

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Nora Mead Brownell, and Suedeem G. Kelly.

PJM Interconnection, L.L.C.

Docket No. ER06-309-000

ORDER ACCEPTING COMMITTEE RESTRUCTURING

(Issued February 6, 2006)

1. On December 9, 2005, PJM Interconnection, L.L.C. (PJM) filed tariff sheets that change its stakeholder committee structure by merging two committees, the Electricity Markets Committee and the Reliability Committee, into a Markets and Reliability Committee (MRC). The Commission accepts PJM's tariff provisions, to become effective February 8, 2006, as requested, which should result in a more efficient planning process because the two committees' work overlaps.

Background

2. PJM's proposal to combine the Reliability Committee and the Electricity Markets Committee requires amending the Amended and Restated Operating Agreement of PJM Interconnection, L.L.C. (Operating Agreement), the PJM Open Access Transmission Tariff (OATT), the Reliability Assurance Agreement Among Load Serving Entities in the MAAC Control Zone (RAA), the PJM West Reliability Assurance Agreement Among Load Serving Entities in the PJM West Region (RAA-West), and the Reliability Assurance Agreement Among Load Serving Entities in PJM South Region (RAA-South).

3. PJM states that these proposed amendments are a result of the PJM stakeholder process. According to PJM, at the 2004 PJM Annual Meeting, members expressed concerns about the ongoing effectiveness and efficiency of the current committee structure. In response, PJM reviewed the stakeholder process and presented a white paper at the March 2005 Members Committee meeting. The topic was again discussed at the 2005 PJM Annual Meeting and a Governance Working Group.¹ According to PJM, the Working Group considered various options and ultimately developed and endorsed a

¹ PJM explains that the Governance Working Group was composed of representatives from all sectors of the PJM membership, and that it met numerous times and examined the current structure, rules and procedures of the stakeholder governance process.

proposal to merge the Reliability Committee and the Electricity Markets Committee into one committee, called the Markets and Reliability Committee (MRC).

4. PJM describes the following procedural steps it took in considering the proposal to merge the committees: The proposal was presented twice to both the Electricity Markets Committee and to the Reliability Committee, in September and October, 2005, at which times members were able to comment. The Members Committee concurrently reviewed the proposal at a meeting on September 29, 2005. The Tariff Advisory Committee reviewed and approved the amendments to implement the committee restructuring proposal at its November 10, 2005, meeting. Lastly, PJM states the Members Committee unanimously approved the proposed amendment on November 17, 2005.

5. PJM describes the proposed committee structure as consisting of two Senior Standing Committees, the existing Members Committee and the new MRC. The MRC, according to PJM, would replace the separate Reliability Committee and Electricity Markets Committee, while assuming the duties of both. In short, PJM explains that:

The MRC will address matters related to the reliable and secure operation of the PJM system and planning strategies to assure the continued ability of the member companies to operate reliably and economically in a deregulated electric power business, consistent with PJM's reliability principles and standards. The MRC will also work with PJM in reviewing the operation of the PJM energy and ancillary services markets (including but not limited to congestion, regulation and spinning reserves) to assure the continued viability and efficiency of the marketplace. In addition, the Markets Implementation Committee[,] the Operating Committee[,] and the Planning Committee will report to . . . [and] provide the MRC advice and recommendations in their areas of expertise.”²

6. In support of its proposal to create the MRC, PJM cites three goals. The first is “the retention of a fair, equitable and efficient process.”³ PJM explains that the proposed structure will result in half the number of meetings while preserving all the related duties of each of the former committees and providing “an enhanced opportunity [for members] to participate in meetings and discuss and review key issues in a more focused forum.”⁴

² PJM Cover Letter at 4. *Accord* Operating Agreement § 8.6.1, Second Revised Sheet No. 37A.

³ PJM Cover Letter at 4-5. PJM explains that as it has grown, so have the number of meetings, topics, and time necessary for members to attend these meetings and track the issues discussed at each.

⁴ *Id.* at 5.

The second is “to eliminate redundant stakeholder committee evaluation.”⁵ According to PJM, reliability issues used to be seen as “clearly separate” from market design issues, a view that is no longer held.⁶ The third is “to reduce the costs of member participation to promote stakeholder participation to the fullest extent.”⁷

Notice of Filing and Responsive Pleadings

7. Notice of PJM’s filing was published in the *Federal Register*, 70 Fed. Reg. 76,803 (2005), with interventions and protests due on or before December 30, 2005. DC Energy, LLC (DC Energy) filed a motion to intervene and comments in support of PJM’s proposal. Baltimore Gas and Electric Company (BG&E) filed a timely motion to intervene and comments opposing PJM’s proposal. Exelon Corporation filed a motion to intervene out of time. PJM filed an answer to BG&E’s comments.

8. BG&E takes issue with PJM’s assertion that the Members Committee vote was unanimous, stating that it voted against the proposed change. Although BG&E “fully supports the efforts of the Governance Working Group to reduce the redundancy of the current PJM committee structure,” BG&E explains that it voted against the proposed consolidation because of concerns regarding issues pertaining to reliability.⁸ BG&E expresses the belief that the proposed restructuring proposal “creates an imbalance among the three interests – Markets, Planning, and Operations – that the original committee structure attempted to provide” by instituting a separate committee for each function, with each committee having its own voice to advise the PJM’s members.⁹

9. BG&E provides flowcharts diagramming the various committee structures over the years.¹⁰ The first iteration, according to BG&E, had three committees under the

⁵ *Id.*

⁶ *Id.* PJM cites experience with Generation Retirements and the Reliability Pricing Model as examples of overlap between the Reliability Committee and the Electricity Markets Committee. PJM suggests that it would be “prudent to consider [reliability and market design] holistically in one committee.” *Id.*

⁷ *Id.* Here, PJM acknowledges the high cost even of new technology that facilitates participation by members who cannot attend in person. Reducing the number of meetings, explains PJM, will save PJM and its members the costs of attending and hosting a larger number of meetings.

