

138 FERC ¶ 61,125  
FEDERAL ENERGY REGULATORY COMMISSION  
WASHINGTON, D.C. 20426

February 16, 2012

In Reply Refer To:  
PJM Interconnection, L.L.C.  
Docket Nos. ER12-636-000  
ER12-636-001

PJM Interconnection, L.L.C.  
Attn: Jacquelyn B. Hugee, Assistant General Counsel – Markets  
955 Jefferson Avenue  
Valley Forge Corporate Center  
Norristown, PA 19403-2497

Dear Ms. Hugee:

1. On December 19, 2011, PJM Interconnection, L.L.C. (PJM) submitted for filing numerous revisions to correct, clarify and/or make consistent certain provisions of the PJM Open Access Transmission Tariff (OATT), Amended and Restated Operating Agreement of PJM (Operating Agreement), and Reliability Assurance Agreement Among Load Serving Entities in the PJM Region (RAA). In addition, PJM requests limited waiver to excuse its noncompliance with the provisions of section 3.2.3A(e) and (f) of Schedule 1 of the Operating Agreement and the parallel provisions of Attachment K-Appendix of the OATT, which relate to the calculation of the Synchronized Reserve Market Clearing Price and the credit due to a Generating Market Buyer providing Tier 2 Synch Reserves.<sup>1</sup> PJM requests an effective date of February 18, 2012 for all proposed revisions and issuance of a Commission order by February 17, 2012.<sup>2</sup>

2. PJM explains that, in March 2010, it began reviewing its Commission-approved governing documents to determine whether it is adhering to all of the requirements as set forth therein (the Quality Project). In the initial phase of the Quality Project, PJM states

---

<sup>1</sup> PJM, Operating Agreement, Schedule 1, Section 3.2 - Market Buyers, 9.0.0; PJM, OATT, Attachment K-Appendix, Section 3.2 - Market Buyers, 9.0.0.

<sup>2</sup> Transmittal at 1.

that it identified and reviewed over 4,600 requirements in the Commission-approved governing documents. PJM explains that it reviewed each requirement to determine whether: (1) PJM was complying with the requirements in the governing documents; (2) the provisions of the PJM Manuals were consistent with the requirements in the governing documents; (3) revisions, corrections or clarifications should be made to make the governing documents address the particular requirements; and (4) PJM needed to implement any new processes or improve existing processes to effectuate particular requirements or ensure compliance.

3. PJM states that its proposed revisions to the OATT, Operating Agreement and RAA were approved by stakeholders and represent ministerial formatting errors to properly reflect defined terms; corrections to properly reflect revisions that have already been accepted by the Commission in prior filings; revisions to accurately reflect PJM's processes, procedures and calculations; deletions of obsolete references and provisions; and clarifications of ambiguous provisions, among others. PJM notes that this filing is the first of several filings that PJM expects to submit as a result of the Quality Project initiative.<sup>3</sup>

4. On January 6, 2012, PJM filed an amendment to its filing to correct its proposed revisions to section 15 of Attachment DD of the OATT.<sup>4</sup> PJM explains that its original proposed language could be interpreted, not as a clarification, but as a substantive change that was not intended to be made. PJM explains that its proposed reference to "Schedule 12" in section 15 of Attachment DD of the OATT could be read as subjecting the referenced Qualifying Transmission Upgrade to a broader cost allocation than is specified in section 15, and accordingly proposes to remove the reference. Additionally, PJM proposes to revise section 1.5.6(g) of Schedule 6 of the Operating Agreement to change the words "transmission zones" and "zones" to the defined tariff term "Zones" for purposes of consistency with the remainder of that section.<sup>5</sup>

5. In its filing, PJM also requests that the Commission grant a limited waiver of section 3.2.3A(e) and (f) of Schedule 1 of the OATT and Operating Agreement<sup>6</sup> to the extent necessary to excuse its past, current, and future failures to calculate Synchronized

---

<sup>3</sup> *Id.* at 5-6.

<sup>4</sup> PJM, OATT, Attachment DD, Section 15 – Coordination With Economic Planning Process, 1.1.0.

<sup>5</sup> PJM, Operating Agreement, Schedule 6.1.5, Procedure for Development of the Regional Transmission Expansion Plan, Section 1.5.6(g), 1.1.0.

<sup>6</sup> PJM, Operating Agreement, Schedule 1, Section 3.2 - Market Buyers, 9.0.0; PJM, OATT, Attachment K-Appendix, Section 3.2 - Market Buyers, 9.0.0.

Reserve Market Clearing Price and the credit due to a Generating Market Buyer providing Tier 2 Synch Reserves<sup>7</sup> strictly according to the current wording of the provision, and to allow that waiver to remain in effect until the Commission accepts the proposed revisions included in this filing to correct the language.<sup>8</sup>

6. PJM explains that, when determining the appropriate amount of Synchronized Reserve Market Clearing Price and the credit due to a Generating Market Buyer providing Tier 2 Synch Reserves, it does not calculate the real-time opportunity costs by multiplying the reduction in Tier 2 cleared MW by the *absolute value* of the difference between LMP at the generation bus and the offer price for energy from the generation resource as section 3.2.3A currently dictates. Rather, PJM states that it calculates the real-time opportunity costs by multiplying the reduction in Tier 2 cleared MW by the *positive difference* between LMP and the offer price. PJM explains that using the positive difference rather than the absolute value is the correct way to perform the calculation and that a strict application of the provision would lead to an inequitable, unjust, and unreasonable result. PJM further explains that it is inappropriate to use the absolute value in the calculation because if LMP was less than the cost at the minimum MW amount of electric energy that a generating resource produces while under economic dispatch, the resource would not incur an opportunity cost by providing reserves because operating at its minimum output point would be economic.<sup>9</sup> PJM states that the existing language was incorrectly copied and carried over from the provision in section 3.2.2(d) and (e) of the Operating Agreement concerning the calculation of the Regulation Market Clearing Price.

