



Federal Energy Regulatory Commission

Notice of Proposed Rulemaking for the Collection of Connected Entity Data from RTOs and ISOs Technical Conference

December 8, 2015

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Need for Connected Entity Information

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The Connected Entity information that the Commission proposed to collect in the NOPR is essential for its surveillance efforts related to the electric markets.

- The Commission's surveillance program needs to understand the incentives underlying market participants' trading activity to evaluate their behavior in a complete manner.
- Information about the connections between market participants will also help the Commission determine if market participants are coordinating their activities.
- The Connected Entity information and the use of a unique alpha-numeric identifier will also assist the Commission in determining how entities are identified across different markets and in different data sets.



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The Commission's surveillance program consists of automated algorithms ("screens") that sift through both public and non-public data. Office of Enforcement (OE) staff built these screens based on:

- Known manipulative schemes
- Market rules
- Behavior that could constitute manipulation
- Statistical measures that help identify market anomalies

Many screens have a common framework composed of 3 building blocks:

- Tool
- Target
- Benefiting Position

Without accurate information about who controls the tool and/or the benefiting position, the screens are less reliable at flagging anomalous behavior. They can flag too little or create false positives that require unnecessary follow up.



Need for Connected Entity Information

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The current information available to staff about affiliate relationships of entities trading in the electric energy markets from FERC resources, such as market-based rate filings and electric quarterly reports, is insufficient for the Commission's surveillance efforts to detect market manipulation in a quick and efficient manner.

Available FERC resources:

- Do not provide the full range of information that is necessary for the Commission's surveillance efforts, such as a list of traders for each market participant and certain debt and contractual relationships that might grant entities other than the market participant control over an electric asset.
- Do not provide information related to RTO/ISO market participants that are not market-based rate sellers, such as FTR holders and virtual market participants.
- Are not submitted and updated frequently enough for use in the Commission's near real-time surveillance of the electric markets.
- Are not submitted in a format that is usable for the Commission's automated surveillance program.



Need for Connected Entity Information

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The current information available through public resources is similarly insufficient for the Commission's surveillance efforts to detect market manipulation in a quick and efficient manner.

Available public resources:

- Do not compile affiliate data in a comprehensive manner and may not appropriately describe the relationships between entities.
- Do not provide information for all RTO/ISO market participants.
- Describe only ownership relationships, not contractual relationships that may also confer control or a motivation to favor or collude.
- Are not regularly updated.
- Are not available in a format that is usable for the Commission's automated surveillance program.



Benefits of the Proposal

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- OE would have a more complete view of the relationships between electric market participants and the incentives underlying their trading activities for use in its electric surveillance;
- RTOs/ISOs would also have a more complete and consistent view of the relationships between, and activities of, its market participants;
- OE would be better able to track market participants across markets and data sets using the common alpha-numeric identifier;
- Market participants that participate in multiple organized markets would have consistent filing requirements across the different markets in which they participate;
- OE will have nearer to real-time information to detect and address anomalies quickly in order to prevent long-term manipulations that financially harm other market participants; and,
- A common corporate identifier may be used by market participants for various regulatory purposes.



Process Clarifications

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The following slides discuss issues related to processes and implementation of the proposal that were raised in some of the questions submitted to staff prior to this conference:

- Filing Obligations
- Accuracy of Reported Information
- Confidentiality of Reported Information
- Changes to RTO/ISO Tariffs
- Legal Entity Identifiers



Filing Obligations

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The filing obligations created by this proposal would apply to market participants in the RTO/ISO markets. In other words, **any entity that is a member of an RTO/ISO per the applicable RTO/ISO tariff** must submit Connected Entity information to each RTO/ISO to which it is member.

- For example, in PJM a market participant would be an entity who has signed the PJM Operating Agreement (<http://www.pjm.com/about-pjm/member-services/membership-and-sector-selection.aspx>).
- Connected entities who are **not** considered RTO/ISO members per the applicable RTO/ISO tariff are **not** required to submit any information to the RTO/ISO.

Market participants would also be required to update their Connected Entities information when there is a change in status. A change in status occurs when a new entity (or reportable individual) either (1) becomes a Connected Entity or (2) ceases to be a Connected Entity according to the Connected Entity definition.



Accuracy of Reported Information

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- Market participants would be expected to provide accurate and factual information and not submit false or misleading information, or omit material information unless they have exercised due diligence to prevent such occurrences in reporting the Connected Entities information to the RTOs/ISOs.
- The RTOs/ISOs would not be responsible for verifying the accuracy of the information submitted, but are not prohibited from doing so at their discretion.
- As in other filing contexts, OE normally would not pursue inaccurate or late submissions that are inadvertent, timely remedied, and cause no harm.



Confidentiality of Reported Information

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- The Commission will treat all Connected Entity information that is not already public as non-public information in the same manner as it treats confidential market data through Order No. 760 and investigative information provided under Part 1b of the Commission's regulations.
- The Commission has been receiving data under Order No. 760 for more than 3 years and has had no difficulty in ensuring the confidentiality of the data.
- The RTOs and ISOs also have experience in handling sensitive and confidential information and the Commission would expect them to similarly maintain the confidentiality of any non-public Connected Entity information.



Confidentiality of Reported Information

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There are three circumstances in which non-public Connected Entity Information could be released pursuant to Commission regulations:

- The Commission authorizes or directs public disclosure;
- The information is made public during the course of an adjudicatory proceeding; or
- Disclosure is required by the Freedom of Information Act (FOIA).
 - If the Commission receives a FOIA request for non-public Connected Entity information, the Commission will make a fact-specific determination as to whether disclosure of the requested information is required by FOIA.
 - Depending on the details of the FOIA request received, some Connected Entity information may be exempt from disclosure pursuant to FOIA exemptions 4 and 7.



Changes to RTO/ISO Tariffs

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To implement the collection of the Connected Entity information at the RTO/ISO level, the NOPR proposes to require:

- RTOs/ISOs to make compliance filings with proposed amendments to their tariffs setting forth the requirement that market participants submit to them a list of their Connected Entities in the format approved by the Commission.
- RTOs/ISOs to eliminate all existing RTO/ISO affiliate disclosure requirements, unless they request and justify retention of the requirements by stating a particularized need in their compliance filings.
- RTOs/ISOs to include in their tariffs the authority to audit market participants to determine if their Connected Entity data is accurate, complete, and up-to-date.
- Market participants, as a condition of participating in an RTO or ISO, to file Connected Entity data with the RTOs/ISOs and update it within 15 days (or such other period as may be determined in a Final Rule) of any change in status.
- Market participants to certify, on a yearly basis, that their Connected Entity data is comprehensive and accurate.



Legal Entity Identifiers

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The NOPR proposes to require each market participant to obtain a Legal Entity Identifier (LEI), which is a unique, 20-digit alpha-numeric ID assigned to single entities upon application to a Local Operating Unit of the Global LEI system.

- ***Only market participants*** would be required to obtain an LEI.
- Connected Entities and individuals would ***not*** be required to obtain an LEI.
- If a market participant's Connected Entity has or were to obtain an LEI voluntarily, the market participant would be allowed to report its Connected Entity's LEI, but would not be required to do so.