

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;
Nora Mead Brownell, Joseph T. Kelliher,
and Suedeem G. Kelly.

PJM Interconnection, L.L.C.

Docket Nos. ER03-406-001,
ER03-406-002
and ER03-406-003

ORDER ON REHEARING AND COMPLIANCE FILING

(Issued January 28, 2004)

1. On March 12, 2003, the Commission accepted proposed tariff amendments that enable PJM Interconnection, L.L.C. (PJM) to: (1) create an annual Financial Transmission Rights (FTR) auction and Auction Revenue Right (ARR) allocation process; (2) offer FTR Options in addition to FTR Obligations; and (3) enhance the existing monthly FTR auctions by including a 24-hour FTR product.¹ This order accepts a filing that PJM submitted to comply with the March 12 Order, and denies several requests for rehearing or clarification of the March 12 Order. Our decision ensures that the existing rights of customers in new areas of PJM, and customers who will gain their first experience with financial rights under the instant proposal, will be fully protected.

Background

2. On January 10, 2003, PJM submitted for filing, pursuant to Section 205 of the Federal Power Act, amendments to the PJM Open Access Transmission Tariff (OATT) and PJM's Amended and Restated Operating Agreement to: (1) create an annual FTR auction and ARR allocation process; (2) offer FTR Options in addition to FTR Obligations; and (3) enhance the existing monthly FTR auctions by including a 24-hour FTR product. PJM sought an effective date for its filing of March 11, 2003.

3. Under PJM's locational marginal pricing (LMP) system, transmission prices are determined, in part, as the demand response to the existence (or non-existence) or transmission congestion. In turn, FTRs, which PJM allocates in relation to the transmission transfer capability of its grid, allow market participants to cushion (or hedge) the variation in these prices. FTRs are financial rights that entitle the holders to

¹ PJM Interconnection, L.L.C., 102 FERC ¶ 61,276 (2003) (March 12 Order).

receive transmission congestion credits. These credits can be used to hedge or offset transmission congestion charges in PJM's day-ahead market during periods in which transmission capacity is constrained. PJM currently allocates these rights on an annual basis, each June, and administers a monthly FTR auction.

4. PJM's January 10 filing was intended to modify its existing FTR allocation and auction procedures in order to create a more liquid and deeper market for FTRs, promote a more efficient allocation of scarce FTRs, provide greater flexibility for hedging risk, and foster a more active secondary market for FTRs. PJM proposed to establish an annual FTR auction in place of its existing annual allocation of FTRs. (Its existing monthly auction of FTRs would be retained.) In lieu of PJM's annual reallocation of FTRs, PJM's network and point-to-point transmission service customers would receive ARR's instead, in a quantity based on PJM's existing "simultaneous feasibility" measure. PJM states that ARR's could then be converted ("self scheduled") into FTRs, at no cost, on a right-of-first-refusal basis, or sold at auction to the highest bidder. ARR holders that wish to exercise the self-scheduling option will not be required to place actual monetary bids in the auction, because the FTRs already passed the simultaneous feasibility test when the ARR's were allocated and all ARR's can be converted into FTRs without any additional cost. An ARR holder that self-schedules does not set the clearing price in the auction. If there are other bidders for the same FTRs, then those other bidders will set the clearing price. The self-scheduling ARR holder, however, always will receive the FTRs based on its right of first refusal under the self-scheduling option. While the ARR holder will have to pay the clearing price to obtain the FTR in those circumstances, as the ARR holder, it also will receive the identical amount in ARR revenues for a net cost of zero.

5. An ARR could be converted into an FTR on the same source and sink points that would be associated with the load-serving entity's ARR's, or alternatively, could be reconfigured on one or more alternative paths. PJM states that ARR's would also be made available to interconnection customers and that as loads shift from one load-serving entity to another within a transmission zone, a pro rata share of ARR's would be reassigned automatically.

6. In the March 12 Order, the Commission accepted PJM's filing subject to conditions. The Commission instructed PJM to: (1) provide a transition period before requiring members of PJM West to participate in the annual FTR auction; and (2) clarify the operation of some aspects of its proposed auction.