⁸ BG&E Comments at 4.

⁹ *Id.*

¹⁰ *Id.* at 4-5.

Members Committee: Energy Markets, Planning, and Operating. In 2001, BG&E explains, a first reorganization occurred: The Energy Markets Committee was renamed the Electricity Markets Committee and the Planning and Operating Committees were placed under a new “Reliability Committee” (placed at the same level in the flowchart as the Electricity Markets Committee).

10. BG&E acknowledges that once the dual committee structure was implemented in 2001, “the Reliability Committee very quickly became a clone of the Electricity Markets Committee, and by and large the same issues were discussed and voted on by the same participants in two separate forums.”¹¹ But BG&E parts ways with PJM in how to resolve what both consider to be a redundancy.

11. BG&E argues that PJM’s proposal is “at the expense of providing at least an equal status for reliability as it establishes for marketing concerns,” and that the proposed structure would “creat[e] an imbalance, with all reliability issues essentially being subservient to the interests of the marketplace.”¹² BG&E further explains that “[t]his imbalance may not be readily apparent . . . but experience with the original Energy Markets Committee that was eliminated for this very reason indicates that the newly proposed Markets and Reliability Committee will result in the same relegation of reliability concerns as secondary, and subordinate, to market interests.”¹³ In support of this claim, BG&E states that its management and professional engineering and operational personnel “are concerned that reliability issues could become blocked or filtered by a committee whose overriding concern will be the marketplace and whose predominant participants will be marketing department representatives,” resulting in an inadequate review of system-wide reliability considerations.¹⁴

12. BG&E recommends that the proposed structure be changed to have the Planning Committee and the Operating Committee consider reliability issues independent of market issues and then forward recommendations directly to the Members Committee, bypassing the MRC. Alternatively, BG&E recommends that the Markets and Reliability Committee be separated into two free-standing committees.

13. PJM submitted an Answer to BG&E’s Comments. In its Answer, PJM characterizes BG&E’s comments as consisting of “unsupported fears” and contends that

¹¹ *Id.* at 5.

¹² *Id.* at 6.

¹³ *Id.*

¹⁴ *Id.* at 7.

BG&E did not make the case that the proposed reorganization is unjust or unreasonable, discriminatory, or otherwise unfair.¹⁵ PJM believes, contrary to BG&E's comments, that PJM members will send persons to the MRC that are qualified in, and not ambivalent towards, reliability matters.¹⁶ PJM states that it organizationally "has an obligation, independent from its membership, to maintain reliability," and that PJM and its Board of Managers "take seriously this important priority."¹⁷ PJM also objects to BG&E's argument that reliability and markets conflict; instead, PJM advocates "a holistic approach to market design – one where market forces create signals and incentives to promote *both* reliable and efficient outcomes."¹⁸ PJM argues that, in any event, the Commission should defer to PJM's proposal because the changes are merely "the form of parliamentary process selected to govern the communication of advice from the PJM members to the independent PJM Board."¹⁹

Discussion

A. Procedural Matters

14. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2005), the timely motions to intervene serve to make the entities that filed them parties to this proceeding. Given the early stage of this proceeding and the absence of any undue prejudice or delay to any party, also pursuant to Rule 214, the Commission will grant out-of-time unopposed motions to intervene. PJM filed an answer on January 11, 2006. Under Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 213(a)(2) (2005), answers to protests are not accepted unless otherwise ordered by the decisional authority. The Commission will accept PJM's answer because it further clarifies the issues and assisted in our decision making process.

B. Analysis

15. The Commission concludes that this organizational change will not diminish JM's focus on reliability and should result in more efficient dialogue because the two committees' work overlaps and more logically belongs in a single venue. Accordingly,

¹⁵ PJM Answer at 3.

¹⁶ *Id.* at 4.

¹⁷ *Id.* at 5.

¹⁸ *Id.*

¹⁹ *Id.* at 3.

the Commission will accept PJM's proposed revisions to its Operating Agreement, OATT, RAA, RAA-West and RAA-South to be effective February 8, 2006, as requested.

16. PJM explains that this combination of committees will assume the duties of both of the former committees. Our review of the tariff sheets confirms that all responsibilities of the former Reliability Committee and Electricity Markets Committee are included in the responsibilities of the new Markets and Reliability Committee.

17. According to PJM there is significant overlap in the missions of the two committees, and having one forum to discuss the related "markets" and "reliability" issues is more efficient than having two separate meetings to discuss often overlapping issues. PJM also explains that the proposed structure of fewer committees will result in fewer committee meetings, a more efficient system especially for those members with particularly limited resources. The participants agree that this revised structure will be more efficient, and no one, other than BG&E, raises a concern about a potential effect on reliability planning.

18. While the Commission shares BG&E's concern that reliability not be given short shrift, BG&E has provided no examples to date of reliability issues not being given sufficient attention. BG&E concedes the two committee meetings currently held are "clones" of each other, so consolidation of the meetings should not result in much substantive change. Moreover, while the MRC provides advice and recommendations, PJM, pursuant to its tariff, operating agreement, and reliability assurance agreements, still retains the obligation to ensure system reliability.

The Commission orders:

The Commission accepts PJM's tariff provisions, to become effective February 8, 2006, as requested.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.