

148 FERC ¶ 61,217
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Cheryl A. LaFleur, Chairman;
Philip D. Moeller, Tony Clark,
and Norman C. Bay.

PJM Interconnection, L.L.C.

Docket No. ER14-2471-000

ORDER ACCEPTING TARIFF REVISIONS AND GRANTING LIMITED WAIVER

(Issued September 19, 2014)

1. On July 21, 2014, PJM Interconnection, L.L.C. (PJM) submitted revisions to the Amended and Restated Operating Agreement of PJM (Operating Agreement) and the PJM Open Access Transmission Tariff (PJM Tariff) to correct an oversight in the formula for shoulder-hour lost opportunity costs for regulation resources.¹ PJM also requests a limited waiver of section 3.2.2(e) of Schedule 1 of the Operating Agreement as well as of the identical, parallel provisions of Attachment K of the PJM Tariff. As discussed below, we accept the proposed revisions to the Operating Agreement and the PJM Tariff, effective September 22, 2014, as requested, and grant the requested waiver.

I. Background

2. PJM explains that the purpose of shoulder-hour lost opportunity costs is to compensate resources for the foregone revenue and increased costs incurred when a resource deviates from its economic output level² in preparation for providing regulation service. PJM states that a regulation resource incurs shoulder-hour lost opportunity costs as a result of increasing or decreasing output away from the resource's economic output level during the hour that immediately precedes the regulation hour (i.e., the preceding

¹ PJM notes that Schedule 1 of the Operating Agreement and Attachment K-Appendix of the PJM Tariff are identical. For convenience, any references to the Operating Agreement in this order also refer to the parallel provisions of the PJM Tariff.

² PJM explains that the economic output level of a resource is a resource's expected output level based on its offer price and the locational marginal price at its bus absent any regulation assignment. PJM Filing at 2.

shoulder hour) or returning to the economic output level in the hour immediately following the regulation hour (i.e., the following shoulder hour).³

II. Proposed Tariff and Operating Agreement Revisions

3. PJM states that, during an independent review of PJM's Market Settlement Calculation System (Settlement System), a discrepancy was discovered between the shoulder-hour lost opportunity cost formula as described in the Operating Agreement and the PJM Tariff, and the calculation of shoulder-hour lost opportunity costs in the Settlement System. Specifically, the discrepancy derives from the calculation of the change in output of a regulation resource that, at PJM's request, is either approaching or leaving its regulation set point. PJM explains that the Settlement System correctly calculates this change in output based on economic output level. However, PJM notes that the shoulder-hour lost opportunity cost formula described in the Operating Agreement uses, in certain scenarios, the actual output level instead of the economic output level. PJM states that using actual output as required by PJM's existing Operating Agreement and the PJM Tariff has an adverse impact in that it reduces each regulation resource's shoulder-hour lost opportunity costs. PJM states that this discrepancy results in a failure to fully compensate each regulation resource for its shoulder-hour lost opportunity costs and thus discourages regulation resources from following PJM's dispatch signal.

4. PJM explains that the proposed revisions to section 3.2.2(e) of Schedule 1 of the Operating Agreement, as well as to the identical, parallel provisions of Attachment K of the PJM Tariff, amend the shoulder-hour lost opportunity cost formula to calculate these costs using only the economic output level. PJM states that, by using the economic output level, regulation resources will be compensated for the opportunity costs incurred for increasing or decreasing output, at PJM's request, to provide regulation service and thus will be encouraged to follow PJM's dispatch signals.

III. Request for Limited Waiver

5. PJM requests a limited waiver of section 3.2.2(e) of Schedule 1 of the Operating Agreement and the identical, parallel provisions of Attachment K of the PJM Tariff, which reflect the incorrect calculations, for the period of May 1, 2009 to the effective date of the proposed revisions. PJM explains that the error in this case was the development of PJM Tariff and Operating Agreement language that compares a resource's regulation set point to either its economic output level or its actual output

³ PJM Filing at 2.

level. PJM explains that it originally intended to compare a resource's regulation set point to only its economic output level.⁴

6. PJM states that the waiver is limited in scope because it applies only to a finite period and that the waiver applies only to the language in PJM's Tariff and Operating Agreement that determines whether the actual output or the economic output is compared to a resource's regulation set point in the calculation of shoulder-hour lost opportunity costs.

7. PJM asserts that the requested waiver is necessary to address the concrete problem that, absent a waiver, the currently-effective language fails to compensate a regulation resource for all of its shoulder-hour lost opportunity costs.

