137 FERC ¶ 61,003
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Marc Spitzer, Philip D. Moeller,
John R. Norris, and Cheryl A. LaFleur.

PJM Interconnection, L.L.C. Docket No. ER11-4228-000

ORDER ACCEPTING TARIFF REVISIONS

(Issued October 3, 2011)

1. On August 4, 2011, PJM Interconnection, L.L.C. (PJM) filed a proposed revision to section 7.3.6(c) of Schedule 1 of the Amended and Restated Operating Agreement of PJM Interconnection, L.L.C. (Operating Agreement) and the parallel provision of the Appendix to Attachment K of the PJM Open Access Transmission Tariff (Tariff), to clarify that Financial Transmission Rights (FTRs) with a zero clearing price (zero cost FTRs) will only be awarded if there is a minimum of one binding constraint in the auction period on which the FTR has a non-zero impact. As discussed below, the Commission accepts the proposed tariff revisions, effective August 5, 2011, as requested.

I. <u>Background and Details of the Filing</u>

2. An FTR is a financial instrument that entitles its holder to receive compensation for transmission congestion charges that arise when the transmission grid is congested in the Day-ahead Market and differences in day-ahead congestion prices result from the dispatch of generators out of merit order to relieve the congestion.[1] Each FTR is defined from a point of receipt to a point of delivery.[2] For each hour in which congestion exists on the transmission system between the receipt and delivery points specified in the FTR, the holder of the FTR is awarded a share of the transmission congestion charges collected from the market participants.[3] FTRs can be acquired in four market mechanisms: the Long-term FTR Auction, Annual FTR Auction, Monthly FTR Auction, or the FTR Secondary market.

---

[1] PJM Manual 6: Financial Transmission Rights, sec. 1, p. 9.

[2] *Id*.

[3] *Id*.

3. Under PJM's existing Tariff, the hourly economic value of an FTR is based on the FTR MW reservation and the difference between day-ahead congestion prices at the sink point (point of delivery) and the source point (point of receipt) designated in the FTR. If a constraint exists on the transmission system in the Day-ahead Market, the holders of FTRs receive a credit or payment obligation based on the FTR MW reservation and the congestion price (i.e., the locational marginal price difference between point of delivery and point of receipt.) The FTR holders receive a zero credit (i.e., the FTR is neither a benefit nor a liability) when the congestion price between the FTR's source and sink is zero in the Day-ahead Market.

4. PJM states that, while it has generally been at or near 100 percent revenue adequacy for FTRs since the incorporation of FTRs into the PJM markets, it recently experienced FTR revenue inadequacy in the 2010/2011 planning period. PJM explains that its Market Implementation Committee (MIC) approved the creation of the FTR Task Force to investigate the causes of the FTR revenue inadequacy and identify potential improvements.[4] PJM explains that it determined that several factors led to the 2010/2011 FTR revenue inadequacy, including zero cost FTRs, and that it first identified and presented the zero cost FTR issue to the FTR Task Force on May 23, 2011.

5. PJM states that most FTRs that have a zero clearing price provide no congestion hedge, no market liquidity, zero revenue, and serve only to introduce revenue inadequacy and credit risk. PJM argues that these zero cost FTRs could result in an unlimited amount of MWs of FTRs awarded, with unlimited potential impacts on revenue adequacy and credit. According to PJM, this is because the majority of zero cost FTRs are from monthly bids where the source and sink are located at the same station at adjacent nodes.[5] PJM explains that, normally, FTRs clear between nodes that are connected by facilities for which PJM is able to model their physical limitations, and therefore, the quantity of MWs of FTRs that can clear is limited by the physical capability of the connecting facilities. PJM states that, in contrast, the majority of zero cost FTRs are currently bid at nodes that are separated by facilities for which PJM does not have detailed modeling of the associated loads and sub-transmission. According to PJM, while the clearing price for these FTRs is zero because the source and sink points are electrically the same in the FTR model, the zero cost FTRs can suddenly have significant positive or negative value if the system configuration in the Day-ahead Energy Market differs from the configuration in the FTR auction.

---

[4] *See* PJM's Issue Tracking Webpage at: http://www.pjm.com/committees-and-groups/issue-tracking/issue-tracking-details.aspx?Issue={759ECF2E-D3AE-4AC3-88FB-8D3E45CBA614}.

[5] PJM notes that zero cost FTRs can also result from other circumstances, including where FTRs clear between two adjacent stations connected by a radial line.

6. In order to eliminate unnecessary bids that provide no congestion hedge or market liquidity, and that otherwise present a significant risk to FTR revenue adequacy and credit, PJM proposes to add the following sentence to the end of section 7.3.6(c) of the Operating Agreement and the parallel provision of the Appendix to Attachment K of the Tariff: "Financial Transmission Rights with a zero clearing price will only be awarded if there is a minimum of one binding constraint in the auction period for which the Financial Transmission Rights path sensitivity is non-zero." PJM believes that this proposed revision will remove the risk of revenue inadequacy and credit exposure that zero cost FTRs pose to its market participants. PJM argues that, while the impact of zero cost FTRs has historically been small, the future impacts could be much more significant.[6] PJM states that its proposed revision was approved by the PJM MIC and the PJM Markets and Reliability Committee, and was overwhelmingly endorsed by the PJM Members Committee.

