FTR Forfeiture Rule Changes

Problem / Opportunity Statement

The FTR Forfeiture Rule is intended to ~~prevent~~ deter market participants from using virtual transactions to create congestion that benefits their ~~related~~ FTR positions. Under the FTR Forfeiture Rule, an FTR holder forfeits the profit from its FTR when its portfolio of ~~submits an inc or a dec at or near the source or sink location of the FTR~~ virtual bids ~~that~~ results in a higher LMP spread in the day-ahead energy market than in the real-time energy market (net impact on a constraint related to a FTR position).

On January 19, 2017, FERC found that PJM's FTR Forfeiture Rule was unjust and unreasonable (EL14-37-000). In the Order, FERC required specific changes to the FTR Forfeiture Rule including netting all virtual transactions across affiliated accounts, a ~~10%~~ threshold based on constraint limit, consideration of any impact on FTR value, including counter flow FTRs and all locations. PJM responded to FERC and has yet to hear if the revisions are accepted. In the meantime, PJM has begun to claw back revenues from market participants under the new rules. PJM's filing also includes a number of thresholds that affect the sensitivity of the test to virtual activity and FTR positions, including some detail that was not specifically ordered by FERC, like the $.01 FTR Impact Test which may restrict legitimate activity to manage load serving entities' portfolios.

At the Market Settlements Subcommittee meeting on January 18, 2018 PJM presented an analysis highlighting the revenues that were returned subsequent to the application of the FTR Forfeiture Rule that was in effect at that time.

	February	March	April	May	June	July	August	September	October	November	December
2016	$15,386	$79,159	$25,850	$17,938	$17,716	$36,956	$56,704	$187,827	$43,420	$17,003	$17,209
2017	$1,305,735	$1,170,083	$604,740	$1,695,286	**$618,242**	**$529,106**	$404,081	$2,001,261	$736,416	$315,977	**$241,008**
Difference	$1,290,349	$1,090,924	$578,890	$1,677,348	$600,526	$492,150	$347,377	$1,813,434	$692,996	$298,974	$223,799

Not Yet Billed

This analysis shows that there is a significant increase in revenues between 2016 and 2017 that are being taken back from FTR Holders and raises concerns about whether the FTR Forfeiture Rule is achieving its objectives. The sponsors of this problem statement contend that the FTR Forfeiture Rule is overly restrictive and has created barriers for load serving entities to manage their portfolios. As an example, revenues associated with FTRs entirely sourced and sinking in the Chicago area are being forfeited because of a 200 MW dec bid at West hub, the most liquid hub in PJM. The FTRs serve a legitimate business purpose of hedging congestion risk between generators and sales at NI hub, while the dec bids serve a legitimate business purpose of flattening a day-ahead to real time position at West hub. The FTR Forfeiture rule effectively constrains the ability of load serving entities to manage risk and hedge their portfolios which may ultimately increase consumer costs.

The sponsors of the problem statement propose to initiate stakeholder deliberations to review the current FTR Forfeiture Rule and propose changes to allow market participants to more effectively manage their portfolios.