UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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PJM Interconnection, L.L.C.	)	Docket No. ER17-1433-003
	)	

COMMENTS OF THE INDEPENDENT MARKET MONITOR FOR PJM

Pursuant to Rule 211 of the Commission's Rules and Regulations,[1] Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor ("Market Monitor") for PJM Interconnection, L.L.C. ("PJM"),[2] submits these comments responding to the filing submitted by PJM Interconnection, L.L.C. ("PJM") on July 19, 2021 ("July 19th Filing") in compliance with the order issued May 20, 2021, in this proceeding ("May 20th Order").[3]

I. BACKGROUND

The Commission's order issued January 19, 2017, found that, to trigger a forfeiture, the net flow across a given constraint attributable to a participant's portfolio of virtual transactions must meet two criteria: (1) the net flow must be in the direction to increase the value of an FTR; and (2) the net flow must exceed a certain percentage of the physical limit of a binding constraint.[4] The Commission ordered that PJM put a rule in place that would evaluate the net impact of a market participant's entire portfolio of virtual transactions on

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1 18 CFR § 385.211 (2021).

2 Capitalized terms used herein and not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff ("OATT"), the PJM Operating Agreement ("OA") or the PJM Reliability Assurance Agreement ("RAA").

3 *PJM Interconnection, L.L.C.*, 175 FERC ¶ 61,137 ("May 20th Order").

4 *PJM Interconnection, L.L.C.*, 158 FERC ¶ 61,038 at P 60 ("2017 Order").

each of the participant's FTR positions, including virtual bids that sink or source at zones, hubs and interfaces.[5] The Commission also made clear that PJM was to apply the rule to every FTR of a market participant, including counterflow FTRs and FTRs that had a source and/or sink at zones, hubs and interfaces.[6] The Commission also determined that PJM should consider all virtual transactions held by entities that share common ownership as part of the same portfolio.[7] The Commission stated that leveraged positions are not exempt from the FTR Forfeiture rule.[8] The Commission stated that the forfeiture of an FTR's entire profit was just and reasonable under the rule defined by the Commission's order, but the Commission "encourage(ed) PJM to consider whether alternative methods of adjusting profits when the rule has been triggered would be appropriate."[9]

The Commission directed PJM to make a compliance filing implementing its determinations within 90 days of the effective date of its 2017 Order. PJM's corresponding compliance filing was filed on April 18, 2017.

PJM's FTR Forfeiture rule, as filed on April 18, 2017, and amended on June 2, 2017, met all of the Commission's requirements. Under PJM's FTR Forfeiture rule, as filed, a forfeiture is triggered when, among other requirements,[10] the net flow across a given constraint attributable to a participant's portfolio of virtual transactions meets the two mandated criteria: (1) the net flow must be in the direction to increase the value of an FTR;

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5 *Id*. at PP 2, 24, 57–58, 63 and 73.

6 *Id*. at PP 57–58, 63 and 73

7 *Id*. at P 61.

8 *Id*. at P 80.

9 *Id*. at P 82.

10 The first screen applied to the PJM forfeiture test is whether the day ahead CLMP spread of the FTR source sink pair is greater than the real time CLMP spread of the FTR. In the event the day-ahead spread is greater than the real-time spread the FTR and the participant's associated virtual portfolio is evaluated for a potential forfeiture based on the Commission criteria.

and (2) the net flow must exceed a certain percentage of the physical limit of a binding constraint.[11] Under PJM's April 18, 2017, compliance filing, a participant's virtual portfolio must generate DA flow equal to 10 percent or more of the enforced line limit of the constraint in an hour and there must be a positive impact on the FTR value, measured as the minimum shadow price related effect of the affected constraint on the CLMP difference between the source and sink of the FTR. The rule defined a positive impact as $0.01 or more, rather than a smaller ($0.001) or larger ($.10) positive effect on the value of the FTR as stated in the 2017 Order.[12] The use of $.01 was a practical definition of a positive impact that has worked well in practice. PJM's rule, as filed, applied to all FTRs, including counter flow FTRs, and to all virtual bids, as directed by the Commission Order.

