UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Atlantic City Electric Company, *et al.* Docket No. EL06-55-000
Complainants

v.

PJM Interconnection, L.L.C.
Respondent

ORDER ON COMPLAINT REQUIRING COMPLIANCE WITH
EXISTING TARIFF PROVISIONS AND RELATED FILINGS

(Issued May 1, 2006)

1. On March 2, 2006, Atlantic City Electric Company, Delmarva Power & Light Company, and Potomac Electric Company (collectively the PHI Companies) filed a complaint against PJM Interconnection, L.L.C. (PJM). The complaint alleges that PJM is in violation of its tariff because PJM is using an average loss method of determining transmission line losses rather than the locational marginal loss method now required by section 3.2.5 of the Operating Agreement (OA) appended to its Open Access Transmission Tariff (OATT).[1] For the reasons discussed below, the Commission finds that PJM is in violation of this portion of its FERC tariff. In order to provide the parties with additional time in which to resolve remaining issues, the Commission will establish October 2, 2006 as the date when PJM must implement the locational marginal loss method contained in its tariff.

[1] Sections 3.2.5(a) and 3.4.2 (a) of the Operating Agreement of the PJM Tariff, attached to the OATT as Schedule K.

2. Sixty days prior to October 2, 2006, PJM must file revised tariff sheets to section 3.2.5 of its OA and OATT to reflect the use of the marginal loss method and to resolve any outstanding issues. If PJM and its stakeholders have not resolved a method for allocating surplus revenues collected through the locational marginal loss method, it should retain such revenues in an escrow account earning interest until this issue is resolved.

I. Background

3. By way of background, PJM is a regional transmission organization (RTO) serving some 51 million people in Pennsylvania, New Jersey, Delaware, Maryland, the District of Columbia, Virginia, and parts of North Carolina, Tennessee, West Virginia, Ohio, Illinois, and Michigan. PJM manages an electric wholesale market in this area and is responsible for interstate transmission within and through it. As in the case of all electric transmission, there is some loss of the scheduled megawatts as the power is transmitted from the point of generation to the point of delivery. That is, the total megawatt-hours of energy received by customers is less than the total megawatt-hours of energy produced by generators. Such loss results in a cost PJM incurs to maintain the level of the scheduled power and to deliver it under conditions of system reliability. PJM currently recovers the costs of losses equally from all loads via an uplift charge equal to the average loss cost per megawatt-hour of load. As a result, except for the cost of congestion, the energy price does not vary by location. In addition, under the existing average loss method, PJM ignores the effects of losses in determining which generators to dispatch to meet its loads.

4. The issue raised by the complaint is whether PJM is obligated to change from the average loss method of recovering line losses to a marginal loss method. Under the marginal loss method, the effect of losses on the marginal cost of delivering energy is factored into the energy price (*i.e.*, the Locational Marginal Price, or LMP) at each location. Other things being equal, customers near generation centers pay prices that reflect smaller marginal loss costs while customers far from generation centers pay prices that reflect higher marginal loss costs. In addition, under the marginal loss method (and unlike under the current average loss system), PJM would consider the effects of losses in determining which generators to dispatch in order to serve load at least cost. As a result, the actual cost of meeting load would be reduced by using the marginal loss method.[2]

[2] For example, suppose that there are two alternative generators that could serve an incremental load. One generator is located far from the load and can produce energy at a marginal cost of $50 per megawatt-hours. However, because of its distance from the load, the marginal losses of delivering its energy to the load is roughly 10 percent. That is, in moving energy from the generator to the load, 0.1 megawatt-hour is lost for every

(continued…)

5. Use of the marginal loss method will result in PJM overrecovering its expenditures for the following reason. It is a characteristic of the electric grid that marginal losses increase as the number of megawatts of power moved on the grid increases. It is a principle of mathematics that whenever any variable is continuously increasing, the marginal value of the last unit exceeds the average of all the units. As a result, marginal losses will always exceed average losses. Using a hypothetical example, if only 100 megawatts of power is moved from a single source to a single sink, one megawatt would be lost, or a percent loss. But if 200 megawatts of power are dispatched over the line, the second 100 megawatts incur a loss of two megawatts, or a 2 percent marginal loss. (The total loss of megawatts for the 200 megawatts is three). Since each customer contributes to the amount of power dispatched, each customer should pay equally for the marginal loss of 2 percent.[3] However, PJM must purchase only three megawatts for the 200 total megawatts dispatched, so that the average loss would be 1.5 percent (loss of 3 megawatts/200 megawatts). Thus, the marginal losses always exceed the average loss so that PJM will always collect more revenues from load than it has to pay to generators to cover the losses.

