FTR Forfeiture Rule Education Problem/Opportunity Statement

Problem / Opportunity Statement

The FTR Forfeiture Rule is intended to deter market participants from using virtual transactions to create congestion that benefits their FTR positions. The FTR Forfeiture Rule requires repayment of the profits earned in such cases but does not impose penalties.

On January 19, 2017, FERC found that PJM's then existing FTR Forfeiture Rule was unjust and unreasonable (EL14-37-000). FERC ordered that a new method be developed including the net impact of a participant's entire virtual portfolio on constraints related to each FTR position of a participant. In addition, FERC required that the FTR Forfeiture Rule include netting all virtual transactions across affiliated accounts, a threshold on constraint impacts by virtual bids, the inclusion of counter flow FTRs and the consideration of all locations of virtual bids, including UTCs.

PJM and the IMM developed a new rule based on these requirements. The new rule was presented to the stakeholders before being submitted to FERC. PJM's filing includes a number of thresholds that affect the sensitivity of the test to virtual activity and FTR positions.

The FTR Forfeiture Rule considers the impact of a participant's net virtual transaction portfolio on all constraints. If a participant's net virtual portfolio affects a constraint by the greater of 0.1 MW or 10 percent of the line limit, and that constraint affects an individual FTR's target allocation by at least $0.01, the FTR is subject to FTR forfeiture if the net virtual portfolio increased the value of the FTR. The forfeiture amount is the hourly profit of the FTR.

The Commission ordered PJM to revise the rule. PJM submitted tariff language complying with the order. The Commission has not yet formally accepted the revised rule. PJM has implemented and applied the new rule retroactively, as ordered by FERC.

Since the implementation of the new rule, there has been an increase in FTR forfeitures between 2016 and 2017. There are a number of factors that contributed to this result. The fact of the increase does not imply a flaw in the rule.

The prior rule was determined to be unjust and unreasonable. The prior rule was based on evaluation of a participant's individual INCs and DECs, in combination with the highest impact individual DEC or INC of any participant on each of the participant's FTR. The new rule evaluates a participant's virtual portfolios on each of the participant's FTRs. The old rule did not properly account for UTCs. The new rule properly accounts for UTCs. The old rule did not evaluate counterflow FTRs. The new rule does evaluate counterflow FTRs.

In addition, the new rule was retroactivity applied and there was no opportunity for participants to modify their behavior in response to experienced forfeitures.

Once data on forfeitures became available to participants, behavior changed and forfeitures were reduced.

It is the IMM's position that the new FTR Forfeiture Rule is working as intended and provides a reasonable deterrent to manipulative behavior.

The IMM proposes to address misunderstandings about the rule via monthly reviews of how the rule is functioning at MIC meetings going forward. The IMM continues to offer to review the details of forfeitures with any participant that requests it.