July 27, 2011

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

     Settlement Agreement and Offer of Settlement
     Docket Nos. ER11-2814-__
     ER11-2815-__

Dear Secretary Bose:

Pursuant to Rule 602 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.602 (2011), American Transmission Systems, Inc. (“ATSI”) submits the enclosed Settlement Agreement and Offer of Settlement (“Settlement”) and accompanying materials resolving all matters related to the above-captioned proceeding.\(^1\) On behalf of the parties to the Settlement, ATSI requests that these materials be transmitted to the Honorable David Coffman, the Settlement Judge in this proceeding, for certification to the Commission promptly following the applicable comment period.

I. CONTENTS

This submission includes the following materials:

- This letter of transmittal;
- An Explanatory Statement in support of the Settlement (Appendix A);
- The Settlement Agreement, which includes, as Attachment A thereto, replacement tariff sheets that implement the Settlement (Appendix B);
- A version of the replacement tariff sheets that implement the Settlement, marked to show changes from the tariff language submitted with ATSI’s original filing in Docket No. ER11-2814-000 (Appendix C);
- A draft form of letter order (Appendix D); and
- A certificate of service certifying that the Settlement documents, including this

\(^1\) Pursuant to Order No. 714, Electronic Tariff Filings, FERC Stats. & Regs. ¶ 31,276 (2008), ATSI, in conjunction with PJM Interconnection, LLC (“PJM”), will make a compliance filing to enter the tariff records into the eTariff database after the Settlement Protocols take effect pursuant to a Final Commission order as set forth in Section 2.2 of the Settlement Agreement.
transmittal letter, were served in accordance with the requirements of Rules 2010 and 602(d) of the Commission’s Rules of Practice and Procedure (Appendix E).

II. COMMENTS

In accordance with Rule 602(f), 18 C.F.R. § 385.602(f) ATSI advises the recipients of this letter that initial comments on the Settlement are due no later than August 16, 2011, and reply comments are due no later than August 26, 2011. Pursuant to Rule 602(f)(3), 18 C.F.R. § 385.602(f)(3), any failure to file a comment constitutes a waiver of all objections to the Settlement.

III. SERVICE

ATSI has requested that PJM serve a copy of this filing on all PJM members and on all state utility regulatory commissions in the PJM Region by posting this filing electronically. ATSI has also served the parties listed on the Commission’s official service list for Docket Nos. ER11-2814-000 and ER11-2815-000.

In accordance with the Commission’s regulations, PJM will post a copy of this filing to the FERC filings section of its internet site, located at the following link: http://www.pjm.com/documents/ferc-manuals/ferc-filings.aspx with a specific link to the newly-filed document, and will send an e-mail on the same date as this filing to all PJM Members and all state utility regulatory commissions in the PJM Region alerting them that this filing has been made and is available by following such link. Also, a copy of this filing will be available on the FERC’s eLibrary website located at the following link: http://www.ferc.gov/docs-filing/eLibrary.asp in accordance with the Commission’s regulations and Order No. 714.

Respectfully submitted,

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2 See 18 C.F.R. §§ 35.2(3) and 385.2010(f)(3).
3 PJM already maintains, updates and regularly uses e-mail lists for all PJM Members and affected state commissions.
UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

American Transmission Systems, Inc. ) Docket Nos. ER11-2814-___
) ER11-2815-___

EXPLANATORY STATEMENT
IN SUPPORT OF SETTLEMENT AGREEMENT

American Transmission Systems, Inc. (“ATSI”) submits this Explanatory Statement pursuant
to Rule 602 of the Rules of Practice and Procedure of the Federal Energy Regulatory
Commission (“FERC” or the “Commission”), 18 C.F.R. § 385.602 (2011), in support of the
Settlement Agreement (“Settlement”) entered into as of July 27, 2011 by ATSI, American
Municipal Power, Inc. (“AMP”), and Buckeye Power, Inc. (“Buckeye”) (each a “Settling Party”
and collectively, the “Settling Parties”). The Settlement is submitted as an Offer of Settlement to
be binding upon all non-Settling Parties to the pending proceeding upon Commission approval of
the Settlement without condition or modification unacceptable to the Settling Parties. If
approved by the Commission without such condition or modification, the Settlement will resolve
the matters set for hearing and settlement judge procedures by the Commission in its May 31,
2011, order in Docket Nos. ER11-2814-000 and ER11-2815-000.¹

I. Background

On February 1, 2011, PJM Interconnection, L.L.C. (“PJM”) and ATSI jointly submitted
modifications to the PJM Open Access Transmission Tariff (“OATT”), the Amended and
Restated Operating Agreement (“OA”), the Reliability Assurance Agreement Among Load
Serving Entities in the PJM Region (“RAA”), and the Consolidated Transmission Owners
Agreement (“TOA”) in connection with ATSI’s integration into PJM, effective June 1, 2011.

