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# FEDERAL ENERGY REGULATORY COMMISSION

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WASHINGTON, D.C. 20426

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## NEWS RELEASE

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### FOR IMMEDIATE RELEASE

June 17, 2004  
Docket Nos. ER03-262-009, et al.

### **FERC APPROVES SETTLEMENT AND INITIAL DECISION, ACTIONS CLEAR THE WAY FOR AEP TO JOIN PJM**

The Federal Energy Regulatory Commission today approved a contested settlement between PJM Interconnection (PJM), American Electric Power Service Corporation (AEP) and the Public Service Commission of Kentucky stating that the settlement represents “a reasonable resolution of the complex matters” relating to the laws, rules and regulations of Kentucky, and their operation to allow for AEP’s Kentucky operating company to transfer operational control of its transmission assets to PJM.

In approving the settlement, the Commission said that the agreement does not change FERC’s authority or that of the Kentucky Commission. Other terms agreed to in the settlement include the following: PJM’s market operations are such that AEP’s purchases and sales of capacity and energy in PJM’s energy markets are voluntary; and, PJM is required to provide information and give due consideration to the finding of the Kentucky Commission and other state commissions within the PJM region for determining appropriate reserve margins necessary to maintain safe and reliable service. In addition, PJM will not direct AEP to curtail retail customers of any AEP operating company and PJM will not direct AEP to curtail load in any AEP state jurisdiction for a transmission system emergency unless PJM has exercised all other available options.

In a separate order, the Commission affirmed an administrative law judge’s decision and ruled that under a federal law, the Commission may allow AEP to transfer its transmission facilities to PJM’s control over the objections of the Commonwealth of Virginia. This decision clears the way for AEP to integrate into the PJM regional transmission organization (RTO) by October 1, 2004.

Under section 205 (a) of the Public Utility Regulatory Policies Act of 1978 (PURPA), the Commission can exempt utilities from state laws, rules or regulations that prohibit or prevent the voluntary coordination of electric utilities for the economic

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utilization of their facilities and resources. In March 2000, the Commission approved the merger of AEP with Central and Southwest Corporation (CSW), on condition that AEP transfer operational control of its transmission facilities to a Commission-approved RTO. AEP agreed to that condition. Last year, the Commission made preliminary findings that AEP's voluntary commitment to join PJM was further designed to obtain economic utilization of facilities and resources in the Midwest and Mid-Atlantic regions, and set the matter of AEP joining PJM for hearing.

In March 2004, the presiding judge found that in this case, the applicable criteria of PURPA section 205(a) were met. The criteria are: (1) AEP's voluntary commitment to join PJM was an economic use of facilities and resources; (2) the laws, rules and regulations of Virginia and Kentucky were preventing AEP from fulfilling both its voluntary 1999 commitment as part of merger proceedings and its application to join a RTO under Order No. 2000; and, (3) Virginia and Kentucky's laws do not fall within the statute's exception to PURPA's exemption authority.

The Commission agreed with the judge's rulings. It further noted that it was resolving conflicting state positions. In particular, other states that are served by AEP support AEP's integration into PJM, while Virginia still does not. The Commission said that it is required to reconcile these state interests as it also seeks to fulfill its mandate under the FPA to ensure just and reasonable rates, terms, and conditions of service, and under PURPA to facilitate the voluntary coordination of utilities to enable the economic utilization of their facilities on a region-wide basis.

Today's action will provide AEP, PJM and their customers with greater certainty and keep the integration of AEP-East into PJM by October 1, 2004 on schedule. In 1999, the Commission issued Order No. 2000, which called for the voluntary development of RTOs. Broad, independent regionally operated transmission grids enhance the benefits of competitive electricity markets, the Commission said, by improving efficiencies in grid management and reliability, removing opportunities for discriminatory transmission practices and improving market performance.