7. PJM states that the Commission has granted waivers of tariff requirements to alleviate the effects of an error where: (1) an underlying error was made in good faith; (2) the waiver was of limited scope; (3) a concrete problem needed to be remedied; and (4) the waiver did not have undesirable consequences, such as harming third parties.<sup>10</sup> PJM states that it acted in good faith in calculating the Synchronized Reserve Market

---

<sup>7</sup> Tier 2 Synch Reserves consist of: (1) that additional capacity that is synchronized to the grid and operating at a point that deviates from economic dispatch (including condensing mode) to provide additional spinning synchronized reserve not available from Tier 1 resources; and (2) dispatchable load resources that have controls in place to automatically drop load in response to a signal from PJM. PJM's Manual 11: Energy & Ancillary Services Market Operations, Section 4: Overview of the PJM Synchronized Reserve Market.

<sup>8</sup> Transmittal at 6.

<sup>9</sup> *Id.* at 9-10.

<sup>10</sup> *Id.* at 6-7.

Clearing Price and the credit due to a Generating Market Buyer providing Tier 2 Synch Reserves and by expeditiously presenting the issue to its stakeholders, explaining how the error occurred, and proposing revisions to its Operating Agreement to correct the calculation.<sup>11</sup> PJM explains that the requested waiver is of limited scope because it applies to the finite period of March 2003, when section 3.2.3A(e) and (f) was originally added, until issuance of a Commission Order in this proceeding.<sup>12</sup> PJM states that the requested waiver will remedy a concrete problem because the Synchronized Reserve Market Clearing Price and the credit due to a Generating Market Buyer providing Tier 2 Synch Reserves should not be computed based on the absolute value of the difference between LMP at the generation bus and the offer price for energy from the generation resource as section 3.2.3A dictates currently. Finally, PJM submits that the requested waiver will actually prevent harm to third parties because the way in which it has conducted its calculations is correct.

8. PJM also argues that section 1.10.8(e) of Schedule 1 of the Operating Agreement<sup>13</sup> limits PJM's ability to make changes to energy market clearing prices after they have been posted, even if there was an error in the posted prices. PJM states that this is important because it provides all stakeholders with the assurance that they can reasonably rely on the finality of energy market clearing prices.<sup>14</sup> PJM asserts that if the Commission were to reject its waiver, it would do harm to wholesale electricity markets and be "fundamentally unfair to market participants."<sup>15</sup>

9. Notice of PJM's December 19, 2011 filing was published in the *Federal Register*, 76 Fed. Reg. 82,292 (2011), with protests or interventions due on or before January 9, 2012. Notice of PJM's January 6, 2012 amendment filing was published in the *Federal Register*, 77 Fed. Reg. 2,284 (2012), with protests or interventions due on or before January 18, 2012. Motions to intervene were filed by Exelon Corporation, Duke Energy Corporation, and American Municipal Power, Inc. The Illinois Commerce Commission filed a notice of intervention. H-P Energy Resources LLC filed a motion to intervene out-of-time. No protests were filed. Pursuant to Rule 214,<sup>16</sup> to the extent that any timely filed motions to intervene and any motion to intervene out-of-time were filed

---

<sup>11</sup> *Id.* at 11-12.

<sup>12</sup> *Id.* at 12.

<sup>13</sup> PJM, Operating Agreement, Schedule 1, Section 1.10 - Scheduling, 7.0.0.

<sup>14</sup> Transmittal at 14-15.

<sup>15</sup> *Id.* at 15 (citing *Bangor-Hydro Electric Co. v. ISO New England, Inc.*, 97 FERC ¶ 61,339, at 62,590 (2001)).

<sup>16</sup> 18 C.F.R. § 385.214 (2011).

before the issuance date of this order, such interventions are granted. Granting late intervention at this stage of the proceeding will not disrupt the proceeding or place additional burdens on existing parties.

10. PJM's proposed OATT, Operating Agreement, and RAA revisions are accepted for filing, effective February 18, 2012, as requested. We find that the proposed revisions correct, clarify and/or make consistent the relevant provisions of these documents.

11. We find that good cause exists to grant PJM's request for limited waiver of section 3.2.3A(e) and (f) of Schedule 1 of the OATT and Operating Agreement, as requested, for the period from March 2003 until issuance of this order. The waiver will excuse PJM's past noncompliance with the method of calculating the Synchronized Reserve Market Clearing Price and the credit due to a Generating Market Buyer providing Tier 2 Synch Reserves set forth in the OATT and Operating Agreement. As PJM explains, the description in the tariff contains errors such that it does not reflect the correct calculation method. PJM proposes revisions to correct section 3.2.3A(e) and (f) in this filing so that its calculation method will be consistent with the OATT and Operating Agreement going forward. Furthermore, PJM is acting in good faith, and the waiver request is for a limited time period given that the tariff revisions in this proceeding address the incorrect language, addresses the concrete problem of the errors in the tariff language, and will not have undesirable consequences, such as harming third parties. Accordingly, we will grant the requested waiver.

By direction of the Commission.

Kimberly D. Bose,  
Secretary.