Those modifications included both a formula rate for the recovery of ATSI’s transmission revenue requirement (proposed Attachment H-21 to the PJM OATT) and Formula Rate Implementation Protocols (proposed Attachment H-21B to the PJM OATT) proposed by ATSI to establish procedures for the annual review of inputs to the formula rate (the “Protocols”). Among other parties, both AMP and Buckeye filed motions to intervene and protests in this docket. AMP’s protest raised certain objections to the Protocols.

In the May 31 Order, the Commission accepted PJM’s proposed ministerial revisions to the PJM OATT, OA, RAA, and TOA effective June 1, 2011, and accepted and suspended ATSI’s formula rate tariff provisions subject to the removal of certain costs from the formula rate (to be implemented through a compliance filing), and, if necessary, refunds. The Commission also accepted, suspended and set for hearing and settlement judge procedures the Protocols proposed by ATSI in its February 1 filing to determine whether the proposed Protocols are just and reasonable.

On June 30, 2011, ATSI submitted revisions to proposed Attachment H-21 to the PJM OATT in compliance with the Commission’s May 31 Order, as well as a request for rehearing of the May 31 Order’s requirement for the removal of certain costs from the formula rate.

The Chief Administrative Law Judge designated the Honorable David Coffman as the Settlement Judge in the prescribed proceeding on the Protocols. Judge Coffman convened a settlement conference on June 28, 2011, at which the Settling Parties and Commission Trial Staff actively participated. The Settling Parties have exchanged a series of proposed settlement offers and counteroffers which ultimately produced the Settlement.
II. **Terms of Settlement**

1. **Revisions to Protocols.** As reflected in Section 2.1 of the Settlement, the Settling Parties have agreed to revisions to the Protocols filed by ATSI as proposed Attachment H-21B to the PJM OATT. Those revisions are reflected in the Protocols included as Attachment A to the Settlement (the “Settlement Protocols”). The Settlement provides that the Settlement Protocols will replace the Protocols initially filed by ATSI in their entirety, as of the Effective Date.

2. **Effective Date.** Section 2.2 of the Settlement provides that the Settlement Protocols shall take effect on the date the Settlement is accepted by the Commission without condition or modification in a Final Order or the date that all of the Settling Parties notify one another that any condition or modification required by the Commission is acceptable. Prior to the Effective Date, the Protocols that ATSI filed on February 1, 2011, shall govern the preparation of any Annual Update, including the Annual Update that ATSI filed on May 2, 2011, as amended, and any procedures with respect to such Annual Update, including the resolution of any Preliminary Challenges or Formal Challenges to such Annual Update. If the Effective Date occurs before the resolution of all Preliminary Challenges and/or Formal Challenges concerning an Annual Update, the Settlement Protocols shall apply to procedures with respect to that Annual Update that take place after the Effective Date, including the resolution of any Preliminary Challenges or Formal Challenges that remain outstanding, *provided, however*, that ATSI shall not be required to modify that Annual Update or the associated informational filing to conform to the Settlement Protocols.

3. **Resolution of Issues.** Section 2.3 of the Settlement provides that the Settlement is a full and final settlement, release, discharge, accord and satisfaction of all the disputes, claims, demands, liabilities, rights, and/or obligations related to or arising out of the issues that
the Commission set for hearing and settlement judge procedures in the May 31 Order, provided, however, that the Settlement does not resolve any dispute, claim, or issue raised by the request for rehearing filed by ATSI in Docket Nos. ER11-2814 and ER11-2815 on June 30, 2011.

4. **Modifications and Standard of Review.** Section 3.1 provides that the terms of the Settlement shall be subject to change solely by written amendment executed by the Settling Parties. The standard of review for any modification to the Settlement, whether set forth in a written amendment executed by the Settling Parties or pursuant to the Commission’s exercise of its authority under Section 206 of the Federal Power Act, whether acting *sua sponte* or on a complaint filed by a Settling Party or a non-Settling Party, shall be the “just and reasonable” standard.

5. **Miscellaneous.** Article IV contains a number of standard provisions.

(a) Section 4.1 states that the Settlement shall become effective when approved by the Commission without condition or modification in a Final Order, or, if conditioned or modified, if and when the Settling Parties accept such condition or modification in accordance with Section 4.2. For purposes of the Settlement, an order shall be deemed to be a “Final Order” as of the date rehearing is denied by the Commission, or if rehearing is not sought, the date on which the right to seek Commission rehearing expires.

(b) Section 4.2 provides that the Settlement is expressly conditioned upon the acceptance of all provisions thereof by the Commission in accordance with Rule 602, without modification or condition. If the Commission fails to accept the Settlement in its entirety, without modification or condition, the Settlement shall not become effective and shall be null and void, unless (i) the Commission issues an order accepting the Settlement subject to modification or
condition; and (ii) each of the Settling Parties notifies all of the other Settling Parties in writing within ten days of such Commission order that it accepts such modifications or conditions.