II. The Complaint

6. According to the complaint, the PJM OATT provides that PJM shall begin recovery of line loss costs on a locational marginal loss method "whenever [PJM] has in

---

1 megawatt-hours delivered. Thus, in order to deliver 1 megawatt-hour to the load, the generator must produce 1.1 megawatt-hours. Thus, the marginal cost of delivering 1 megawatt-hour to the load would be the cost of producing 1.1 megawatt-hours, *i.e.*, $55. The second potential generator is located at the same location as the load, and thus, no losses would be incurred in delivering its energy to the load. The second generator can produce energy at a marginal cost of $52 per megawatt-hours, and the marginal cost of delivering its energy to the load is also $52 per megawatt-hours , since delivery would involve no losses. Under the marginal loss method, PJM would select the second generator, since the actual marginal cost of delivering energy to load is $3 lower with the second generator ($52) than with the first generator ($55). However, under the current average loss method, PJM would ignore the effect of losses. Thus, PJM would select the first generator because its production cost ($50) is lower than the second generator's production cost ($52). The result is that the actual cost of serving the load would be $3 per megawatt-hours lower (*i.e.*, $52 compared with $55) under the marginal loss method than under the average loss method.

[3] In other words, if there are two customers in this example, there is no basis to say that one customer should contribute only one megawatt, while the second customer contributes two megawatts.

place appropriate computer hardware, software, and other necessary resources to account for marginal losses in the dispatch of energy and the calculation of Locational Marginal Prices."[4] The complaint further alleges that PJM now has the ability to implement the locational marginal loss method in accordance with the tariff, but due to disagreements among its stakeholders, has declined to do so. It also asserts that PJM's failure to implement the locational marginal loss method violates Commission policy supporting the use of that method. The complaint states that PJM has estimated that switching to the marginal loss method would reduce the actual cost of meeting load by about $100 million per year and that some $76 million of this inefficiency falls on the complainant PHI Companies.

7. The complaint therefore asserts this violates PJM's general obligation to operate an efficient interstate grid and is also inconsistent with the LMP method PJM uses to allocate other costs in the transmission of wholesale power. The complaint therefore requests the Commission direct PJM to adopt the locational marginal loss method for allocating transmission losses contained in its OATT no later than June 1, 2006.

III. Notice, Interventions, and Comments

8. Notice of the complaint was issued on March 3, 2006. The following intervened in support of the complaint: Dominion Resources Services, Inc., Exelon Corporation, Consolidated Edison Energy, Inc., Williams Power Company, Inc., NRG Companies, the Mirant Parties,[5] the First Energy Companies,[6] the CEG Companies,[7] and the FPL Energy Generators.[8] The following intervened in opposition to the complaint: Delaware

[4] Section 3.2.5(a) of the PJM Operating Agreement.

[5] Mirant Energy Trading, LLC, Mirant Chalk Point, LLC, Mirant Mid-Atlantic, LLC, and Mirant Power River, LLC.

[6] Jersey Central Power & Light Company, Metropolitan Edison Company, and Pennsylvania Electric Company.

[7] Constellation Energy Commodities Group, Inc., Constellation Generation Group, LLC, Baltimore Gas and Electric Company, and Constellation NewEnergy, Inc.

[8] FPL Energy Marcus Hook, L.P., FPL Energy MH50, L.P., North Jersey Energy Associates, L.P., Doswell Limited Partnership, Backbone Mountain Windpower LLC, Somerset Windpower LLC, Meyersdate Windpower LC, Waymart Wind Farm, LP, and Pennsylvania Windfarms, Inc.

Municipal Electric Corporation, Inc. (DMEC), EME,[9] American Electric Power System (AEP),[10] the PJM Industrial Customer Coalition, and the Dayton Power and Light Company (Dayton). American Municipal Power-Ohio, Inc. intervened and requested a technical conference to explore several issues. There were several interventions that took no position[11] while the PSEG Companies[12] and the PPL Parties[13] requested permission for late intervention. The Commission concludes that late intervention at this point will not unduly delay the proceedings or prejudice any other party and the requested interventions are granted. PJM filed an answer and the PHI Companies filed a reply.

