs are still allocated using the same historic generation to load transmission paths used to allocate the predecessor FTRs. These historic transmission paths have contributed to a growing mismatch between the ARR allocations and actual congestion as generating stations retire, new generation is built, the transmission grid is modified and load centers shift. Even if updated, reliance on generation to load paths is not consistent with the definition or reality of congestion in a nodal, LMP market.

WHEREAS, The holders of ARRs (EDCs) can choose to either retain the ARRs or convert them into FTRs. Retaining the ARRs provides revenue based on the price of the associated FTRs that are sold in the Annual FTR auction. Conversion of the ARRs to the associated FTRs, through a process called self-scheduling, provides a right to congestion revenue that is collected on the defined FTR paths. But the right to FTR revenues is limited by the initial allocation of ARR transmission paths, which does not cover all congestion. The remainder of the congestion revenue is paid to other FTR holders, primarily financial market participants, who purchase FTRs in the FTR auction.

WHEREAS, Taken together, the value to consumers of retained ARRs plus self-scheduled FTRs should equal the level of total congestion paid by consumers. Consumers pay for all congestion in the system, so anything short of the prospect for realizing a full return of those congestion revenues would indicate a failure in achieving the objective of the ARR/FTR construct.

WHEREAS, The 2015 State of the Market Report for the first time quantified the relationship between total congestion paid by consumers and the combined value of ARRs and self-scheduled FTRs. The IMM found that in the 2013-2014 planning year, only 45 percent of all congestion revenue was returned to consumers through allocated ARRs and self-scheduled FTRs, leaving unreimbursed some $983M of congestion payments.[2] The 2014-2015 planning year saw $504M in congestion revenue not returned after accounting for the combined value of ARRs and self-scheduled FTRs.[3] This represents a combined $1.5B shortfall in congestion revenue recovery for consumers over the two most recent full planning years.

WHEREAS, The risk of full congestion revenue recovery through either the retention of ARRs or the conversion of all or a portion of them to FTRs should not be on consumers.

NOW, Therefore Be It Resolved, that the OPSI Board of Directors requests that PJM propose a redesign of the ARR/FTR construct that will ensure that all congestion revenues are returned to consumers. Such redesign may include an option for consumers to sell the rights to congestion revenues in either a PJM-administered or secondary market.

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[2] 2016 Quarterly State of the Market Report for PJM: January through June, August 11, 2016, Table 13-37, p. 546.

[3] *Ibid*.

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