

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. ER05-692-000

ORDER ACCEPTING TARIFF REVISIONS FOR FILING,
SUBJECT TO CONDITIONS

(Issued May 6, 2005)

1. On March 10, 2005, PJM Interconnection, L.L.C. (PJM) submitted for filing, pursuant to section 205 of the Federal Power Act (FPA),¹ revisions to Schedule 2 of the PJM open access transmission tariff (PJM OATT) to reflect the addition of new or revised revenue requirements applicable to certain of the providers of PJM's cost-based Reactive Supply and Voltage Control from Generation Sources Service (Reactive Power).² For the reasons discussed below, we will accept PJM's proposed tariff revisions for filing, subject to conditions, to become effective on the dates requested (unless otherwise indicated). Accepting this filing benefits customers because it ensures an accurate calculation of revenue requirements for Reactive Power.

¹ 16 U.S.C. § 824d (2000).

² The providers of Reactive Power at issue are: Allegheny Energy Supply Company, LLC (AE Supply); Monongahela Power Company (Mon Power); Duke Energy Lee, LLC (Duke Lee); Midwest Generation, LLC (MWGen); Rolling Hills Generating, L.L.C. (Rolling Hills); Ocean Peaking Power, L.L.C. (OPP); FPL Energy Marcus Hook, L.P. (Marcus Hook); Riverside Generating Company, L.L.C. (Riverside); and Buckeye Power, Inc. (Buckeye).

Background

2. The availability of Reactive Power allows PJM to maintain transmission voltages on its system within acceptable limits, with Schedule 2 of the PJM OATT requiring an entity seeking to provide this service to obtain Commission approval of its revenue requirement as a condition to PJM's obligation to reflect these approvals in the rates charged under Schedule 2. PJM states that its filing includes amendments to the chart in Schedule 2 of its OATT to reflect these prior approvals.

3. Specifically, PJM's filing reflects: (i) the AE Supply and Mon Power revised annual and monthly revenue requirements for providing Reactive Power, as agreed to in a Settlement Agreement in Docket No. ER04-81-000;³ (ii) the Duke Lee revised annual and monthly revenue requirements for providing Reactive Power, as agreed to in a Settlement Agreement in Docket No. ER04-641-000, *et al.*;⁴ (iii) the MWGen revised 2004 and 2005 annual and monthly revenue requirements for providing Reactive Power, as agreed to in a Settlement Agreement in Docket No. ER04-109-000;⁵ (iv) the Rolling Hills revised annual and monthly revenue requirements for providing Reactive Power, as agreed to in a Settlement Agreement in Docket No. ER04-1098-000, *et al.*;⁶ (v) the OPP revised annual and monthly revenue requirements for providing Reactive Power, as reflected in the rate schedule accepted by the Commission in Docket No. ER05-289-000;⁷ (vi) the Marcus Hook revised annual and monthly revenue requirements for providing Reactive Power (as payable to Marcus Hook's affiliate, FPL Energy Power Marketing,

³ See *Allegheny Energy Supply Co., LLC*, 110 FERC ¶ 61,152 (2005).

⁴ See *Duke Energy Lee, LLC*, 110 FERC ¶ 61,057 (2005).

⁵ See *Midwest Generation EME, LLC v. Commonwealth Edison Co.*, 108 FERC ¶ 61,166 (2004). See also *Midwest Generation, LLC*, Letter Order, Docket No. ER04-1246-000 (November 16, 2004) (accepting MWGen's notice of cancellation of MWGen Tariff 4, effective October 1, 2004); and *Midwest Generation, LLC*, Letter Order, Docket No. ER05-105-000 (December 16, 2004) (accepting MWGen's proposed return to service of its Will County I and 2 units, effective January 1, 2005).

⁶ See *Rolling Hills Generating, L.L.C.*, 110 FERC ¶ 61,255 (2005).

⁷ See *Ocean Peaking Power, L.L.C.*, Letter Order, Docket No. ER05-289-000 (January 21, 2005).

Inc. (FPL) – a PJM member), as accepted by the Commission, subject to refund and the outcome of a hearing in Docket No. ER05-316-000;⁸ (vii) the Riverside revised annual and monthly revenue requirements for providing Reactive Power, as accepted by the Commission in Docket No. ER05-328-000;⁹ and (viii) the Buckeye revised annual and monthly revenue requirements for providing Reactive Power, as accepted by the Commission in Docket No. EL05-20-000;¹⁰

4. PJM also seeks certain confirmations with respect to its payment obligations relating to Marcus Hook's revenue requirements. Specifically, PJM notes that Marcus Hook, which is not a PJM member, has requested that the Marcus Hook revenues for Reactive Power be paid to its affiliate, FPL, which is a PJM member. To allow for this accommodation, PJM proposes to pay the Reactive Power revenue requirement set forth in the Marcus Hook Reactive Tariff to FPL and to incorporate the Reactive Power revenue requirements set forth in the Marcus Hook Reactive Tariff into Schedule 2 of the PJM OATT under the name "FPL Energy Power Marketing, Inc." PJM states that it has sought (and has obtained) from both Marcus Hook and FPL, written authorization to support this crediting arrangement.