Requests for Rehearing and PJM's Compliance Filing

7. Duke Energy North America, L.L.C. (Duke); PJM Industrial Consumer Coalition, Coalition of Midwest Transmission Customers, and Industrial Energy Users of Ohio (collectively, Industrial Coalitions); Coalition of Municipal and Cooperative Users of New PJM Companies' Transmission (Municipal Coalition); and the Illinois Municipal

Electric Agency (IMEA) timely requested rehearing of the March 12 Order. Occidental Chemical Corporation (Occidental) filed a request for clarification of the March 12 Order, and PJM filed a response thereto. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2003), prohibits an answer to a request for rehearing unless otherwise ordered by the decisional authority. We will accept PJM's answer because it has provided information that assisted us in our decision-making process.

8. PJM submitted a compliance filing on April 11, 2003, and amended it on April 22, 2003. Notice of PJM's compliance filing² and the amendment³ was published in the Federal Register, with interventions, comments and protests due on or before May 2, 2003, and May 13, 2003, respectively. Municipal Coalition filed comments.

Discussion

A. Requests for Rehearing and Clarification

1. Implementation of an Annual FTR Auction

9. The March 12 Order accepted PJM's proposed new auction procedures, finding that the new, once-a-year auction would benefit the market by enabling potential buyers and sellers of FTRs to obtain better information about the value of FTRs. The order further found that the proposed auction mechanism would not increase customer costs to an unreasonable level, because it would expand customer options and provide a more flexible means of addressing congestion on PJM's system. The Commission required PJM to file more detailed information regarding the procedures for the self-scheduling of FTRs.

10. On rehearing, Municipal Coalition argues that PJM's auction procedure will not yield useful information about the true economic value that customers place on transmission rights. It asserts that the Commission ignores its arguments with respect to whether the PJM auction will serve a valid price discovery function.

11. Municipal Coalition's original protest challenged PJM's argument that PJM's FTR auction proposal is consistent with the Commission's Notice of Proposed Rulemaking on Standard Market Design.⁴ Municipal Coalition's protest alleged that "[t]he fact that a

² 68 Fed. Reg. 19,805 (2003).

³ 68 Fed. Reg. 23,297 (2003).

⁴ Remedying Undue Discrimination through Open Access Transmission Service and Standard Electricity Market Design, Notice of Proposed Rulemaking, 67 Fed. Reg. 55,452 (Aug. 29, 2002), FERC Stats. & Regs. ¶ 32,563 (2002) (SMD NOPR).

filing may be viewed as ‘consistent’ with a proposed regulation that has been issued for public comment is ultimately of little significance” because changes to the proposal are likely to occur before a final rule is issued. Nonetheless, Municipal Coalition argued that PJM’s proposed auction procedure would not provide the price transparency envisioned in the SMD NOPR.

12. Municipal Coalition correctly stated in its original protest that the SMD NOPR is not a proper standard by which to judge PJM’s proposal because the rulemaking process is incomplete. For this reason, the Commission made no finding on the auction’s compatibility with the SMD NOPR in the March 13 Order. We will again decline to discuss this issue.

13. Next, Municipal Coalition argues that the assumption that the self-scheduling option will allow customers to preserve the value of their existing hedging rights is central to the Commission’s approval of the PJM auction procedure. It believes that to the extent the self-scheduling option fails to provide transmission customers complete protection from the effects of the auction procedure, the Commission should require PJM to modify the auction procedure to correct the deficiency and furnish that protection.

14. PJM’s proposal will protect Municipal Coalition and other PJM members who do not want to participate in the auction. In its original filing, PJM explained that after the annual allocation of ARR, “ARR holders will have the option to convert their ARRs into FTRs by ‘self-scheduling’ the FTRs on the exact same source and sink points as the ARRs that have been allocated to the customer.”⁵ In other words, the self-scheduling option is designed to ensure that a customer can convert its ARRs to exactly the same FTRs it previously would have obtained, without additional cost or having to participate in the auction. Municipal Coalition does not articulate a specific reason why this should not be so.