(c) Section 4.3 notes that no Settling Party shall be bound by any part of this Settlement unless it becomes effective in the manner provided by Sections 4.1 or 4.2, as applicable.

(d) Section 4.4 states that the discussions among the Settling Parties have been conducted with the explicit understanding and agreement, pursuant to Rule 602(e) of the Commission’s Rules of Practice and Procedure, that all offers of settlement and discussions relating thereto are and shall be privileged, shall be without prejudice to the positions of any Settling Party or participant presenting any such offer or participating in any such discussion, and are not to be used in any manner in connection with this proceeding or otherwise.

(e) Section 4.5 states that the Settlement is entered into upon the understanding that it constitutes a negotiated agreement and, except as explicitly set forth therein, no Settling Party shall be deemed to have approved, accepted, agreed to, or consented to any principle or position in this proceeding, or to have prejudiced positions taken or that may be taken in this or any other proceeding. It further provides that the Settlement shall not be cited or relied upon as precedent for any purpose, including retail ratemaking, or as establishing any issue or principle, except to the extent of enforcing the terms and conditions of the Settlement itself and that nothing in the Settlement shall be deemed a “settled practice” as that term was interpreted and applied in *Public Service Comm’n of New York v. FERC*, 642 F.2d 1335 (D.C. Cir. 1980).

(f) Section 4.6 notes that section headings are used in the Settlement solely for convenience of reference and shall not be used to interpret or modify the terms of the Settlement.
III. **Policy Considerations of the Settlement**

By order dated October 23, 2003, the Chief Administrative Law Judge requires that five questions be answered as part of every Explanatory Statement submitted in support of a proposed settlement agreement. The questions, and specific responses applicable to the Settlement, are as follows:

1. **What are the issues underlying the settlement and what are the major implications?**

   The issue raised in this proceeding and resolved by the Settlement is the justness and reasonableness of the Protocols applicable to ATSI’s formula rate. The Settlement establishes Settlement Protocols that the Settling Parties believe to be reasonable and adequate to provide for the accurate implementation of ATSI’s formula rate. The Settling Parties believe the Settlement is fair, reasonable, and in the public interest.

2. **Whether any of the issues raise policy implications.**

   The underlying issues and the Settlement’s resolution of these issues do not raise any policy implications. Except to the extent that any of the foregoing discussion may be regarded as addressing an issue of Commission policy, the Settlement does not raise policy implications beyond the justness and reasonableness of the Settlement package as a whole.

3. **Whether any other pending cases will be affected.**

   Other than the filings in the captioned docket, no other cases will be affected by the Settlement.

4. **Whether the settlement involves issues of first impression, or if there are any previous reversals on the issues involved.**

   The Settlement does not involve any issues of first impression. The Settling Parties are not aware of any reversals on the issues involved.
5. Whether the proceeding is subject to the just and reasonable standard or whether there is Mobile-Sierra language making it the standard, i.e. the applicable standards of review.

The Settlement is subject to the “just and reasonable” standard of review. Section 3.1 of the Settlement sets forth the Settling Parties’ intent with respect to the standard of review that would apply to any proposed change to the Settlement.
IV. **Conclusion**

As discussed above and in the Settlement, the Settlement resolves all issues among the Settling Parties that were set for hearing in the May 31 Order (*viz*, issues related to ATSI’s Formula Rate Implementation Protocols), and is consistent with the Commission’s policies encouraging settlements. Further, the Settlement is fair, reasonable and in both the public interest and the Settling Parties’ interests in resolving this proceeding without protracted litigation. Accordingly, the Commission should approve the Settlement without condition or modification.

Respectfully submitted,

\[\text{/s/ Kenneth G. Jaffe} \]
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*Counsel for American Transmission Systems, Inc.*
UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION  

American Transmission Systems, Inc.  )  Docket Nos. ER11-2814-___  
)  ER11-2815-___

SETTLEMENT AGREEMENT AND OFFER OF SETTLEMENT

This Settlement Agreement (“Settlement”), submitted to the Federal Energy Regulatory Commission (“FERC” or the “Commission”) for approval as an Offer of Settlement pursuant to Rule 602 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.602 (2011), is entered into as of July 27, 2011 by American Transmission Systems, Inc. (“ATSI”), American Municipal Power, Inc. (“AMP”), and Buckeye Power, Inc. (“Buckeye”) (each a “Settling Party” and collectively, the “Settling Parties”). This Settlement is submitted as an Offer of Settlement to resolve, upon the Commission’s acceptance of this Settlement without condition or modification unacceptable to the Settling Parties, the matters set by the Commission for hearing and settlement judge procedures in its May 31, 2011 Order issued in Docket Nos. ER11-2814-000 and ER11-2815-000.¹ Subject to the conditions set forth in this Settlement, including the acceptance by the Commission of this Settlement in its entirety without condition or modification unacceptable to the Settling Parties, and with the understanding that each term of this Settlement is in consideration and support of every other term, the Settling Parties agree as follows:

