**107 FERC ¶ 61,007**
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;
Nora Mead Brownell, Joseph T. Kelliher,
and Suedeen G. Kelly.

PJM Interconnection, LLC — Docket No. ER04-548-000

ORDER ACCEPTING REVISIONS TO OPEN ACCESS
TRANSMISSION TARIFF

(Issued April 9, 2004)

## I. Summary

1. On February 11, 2004, PJM Interconnection, LLC ("PJM") submitted revisions to Schedules 9-2 and 9-3 of its Open Access Transmission Tariff ("OATT"). The proposed tariff revisions change how PJM will recover the costs of administering the trading of Financial Transmission Rights ("FTRs") and Market Support Services on its system. New billing determinants are proposed that recover a portion of FTR and Market Support administrative costs-based upon bidding activity. PJM requests an effective date of April 1, 2004, for the proposed revisions to Schedule 9-2 FTR and an effective date of May 1, 2004, for the proposed changes to the Market Support Service provisions in Schedule 9-3. The Commission accepts the revisions for filing, to be effective on the proposed dates. This order is in the public interest because it provides for the recovery of administrative costs within PJM in a fair and reasonable manner.

## II. Background

2. At present, administrative costs associated with FTRs are recovered as a function of total FTRs held. At present, costs associated with Market Support are recovered based on megawatt hours ("MWh") physically inputted into the system and physically delivered on the system. Parties that purchase FTRs but sell them before they become effective pay no fees, nor do parties who submit unsuccessful FTR bids in the auction market. There is also no charge to virtual bids or offers, which have grown to be a substantial amount of the volume in the Day-ahead energy market. PJM states that these bids, whether or not

they result in settled transactions, impose significant demands on PJM's administrative resources.[1]

3. On April 1, 2003, PJM submitted to the Commission revisions to Schedule 3 of the PJM Operating Agreement to establish a charge for the submission of bids or offers in the energy market and FTR auctions that applied only to those submitting large numbers of bids.[2] PJM believed these high bid numbers created risks to its ability to process all bids expeditiously. On June 17, 2003, the Commission accepted and suspended the proposed charge for a five month period, and directed staff to convene a technical conference to obtain additional information on the relevant issues.[3] At the conclusion of the conference, PJM agreed to propose a revised short-term resolution to address high volume bidding that threatened its system, and also to establish a long-term pricing methodology through its stakeholder process. The short-term proposition was submitted on September 22, 2003, instituting a cap on the number of bids or offers submitted by any single market participant in the day-ahead energy and FTR auction markets to the extent that such a cap proved necessary to protect PJM's bidding system.[4] This replaced the excessive bidding charge that had previously been accepted, subject to suspension and refund, by the Commission's June 17 Order. The instant filing describes PJM's proposed long-term resolution to the recovery of administrative bidding costs.

## III. Filing

4. PJM states that since the inception of FTR Options in the FTR market and the rise of virtual bidding in the Day-Ahead market, on occasions the high volume of bids submitted by some market participants has caused the system to fail to process those bids contemporaneously submitted by others, and has also threatened to crash the system entirely.[5] PJM claims the proposed changes to Schedules 9-2 and 9-3 will mitigate the effects of cost causation from excessive bidding activity and distribute costs more uniformly among bidding classes. PJM also claims that they are also consistent with traditional cost recovery principles.

5. PJM has developed revisions to Schedules 9-2 and 9-3 of their OATT to introduce bid-based billing determinants for a portion of the costs that are recovered under those

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[1] Transmittal letter, p. 2

[2] PJM Interconnection, L.L.C., Docket No. ER03-694-000

[3] PJM Interconnection, L.L.C., 103 FERC ¶ 61,333 (June 17, 2003)

[4] PJM Interconnection, L.L.C., 105 FERC ¶ 61,200 (November 14, 2003)

[5] PJM Interconnection, L.L.C. Docket No. ER03-694-000 at P. 2

schedules. Schedule 9-2 addresses recovery of costs associated with FTR auctions, while Schedule 9-3 addresses recovery of costs dealing with Day-ahead energy market services. Under the current Schedule 9-2, all the costs of administering FTR services (project costs and operating expenses) are recovered on the basis of FTRs held by PJM market participants. PJM proposes to recover 40 percent of its administrative operating expenses and all of its project costs, e.g., computer and software costs, through a bid-based charge.

6. PJM prepared an analysis that assigns 40 percent of FTR administrative operating expenses and 100 percent all FTR administrative project costs to a new FTR billing determinant. The rationale for allocating all the project costs to FTR bid/offer hours is that all hardware and software used by PJM to run FTR auctions are dedicated to the processing of bids and offers. The 60 percent / 40 percent breakup of operating expenses is based on an analysis of PJM's operating resources as a function of administering FTR bidding activity.

