124 FERC ¶ 61,087
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Suedeen G. Kelly, Marc Spitzer,
Philip D. Moeller, and Jon Wellinghoff.

PJM Interconnection, L.L.C. Docket No. ER08-1016-000

ORDER ACCEPTING TARIFF REVISIONS AND DIRECTING FURTHER COMPLIANCE FILING

(Issued July 25, 2008)

1. On May 28, 2008, PJM Interconnection, L.L.C. (PJM) submitted revisions to its Open Access Transmission Tariff (Tariff) and the PJM Amended and Restated Operating Agreement (Operating Agreement) to establish a long-term Financial Transmission Rights (FTR) auction. PJM's proposal revises the current FTR auction process to incorporate procedures for a long-term FTR auction, and permits the purchase and/or sale of FTRs having terms running three consecutive planning periods following the period in which the auction occurs.[1] In addition, market participants may buy or sell an FTR covering any single planning period within the three-year period. In this order, the Commission accepts the long-term FTR auction procedures, subject to an additional compliance filing as discussed below.

I. **Background**

2. The Commission requires that transmission organizations with organized electricity markets make available long-term firm transmission rights that satisfy certain guidelines.[2] The PJM Market currently complies with this requirement by providing participants with a financial hedge against transmission congestion costs through two types of transmission rights: FTRs, limited to one planning period; and Auction Revenue

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[1] The PJM planning period runs June 1 through May 31 of the following year.

[2] *See Long-Term Firm Transmission Rights in Organized Electricity Markets,* Order No. 681, FERC Stats. & Regs. ¶ 31,226, *order on reh'g,* Order No. 681-A, 117 FERC ¶ 61,201 (2006).

Rights (ARRs), which may feature terms up to ten years. FTRs entitle the holder to receive transmission congestion credits that can offset transmission charges due to congestion. ARRs are allocated to load-serving entities on a priority basis, taking into account transmission investment and peak load.[3]

3. ARRs entitle the holder to receive auction revenues from the sale of FTRs at auction if the ARRs are converted and the resulting FTRs are purchased. Owners of ARRs may convert them to annual FTRs.[4] Other transmission customers may obtain FTRs through periodic auctions or through secondary markets. Under the current allocation procedures, a load serving entity may request ARRs for a term covering 10 consecutive PJM planning periods. However, when ARRs are converted, the resulting FTRs are limited to a maximum term of a single planning period. Therefore, market participants that are not eligible for long-term ARRs under the preferential allocation cannot obtain a congestion hedge greater than one planning period.

4. In a prior proceeding involving PJM's compliance with Order No. 681, PJM stakeholders requested that PJM develop a longer term FTR. In response, the PJM long-term FTR working group developed the instant long-term FTR auction proposal, described below, which was approved through the PJM committee process.

II. Notice of Filing and Responsive Pleadings

5. Notice of PJM's filing was published in the *Federal Register*,[5] with interventions and protests due on or before June 18, 2008. Constellation Energy Commodities Group, Inc. and Constellation NewEnergy, Inc. (Constellation); DC Energy, LLC (DC Energy); Dominion Resources Services, Inc. (Dominion); and the PSEG Companies[6] filed timely motions to intervene and comments.

6. Allegheny Energy Supply Co., LLC; American Municipal Power - Ohio, Inc.; Epic Merchant Energy; Exelon Corporation; JPMorgan Ventures Energy Corp.; North

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[3] PJM's current process was accepted in Docket No. ER06-1218-000, *et al.* as being consistent with Order No. 681. *PJM Interconnection, L.L.C.*, 117 FERC ¶ 61,220 (2006), *order on compliance filing and rehearing*, 119 FERC ¶ 61,144, *clarified*, 121 FERC ¶ 61,073 (2007).

[4] If an ARR is converted to an FTR, the associated capacity is not available for purchase by other entities.

[5] 73 Fed. Reg. 33,071 (June 2, 2008).

[6] Public Service Electric and Gas Company, PSEG Power LLC, and PSEG Energy.

Carolina Electric Membership Corp.; and Reliant Energy, Inc. filed timely motions to intervene and the Public Service Commission of Maryland filed a notice of intervention.

III. Discussion

A. Procedural Matters

7. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure,[7] the notice of intervention and timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

B. The PJM Long-Term FTR Auction Proposal

8. PJM's proposal revises the current FTR auction process to incorporate procedures for a long-term FTR auction, and permits the purchase and/or sale of FTRs having terms running three consecutive planning periods (years) following the period in which the auction occurs. In addition, market participants may buy or sell an FTR covering any single planning period within the three-year period. PJM states that the three-year period was chosen to align with retail access auctions. Long-term FTR products include on-peak, off-peak and 24-hour FTR products and feature eligible sources and sinks, consistent with existing FTR auction procedures. For simplicity, FTR option products are not offered.

