

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

August 19, 2004

In Reply Refer To:
PJM Interconnection, L.L.C.
Docket No. ER04-987-000

PJM Interconnection, L.L.C.
Wright & Talisman, P.C.
1200 G Street, N.W.
Suite 600
Washington, DC 20005-3802

Attention: Barry S. Spector

Reference: Allocation of Costs of Synchronous Condensers to Support
Post-Contingency Congestion Management Program

Dear Mr. Spector:

1. On July 2, 2004, you filed on behalf of PJM Interconnection, L.L.C. (PJM) revisions to the PJM Amended and Restated Operating Agreement (Operating Agreement) and the PJM Open Access Transmission Tariff (PJM Tariff) to allocate certain costs that will enable PJM to initiate out-of-merit dispatch operations when simulated contingency flows on a facility reach the facility's 30-minute short term emergency rating, rather than initiating out-of-merit dispatch operations when the simulated contingency flows on a facility reach its four or two hour long term emergency rating. This change is intended to reduce redispatch costs. However, in order to implement such a change, PJM states that it needs to rely on synchronous condensers,¹ and this filing is designed to recover the costs of such condensers from the customers that will benefit from the reduced dispatch costs. The proposed revisions also make related changes with regard to appropriate reductions in the spinning reserve obligations of Load Serving Entities and payments to units providing only reactive service.

¹ Under this "post-contingency" congestion management program, the new 30-minute short term emergency rating may be used only where the probability of experiencing a contingency is low and there is sufficient quick start capability to respond to the loss of a facility.

2. PJM states in the summer of 2003, it conducted a pilot program of post-contingency operations for seven specified flowgates on the Conectiv system (*i.e.*, chronically congested areas in the Delmarva Peninsula) that resulted in a calculated savings of over \$2 million in real time and thereby avoided redispatch. PJM states that this proposal was approved unanimously by the PJM Members Committee.

3. Notice of the filing was published in the *Federal Register*, 69 Fed. Reg. 42,151 (July 14, 2004), with comments, protests, or interventions due on or before July 23, 2004. Consumer Energy Company (Consumers) filed timely motions to intervene raising no substantive issues.

4. The Commission accepts PJM's proposal to become effective September 1, 2004, as requested. These proposed revisions appropriately allocate the costs of synchronous condensers associated with post contingency operations to loads in the affected transmission zone, which allocation more accurately reflects the local benefit of the avoided redispatch costs and enhanced local reliability.

By direction of the Commission.

Linda Mitry,
Acting Secretary.