IV. The Comments, Answers, and Replies

9. The comments in support of the complaint generally assert that a market design that includes the effect of marginal losses in the dispatch of generation is a more efficient design than basing generation dispatch on "average losses." Exelon specifically notes that the existing average loss dispatch and settlement in PJM requires Point-to-Point Transmission Customers to pay for an additional percentage of energy (3 percent on-peak and 2.5 percent off-peak) at the weighted average LMP at the applicable load bus(ses) or to pay for losses "in kind." Network transmission customers must pay their pro rata share of the physical losses in their relevant zone at the relevant LMP, no matter where those losses occur. Exelon notes that average loss dispatch fails to recognize that dispatching generating units electrically located further away from load centers causes the PJM system to incur more electric losses than dispatching generators located closer to the load center. Thus, marginal loss dispatch recognizes the differing physical losses from individual generators to the PJM load centers through a set of adjustments to the LMP at

[9] Collectively Edison Mission Energy, Edison Mission Marketing and Trading, Inc., and Midwest Generation EME, LLC.

[10] Collectively Appalachian Power System, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company, and Wheeling Power Company.

[11] Allegheny Power and Allegheny Energy Supply Company, LLC, the City of Hagerstown and the Town of Thurmont, Maryland, and the Town of Front Royal, Virginia, North Carolina Electric Membership Corporation, Public Service Commission of Maryland, Reliant Energy, Inc., Southern Maryland Electric Cooperative, Inc., and UGI Utilities, Inc.

[12] Public Service Electric and Gas Company and PSEG Energy Resources and Trade, LLC.

[13] PPL Electric Utilities Corporation and PPL Energyplus, LLC.

each generator and load bus. Exelon states that this is a more efficient method of assigning losses and has proven to be the preferred solution in other regional markets, such as the Midwest Independent System Operator (Midwest ISO) and ISO New England, Inc. (ISO-NE). Exelon also asserts that because the marginal dispatch will minimize losses incurred on the transmission system to the extent that it is economical to do so, the total megawatts needed to service load will decline with a reduction in total production costs. Exelon supports the complaint, but suggests that a more practical implementation date is June 1, 2008. Other intervenors in support of the complaint make similar assertions, including that short term marketing decisions will be more efficient because losses at the margin will be more accurately reflected and attributed to specific market participants. Certain of the supporting parties suggest that implementation would be practical as of June 1, 2007.

10. The parties opposing the complaint assert that the complaint is ill founded for both substantive and procedural reasons. They assert that the anticipated efficiencies from use of a locational marginal loss method for recovery of transmission losses are only estimates and that there are several fundamental concerns that may outweigh those benefits. These concerns are that: 1) use of marginal losses will impair price transparency; 2) the marginal loss method would increase market participants' reliance on the real-time market for balancing; and 3) the method would undercut firm transmission rights (FTRs) and the market participant's ability to hedge market price risk.

11. First, opponents argue price transparency will be impaired because prices will be more complex and harder to track, thereby reducing the efficiency of the marginal loss method. Second, they argue that parties will rely increasingly on the real-time market because the marginal loss calculation will inject an additional variable in the determination of the market clearing price that would be considered separately for the day-ahead and real-time energy markets. This additional variable, they allege, will make it harder to accurately price the bids that should be made. Third, they argue that the effectiveness of FTRs will be impaired if the locational marginal loss method were implemented in the middle of the year. They further allege that it is unclear whether line losses could be hedged because they are not congestion related, but are costs of production.

12. More specifically, AEP states that it appreciates the merit of the marginal loss concept of dispatch and does not oppose it in theory. It notes that, as a mature market participant, it should understand the details of how the proposal would work, and has therefore requested additional information from PJM, including: (1) more information from the PJM GEMAPS results; (2) a request for PJM to perform a benchmark study comparing the GEMAPS results with actual PJM dispatch results; (3) a request for certain items left unanswered in the relevant PJM tutorial; (3) a request for a more robust set of business rules rather than the two-page set that was posted on PJM's website and the suggestion of some 15 additions to the business rules; (4) a recommendation for a

process to be used to determine the most appropriate allocation method; and (5) a request to explore other methods for the allocation of over-collections that are fair and reasonable. AEP states that, as of the date of the membership vote in January 2006, none of the requested items had been addressed, much less resolved by PJM or through the stakeholder process. AEP notes that in many zones generation prices actually increase in price due to the marginal loss component and that these technical matters remain unresolved despite the anticipated negative impacts.