15. Third, Municipal Coalition seeks clarification regarding the compliance filing the March 12 Order required of PJM. It asks the Commission to clarify that PJM must file, as part of the procedures governing the self-scheduling of FTRs, business rules PJM is currently discussing that would assign credit requirements for FTR market participants that are based on expected ARR revenues. Municipal Coalition argues that these “rules will be crucial in determining whether, as PJM claims, exercise of the self-scheduling option will not adversely affect a transmission customer’s tax exempt status or credit requirements.”⁶ It also asks the Commission to require PJM to file all other business rules or procedures having a material effect on implementation of the self-scheduling

⁵ Transmittal Letter at 3.

⁶ Request for Rehearing and Clarification by the Coalition of Municipal and Cooperative Users of New PJM Companies’ Transmission at 7.

option. Municipal Coalition further argues that all detailed procedures and methods that will come into effect after the elimination of unit-specific FTR scheduling should be filed pursuant to Section 205 of the Federal Power Act.

16. The Commission finds that it will not be necessary to require PJM to file all the business rules and practices Municipal Coalition seeks; however, we will require PJM to amend its tariff to make clear that an ARR holder need not secure credit in order to self-schedule. PJM's compliance filing specifies that a customer that wishes to self-schedule must do so by converting ARRs it already holds to FTRs. An "ARR holder converting its ARRs to FTRs will be a 'price taker' and therefore may not designate a price bid for FTRs."⁷ As self-scheduling entities will not be entering traditional bids, creditworthiness requirements are unnecessary. We will require PJM to amend Section 7.1.1(b) of its tariff to make this clear. PJM's compliance filing addressing unit-specific capacity resource requirements addresses Municipal Coalition's concern over the elimination of unit-specific FTR scheduling.⁸

17. Next, Municipal Coalition argues that congestion costs avoided by the holders of FTR Options during hours of "reverse congestion" would be shifted to other transmission owners, and that the Commission apparently did not dispute this argument in the March 12 Order. Municipal Coalitions requests further clarification that revenues obtained through the higher auction prices paid for FTR Options⁹ must be directed to those transmission customers that bear the congestion costs shifted by the FTR Option during hours of reverse congestion.

18. We disagree with Municipal Coalition's premise that congestion costs avoided by the holders of FTR Options may be shifted to holders of FTR Obligations. To the extent this was not made clear in the March 12 Order, we so clarify now. The level of congestion costs borne by customers is unaffected by the sale of FTR Options. FTR Options are merely a financial instrument that a customer can purchase to avoid paying congestion costs. The purchase of this instrument has no effect on the level of congestion

⁷ Transmittal Letter at 5, Tariff Section 7.1.1(b), Third Revised Sheet No. 264 and Original Sheet No. 264A.

⁸ See Letter Order, Docket No. ER03-1409-000 (Nov. 24, 2003).

⁹ FTR Options are distinguishable from FTR Obligations because the Option holder is entitled to a credit when the sink LMP is higher than the source LMP, but is not liable for a congestion charge when the sink LMP is lower than the source LMP. By contrast, FTR Obligations produce a credit when the sink LMP is higher than the source LMP, and impose a liability when the sink LMP is lower than the source LMP. The value of FTR Options is higher than the value of FTR Obligations because the holders of FTR Options bear no risk of congestion charges.

costs borne by any other party.¹⁰ Similarly, the existence of Options does not reduce the amount of FTR Obligations that party can acquire by converting ARR to FTRs, as Municipal Coalitions suggested in its initial protest. Options are residual instruments that can be sold only after ARRs have been converted to FTRs. As discussed earlier, the introduction of FTR Options has no effect on the number of FTR Obligations Municipal Coalitions can obtain by converting ARRs to FTRs, because they have the right to self-schedule (convert) their ARRs into FTRs.