I. PROCEDURAL BACKGROUND

1.1 On February 1, 2011, PJM Interconnection, L.L.C. (“PJM”) and ATSI jointly submitted modifications to the PJM Open Access Transmission Tariff (“OATT”), the Amended and

Restated Operating Agreement ("OA"), the Reliability Assurance Agreement Among Load Serving Entities in the PJM Region ("RAA"), and the Consolidated Transmission Owners Agreement ("TOA") in connection with ATSI’s integration into PJM, effective June 1, 2011. Those modifications included both a formula rate for the calculation and recovery of ATSI’s transmission revenue requirement (proposed Attachment H-21 to the PJM OATT) and Formula Rate Implementation Protocols (proposed Attachment H-21B to the PJM OATT) proposed by ATSI to establish procedures for the annual review of inputs to the formula rate (the “Protocols”). Among other parties, both AMP and Buckeye filed motions to intervene and protests in this docket. AMP’s protest raised certain objections to the Protocols.

1.2 In the May 31 Order, the Commission accepted PJM’s proposed ministerial revisions to the PJM OATT, OA, RAA, and TOA effective June 1, 2011, and accepted and suspended ATSI’s formula rate tariff provisions subject to the removal of certain costs from the formula rate (to be implemented through a compliance filing), and, if necessary, refunds. The Commission also accepted, suspended and set for hearing and settlement judge procedures the Protocols proposed by ATSI in its February 1 filing to determine whether the proposed Protocols are just and reasonable. On June 30, 2011, ATSI submitted revisions to proposed Attachment H-21 to the PJM OATT in compliance with the Commission’s May 31 Order, as well as a request for rehearing of the May 31 Order’s requirement for the removal of certain costs from the formula rate.

1.3 The Chief Administrative Law Judge designated the Honorable David Coffman as the Settlement Judge in the prescribed proceeding on the Protocols. Judge Coffman convened a settlement conference on June 28, 2011, at which the Settling Parties and Commission
Trial Staff actively participated. The Settling Parties have exchanged a series of proposed settlement offers and counteroffers which ultimately produced the Settlement.

II. REVISIONS TO ATSI’S FORMULA RATE IMPLEMENTATION PROTOCOLS

2.1 Revisions to Protocols. The Protocols filed by ATSI as proposed Attachment H-21B to the PJM OATT shall as of the Effective Date be replaced in their entirety with the Protocols set forth in Attachment A to this Settlement (the “Settlement Protocols”).

2.2 Effective Date. The Settlement Protocols shall take effect on the date the Settlement is accepted by the Commission without condition or modification in a Final Order, as defined in Section 4.1 of this Settlement or, if the Commission accepts this Settlement subject to condition or modification, on the date that all Settling Parties have notified the other Settling Parties that any such condition or modification is acceptable in accordance with Section 4.2 of this Settlement (the “Effective Date”). Prior to the Effective Date, the Protocols that ATSI filed on February 1, 2011, shall govern the preparation of any Annual Update, including the Annual Update that ATSI filed on May 2, 2011, as amended, and any procedures with respect to such Annual Update, including the resolution of any Preliminary Challenges or Formal Challenges to such Annual Update. If the Effective Date occurs before the resolution of all Preliminary Challenges and/or Formal Challenges concerning an Annual Update, the Settlement Protocols shall apply to procedures with respect to that Annual Update that take place after the Effective Date, including the resolution of any Preliminary Challenges or Formal Challenges that remain outstanding, provided, however, that ATSI shall not be required to modify that Annual Update or the associated informational filing to conform to the Settlement Protocols.
2.3 **Resolution of Issues.** This Settlement shall operate as a full and final settlement, release, discharge, accord and satisfaction of all the disputes, claims, demands, liabilities, rights, and/or obligations related to or arising out of the issues that the Commission set for hearing and settlement judge procedures in the May 31 Order, *provided, however,* that this Settlement does not resolve any dispute, claim, or issue raised by the request for rehearing filed by ATSI in Docket Nos. ER11-2814 and ER11-2815 on June 30, 2011.

### III. MODIFICATIONS TO SETTLEMENT; STANDARD OF REVIEW

3.1 The terms of this Settlement shall be subject to change solely by written amendment executed by the Settling Parties. The standard of review for any modification to this Settlement, whether set forth in a written amendment executed by the Settling Parties or pursuant to the Commission’s exercise of its authority under Section 206 of the Federal Power Act, whether acting *sua sponte* or on a complaint filed by a Settling Party or a non-Settling Party, shall be the “just and reasonable” standard.