9. PJM states that, to ensure that long-term FTR products do not affect ARR priority rights in future planning periods, the long-term FTR auction will be limited to residual system capacity remaining after the annual ARR allocation and FTR auction are completed and all ARR rights are set aside as if they were converted to FTRs. The proposed long-term FTR auctions will follow the annual FTR auctions. PJM also states that both the FTR auction and the long-term FTR auction will respect the rights sold in each, i.e., annual FTR auctions will respect the multi-year FTR rights sold in previous years and the long-term FTR auction will respect rights sold in the annual FTR auction.

10. To facilitate price discovery, PJM will hold the auction in two rounds, each offering 50 percent of the available capacity. PJM's transmittal letter states that the first round will occur eight to eleven months prior to the start of the first planning period covered by the auction, and the second will occur four months prior to the start of that planning period.[8]

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[7] 18 C.F.R. § 385.214 (2008).

[8] There is a discrepancy between this discussion in the PJM transmittal letter and the actual Tariff and Operating Agreement sheets that will be discussed below.

11. PJM states that revenues from the three-year long-term FTRs will fund ARRs and be allocated equally to each planning period, while those from single-year FTRs sold in the long-term FTR auction will be distributed in the planning period for which they are sold. Revenues that exceed the economic values of ARRs will be distributed according to terms established in the PJM Operating Agreement.[9]

12. PJM states that it will apply the same credit requirements to long-term FTRs that are used for annual FTRs.[10] PJM states that the credit requirements for long-term FTRs and annual FTRs are indistinguishable under PJM's credit requirements calculation method, which calculates risk exposure month by month and does not consider the term of the FTR. Additionally, PJM states that long-term FTR credit requirements will be recalculated each year as updated data becomes available for each auction and additional collateral will be requested from long-term FTR holders when necessary.

C. Comments

13. No intervenor objects to the filing and several filed comments in support of the filing.[11] Dominion asks the Commission to accept the filing and states that it supports PJM's current credit policies. However, Dominion requests that the Commission direct PJM to develop appropriate credit policies for the long-term FTR products, in light of recent defaults in the PJM FTR Market.

D. Commission Determination

14. We accept PJM's proposed Tariff and Operating Agreement revisions, to become effective July 28, 2008, subject to a further compliance filing as discussed below. PJM's historic practice has been to provide long-term congestion hedging through ARRs available to load-serving entities, but not to other market participants. The proposed long-term FTR product will allow all market participants to obtain longer-term hedges thereby increasing their options and providing them with greater flexibility in hedging market positions. In addition, by making long-term FTR products available to a wide range of market participants, PJM's proposal will increase liquidity in the FTR market. Finally, the proposal will better align congestion options with the requirements of retail access auctions that commit a load-serving entity to multi-year obligations.

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[9] *See* PJM's May 28, 2008 filing at 6 n.16.

[10] Revised credit requirements applicable to PJM FTR auctions were recently accepted in *PJM Interconnection, L.L.C.*, 122 FERC ¶ 61,279 (2008).

[11] *See* Constellation, DC Energy, and PSEG Companies comments.

15. The Commission, however, notes a discrepancy between PJM's transmittal letter, which states that the second round of the long-term FTR auction will occur four months prior to the planning period,[12] and PJM's proposed Operating Agreement and Tariff revisions, which indicate that the second round is to be conducted approximately 4 months after the first round.[13] To resolve this discrepancy, we direct PJM to file a compliance filing within 30 days specifying the actual timing of the auctions and correcting the Operating Agreement and Tariff language to the extent necessary.

16. Dominion requests that the Commission direct PJM to develop credit policies for long-term FTR products. We deny Dominion's request. However, we agree that it is not clear whether, and if so how, the existing credit policy adequately addresses the risks of long-term products. PJM's current FTR credit requirement reflects the credit risk associated with FTRs held by market participants during each month of the twelve month planning period. However, it does not appear to address FTR credit exposures beyond the twelve month planning period. Therefore, we direct PJM to submit an informational filing within 90 days of the date of this order that provides a detailed explanation, along with illustrative examples, of how its current FTR credit requirement factors in the credit risk associated with FTRs with terms longer than one twelve-month planning period. If PJM finds it needs to propose revisions to its credit policy with regard to long-term FTR products, it should do so in a separate filing.

The Commission orders:

(A) The Tariff and Operating Agreement sheets submitted in Docket No. ER08-1016-000 are accepted, effective July 28, 2008, subject to an additional compliance filing directed below, as discussed in the body of this order;

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[12] PJM's May 28, 2008 filing at 5.

[13] PJM Operating Agreement, proposed Schedule 1, section 7.1A.2 (Fourth Revised Sheet No. 133); PJM Tariff, proposed Attachment K – Appendix, section 7.1A.2 (Original Sheet No. 403B).

(B) PJM shall make a compliance filing within 30 days of the date of this order describing the correct timing of long-term FTR auction rounds, and including revised Tariff and Operating Agreement sheets adopting the correct timing, if necessary.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.