19. Moreover, the auction revenue from Options cannot be redirected to holders of FTR Obligations, as Municipal Coalition suggests. Under the PJM tariff, holders of ARRs can self-schedule the ARR as an FTR Obligation, or sell the FTR at auction.¹¹ The revenue from the sale of the FTR is paid to the holder of the ARR. If the FTR is not purchased, and the residual FTR Option right is sold at auction, the revenue from the sale of the FTR Option is paid to the holder of the ARR. Therefore, PJM does not have additional revenue from the sale of FTR Options to redirect to holders of FTR Obligations.

2. Interim Procedures for New Regions

20. The March 12 Order noted that a direct assignment of FTRs would be necessary for a period of time due to the lack of transmission congestion pricing history in the new regions that PJM will serve. It required PJM to revise its tariff to provide that new members of PJM may elect to wait until at least the second annual auction after they join PJM to participate in the FTR auction. PJM's compliance filing proposes to give its new members the choice of receiving a direct allocation of FTRs or an allocation of FTRs for the two succeeding annual FTR auctions after the integration of the new zone into the PJM energy market.¹²

21. In its request for rehearing, Duke repeats its prior request that the Commission require PJM to allow Duke's pre-existing point-to-point service agreements in the new regions PJM serves to be converted to point-to-point transactions eligible to receive an allocation of FTRs or, alternatively, to be annulled. Duke also claims that PJM's

¹⁰ All customers transmitting over a congested line must pay congestion costs. The holders of FTR Obligations and FTR Options hedge against those costs, because the Obligation or Option instrument entitles them to receive payment for congestion costs. Thus, to the extent their payment of congestion costs equals their Obligation or Option, the customer, in effect, avoids the payment of congestion costs. But such avoidance does not increase the level of congestion costs paid by unhedged customers.

¹¹ Section 7.1.1(b), First Revised Sheet No. 403.

¹² See Transmittal Letter at 3; Section 5.2.2(e), Fourth Revised Sheet No. 259.

proposal for its new regions is silent on the issue of whether, or how, FTRs would be allocated to transmission reservations that start or end within PJM's initial 13-month allocation period.¹³ Specifically, Duke asserts that PJM's proposal would disadvantage point-to-point customers with transmission service agreements of 12 months or less, or those that begin or end outside the 13-month period, diminishing the value of their pre-existing physical rights. Duke states that the Commission did not address these arguments in the March 12 Order and asks that the Commission discuss them on rehearing.

22. We will deny Duke's request for rehearing. As Duke itself points out, the adequacy of PJM's proposed ARR allocation is at issue in Docket No. ER03-262-000.¹⁴ It is therefore premature for Duke to argue, prior to joining PJM, that the proposed ARR allocation procedure is inadequate. Furthermore, Duke has not specifically explained how PJM's proposal would disadvantage point-to-point customers with short-term transmission service agreements, or agreements that begin or end outside the transition period. As described below, we will require PJM to file its proposed ARR allocation for new PJM regions. Since that filing would show the specific ARR allocations for new customers, it will also provide Duke with a forum to raise any specific issues regarding its ARR allocation.

23. IMEA argues that the March 13 Order failed to adequately address transition issues related to PJM's expansion into new areas. It argues that on rehearing, the Commission should: (1) make clear that FTR allocation in new PJM regions must ensure that current transmission customers are kept whole; (2) provide a mechanism for new PJM regions that ensures transmission customers in those regions the opportunity to provide stakeholder input to the development of transition procedures; and (3) clarify when new PJM regions will begin their two-year transition to the auction and that transmission customers may elect to participate in the auction. The Commission will grant rehearing with regard to IMEA's first argument and Municipal Coalition's argument that if the self-scheduling option does not protect transmission customers from the effects of the auction procedure, PJM should be required to modify the auction procedure.¹⁵ We find that under the procedures set forth in PJM's tariff, there is some uncertainty as to the exact level of ARRs that a customer in an area joining PJM will receive. To provide customers in new areas with an opportunity to raise any specific

¹³ Duke states that Duke Energy Corporation expressed similar concerns, and sought a similar remedy, in Docket No. ER03-262-000.