13. The opposing parties also assert that, most importantly, PJM has no method for allocating the surplus revenue that will result if the locational marginal loss method of allocating transmission losses is implemented. At present, the cost of such losses is billed on an average loss method across all PJM load. The amount collected by PJM therefore is equivalent to the amount PJM must pay to generators.

14. However, they argue that, as described above, adoption of the marginal loss method will result in PJM collecting more revenue than it must pay out to compensate for the transmission losses. The opposing parties assert that the surplus resulting from the fact that marginal costs exceed average costs would range from $308 to $485 million per year. Thus, the projected surplus that would result from PJM's collection of the costs for transmission losses would exceed the estimated $100 million in system efficiencies projected to result from implementing the locational marginal loss method for recovering line transmission losses.

15. Dayton specifically asserts that the shift of some $76 million away from the PHI Companies would be unduly preferential. AEP similarly asserts that while there would be some drop in the prices paid by its own load because that load is located close to AEP generation sources, the over-collection problem would greatly increase its overall costs. AEP claims that based on one proposed allocation method, the PHI Companies would obtain 20 percent of the surplus even though they represent only 10 percent of the PJM load. AEP asserts that the allocation method advanced by the complainants would thus unfairly favor east coast utility interests. AEP and other parties opposing the complaint further assert that PJM admits it cannot fairly and reasonably allocate the resulting surplus until at least July 2008. They thus conclude that, simply on practical grounds, the complaint is premature and in any event it is not possible to implement the tariff by the requested June 1, 2006 date. They assert that, in any event, the risks of using the locational marginal loss method exceed its potential benefits. They, therefore, conclude that one aspect of the PJM OATT tariff has not been satisfied; namely that there be a fair method for allocating the surplus revenues that would result from implementation of the locational marginal loss method for allocating transmission losses. For this reason they conclude that PJM is not in violation of its tariff and that the complaint should be dismissed.

16. The opposing intervenors also contest the complaint on procedural grounds. They assert that the issue of transmission losses has been under review through the PJM stakeholder process for some time. They assert that a clear majority, in excess of 70 percent, of the stakeholder groups oppose the implementation of that method and that those members have concluded that PJM's OATT should be amended to remove the tariff provision providing for the implementation of the method. The complaint thus attempts to do an end run around the stakeholder process and the Commission should not take action until that process is completed, particularly given the complexity of the issues involved. They state that the Commission has dismissed other complaints on the grounds that failure to complete the stakeholder process is a failure to exhaust administrative remedies before filing a complaint with the Commission.[14] Since the stakeholder process is ongoing, the Commission should follow these precedents. They further argue that the complaint does not meet the standards of section 206 of the Federal Power Act (FPA) because the PHI Companies do not propose to change the tariff on the grounds that an existing provision is unjust and unreasonable nor is PJM, in fact, in violation of the relevant OATT provisions because the method for allocating any surplus has not been determined. Therefore, they contend the complaint should be dismissed or at least held in abeyance until the allocation method is developed through the stakeholder process, or until the relevant tariff provisions are amended pursuant to a section 205 filing by PJM.

17. In its answer, PJM admits that it is technically feasible at this point for it to charge transmission losses on the locational marginal loss method. However, like the opposing parties, it asserts that the complaint is premature because the stakeholder process has not been completed, nor has the matter been addressed through the independent authority of its Board. PJM thus argues that the Commission should follow its long standing practice of requiring completion of the stakeholder process before accepting a complaint, and that this is particularly appropriate given the operating and management discretion the Commission has afforded RTOs. PJM further asserts that the complaint does not comply with the requirements of section 206 of the FPA because the PHI Companies have not alleged that the existing PJM OATT is unjust and unreasonable nor have they advanced an alternative the Commission should adopt. Thus, the complaint should be dismissed until the stakeholder process is complete or the PJM Board decides to act on its own initiative. PJM states that the internal deadline to complete the stakeholder process is now spring of 2007.

---

[14] *Citing Niagara Mohawk Power Company, a National Grid Company v. New York State Reliability Council and New York Independent System Operator, Inc.*, 114 FERC ¶ 61,098 (2006) at P 22 and *Enron Power Marketing, Inc.*, 106 FERC ¶ 61,182 (2004) at P 12.

