

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

PJM Interconnection, L.L.C.

Docket Nos. ER06-319-001
ER06-319-002

ORDER ON REHEARING AND COMPLIANCE FILING

(Issued May 11, 2006)

1. Allegheny Power¹ requests rehearing of the Commission order issued in this proceeding on February 9, 2006.² The February 9, 2006 Order accepted and suspended, subject to refund and conditions, PJM Interconnection, L.L.C.'s (PJM) December 13, 2005 filing to revise Schedule 2 of its open access transmission tariff (OATT) to reflect the addition of Allegheny Energy Supply Company, LLC's (AE Supply) and Monongahela Power Company's (Mon Power) reactive power revenue requirements for their share of the Bath County generation facility (Bath Facility). For the reasons discussed below, we grant rehearing, and reject PJM's December 13, 2005 filing.

2. In addition, on March 13, 2006, PJM made a filing to comply with the February 9, 2006 Order. As discussed below, we find that PJM's March 13, 2006 compliance filing does not adequately justify PJM's proposed allocation and it is also rejected.

Background

3. On December 13, 2005, PJM submitted for filing, pursuant to section 205 of the Federal Power Act (FPA),³ revisions to Schedule 2 of PJM's OATT to reflect the addition of AE Supply's and Mon Power's revenue requirements associated with the Bath Facility for the provision of cost-based Reactive Support and Voltage Control from

¹ Allegheny Power is the trade name for Monongahela Power Company, The Potomac Edison Company, and West Penn Power Company.

² *PJM Interconnection, L.L.C.*, 114 FERC ¶ 61,123 (2006).

³ 16 U.S.C. § 824d (2005).

Generation Service (Reactive Power) in the PJM region. Allegheny Power's revenue requirement for its share of the Bath Facility was accepted by the Commission in an Order issued November 16, 2005.⁴

4. On February 9, 2006, the Commission accepted and suspended PJM's December 13, 2005, filing subject to refund and conditions. The Commission accepted PJM's filing conditioned on PJM filing, within 30 days from the date of issuance of the order, detailed support of PJM's proposal to allocate Allegheny Power's revenue requirement for reactive power from the Bath Facility to the Allegheny transmission zone.

Notice and Comments

5. Notice of PJM's March 13, 2006 compliance filing was published in the *Federal Register*, 71 Fed. Reg. 14,879 (2006), with comments due on or before April 3, 2006. Allegheny Power filed adverse comments on April 3, 2006. Virginia Electric Power Company (Dominion) filed comments in support of PJM's compliance filing. The comments are discussed below.

Rehearing Request

6. On rehearing, Allegheny Power argues that the Commission erred by failing to reject PJM's filing because it did not allocate reactive power costs from the Bath Facility based on the physical location of the facility. Allegheny Power asserts that Schedule 2 of PJM's OATT allocates reactive power charges in part by summing "the monthly revenue requirements for each generator located in a Zone...." Allegheny Power states that in *Safe Harbor* the Commission accepted PJM's explanation that "location" means physical location.⁵ Allegheny Power explains that *Safe Harbor*, like this case, involved a jointly-owned generating station that was physically located in the rate zone of one of the co-owners of the plant and PJM models the location of the facility in its State Estimator based on the physical location of the plant. PJM allocated 100 percent of the reactive power revenue requirement associated with the facility to the rate zone where the plant was physically located. Thus, Allegheny Power contends that in *Safe Harbor* the Commission applied a common sense interpretation of the term "located" for reactive power cost allocation purposes, and it should apply that same interpretation here.

⁴ *Monongahela Power Company*, 113 FERC ¶ 61,172 (2005).

⁵ *See PJM Interconnection, L.L.C.*, 104 FERC ¶ 61,031 (2003) (*Safe Harbor*).

7. Also, Allegheny Power argues that the Commission's determination that Schedule 2 of PJM's OATT permits reactive power costs to be allocated using a benefits test is not a reasonable interpretation of the OATT and is inconsistent with Commission precedent in *Safe Harbor*. Allegheny Power states that in *Safe Harbor* PJM argued that Schedule 2 of its OATT does not contemplate a benefits test and such an undertaking would be cumbersome and not necessarily produce a better result. Allegheny Power states that the *Rock Springs* order⁶ on which the Commission relied in the February 9, 2006 Order followed a different approach based on the unique facts of that case which included: (1) the facility is directly interconnected to a PECO Energy Co. of Philadelphia (PECO) substation just eight miles away via a 500 kV line that PECO owned, and (2) the interconnection agreement gives PECO the sole right to the reactive power of the facility. Allegheny Power argues that ultimately the Commission's decision in *Rock Springs* did not rely on a benefits test.

8. In the February 9, 2006 Order, the Commission directed PJM to file support for its reactive power costs allocation proposal. Allegheny Power argues that, if PJM's OATT contemplates a benefits test, the Commission erred by not specifying that PJM must support its proposed reactive power cost allocation with engineering analysis, such as a load flow study supported by testimony describing its modeling input assumptions and results. Furthermore, Allegheny Power argues that the Commission erred by ordering PJM to study the reactive power benefits of the Bath Facility to the Allegheny transmission zone without ordering PJM to study the benefits to PJM's other zones or explaining why such an analysis is unnecessary.