¹⁴ Although Duke makes its argument in terms of FTRs, we use the term ARR here to acknowledge that PJM proposes to distribute ARRs unless a new member elects to receive an allocation of FTRs for two annual auctions after it is integrated into PJM.

¹⁵ See Requests for Rehearing and Clarification by the Coalition of Municipal and Cooperative Users of New PJM Companies' Transmission at 5-7.

concerns with their ARR allocation before it is implemented, we will require PJM to make a further compliance filing with the Commission. Specifically, we will require PJM to amend Section 5.2.2(e) of its tariff to state that PJM, prior to the initial allocation of FTRs in new regions, will make a filing with the Commission under Section 205 of the Federal Power Act with the proposed allocation of ARRs.

24. We will deny rehearing with regard to IMEA's other two arguments. PJM developed the transition procedures through its stakeholder process, which includes all current members of PJM. New transmission customers, once they join PJM, may raise any concerns through the stakeholder process. Third, PJM's compliance filing provides further detail as to when the transition period for new PJM regions will take place. The compliance filing explains that Network Service Users and Firm Transmission Customers in new PJM zones may elect to receive FTRs instead of ARRs for the succeeding two annual FTR auctions after the integration of the new zone into the PJM energy market.¹⁶ The compliance filing also provides that the annual auctions will take place in April and May of each year.¹⁷

25. Industrial Coalitions argue that the March 12 Order did not address its concerns about the impact of the interim allocation of FTRs on retail access programs. They state that the FTR construct is flawed because it does not provide the necessary flexibility to accommodate load shifts, which is "necessary to maximize the benefits of retail competition," and that the March 12 Order extends the use of the FTR construct indefinitely through the transition period for new PJM members.¹⁸ They state that delaying rollout of the new PJM FTR/ARR construct will have far-reaching adverse effects on the retail marketplace in Ohio and potentially in other Midwest states. They urge the Commission to implement PJM's proposed FTR/ARR structure as soon as possible in the expanded PJM marketplace.

26. Industrial Coalitions does not however give a specific example of why the transition period will cause harm. The Commission's goal is to create the "vibrant wholesale market" that Industrial Coalitions identify as a necessary prerequisite to successful state retail access initiatives.¹⁹ It has become evident to the Commission, from the comments of market participants joining PJM, that sufficient information about FTR

¹⁶ See Transmittal Letter at 3, Tariff Section 5.2.2(e), First Revised Sheet No. 396.

¹⁷ See Transmittal Letter at 5, Tariff Section 7.1.2, Original Sheet No. 403A.

¹⁸ Request for Rehearing of PJM Industrial Consumer Coalition, Coalition of Midwest Transmission Customers, and Industrial Energy Users-Ohio at 9 (citing Occidental Chemical Corporation v. PJM Interconnection, LLC, 101 FERC ¶ 61,005 at P 17 (2002), order on reh'g 102 FERC ¶ 61,275 (2003)).

¹⁹ Id. at 11.

prices is not yet available to enable those participants to effectively participate in the auction without a transition period. The Commission therefore denies Industrial Coalitions' request for immediate implementation of the ARR auction. We note, however, that PJM has provided an opportunity for entities to enter the FTR auction immediately, if they are prepared to do so. We find that this flexibility will permit PJM market participants a seamless entry into the annual FTR auction.

3. Elimination of Unit-Specific Capacity Resource Requirements

27. IMEA argues that the Commission should not approve PJM's proposal to eliminate the unit-specific capacity resource requirement until PJM provides information about how this will work and its effects. IMEA states that, as evidenced by the Commission's request for more information about this proposal, the Commission has no informed basis on which to approve PJM's proposal and should reject it. Industrial Coalitions argue that linking ARR source points to capacity resources is unduly restrictive. They ask the Commission to require the immediate elimination of the unit-specific FTR scheduling requirement.