8. PJM contends that the requested waiver will not result in any adverse consequences because granting the waiver will ensure that the original intention of the shoulder-hour lost opportunity costs provisions of PJM's Tariff and Operating Agreement (i.e., calculating shoulder-hour lost opportunity costs based on the economic output level of each regulation resource compared to the resource's regulation set point) is achieved.

IV. Notice of Filing and Responsive Pleadings

9. Notice of PJM's filing was published in the *Federal Register*, 79 Fed. Reg. 44,021 (2014), with interventions and protests due on or before August 11, 2014. The NRG Companies and Exelon Corporation submitted motions to intervene. No protests were filed.

V. Discussion

A. Procedural Matters

10. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2014), timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

B. Substantive Matters

11. We hereby accept the proposed revisions to section 3.2.2(e) of Schedule 1 of the Operating Agreement and the identical, parallel provisions of Attachment K of the PJM Tariff, effective September 22, 2014, as requested. PJM's proposal revises the shoulder-hour lost opportunity cost formula described in the Operating Agreement to be consistent with the calculation of shoulder-hour lost opportunity costs in the Settlement System.

⁴ PJM Filing at 8-9.

These revisions ensure that shoulder-hour lost opportunity costs compensate resources for the foregone revenue and increased costs incurred when a resource deviates from its economic output level in preparation for providing regulation service. By guaranteeing that regulation resources are made whole when preparing to provide regulation service, the proposed revisions encourage regulation resources to follow PJM's dispatch signals. These revisions are an improvement over the existing PJM Tariff provisions, which do not guarantee full cost recovery and could discourage units from following PJM's dispatch signal. PJM should continue its efforts to increase consistency between its Settlement System and the PJM Tariff and, when possible, continue to develop solutions to more accurately calculate make-whole payments to ensure proper compensation for resources.

12. As to PJM's request for waiver, the Commission has previously granted limited waivers of tariff provisions where: (1) the underlying error was made in good faith; (2) the waiver is of limited scope; (3) a concrete problem will be remedied by granting the requisite waiver; and (4) the waiver does not have undesirable consequences, such as harming third parties.⁵

13. We find that PJM has demonstrated good cause to grant the request for a limited waiver because PJM's requested waiver satisfies the aforementioned conditions. First, we find that PJM's error was made in good faith. PJM's intention, when it submitted revisions to section 3.2.2(e) of Schedule 1 of the Operating Agreement in 2009, was to calculate shoulder-hour lost opportunity costs based on the "economically ideal operating point for a generation resource."⁶ The Settlement System has calculated shoulder-hour lost opportunity costs based on economic output level since May 2009, even though an incorrect calculation has been reflected in section 3.2.2(e) of Schedule 1 of the Operating Agreement. Second, the requested waiver is limited in scope to the time period between

⁵ See *New York Independent System Operator, Inc.*, 144 FERC ¶ 61,147, at P 8 (2013); *New York Independent System Operator, Inc.*, 139 FERC ¶ 61,108, at P 14 (2012); *PJM Interconnection, L.L.C.*, 137 FERC ¶ 61,184, at P 13 (2011); *ISO-New England, Inc.*, 134 FERC ¶ 61,182, at P 8 (2011); *California Independent System Operator Corp.*, 132 FERC ¶ 61,004, at P 10 (2010); *ISO New England Inc. - EnerNOC*, 122 FERC ¶ 61,297 (2008); *Central Vermont Public Service Corp.*, 121 FERC ¶ 61,225 (2007); *Waterbury Generation LLC*, 120 FERC ¶ 61,007 (2007); *Acushnet Co.*, 122 FERC ¶ 61,045 (2008).

⁶ PJM's March 2, 2009 Transmittal Letter in Docket No. ER09-789-000 at 3. The filing was accepted by delegated authority based upon PJM's representations in that proceeding. See *PJM Interconnection, L.L.C.*, Docket No. ER09-789-000, at 2 (Apr. 29, 2009) (delegated letter order).

the effective date of the currently-effective section 3.2.2(e) of Schedule 1 of the Operating Agreement and the requested effective date for the revisions proposed in the instant filing. Third, the waiver will remedy a concrete problem because without waiver PJM would be found in violation of currently-effective language that does not adequately compensate regulation resources for the foregone revenue and increased costs incurred when a resource moves from its ideal economic output level to the regulation set point at PJM's request to provide regulation service. Fourth, we find that granting the requested waiver will not lead to undesirable consequences for PJM or any other third parties. We note that no entity opposes this waiver request.

The Commission orders:

(A) The proposed revisions to section 3.2.2(e) of Schedule 1 of the Operating Agreement, as well as to the identical, parallel provisions of Attachment K of the PJM Tariff are hereby accepted, effective September 22, 2014.

(B) PJM's request for limited waiver is hereby granted, as discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.