Compliance Filing

9. In its March 13, 2006 compliance filing, PJM restates the arguments it made in its initial filing. PJM again contends that because the Bath Facility is electrically connected to both the Allegheny and Dominion transmission systems, PJM considered the facility to be located in both the Allegheny and Dominion transmission zones for purposes of Schedule 2. Therefore, it asserts that, based on the ownership and interconnection of the Bath Facility, it is reasonable and fair to allocate each owner's share of the Bath Facility reactive power revenue requirements to its (or its affiliate's) respective transmission zone. PJM again asserts that this allocation is consistent with *Rock Springs*.

⁶ See *PJM Interconnection, L.L.C.*, 112 FERC ¶ 61,058 (2005) (*Rock Springs*).

10. On April 3, 2006, Allegheny Power filed adverse comments in response to PJM's compliance filing. Allegheny Power argues that the Commission should reject PJM's compliance filing allocating 100 percent of Allegheny Power's revenue requirements from the Bath Facility to the Allegheny transmission zone because PJM did not provide a study or other additional supporting evidence that the Bath Facility provides reactive power benefits to the Allegheny transmission zone. Allegheny Power states that PJM simply argued the points it raised in its initial filing. Allegheny Power provides an analysis which it states demonstrates that the Bath Facility provides no reactive power benefits to the Allegheny transmission zone.

11. On April 3, 2006, Dominion filed comments in support of PJM's compliance filing. Dominion argues that PJM's allocation of the Bath Facility reactive power revenue requirement is just and reasonable because the Bath Facility is directly interconnected to the Allegheny transmission system and benefits the system. Dominion contends that *Safe Harbor* established that a direct electrical connection is required to allocate a reactive power revenue requirement to a PJM zone and *Rock Springs* clarified that such a direct interconnection takes precedence over an allocation based on geographical location. Dominion asserts that the Bath Facility's connection to the Allegheny transmission system and the benefits to that system obviate the need to demonstrate benefits to particular loads. Dominion states that the Commission has never relied on operational modeling as determinative of the reactive power output allocation. Dominion insists that the fact that PJM has not previously split reactive power costs among zones does not mean that it is not appropriate to do so.

Discussion

12. Based on the rehearing request and PJM's compliance filing, we will reject PJM's December 13, 2005 filing as inconsistent with Schedule 2 of PJM's OATT. Schedule 2 of PJM's OATT states in part, "Zonal Generation Owner Monthly Revenue Requirement is the sum of the monthly revenue requirements for each generator located in a Zone, as such revenue requirements have been accepted or approved, upon application, by the Commission." Thus, under this provision, PJM must allocate reactive power revenue requirements to generators "located in a zone." PJM's OATT provides no allocation methodology for assigning costs to two zones, as PJM proposes here. In its compliance filing, PJM reiterated its prior arguments, but did not provide any additional support for finding that its allocation methodology is consistent with Schedule 2 of its OATT. Thus, PJM's proposed allocation methodology goes beyond the scope of its OATT.

13. PJM in the past has sought to define the term “location” in Schedule 2 by determining the zone in which the plant is physically located and/or the location of the plant in the operational models used by PJM to monitor its transmission system and to conduct price settlements. In *Safe Harbor*,⁷ the plant was interconnected to more than one zone, as in this case, and the Commission accepted PJM’s allocation of the cost of the plant to the single zone in which the plant was located and the substation to which the plant was interconnected and modeled by PJM. In *Rock Springs*,⁸ the plant was located in the Delmarva zone, but the Commission accepted PJM’s allocation of the costs of that plant to the PECO zone because PJM had shown that the plant was electrically interconnected only to the PECO zone and was modeled in the PECO zone. Thus, in each case PJM relied on location and its operational models to choose the zone in which the plant is located pursuant to its OATT. In this case, however, PJM has not chosen a single zone as the location for the plant, nor has it relied on its modeling software for choosing that location. Instead, it seeks to introduce a new test, not permitted by its tariff, under which it would allocate plant costs based on ownership percentages. Because such a test goes beyond the methodology established by PJM’s OATT, the Commission cannot accept this allocation.

14. PJM’s current OATT appears to be intended to create a simple method of allocating reactive power, without the need for doing a detailed analysis of the proportion of benefits received by various zones. If PJM now believes that a more complex analysis of reactive power costs is necessary, it cannot implement such changes on an ad hoc basis, but must file revised tariff language under section 205 of the Federal Power Act.

15. Accordingly, PJM’s filing to recover reactive power costs is rejected as inconsistent with its OATT. PJM can file a revised reactive power allocation consistent with the standards established in Schedule 2 of its OATT.

⁷ 104 FERC ¶ 61,031 at P 11.

⁸ 112 FERC ¶ 61,058 at P 4 and P 13 (2005).

The Commission orders:

(A) PJM's December 13, 2005 filing and March 13, 2006 compliance filing are rejected, as discussed in the body of this order.

(B) Allegheny Power's request for rehearing is granted, as discussed in the body of this order.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.