28. The conditions placed upon the Commission's acceptance of PJM's proposal were meant to allow PJM an opportunity to provide enough information for the Commission to make a reasoned decision. PJM filed in Docket No. ER03-1409 the information that the Commission requested, and the Commission accepted the proposal for filing.²⁰ As IMEA's and Industrial Coalition's concerns have already been addressed in Docket No. ER03-1409, we reject as moot their requests for rehearing on this point.

4. Interim Procedures for PJM West

29. The March 12 Order required PJM to give PJM West members until June 2005 to gain experience with PJM's congestion management system and congestion pricing. As part of that requirement, the Commission required PJM "to provide necessary data and information to PJM members and customers to enable them to make informed decisions regarding FTRs and congestion," but specified that PJM was not required to provide data of a confidential or competitively sensitive nature.²¹

30. Occidental now asks the Commission to provide PJM with guidance as to the "necessary data and information" that PJM must provide auction participants in order to

²⁰ Letter Order, Docket No. ER03-1409-000 (Nov. 24, 2003). Neither IMEA nor Industrial Coalitions protested or commented upon PJM's filing.

²¹ March 12 Order at P 50 n.21.

“enable them to make informed decisions regarding FTRs and congestion.”²² It states that PJM should be required to post aggregate nodal load data on its Web site for use of auction participants, on both a historic and real-time basis, to enable auction participants to value FTRs and congestion. IMEA asks the Commission to ensure that transmission customers will have access to the information they need to make informed decisions.

31. In its Answer to Occidental’s request for rehearing, PJM states that substantial non-sensitive data is already available to market participants. PJM also commits to presenting a proposal at the next Energy Market Committee meeting for posting historical data. PJM states that it has recently agreed to post real-time zonal aggregate load data, provided that the load-serving entities in the zone have consented to such disclosure, and that it expects to be able to post this data for virtually all load zones. It cautions, however, that posting real-time data on a sub-zonal basis potentially could reveal the confidential load data of a single market participant.

32. We will deny Occidental’s request for clarification. PJM’s Answer suggests that PJM is actively working toward providing adequate information to permit Occidental and other new PJM participants to make informed decisions. Because Occidental and other PJM stakeholders are both the source and the consumers of the data, and given the potential for disclosure of sensitive information, the Commission is reluctant to qualify its requirements at this time. We strongly encourage the parties to continue to work together to enable PJM to publish as much data as possible without compromising confidential or competitive interests.

5. Requirement that Transmission Property Rights Follow Load

33. Industrial Coalitions argue that the March 12 Order does not approve elements necessary to address the gap between creating FTR or ARR benefits and ensuring that end-use customers receive those benefits. They are concerned that allocating the FTR benefit to transmission customers does not guarantee that end-use customers (who ultimately pay the embedded costs of the system) will receive the congestion hedge or revenue stream flowing from the ARR. They therefore request that the Commission require PJM to directly allocate ARRs, or FTR benefits, directly to end-use customers, in lieu of the pro rata allocation accepted in the March 12 Order.

34. We again reject Industrial Coalitions’ argument that FTRs or ARRs should be directly allocated to end-use customers. FTRs and ARRs are allocated to wholesale transmission customers on behalf of the load they serve. PJM lacks privity of contract

²² Request for Clarification of Occidental Chemical Corporation at 2 (quoting March 12 Order at P 50).

with end-use customers and cannot, under its OATT, directly allocate FTRs or ARR to them.

35. The Commission recently required PJM to develop and file revised FTR allocation procedures that would accommodate load shifts. Occidental Chemical Corporation, Inc. v. PJM Interconnection, LLC²³ addressed a request by Occidental, an industrial customer, that it be reassigned a portion of its load-serving entity's FTR allocation when it acquires a third-party supplier or becomes its own load-serving entity. The Commission denied Occidental's request for an immediate reallocation of its load-serving entity's rights, but noted that such reallocations of FTRs would play an "important role" as retail competition programs evolve, and ordered PJM to file tariff revisions to allow such a reallocation.²⁴ Under PJM's ARR allocation procedures, PJM is required to provide a pro rata allocation of ARRs between annual allocations to accommodate load shifts, and this protects load-serving entities taking on new load against congestion costs. As such, the ARR allocation and auction procedures proposed in this proceeding satisfy the requirement that the PJM enable FTRs to follow load. They will permit load to move more freely between load-serving entities.