### IV. MISCELLANEOUS

4.1 This Settlement shall become effective when approved by the Commission without condition or modification in a Final Order, or, if conditioned or modified, if and when the Settling Parties accept such condition or modification in accordance with Section 4.2 hereof. For purposes of this Settlement, an order shall be deemed to be a “Final Order” as of the date rehearing is denied by the Commission, or if rehearing is not sought, the date on which the right to seek Commission rehearing expires.

4.2 This Settlement is expressly conditioned upon the acceptance of all provisions hereof by the Commission in accordance with Rule 602, without modification or condition. If the Commission fails to accept this Settlement in its entirety, without modification or
condition, the Settlement shall not become effective and shall be null and void, unless (i) the Commission issues an order accepting the Settlement subject to modification or condition; and (ii) each of the Settling Parties notifies all of the other Settling Parties in writing within ten days of such Commission order that it accepts such modifications or conditions.

4.3 No Settling Party shall be bound by any part of this Settlement unless it becomes effective in the manner provided by Sections 4.1 or 4.2, as applicable.

4.4 The discussions among the Settling Parties have been conducted with the explicit understanding and agreement, pursuant to Rule 602(e) of the Commission’s Rules of Practice and Procedure, that all offers of settlement and discussions relating thereto are and shall be privileged, shall be without prejudice to the positions of any Settling Party or participant presenting any such offer or participating in any such discussion, and are not to be used in any manner in connection with this proceeding or otherwise.

4.5 This Settlement is entered into upon the understanding that it constitutes a negotiated agreement and, except as explicitly set forth herein, no Settling Party shall be deemed to have approved, accepted, agreed to, or consented to any principle or position in this proceeding, or to have prejudiced positions taken or that may be taken in this or any other proceeding. This Settlement shall not be cited or relied upon as precedent for any purpose, including retail ratemaking, or as establishing any issue or principle, except to the extent of enforcing the terms and conditions of the Settlement itself. Nothing herein shall be deemed a “settled practice” as that term was interpreted and applied in Public Service Comm’n of New York v. FERC, 642 F.2d 1335 (D.C. Cir. 1980).
Section headings are used in this Settlement solely for convenience of reference and shall not be used to interpret or modify the terms of this Settlement.

IN WITNESS WHEREOF, this Settlement is entered into as of the date first written above by and between the Settling Parties through their authorized representatives, who represent that they are fully authorized to do so on behalf of their principals.

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Definitions

"Annual Transmission Revenue Requirements" means the result produced by populating the Formula Rate Template with data as provided by the Formula Rate.

"Annual Update" means the posting and informational filing submitted by ATSI on or before May 1 of each year that sets forth the ATSI cost of service ("COS") for the subsequent Rate Year.

"Discovery Period" means the period after each annual Publication Date to serve information requests on ATSI as provided in Section 2.b below.

"Formal Challenge" means a challenge to an Annual Update submitted to the Federal Energy Regulatory Commission ("FERC") as provided in Section 3.a below.

"Formal Rate" means these Formula Rate Implementation Protocols (to be included as Attachment H-21B of the PJM Interconnection, L.L.C. ("PJM"), FERC Electric Tariff ("PJM Tariff") and the Formula Rate Template.

"Formula Rate Template" means the collection of formulae and worksheets, unpopulated with any data, to be included as Attachment H-21A of the PJM Tariff.

"Interested Party" means any person or entity having standing under Section 206 of the Federal Power Act ("FPA") with respect to the Annual Update.

"Material Changes" means (i) material changes in ATSI's accounting policies and practices, (ii) changes in FERC's Uniform System of Accounts ("USofA"), (iii) changes in FERC Form No. 1 reporting requirements as applicable, or (iv) changes in the FERC's accounting policies and practices, which change causes a result under the Formula Rate different from the result under the Formula Rate as calculated without such change.

"Preliminary Challenge" means a written challenge to the Annual Update submitted to ATSI as provided in Section 2.a below.

"Protocols" means these Formula Rate Implementation Protocols (to be included as Attachment H-21B of the PJM Tariff).
"Publication Date" means the date on which the Annual Update is posted pursuant to Section 1.d below.

"Rate Year" means the twelve consecutive month period that begins on June 1 and continues through May 31 of the subsequent calendar year.

"Review Period" means the period during which Interested Parties may review the calculations in the Annual Update as provided in Section 2.a below.

