

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

PJM Interconnection, L.L.C.

Docket No. ER04-1179-000

ORDER ACCEPTING INITIAL ALLOCATION
OF FINANCIAL TRANSMISSION RIGHTS FOR PJM SOUTH

(Issued October 27, 2004)

1. On September 1, 2004, PJM Interconnection, L.L.C. (PJM) submitted for filing, pursuant to section 205 of the Federal Power Act (FPA),¹ a proposed initial allocation of Financial Transmission Rights (FTRs) for its new zone, the Dominion-Virginia Power Zone, for the period November 1, 2004 through May 31, 2005.² For the reasons discussed below, we will accept PJM's proposed FTR allocations.

Background

2. PJM states that pursuant to Schedule 1, section 5.2.2(e) of the PJM Operating Agreement and a corollary provision included in its open access transmission tariff (OATT), at Attachment K, PJM is required, prior to its initial allocation of FTRs in a new region such as PJM South, to submit its proposed allocations in a section 205 filing. PJM states that its filing is being submitted in compliance with this requirement and in conjunction with its proposal to establish PJM South on November 1, 2004.

¹ 16 U.S.C. § 824d (2000).

² The establishment of the Dominion-Virginia Power Zone, under a PJM expansion arrangement known as "PJM South," was conditionally accepted by the Commission in an order issued October 5, 2004. *See* PJM Interconnection, L.L.C., *et al.*, 109 FERC ¶ 61,012 (2004) (PJM South Order). The transmission facilities that comprise PJM South, *i.e.*, the Dominion-Virginia Power Zone, are owned by the Virginia Electric and Power Company (Dominion).

3. PJM states that the initial FTR allocations included in its filing are for an interim period only (from the November 1, 2004 start-up date of the Dominion-Virginia Power Zone through the end of the current planning period, *i.e.*, May 31, 2005). PJM states that this proposed interim allocation is necessary, given the fact that PJM allocates FTRs, as well as its auction revenue rights (ARRs), on an annual planning period basis, *i.e.*, from June 1 of a calendar year through May 31 of the subsequent calendar year.
4. PJM states that in accordance with its established procedures under the PJM OATT, its proposed partial-period allocation reflected in its filing consists of FTRs, not ARRs. PJM notes, however, that for the full-year allocation it will file next spring, customers in PJM's new zones (including those customers located in PJM South) will be given the option of receiving an allocation of either FTRs or ARRs.
5. PJM states that the FTRs allocations reflected in its filing have been allocated in two stages, as required by Schedule 1, section 7 of the PJM Operating Agreement. PJM states that in its Stage One allocation (made to all network integration transmission service in the Dominion-Virginia Zone), 100 percent of all FTRs requested were awarded. Moreover, PJM states that in its Stage Two allocation (made to all firm point-to-point transmission paths), no firm point-to-point transmission service customers were pro-rated.
6. PJM also states that the only FTR requests that were pro-rated in its allocations were from two network service users who, in making their FTR requests, sought additional FTRs in Stage Two (beyond the proportionate share of historical resources requested in Stage One). PJM notes, however, that because multiple customers desired additional FTRs from these higher-value resources, the requests resulted in the identification of constraints that required PJM to pro-rate these requests in Stage Two.
7. PJM states that there were no binding constraints reflected in its Stage One allocations, given the fact that all FTRs available were fully allocated. PJM notes, however, that one interface, the Black Oak-Bedington interface, was a binding constraint in each round of Stage Two. PJM states that in addition, the Chesterfield B-Lakeside 230 kV line, for the contingent loss of the Chesterfield B-Basin 230 kV, was identified as a binding constraint in round 2 of its Stage Two allocation. PJM states that as required by the PJM Operating Agreement, requested FTRs with a greater effect on these specific constraints were pro-rated to a greater degree, *i.e.*, the FTR award was inversely related to the effect of the FTR request on the constraint.
8. PJM requests an effective date of November 1, 2004 for its proposed FTR allocations, consistent with the start-up date of PJM South.

Notice of Filing and Responsive Pleadings

9. Notice of PJM's filing was published in the *Federal Register*, with interventions, comments and protests due on or before September 22, 2004.³ Motions to intervene were timely filed by Allegheny Power and Allegheny Energy Supply Company, LLC (Allegheny), Exelon Corporation, and the North Carolina Electric Membership Corporation (North Carolina Coop). In addition, comments were filed by the North Carolina Coop.

10. In its comments, the North Carolina Coop seeks clarification regarding the meaning of the terms "Southeast 1" and "Southeast 2," as referenced by PJM in its listing of FTR Sources. The North Carolina Coop also requests that PJM clarify how these Interface definitions will be handled on a going forward basis, specifically, whether both Interfaces would be maintained for pricing purposes following the integration of Virginia Power into PJM South.