B. Compliance Filing

36. Municipal Coalition argues that the self-scheduling provision of PJM's compliance filing is inconsistent and unclear. It states that the first sentence of Section 7.1.1(b) indicates that an ARR holder "may convert Auction Revenue Rights to Financial Transmission Rights," yet the last sentence of the provision refers to "converted Financial Transmission Rights." It also believes that it is unclear at exactly what point ARRs are converted to FTRs. Municipal Coalition questions whether an ARR holder, after exercising its conversion rights, holds an FTR or the right to purchase an FTR at the price bid for it by another entity that participated in the auction. It points out that Section 7.1.1(b) does not state that an entity that exercises its self-scheduling rights will be deemed to have a net credit requirement of zero, as the Commission accepted in the March 12 Order.

37. Municipal Coalition argues that PJM's compliance filing limits the nature of the FTRs that result from an ARR holder's exercise of its self-scheduling rights. For example, it argues that Section 7.1.1(b) states, without explanation, that any FTR resulting from a conversion must be a 24-hour FTR and must be an FTR Obligation. Municipal Coalition is concerned that this provision may provide the ARR holder a set of FTRs that are less valuable or certain than longer-term ARRs.

²³ 101 FERC ¶ 61,005 at P 17 (2002), order on reh'g 102 FERC ¶ 61,275 (2003) (collectively, Occidental).

²⁴ Occidental, 101 FERC ¶ 61,005 at P 18.

38. Finally, Municipal Coalition argues that the language of the self-scheduling provision is clear but unexplained because it requires an ARR holder to exercise its conversion right prior to the end of the first round of the four-round FTR auction. Municipal Coalition argues that this language would only provide the ARR holder with information about bids at the first round of a four-round option. Municipal Coalition argues that PJM should explain the purposes of this deadline for exercising the self-scheduling option and why it is infeasible to allow an ARR holder to wait until all auction bid data are available before being required to exercise this option.

39. PJM's April 11, 2003 compliance filing satisfactorily complies with the March 13 Order and is accepted for filing, effective March 11, 2003.

40. We find Municipal Coalition's comments to be unfounded. PJM's tariff language regarding the self-scheduling option clearly states that an entity that wishes to convert their ARRs to FTRs will be a price taker in the auction and will receive a price equal to the clearing price set by other bids. The amount paid for the FTRs would be offset exactly by the revenue received as an ARR rights holder. Thus the ARR credit would directly offset the FTR purchase price, and therefore there is a zero credit requirement to convert ARRs to FTRs.

41. Further, PJM's tariff language clearly states that in order for an ARR holder to convert their rights into FTRs, the ARR and the FTR must have the same characteristics.²⁵ PJM states that at the time ARRs are allocated, the simultaneous feasibility of the ARRs (and resultant FTRs) already will have been determined. The ARR holder always will be assured the full amount of FTRs that are associated with its ARRs.²⁶ We also find that PJM's deadline for an entity that wishes to convert ARRs into FTRs is reasonable and well-explained. Therefore, we find that Municipal Coalition's concerns are unfounded.

The Commission orders:

(A) The requests for rehearing and clarification of the March 12 Order are hereby denied, as described in the body of this order.

(B) PJM's compliance filing is hereby accepted for filing, effective March 11, 2003, as described in the body of this order.

²⁵ See First Revised Sheet No. 403 (stating that FTRs must: (1) have the same source and sink points as the ARRs; (2) be a 24-hour product; and (3) be FTR Obligations).

²⁶ See PJM Answer to Motions to Intervene and Protest at P 3 (Feb. 20, 2003).

(C) PJM is required to file revisions to Sections 5.2.2(e) and 7.1.1(b) of its tariff, as described in the body of this order, within 30 days of the date of this order.

By the Commission.

(S E A L)

Linda Mitry,
Acting Secretary.