Section 1  Annual Updates

a. Beginning with the Rate Year that commences on June 1, 2011 and during each Rate Year thereafter, the Annual Transmission Revenue Requirement calculated in accordance with Attachment H-21A and the Network Integration Transmission Service and Point-to-Point rates derived therefrom shall be applicable to transmission services provided by PJM for the ATSI zone during the Rate Year.

b. On or before May 1 of each year, ATSI shall recalculate its Annual Transmission Revenue Requirements, producing the Annual Update for the Rate Year that begins on the next following June 1, and post such Annual Update on PJM's Internet website via a link to the Transmission Services page or a similar successor page. In addition, ATSI shall submit such Annual Update as an informational filing with the FERC. Effective with the annual update to derive rates effective for the Rate Year beginning June 1, 2012, ATSI shall also send an e-mail or other similar electronic communication to all Interested Parties that have previously requested such notification through procedures to be established by ATSI that informs the recipient that the Annual Update is available and that provides the Uniform Resource Locator or other similar identifying locator information from which the Annual Update can be obtained.

c. If the date for making the Annual Update posting/filing should fall on a weekend or a holiday recognized by the FERC, then the posting/filing shall be due on the next business day.

d. The date on which the last of the events listed in Section 1.b or Section 1.c occurs shall be that year's “Publication Date.”

e. The Annual Update shall include a "workable" Excel file or files containing the data-populated Formula Rate Template as well as supporting calculations and workpapers that demonstrate and explain information not otherwise set out in the FERC Form No. 1 report of ATSI.1

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1 It is the intent of the Formula Rate, including the supporting explanations and allocations described therein, that each input to the Formula Rate Template will be either taken directly from the FERC Form No. 1 or reconcilable to the FERC Form No. 1 by the application of clearly identified and supported information. Where the reconciliation is provided through a worksheet included in the Formula Rate Template, the inputs to the worksheet
f. The Annual Update for the Rate Year:

(i) shall include a notice to Interested Parties that a meeting open to all Interested Parties will be held on a date specified in the notice that shall be no earlier than ten (10) business days from the date of posting of the Annual Update and no later than May 25 to discuss the Annual Update, which notice and meeting shall commence with the Rate Year beginning June 1, 2012;

(ii) shall, to the extent specified in the Formula Rate, be based upon prudently incurred costs, the data for such prudently incurred costs to be taken from the FERC Form No. 1 report of ATSI for the most recent calendar year, and be based upon the books and records of ATSI, with all of the foregoing data, books, and records to be maintained consistent with the USofA and FERC accounting policies, practices and procedures;

(iii) shall populate, in accordance with the FERC's orders establishing generally applicable transmission ratemaking policies and with PJM policies and the PJM Tariff, the Formula Rate Template with the data identified in Section 1.f.(ii) above;

(iv) shall include a summary of changes to the inputs to the then-effective Annual Transmission Revenue Requirement to the extent any such change(s) may, in ATSI’s view, have a material effect on rates, as defined in Section 4.b, below;

(v) shall be subject to challenge and review, and refunds or surcharges with interest in accordance with the procedures set forth in this Attachment H-21B; and

(vi) shall not seek to modify the Formula Rate and shall not be subject to challenge by seeking to modify the Formula Rate (i.e., all such modifications to the Formula Rate — including return on equity — will require, as applicable, an FPA Section 205 or Section 206 filing); provided however, ATSI may be required by the FERC to modify the Formula Rate in response to a Formal Challenge if the circumstances set forth in Section 4 below apply.

g. Formula Rate inputs

(i) Stated inputs to the Formula Rate Template: For (i) rate of return on common equity; (ii) "Post-Employment Benefits other than Pension" pursuant to Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions ("PBOP") charges, and (iii) depreciation and/or amortization rates; the values shall be stated values to be used in the rate formula until changed pursuant to an FPA Section 205 or Section 206 filing. ATSI shall specify these stated-value inputs in a workpaper included with each Annual Update.

must meet this transparency standard, and doing so will satisfy this transparency requirement for the amounts that are output from the worksheet and input to the main body of the Formula Rate Template.
(ii) **Unpopulated Formula Rate line items:** With respect to line items in the Formula Rate that are not currently populated with non-zero numerical values (either because FERC policy requires prior authorization for recovery of the underlying costs or because, due to the nature of the associated functional activities, such costs are not considered part of ATSI's transmission-related revenue requirement), such line items shall not be populated with non-zero values except as may be authorized following an FPA Section 205 filing or required under Section 206.

(iii) **COS elements recorded in accounts not specifically provided for in the Formula Rate:** any cost, expense or other element of the cost of providing service not specifically provided for shall not be recoverable under the Formula Rate until filed for pursuant to FPA Section 205, accepted by the FERC and, if otherwise required, a favorable accounting determination has been made by the Office of the Chief Accountant regarding the journal entries for the transaction.