7. PJM states that the new procedure will only apply to zero cost FTRs which do not have an impact on any of the constraints that bind in the FTR auction. PJM explains that it has developed a procedure in order to prevent the elimination of zero cost FTRs that do provide liquidity and value to the system even though there is no price difference between the source and sink nodes in the FTR model. Prior to eliminating any such zero cost FTRs from clearing in the FTR auctions, PJM will determine whether such zero cost FTRs have an impact on any of the binding constraints in the FTR auction. PJM affirms that zero cost FTRs that have an impact on any constraints that bind in the FTR auction will not be eliminated from the FTR auction clearing.

8. PJM requests waiver of the notice requirement in section 35.3 of the Commission's regulations[7] to permit an effective date of August 5, 2011 for the proposed revision. PJM argues that there is good cause to grant the requested waiver because time is of the essence in order to prevent further risk to FTR revenue adequacy and credit, particularly since PJM stakeholders are now knowledgeable on the zero cost FTR issue and may exploit the weakness in the PJM rules. PJM states that it will conduct the September 2011 FTR Auction and all future FTR Auctions to be held thereafter while Commission action is pending, as if the proposed revision were in effect.

---

[6] PJM states that, since June 2010, an average of 18 percent of cleared monthly FTR MWs were zero cost FTRs, of which 52 percent were from source and sink points located at the same station. PJM states that these zero cost FTRs resulted in approximately $11.3 million of FTR revenue inadequacy over the same time period.

[7] 18 C.F.R. § 35.3 (2011).

II. **Notice of Filing and Responsive Pleadings**

9. Notice of the filing was published in the *Federal Register*, 76 Fed. Reg. 49,762 (2011), with interventions, comments, and protests due on or before August 25, 2011. Timely motions to intervene were filed by NRG Companies;[8] Borough of Chambersburg, Pennsylvania; and American Municipal Power, Inc. Motions to intervene and comment were filed by Exelon Corporation (Exelon) and FirstEnergy Companies (FirstEnergy).[9] No protests were filed. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure,[10] the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

10. Commenters support PJM's proposed tariff revisions. Exelon states that PJM's proposed tariff revisions will ensure that zero cost FTRs that do not provide a congestion hedge or market liquidity, but have the potential to skew the revenue collection for FTRs, are not awarded. FirstEnergy urges the Commission to accept PJM's proposed revisions and, additionally, urges the Commission or Enforcement Staff to initiate an investigation. FirstEnergy asserts that PJM's May 23, 2011 presentation to stakeholders "effectively instructed market participants how to engage in FTR transactions that would undermine the efficiency of the markets in a manner inconsistent with the purpose and design of the markets."[11] FirstEnergy states that "market participants were on notice from May 23, 2011 forward that such transactions were inappropriate, provided no benefit, value or practical function for the markets, and were inconsistent with the intent of the PJM market rules," and, therefore, "market participants should not have obtained Zero Cost FTRs after that date."[12] Accordingly, FirstEnergy urges the Commission or Enforcement Staff "to investigate whether market participants obtained Zero Cost FTRs after the

---

[8] The NRG Companies consist of NRG Power Marketing LLC, Conemaugh Power LLC, Indian River Power LLC, Keystone Power LLC, NRG Energy Center Dover LLC, NRG Energy Center Paxton LLC, NRG Rockford LLC, NRG Rockford II LLC, and Vienna Power LLC.

[9] FirstEnergy Companies consist of FirstEnergy Solutions Corp., Allegheny Energy Supply Company, LLC, Monongahela Power Company, The Potomac Edison Company, Pennsylvania Electric Company, Metropolitan Edison Company, Jersey Central Power & Light Company, and West Penn Power Company.

[10] 18 C.F.R. § 385.214 (2011).

[11] FirstEnergy Comments at 5.

[12] *Id*.

May 23, 2011 presentation and…determine whether such behavior constituted unlawful market manipulation."[13]

III. Commission Determination

11. We find PJM's proposed revisions to the FTR auction procedures to be just and reasonable. PJM has adequately supported its proposal. As PJM explains, the proposed tariff revisions are designed to eliminate risk to revenue adequacy and credit posed by certain zero cost FTRs. The proposed tariff revisions should help to ensure that zero cost FTRs that do not provide liquidity and value to the system are not awarded.

12. We also find that PJM has shown good cause for us to grant waiver of the 60-day prior notice requirement. Accordingly, PJM's proposed revisions are accepted for filing effective August 5, 2011, as requested.

13. FirstEnergy has not provided any evidence that would lead the Commission to believe that conduct has occurred warranting an investigation.[14] Therefore, the Commission will not direct the Office of Enforcement to open an investigation into this matter at this time.

The Commission orders:

PJM's proposed tariff revisions are hereby accepted, effective August 5, 2011, as discussed in the body of this order.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.

---

[13] *Id*.

[14] To the extent that FirstEnergy believes that it has evidence supporting the need for an investigation, it may contact the Commission's enforcement hotline.