18. The PHI Companies' reply asserts that the complaint is appropriate because PJM has failed to comply with an explicit provision of its tariff and apparently has no intention of doing so. They argue that failure to comply with the provisions of a tariff is grounds for a complaint and remedy under the FPA.[15] It asserts that the relevant provisions of the OATT require the implementation of the locational marginal loss method for recovering transmission losses once PJM has the technical resources to do so, and PJM admits it has those resources. Therefore, they assert the Commission should accept the complaint and order that PJM implement the location marginal loss method in section 3.2.5 on June 1, 2006.

V. Discussion

19. The Commission concludes that PJM has violated its tariff by not implementing the locational marginal loss method for recovering transmission line losses. Section 3.2.5(a) of the Operating Agreement provides:

> Whenever the Office of Interconnection has in place the appropriate computer hardware, software, and other necessary resources to account for marginal losses in the dispatch of energy, and the calculation of Locational Marginal Prices, loss accounting shall be determined on that basis, and the provisions of this Section shall be revised accordingly. Until such time, the following accounting provisions for losses shall apply. (Emphasis added)

PJM concedes in its answer that it has the computer hardware and software to account for losses in its dispatch and to have those losses reflected in the LMPs at the point where power is delivered. PJM bases this conclusion regarding technical feasibility on a recommendation in an August 15, 2005 Working Group Report that determined that there were no longer any impediments to implementing the marginal loss method in a timely and cost efficient manner. Thus, PJM is required by the OA and its OATT to implement that provision.

20. Contrary to the assertions of the parties opposing the complaint, section 3.2.5 does not require that there be a method for recovering any surplus revenues as a pre-condition of implementing the location marginal loss method contemplated by that section and the recovery of the cost of line transmission losses in the locational marginal prices utilized by PJM's energy market. Section 3.2.5(a) of the OA only requires that the marginal loss

[15] *Citing* Section 306 of the FPA, which the complainants assert grants a broad right to any person or electric utility to complain "of anything done or omitted to be done by any license, transmitting utility or public utility in contravention of the provisions of this Act…"

calculation be feasible. Thus, the controlling concept is that section 3.2.5 (a) shall be implemented when it is technically feasible to determine what those losses would be and how to price them using the locational marginal cost method. Once that occurs, the OA requires that "loss accounting shall be determined on that basis, and the provisions of this Section shall be revised accordingly" to reflect the implementation of section 3.2.5(a). Thus, implementing locational marginal losses is obligatory under the tariff, while the allocation of surplus revenues must be determined separately as part of the adjustment of the initial accounting procedures referred to in section 3.2.5(a).

21. The fact that these sections must be revised once the necessary technical resources are available to account for marginal losses establishes that it is the use of the locational marginal loss method to determine those losses, not the allocation method for surplus resources, that controls when section 3.2.5 should be implemented. In fact, the language of section 3.2.5 does not suggest that there is a right for individual utilities to recover any or all of the surplus revenues that might result; only that the existing accounting provisions are to be revised as part of implementing the locational marginal loss procedures. The purpose of section 3.2.5 is to achieve the efficiencies of the locational marginal loss method of recovering transmission line loss costs when this is practical as an engineering matter, and the accounting procedures must follow as a necessary component of such a change. The Commission has previously recognized that implementation of marginal loss provisions should not be dependent on resolution of the accounting procedures.[16]

22. The locational marginal loss provision is consistent with similar tariff provisions in other RTO tariffs and with the efficiency goals that underpinned the Commission's approval of those provisions, including the Midwest ISO, the NYISO, and ISO-NE.[17]

---

[16] *See Midwest Independent Transmission System Operator, Inc.*, 102 FERC ¶ 61,196, P 54 (2003) ("we do not believe that the lack of a specific crediting mechanism represents an impediment to relying upon marginal losses, nor do we believe that it is a reason for using a less efficient pricing mechanism, such as average losses").