The May 20th Order rejected PJM's April 18, 2017, compliance filing, finding the penalty (all profit) was disproportionate relative to the definition of the positive impact ($0.01).[13] The Commission states that PJM "offers no support for a finding that such a *de minimis* impact creates the appropriate balance between identifying potential manipulation and not disrupting legitimate hedging activity."[14]

The Commission denied "protesters' arguments that market participants should not forfeit all FTR profits when a forfeiture is triggered as an improper request for rehearing of the January 2017 Order," stating that "[i]n the January 2017 Order, the Commission responded to these same arguments and found forfeiture of all FTR profits to be just and reasonable." The Commission however, also stated, that in that order, they "provided PJM and its stakeholders with latitude in considering alternative forfeiture levels." The Commission directed PJM to submit a compliance filing, within 60 days of the date of the

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[11] 2017 Order at P 60.

[12] *Id*.

[13] *Id*. at PP 35, 50, 54, 56, 58 & 110.

[14] *Id*. at P 52.

May 20th order, "to establish a just and reasonable replacement rate that proposes either a different threshold for the FTR Impact Test, or an alternative approach to triggering forfeiture, that strikes a more appropriate balance between deterring manipulative behavior and not burdening legitimate hedging activity, as discussed in the body of this order."

The July 19th Filing proposed a revised FTR Forfeiture rule that addresses the concern raised in the May 20th Order. In the July 19th Filing, the forfeiture is equal to the absolute value of the CLMP effect only of the triggering constraints on the affected FTR rather than the entire hourly FTR profit. Total constraint specific forfeitures cannot exceed the FTR's total profit for the affected hour.

II. COMMENTS

A. PJM's Proposed FTR Forfeiture Rule Is Consistent with the Commission Directives.

PJM's proposed FTR Forfeiture rule in the July 19th Filing meets all the requirements of the 2017 Order and May 20th Order.

PJM's proposed FTR Forfeiture rule triggers a forfeiture when the net flow across a given constraint attributable to a participant's portfolio of virtual transactions meet two criteria: (1) the net flow must be in the direction to increase the value of an FTR; and (2) the net flow must exceed a certain percentage of the physical limit of a binding constraint.[15]

PJM's proposed FTR Forfeiture rule directly addresses the concern that the level of forfeiture under PJM's original April 2017 compliance filing (the profit of the affected FTR for the affected hour) was disproportionate relative to the definition of the positive impact ($0.01).[16] Under PJM's proposed FTR Forfeiture rule, the forfeiture is equal to the absolute value of the CLMP effect only of the triggering constraints on the affected FTR rather than

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15 *See* 2017 Order at P 60; May 20th Order at P 26.

16 *See* May 20th Order at PP 35, 50, 54, 56, 58 & 110.

the entire hourly FTR profit. Total constraint specific forfeitures cannot exceed the FTR's total profit for the affected hour. The level of forfeiture is directly proportionate to the constraint specific CLMP effect of the constraints that trigger the FTR forfeiture test.

B. The Proposed Rule May Not Deter Manipulative Behavior.

While PJM's proposed FTR Forfeiture rule directly addresses the Commission's concerns about PJM's original April 2017 compliance filing, it is not clear that the resulting forfeitures are necessarily proportionate to the effect of the virtual portfolio on the value of the FTR or proportionate to the effect of the virtual portfolio on any price distortion between the day-ahead and real-time market prices.

While the proposed rules keeps the same basic definition of potentially manipulative behavior, it is not clear that the proposed forfeiture amount will be sufficient to deter manipulative behavior that not only affects the participant's FTR values, but the whole market, and all other participant's positions.

The Market Monitor does not oppose PJM's proposal, with the caveat that it may not be sufficient to deter manipulative behavior.

III. CONCLUSION

The Market Monitor respectfully requests that the Commission afford due consideration to these comments as it resolves the issues raised in this proceeding.

Respectfully submitted,

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Dated: August 9, 2021

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Eagleville, Pennsylvania,
This 9th day of August, 2021.

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