11. The North Carolina Coop also seeks confirmation that one of the two 50 MW blocks of FTRs associated with the Southeast Interface (Southeast 1 or Southeast 2) will serve to complete the path from the AEP-Dayton Hub to the North Carolina Coop's load in the Dominion-Virginia Power Zone. The North Carolina Coop requests that in the event it is determined that there will not be a complete path, an additional 50 MW of FTRs be allocated to the North Carolina Coop to link the Old Southeast Interface to the New Southeast Interface. Finally, the North Carolina Coop requests that in the event the Southeast 1 Interface Point is not maintained by PJM, the two 0.6 MW FTRs received by the North Carolina Coop (covering Southeast 1 to Dominion) be changed to a Southeast 2 to Dominion path. In this regard, the North Carolina Coop asserts that it requested FTRs for the Southeast Interface, as defined for the Dominion-Virginia Power Zone FTR allocation, which it believes now correspond to Southeast 2.

PJM's Answer

12. On October 7, 2004, PJM filed an answer to the North Carolina Coop's comments. In its answer, PJM asserts that the North Carolina Coop's initial request for FTRs was fully satisfied. With respect to the modified requests reflected in the North Carolina's Coop's comments, PJM responds that its southeast interface is a locational marginal price (LMP) pricing point for PJM's interface with multiple control areas to the southeast of PJM and that this interface is directly connected to PJM. PJM adds that the composition of the control areas included in this interface will be changing this year as a

³ 69 Fed. Reg. 56,210 (2004).

result of PJM's recent expansions (including its planned integration of PJM South). Accordingly, PJM asserts that for purposes of its latest FTR allocations (this last summer), PJM defined a "Southeast 1" and "Southeast 2" LMP point.⁴

13. PJM further states that the term Southeast 2 refers to the interface after Dominion's integration, consisting of PJM's interface with all of the above control areas, except Dominion. PJM asserts that after Dominion's integration, PJM will retain, but rename, the Southeast 1 point, as an LMP aggregate point comprised of the same LMP nodes as before Dominion's integration. PJM explains that it is retaining the Southeast 1 point after Dominion's integration as an intermediate FTR point primarily to address customers such as the North Carolina Coop, who is a transmission customer of both AEP and Dominion prior to their integrations into PJM, and who is a participant in the separate, and successive, FTR allocations for the AEP and Dominion zones.

14. PJM also responds to the North Carolina Coop's requested clarification as to whether either of the two 50 MW blocks of FTRs allocated to the North Carolina Coop from the Southeast interface (Southeast 1 or Southeast 2) will complete the path from the AEP-Dayton Hub to NCEMC's load in the Dominion Zone. PJM clarifies that the Southeast 1 point corresponds to the sink point in the North Carolina Coop's FTR allocation for the AEP zone for its export from AEP to the separate Dominion control area. PJM explains that the FTRs awarded to the North Carolina Coop in the Dominion FTR allocation complete the path from this point to NCEMC's loads in the Dominion zone.

15. Finally, PJM responds to the North Carolina Coop's request that should the Southeast 1 interface point not be retained following Dominion's integration into PJM South, the two sets of 0.6 MW FTRs allocated to the North Carolina Coop for Southeast 1 be transferred to Southeast 2. PJM responds that, in fact, it will be retaining the Southeast 1 interface point.

⁴ PJM explains that Southeast 1 refers to the southeast interface after integration of the American Electric Power System east operating companies, but before Dominion's integration. PJM states that this point corresponds to PJM's interface with the Carolina Power & Light-east control area, Carolina Power & Light-west control area, Duke Power control area, and Dominion control area.

Discussion

A. Procedural Matter

16. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure,⁵ the timely, unopposed motions to intervene submitted by Allegheny, Exelon Corporation, and the North Carolina Coop serve to make these entities parties to this proceeding. Rule 213(a) of the Commission's Rules of Practice and Procedure,⁶ prohibits an answer to a protest, 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.

B. Analysis

17. We will accept PJM's proposed initial allocation of FTRs. Under PJM's allocation, 100 percent of all FTRs requested for the Dominion-Virginia Power Zone in Stage 1 were awarded.⁷ Similarly in Stage 2, no firm-point-to-point transmission service customers were pro-rated. Thus, unlike the FTR allocation process for ComEd and AEP,⁸ the Commission agrees with PJM that no mitigation is necessary in this case.

18. With respect to the North Carolina Coop's comment, PJM has explained how its FTR source points were determined and explains that the two 50 FTR MW awards allocated to the North Carolina Coop will, in fact, complete the North Carolina Coop's path from source to sink. In addition, PJM clarifies that it will be retaining the Southeast 1 interface and that this interface is the correct source point for energy resources in American Electric Power that are associated with the North Carolina Coop's two 0.6 FTR MW requests. We accept PJM's answer and find that, on that basis, North Carolina Coop's clarification has been granted.

⁵ 18 C.F.R. § 385.214 (2004).

⁶ *Id.* at § 385.213(a)(2).

⁷ According to PJM, the only FTR requests that were pro rated in this allocation were from two network service users that sought additional FTRs to resources that were perceived to have higher value.

⁸ See PJM Interconnection, L.L.C., 107 FERC ¶ 61,223 (2004) (May 28 FTR Allocation Order) and PJM Interconnection, L.L.C., 108 FERC ¶ 61,246 (2004) (September 17 FTR Allocation Order).

The Commission orders:

PJM's proposed initial FTR allocations applicable to PJM South are hereby accepted for filing, as discussed in the body of this order, to become effective November 1, 2004, or the date on which Dominion is integrated into PJM, as discussed in the body of this order.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.