[17] The complaint lists the following: The New York Independent System Operator (NYISO), Midwest ISO, ISO-NE, and the California Independent System Operator (CAISO). *See e.g. Central Hudson Gas & Electric Co., et al.*, 86 FERC ¶ 61,062, *reh. denied,* 88 FERC ¶ 61,138 (1999); *New England Power Pool,* 100 FERC ¶ 61,287 (2004) at P 10. (2003), *Midwest Independent Transmission System Operator, Inc*., 102 FERC ¶ 61,196 (2003) (*MISO*), *Northeast Utilities Service Company and Select Energy, Inc. v. ISO New England Inc. and New England Power Pool*, 109 FERC ¶ 61,204 (2004), and *California Independent System Operator Corporation*, 107 FERC ¶ 61,140 (2003) at ¶ 76, *order on reh.*, 107 FERC ¶ 61,274 (2004).

Billing on the basis of marginal costs ensures that each customer pays the proper marginal cost price for the power it is purchasing. It therefore complements and reinforces PJM's use of LMP to price electricity. Moreover, by changing to the marginal losses method, PJM would change the way that it dispatches generators by considering the effects of losses. As a result and as explained earlier,[18] the total cost of meeting load would be reduced. PHI states that PJM estimates that this cost reduction would be about $100 million per year. Implementation of marginal losses, therefore, would produce a more efficient allocation of resources.

23. As all those who comment on this issue recognize, the issue of accounting or crediting arises because billing on the basis of marginal losses (which is the correct marginal price for each customer) results in an over collection by PJM of its actual costs of procuring generation to compensate for line losses. This occurs because marginal losses will always exceed average losses. The opposing parties estimate that the over collection would range from $305 to $485 million per year. Because the over collection would exceed the $100 million per year reduction in the cost of meeting load, the opposing parties argue that market participants in the aggregate will be harmed by the marginal loss method. However, the over collection will be returned to market participants, since PJM is a not-for-profit entity, and cannot retain such over collections. Thus, the over collection will not offset the $100 million cost savings in meeting load, and market participants in the aggregate would benefit from the marginal loss method.

24. Of course, a method needs to be determined for disbursing the over collected amounts. Customers, however, are not entitled to receive any particular amounts through disbursement of the over collections, since the price they are paying (based on marginal losses) is the correct marginal cost for the energy they are purchasing. In fact, the Commission has made clear that the method for disbursing the amounts of any over collections should not directly reimburse customers for their marginal loss payments, as such a collection would interfere with the goal of basing prices on marginal losses:

> We further stated that "[r]efunding excess loss revenues to the participants who incurred the losses would undermine the usefulness of including marginal losses in the LMP calculations." Refunding the excess LMP revenues to those who paid would result in those purchasers no longer paying the marginal cost for energy – the basic foundation of LMP.[19]

25. To make the procedures for disbursing the over collections the controlling factor,

---

[18] See Paragraph 4.

[19] *Northeast Utilities Service Company*, 109 FERC ¶ 61,204, P 21 (2004).

as urged by the opponents of the complaint, therefore, stands the OA provision requiring marginal loss billing on its head. The important issue is complying with the tariff requirement to bill customers on the basis of marginal losses, not the accounting treatment of over collections.

26. Those opposing the complaint contend that the Commission should permit the stakeholder process to reach a resolution. While the Commission has recognized the benefits of the stakeholder process, disagreements among stakeholders cannot prevent implementation of provisions of the OA and OATT already accepted and on file with the Commission. The complaint here is appropriately filed because it seeks enforcement of an existing provision of PJM's OA and OATT. The stakeholder process, therefore, should not focus on whether to enforce the existing OA and OATT provisions; rather these discussions should focus on developing the accounting rules to accommodate the marginal loss method.

27. The Commission, however, will accommodate the stakeholder process as suggested by some commenters by delaying implementation of the marginal loss method until October 2, 2006, to give PJM and its stakeholders time to develop the accounting procedures, so that they can be implemented coincident with the marginal loss method. PJM must file 60 days prior to October 2, 2006 to revise section 3.2.5 of its OA and OATT to reflect the use of the marginal loss method. If PJM, and its stakeholders have not resolved a method for allocating surplus revenues collected through the locational marginal loss method by October 2, 2006, PJM should retain such revenues in an escrow account earning interest until this issue is resolved.

The Commission orders:

(A) The Commission accepts the complaint filed in this proceeding.

(B) PJM shall implement the locational marginal loss method for allocating transmission line losses contained in section 3.2.5 of the Operating Agreement appended as Attachment K to its OATT no later than October 2, 2006.

(C) PJM shall also make a compliance filing and revised tariff sheets not later than 60 days prior to October 2, 2006, to resolve any remaining issues regarding the implementation of section 3.2.5.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.