7. Schedule 9-3 addresses costs associated with Market Support Services, consisting of all activities performed by PJM in connection with the operation of PJM's Interchange Energy Market and related functions. Such services include market modeling, monitoring, billing and support. Under the current Schedule 9-3, an administrative adder is used to allocate cost responsibility. In the proposed revisions to Schedule 9-3, a new billing determinant is described under which 1.3 percent of Market Support costs would be recovered as a function of "bid/offer segments" (each price/quantity pair submitted into PJM's Day-ahead Energy Market in the form of generation offers, demand bids, virtual offers and virtual bids).[6] PJM also proposes to add accepted increment bids, accepted decrement bids, and accepted "up-to" congestion bids (all representing settled transactions) to the pre-existing billing determinant, to which the remaining 98.7 percent of costs will be assigned.[7]

## IV. Notice of Filing and Responsive Pleadings

8. Notice of the filing was published in the Federal Register on February 13, 2004, with comments, protests, or interventions due on or before March 3, 2004. Timely interventions, comments, or protests were filed by American Municipal Power – Ohio, Inc.; Mirant Corporation; Consumers Energy Company; Epic Merchant Energy L.P.; Sesco Enterprises L.L.C.; Black Oak Energy L.L.C., and DC Energy L.L.C.

[6] This would result in a per bid charge of approximately $.07.

[7] According to PJM, an "up-to" congestion bid allows parties in bilateral agreements to notify PJM of the maximum transmission congestion costs they are willing to bear to maintain their transaction. See PJM's transmittal letter, p. 6.

## V. Comments

9. Epic Merchant Energy L.P. ("Epic"), Sesco Enterprises L.L.C ("Sesco"), and DC Energy L.L.C. ("DC Energy") moved to intervene and provided comments on this proceeding. Epic and Sesco support PJM's proposed revisions to Schedules 9-2 and 9-3 of their tariff, stating that the cost of per-bid charges is not so high as to displace financial marketers out of PJM's markets, and therefore that financial marketers "can support the proposed per-bid charges."[8]

10. Epic and Sesco request, however, that a Commission order approving the proposed charges include a specific rejection of PJM's claim that this tariff reflects a cost assessment in order to prevent PJM from making future cost causation claims based on this tariff. They state, "PJM should not in the future be permitted to assume that financial trading accounts for 17.8 percent of the Market Support operating expenses and 9 percent of Market Support project costs simply because those numbers are stated, without any proof, in the instant PJM filing."[9] Finally, Epic and Sesco want the Commission to disregard statements suggesting that virtual trading strategies are valueless or harmful to PJM.

11. DC Energy also supports PJM's proposed tariff revisions. Further, DC Energy "recognizes that an extremely large number of bids that have little or no prospect of clearing are useless and a drain on PJM's systems."[10] In accepting the changes, however, DC Energy similarly notes its concerns about PJM's economic justification for the calculation of administrative costs related to Market Support Services and urges the Commission to provide guidance on this issue.

## VI. Discussion

12. The changes proposed by PJM are supported by all parties in this proceeding and were unanimously approved by the PJM Members Committee. The specific allocation of expenses to the new bid-based billing determinants was the result of discussions held in the stakeholder process. In effect, the allocations proposed in this filing are a compromise among the various members of PJM. The Commission accepts the rates

[8] Comments of Epic and Sesco, p. 3

[9] Comments of Epic and Sesco, p. 4

[10] Comments of DC Energy, p. 5

resulting from this compromise. The Commission is satisfied that the proposed changes will not sacrifice market liquidity or incentives to participate in financial trading.[11]

13. While the changes to the billing determinants are not contested, several parties have filed comments questioning statements that PJM has made in supporting these changes. The interveners seek assurances from the Commission that the Commission has not relied on these statements in accepting this filing. In reference to interveners' concerns that the estimated Market Support Service charges do not accurately reflect cost causation, PJM admits that the proposal to allocate market support costs is based largely on a compromise resolution reached through the stakeholder process. Accordingly, the analysis conducted and any underlying assumptions in PJM's analysis are not relied on by the Commission in approving the proposed compromise resolution.

14. Epic and Sesco also object to certain statements that PJM makes in the filing regarding the impact of certain virtual trading strategies on the operation of its markets. The Commission clarifies that acceptance of this filing does not constitute a decision on the merits of PJM's statements.

**The Commission Orders**

(A) Commission accepts PJM's OATT revisions for FTR administration and Market Support charges, and grants PJM's request of an effective date of April 1, 2004 for the proposed Schedule 9-2 FTR charge revisions, and an effective date of May 1, 2004 for the proposed Schedule 9-3 Market Support changes.

(B) The Commission waives the 60 day notice requirement of the Federal Power Act to permit the tariff revisions to become effective as stated in paragraph A.

By the Commission

( S E A L )

Linda Mitry,
Acting Secretary.

[11] As the Commission stated in ISO New England, Inc., 106 FERC ¶ 61,294 P 30, n. 22 (2004), a per-bid charge, in theory, should be set at the rate that does not reduce the bidding of financial marketers to a level that decreases their contribution to overall cost recovery and consequently would increase the cost allocation to other customers. While such a rate cannot be perfectly determined, the compromise proposal would seem to satisfy this goal.