**Section 2  Annual Review Procedures**

Each Annual Update shall be subject to the following review procedures ("Annual Review Procedures"):  

a. Interested Parties shall have up to one hundred fifty (150) days after the Publication Date ("Review Period") (unless such period is extended with the written consent of ATSI or pursuant to Section 2.c below) to review the calculations and to notify ATSI in writing of any specific challenges, including challenges related to Material Changes, to the application of the Formula Rate in an Annual Update ("Preliminary Challenge").

b. Interested Parties shall have up to one hundred thirty-five (135) days after each annual Publication Date (unless such period is extended with the written consent of ATSI) (the "Discovery Period") to serve reasonable information requests on ATSI. Such information requests shall be limited to what is necessary to determine: (i) whether ATSI has properly calculated the Annual Update under review (including any corrections pursuant to Section 4); (ii) whether ATSI has correctly applied the Formula Rate including the procedures in this Attachment H-21B. Such information requests shall not solicit information concerning costs or allocations where the costs or allocation method have been determined by the FERC or in the context of other Annual Updates, except that such information requests shall be permitted (i) if they seek to determine whether there has been a Material Change in circumstances, (ii) if they seek to verify that ATSI has complied with the FERC determination (or a settlement related thereto), or (iii) if they seek information in connection with corrections pursuant to Sections 3 and 4 below.

c. ATSI shall make a good faith effort to respond to information requests pertaining to the Annual Update within fifteen (15) business days of receipt of such requests. Notwithstanding anything to the contrary contained in these Protocols, with respect to any information requests received by ATSI within the Discovery Period and for which ATSI is unable to provide a response within fifteen (15) business days after the end of the Discovery Period, the Review Period shall be extended day-for-day until ATSI's response...
is provided.

d. Preliminary or Formal Challenges related to Material Changes are not intended to serve as a means of pursuing other objections to the Formula Rate. Failure to make a Preliminary Challenge or Formal Challenge with respect to an Annual Update shall preclude use of these procedures with respect to that Annual Update, but shall not preclude a subsequent Preliminary Challenge or Formal Challenge related to a subsequent Annual Update to the extent such Challenge affects the subsequent Annual Update.

e. In any proceeding initiated to address a Preliminary or Formal Challenge or sua sponte by the FERC, a party or parties seeking to modify the Formula Rate in any respect shall bear the applicable burden under the FPA.

Section 3 Resolution of Challenges

a. If ATSI and any Interested Party(ies) have not resolved any Preliminary Challenge to the Annual Update within twenty-one (21) days after the Review Period ends, an Interested Party shall have an additional twenty-one (21) days (unless such period is extended with the written consent of ATSI to continue efforts to resolve the Preliminary Challenge) to submit a written Formal Challenge to the FERC, pursuant to 18 C.F.R. § 385.206, which shall be served on ATSI by electronic service on the date of such filing ("Formal Challenge"). However, there shall be no need to make a Formal Challenge or to await conclusion of the time periods in Section 2 if the FERC already has initiated a proceeding to consider the Annual Update.

b. Parties shall make a good faith effort to raise all issues in a Preliminary Challenge prior to filing a Formal Challenge; provided, however, that a Preliminary Challenge shall not be a prerequisite for bringing a Formal Challenge. Failure to notify ATSI of an issue with respect to an Annual Update shall not preclude an Interested Party from pursuing such issue in a Preliminary Challenge or a Formal Challenge.

c. All information and correspondence produced pursuant to these Protocols may be included in any Formal Challenge, in any other proceeding concerning the Formula Rate initiated at the FERC pursuant to the FPA, or in any proceeding before the U.S. Court of Appeals to review a FERC decision.

d. Any response by ATSI to a Formal Challenge must be submitted to the FERC within twenty (20) days of the date of the filing of the Formal Challenge, and shall be served on the filing party(ies) by electronic service on the date of such filing.

e. ATSI shall bear the burden of proving that it has reasonably applied the terms of the Formula Rate, and the applicable procedures in these Formula Rate Implementation Protocols, and of proving that it has properly calculated the challenged Annual Update.
pursuant to the Formula Rate, and of proving it has reasonably adopted and applied any Material Changes in that year's Annual Update.

f. These Protocols in no way limit the rights of ATSI or any Interested Party to initiate a proceeding at the FERC at any time with respect to the Formula Rate or any Annual Update consistent with the party's full rights under the FPA, including Sections 205, 206 and 306, and the FERC’s regulations.

g. It is recognized that resolution of Formal Challenges concerning Material Changes may necessitate adjustments to the Formula Rate input data for the applicable Annual Update, or changes to the Formula Rate Template to ensure that the Formula Rate continues to operate in a manner that is just, reasonable, and not unduly discriminatory or preferential.

Section 4  Changes to Annual Informational Filings

a. Notice. If any changes are required to be made to the Annual Update — whether because of changes made under these Protocols, revisions made to a prior year's FERC Form No. 1 report of ATSI, changes to or correction of input data used for a Rate Year or calendar year that would have affected the Annual Update for that Rate Year or calendar year, or as the result of any FERC proceeding to consider a prior year's Annual Update — ATSI shall promptly notify the Interested Parties, file a correction to the Annual Update with the FERC as an amended informational filing and provide a copy of the amended informational filing to PJM for prompt posting by PJM.

b. Reflection of Necessary Changes in Charges to Customers. Any corrections or revisions to the Formula Rate inputs and resulting rates that are required as a result of a change reported in Section 4.a shall be reflected in the Annual Update as follows:

(i) If the change to a Formula Rate input is for the purpose of correcting an input error that has a material effect on rates, ATSI shall request that PJM implement prospectively the rates that result from the corrected Annual Update as soon as practicable.

