

MIC – FTR Forfeiture Rule Design Changes – Package A

Overview

On March 7, 2018 the Markets Implementation Committee approved an Exelon proposed Problem Statement and Issue Charge designed to initiate stakeholder deliberations to review the current FTR Forfeiture Rule and propose changes to allow market participants to more effectively manage their portfolios. The FTR Forfeiture Rule is intended to deter market participants from using virtual transactions to create congestion that benefits their FTR positions.

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 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.

Throughout a six-month stakeholder process PJM and the IMM provided background education, provided sensitivity analysis on the FTR Impact Test levels, and discussed potential enhancements to the FTR Forfeiture Rule. As a result of this process PJM has identified a potential inconsistency in the FTR Forfeiture Rule that arises from the modeling of Loop Flow impacts for coordinated market-to-market flow gates versus internal constraints in the Day-ahead market.

Figure 1 below shows the forfeiture numbers by constraint type since the implementation of the January 19, 2017 FERC directive in August 2017. Roughly 58% of total forfeitures are related to coordinated market-to-market flow gates. Furthermore, three flow gates account for 32.1% of total forfeitures since the new rules were implemented.

Figure 1

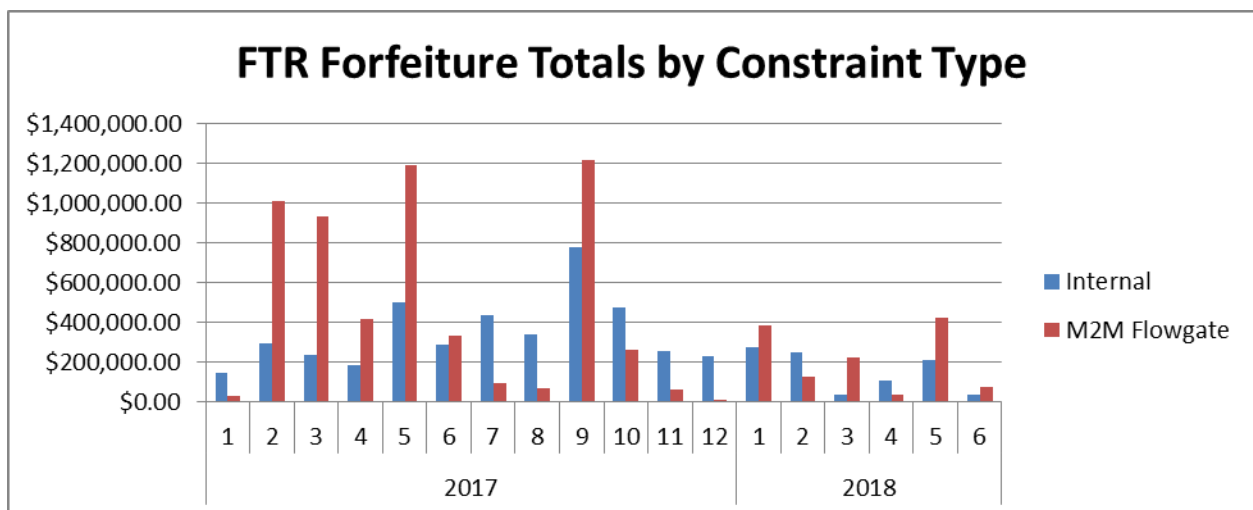


Figure 2 below illustrates the average loop flow impacts on coordinated market-to-market facilities from January 2017 through June 2018 during binding hours in the Day-ahead market. The result of loop flow impact is a lower limit utilized by the FTR Forfeiture calculation. A lower DA binding limit increases the burden to pass the 10% virtual transaction impact test and creates an inconsistency compared with how internal constraints are considered.

Figure 2

Market to Market Flowgate Name	Forfeiture Cost Contribution since January 2017	AVG LF Impact
Roxana-Praxair 1 138 kv I/o Wilton Center-Dumont 765 kv	\$ 1,794,569.46	142.0
Roxana-Praxair 138 kv I/o Gary Ave-Sheffield 345 kv	\$ 1,459,008.39	124.8
Babcock-Stillwell 345 KV I/o Wilton Center-Dumont 765 KV	\$ 592,184.11	789.9
Dune Acres- Michigan City 1 138 kv I/o Dumont - Wilton Center 765 KV	\$ 341,702.39	167.8
BR Tap-Paradise 161 kv I/o Barkley-Princeton 161 kv	\$ 308,476.23	475.5
Michigan City-Trail Creek 138 I/o Michigan City-Bosserman 138	\$ 300,216.96	116.8
Stillwell-Dumont 345 I/o Wilton Center-Dumont 765	\$ 263,874.90	750.1
Gibson-Petersburg 345 kv I/o Gibson-Bedford 345 kv	\$ 253,619.54	230.0
Brokaw-Leroy 138 kv I/o Clinton-Oreana-Goose Creek 345 kv	\$ 214,318.14	142.5
State Line-Roxana 138 kv I/o Sheffield 345/138 kv	\$ 201,133.96	641.9
Monroe-Lallendorf 345kv I/o Morocco-AllenJct 345kv	\$ 181,207.21	1113.8
Westwood 345/138 BK1 I/o Westwood 345/138 BK2	\$ 163,349.60	420.0

Package A

Under Package A, PJM seeks to modify the existing FTR forfeiture calculation to include loop flow impacts when determining 10% or greater impact from virtual transaction flow in the DA market on coordinated market-to-market flow gates. Implementing this change will remove the inconsistency between how coordinated market-to-market flow gates are handled by the FTR Forfeiture Rule versus internal constraints. The change will look at the total flow across each binding constraint regardless of whether it is coordinated or internal. Figure 3 represents the total forfeiture dollars by month, with and without the proposed rule change. This change will require updates to Manual 6 only and will be prospective with an estimated implementation date of Q2 2019.

Figure 3

Year	Month	Current Forfeiture	Forfeiture with Proposed Change
2017	May	\$1,696,292	\$568,631
2017	September	\$1,992,267	\$845,558
2018	January	\$661,947	\$334,160
2018	August	\$118,959	\$112,798