5. PJM states that the requested effective dates reflected in its revised tariff sheets are unique to each of the entities at issue, based on the facts and circumstances relating to the filing and acceptance of these revenue requirements. These requested effective dates are as follows: December 27, 2003 (for AE Supply and Mon Power); May 1, 2004 (for Duke Lee); October 1, 2004 (for MWGen); October 4, 2004 (for Rolling Hills); October 11, 2004 (for Substitute Sixth Revised Sheet No. 230A, consistent with the effective date originally accepted for this tariff sheet in Docket No. ER05-124-000); November 1, 2004 (for Substitute Sixteenth Revised Sheet No. 230 and Substitute Seventh Revised Sheet No. 230A, consistent with the effective date originally accepted for these tariff sheets in Docket No. ER05-124-000); January 1, 2005 (for OPP and MWGen); February 1, 2005 (for Marcus Hook and Riverside); and February 16, 2005 (for Buckeye). Finally, PJM requests waiver of the Commission's notice requirements, consistent with its requested effective dates.

⁸ See *FPL Energy Marcus Hook, L.P.*, 110 FERC ¶ 61,087 (2005).

⁹ See *Riverside Generating Company, L.L.C.*, Letter Order, Docket No. ER05-328-000 (December 14, 2004).

¹⁰ See *Buckeye Power, Inc.*, 110 FERC ¶ 61,166 (2005).

Notice of Filing and Responsive Pleadings

6. Notice of PJM's filing was published in the *Federal Register*¹¹ with interventions and protests due on or before March 31, 2005. Motions to intervene and notices of intervention were timely filed by Allegheny Power and Allegheny Energy Supply Company, LLC; Consolidated Edison Energy, Inc.; Marcus Hook; Exelon Corporation (Exelon); FirstEnergy Service Company; and Buckeye. In addition, comments were filed by Exelon, while a conditional protest was filed by Buckeye.

7. In its comments, Exelon objects to the confirmations sought by PJM with respect to PJM's payment obligations relating to Marcus Hook's revenue requirements. Specifically, Exelon urges the Commission to clarify that PJM membership *is* required for an entity, such as Marcus Hook, to file for and receive Reactive Power compensation pursuant to Schedule 2. Exelon further requests that the Commission modify the effective date of the Schedule 2 reactive compensation to be the date that Marcus Hook becomes a member of PJM and require Marcus Hook to refund the money, if any, already paid by PJM.

8. Exelon notes that Schedule 2 of the PJM OATT is ambiguous regarding whether membership in PJM is a prerequisite to receiving Commission approval of a cost-based compensation for Reactive Power. Specifically, Exelon notes that Schedule 2 does not explicitly require a generator owner to be a member to receive the cost-based revenue for Reactive Power (although the PJM Operating Agreement does define Generation Owner as a member that "owns or leases with rights equivalent to ownership facilities for the generation of electric energy that are located in the PJM Region.").

9. Exelon argues, however, that membership in PJM entails satisfying operational requirements and creditworthiness standards that are important protections for other members of PJM. Exelon notes that at present, however, there have been varying interpretations of the requirements for receiving Reactive Power compensation. Exelon points out that in Docket No. ER04-1066-000, for example, PJM insisted (and cited a letter order issued in another proceeding in support of the proposition¹²) that Reliant Energy Wholesale Generation LLC (Reliant) had to complete its application for

¹¹ 70 Fed. Reg. 13,493 (2005).

¹² See *Handsome Lake Energy LLC*, Docket No. ER02-771-000, Letter Order (March 8, 2002).

membership in PJM *prior* to receiving payment for reactive service. Exelon also asserts that this requirement was reflected in the Commission's letter order accepting the proposed rate at issue.¹³

10. In its conditional protest, Buckeye takes issue with the proposed effective date of February 16, 2005 reflected on Eleventh Revised Sheet No. 230A, asserting that pursuant to its request for clarification, in Docket No. EL05-20-002 (as granted by the Commission), an effective date of February 1, 2005 should be reflected on the tariff sheet at issue.¹⁴

11. On April 15, 2005, PJM filed an answer responding to the concerns raised by Exelon in its protest. PJM states in its answer that while it agrees that to receive Reactive Power revenues under Schedule 2 of the PJM OATT, an entity must be a PJM member, a PJM member should be able to receive Reactive Power revenues associated with a non-member's Commission-accepted revenue requirement, provided that the PJM member is authorized to sell the output of the non-member's generating unit, including Reactive Power, in the PJM markets. PJM asserts that no purpose would be served by demanding that each legal entity owning generation and providing Reactive Power support to the PJM system be forced to join PJM as a member.

12. On April 22, 2005, Exelon filed an answer to an answer addressing the issues raised by PJM in its answer. On April 27, 2005, Marcus Hook filed an answer to an answer addressing the issues raised by Exelon in its answer.

¹³ See *Reliant Energy Wholesale Generation, LLC*, 109 FERC ¶ 61,022 (2004) (*Reliant*).

¹⁴ As explained below, the clarification sought by Buckeye was granted by the Commission in an order issued April 19, 2005 in Docket No. EL05-20-002. See *Buckeye Power, Inc.*, 111 FERC ¶ 61,088 at P 6 (2005) (April 19 Order) (finding that the effective date for Buckeye's revenue requirement is February 1, 2005).

Discussion

Procedural Matters

13. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure,¹⁵ the timely, unopposed motions to intervene and notices of intervention submitted by the entities noted above serve to make these entities party to this proceeding. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure,¹⁶ prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept the answers submitted by PJM, Exelon, and Marcus Hook because they have provided information that assisted us in our decision-making process.

Analysis

14. We will accept PJM's filing, subject to condition, to become effective on the dates requested unless otherwise indicated.¹⁷ First, we find that PJM's proposed revisions to Schedule 2 of its OATT generally reflect the approvals issued by the Commission in the proceedings in which the underlying revenue requirements have been submitted, subject to the conditions specified below.

15. We also agree with PJM that FPL, a PJM member, should be permitted to receive, on behalf of its affiliate, Marcus Hook, Marcus Hook's Commission-accepted Reactive Power revenue requirement. As such, we will deny the requested clarification on this issue sought by Exelon. In the transmittal sheet accompanying its filing, PJM proposed that FPL be permitted to receive Marcus Hook's revenue requirement for Reactive Power, subject to PJM's receipt from both FPL and Marcus Hook written authorization to support this crediting arrangement. PJM states that this allowance will reduce for its customers the unnecessary administrative burden that would result from requiring FPL's corporate family to establish PJM membership for an additional subsidiary, *i.e.*, for Marcus Hook, simply for accounting purposes.

¹⁵ 18 C.F.R. § 385.214 (2004).

¹⁶ *Id.* at § 213(a)(2).

¹⁷ See *Central Hudson Gas & Elec. Corp.*, 60 FERC ¶ 61,106, *reh'g denied*, 61 FERC ¶ 61,089 (1992).

16. In its answer, PJM further clarifies that a PJM member should be able to receive Reactive Power revenues associated with a non-member's Commission accepted revenue requirement, provided that the PJM member is authorized to sell the output of the non-member's generating unit in the PJM market place. PJM states that to ensure that the PJM member, in this case FPL, is authorized to sell a non-member's Reactive Power into the PJM markets, PJM will require that both entities execute a Declaration of Authority.¹⁸ PJM states that by executing these documents, Marcus Hook has certified that FPL will be acting as principal and will be entitled to receive all revenues associated with Marcus Hook's sales of products and services. These documents further acknowledge that PJM will be authorized to deal directly with FPL as if it were the owner of the Reactive Power at issue.

17. PJM states, and we agree, that these certifications provide sufficient assurances that FPL will be the authorized party to sell Reactive Power to PJM and to receive the associated revenues. We also find that PJM will retain sufficient operational control over these transactions to ensure system reliability. As such, we agree that Exelon's concerns regarding Marcus Hook's lack of status as a PJM member are, in this case, unwarranted. In fact, PJM's proposed treatment of Marcus Hook's revenue requirement for Reactive Power is appropriate and does not violate the requirement that membership in PJM is necessary in order to sell products and services in the PJM marketplace.¹⁹ In addition PJM's arrangement with FPL and Marcus Hook satisfies PJM's operational requirements and creditworthiness standards.

18. Finally, we will grant Buckeye's conditional protest. As we determined in the April 19 Order, Buckeye's Reactive Power revenue requirement will be made effective February 1, 2005, not February 16, 2005. Accordingly, we will require PJM to make a compliance filing within 30 days of the date of this order, reflecting this clarification.

¹⁸ PJM states that FPL and Marcus Hook executed these documents on March 2, 2005.

¹⁹ See *Reliant*, 109 FERC ¶ 61,022 at P 12; see also *Calpine Construction Finance Company, L.P.*, 105 FERC ¶ 61,097 at P 7 (2003).

The Commission orders:

(A) PJM's proposed tariff revisions are hereby accepted for filing, subject to condition, to become effective on the dates requested, unless otherwise noted in the body of this order. Waiver of the Commission's notice requirement is hereby granted;

(B) PJM is hereby required to make a compliance filing within 30 days of the date of this order, as discussed in the body of this order.

By the Commission.

(S E A L)

Linda Mitry,
Deputy Secretary.