(ii) If the change to a Formula Rate input is for any purpose other than correction of an input error that has a material effect on rates, then the change shall be reflected in the next Annual Update prepared by ATSI.

For purposes of the foregoing and Section 1.f(iv), above, a change to an input to the Formula Rate will be deemed to have a material effect on rates if correction of the input would cause an increase or decrease of 3% or more in the average annual rate for Network Integration or firm Point-to-Point transmission service for the ATSI zone, calculated by dividing the Net Revenue Requirement by the total single coincident peak or average 12 coincident peak values, as applicable, used to derive such rates in the Formula Rate.
If any correction or revision of an input to the Formula Rate gives rise to refunds or surcharges for corrected past charges, those refunds or surcharges shall be implemented through an adjustment to the Annual Transmission Revenue Requirement calculated in the next Annual Update, including interest thereon determined in accordance with 18 C.F.R. § 35.19a, which adjustment shall be reflected in the Informational Filing for such Annual Update.

c. **Effect of Certain Changes on Duration of the Review Period.** Unless otherwise agreed by ATSI and the Interested Parties, a correction made under Section 4.a prior to the time determined for the filing of a Formal Challenge shall reset the performance dates under Sections 2 and 3 of these Protocols for Interested Party Annual Review, and the revised dates shall run from the posting date(s) for each of the corrections. The scope of the Annual Review shall then be limited to the aspects of the Formula Rate affected by the corrections.
ATTACHMENT H-21B
FORMULA RATE IMPLEMENTATION PROTOCOLS

1. Annual Updates

The American Transmission Systems, Incorporated

Formula Rate Implementation Protocols

Definitions

"Annual Transmission Revenue Requirements" means the result produced by populating the Formula Rate Template with data as provided by the Formula Rate.

"Annual Update" means the posting and informational filing submitted by ATSI on or before May 1 of each year that sets forth the ATSI cost of service ("COS") for the subsequent Rate Year.

"Discovery Period" means the period after each annual Publication Date to serve information requests on ATSI as provided in Section 2.b below.

"Formal Challenge" means a challenge to an Annual Update submitted to the Federal Energy Regulatory Commission ("FERC") as provided in Section 3.a below.

"Formula Rate" means these Formula Rate Implementation Protocols (to be included as Attachment H-21B of the PJM Interconnection, L.L.C. ("PJM"), FERC Electric Tariff ("PJM Tariff") and the Formula Rate Template.

"Formula Rate Template" means the collection of formulae and worksheets, unpopulated with any data, to be included as Attachment H-21A of the PJM Tariff.

"Interested Party" means any person or entity having standing under Section 206 of the Federal Power Act ("FPA") with respect to the Annual Update.

"Material Changes" means (i) material changes in ATSI's accounting policies and practices, (ii) changes in FERC's Uniform System of Accounts ("USofA"), (iii) changes in FERC Form No. 1 reporting requirements as applicable, or (iv) changes in the FERC's accounting policies and practices, which change causes a result under the Formula Rate different from the result under the Formula Rate as calculated without such change.

"Preliminary Challenge" means a written challenge to the Annual Update submitted to ATSI as provided in Section 2.a below.
"Protocols" means these Formula Rate Implementation Protocols (to be included as Attachment H-21B of the PJM Tariff).

"Publication Date" means the date on which the Annual Update is posted pursuant to Section 1.d below.

"Rate Year" means the twelve consecutive month period that begins on June 1 and continues through May 31 of the subsequent calendar year.

"Review Period" means the period during which Interested Parties may review the calculations in the Annual Update as provided in Section 2.a below.

Section 1 Annual Updates

a. Beginning with the Rate Year that commences on June 1, 2011 and during each Rate Year thereafter, the Annual Transmission Revenue Requirement calculated in accordance with Attachment H-21A and the Network Integration Transmission Service and Point-to-Point rates derived therefrom shall be applicable to transmission services on and after June 1 of a given calendar year through May 31 of the subsequent calendar year (ATSI zone during the “Rate Year”).

b. On or before May 1 of each year, ATSI shall recalculate its Annual Transmission Revenue Requirements, producing the “Annual Update” for the upcoming Rate Year that begins on the next following June 1, and post such Annual Update on PJM’s Internet website via a link to the Transmission Services page or a similar successor page. In addition, ATSI shall submit such Annual Update as an informational filing with the FERC. Effective with the annual update to derive rates effective for the Rate Year beginning June 1, 2012, ATSI shall also send an e-mail or other similar electronic communication to all Interested Parties that have previously requested such notification through procedures to be established by ATSI that informs the recipient that the Annual Update is available and that provides the Uniform Resource Locator or other similar identifying locator information from which the Annual Update can be obtained.

c. If the date for making the Annual Update posting/filing should fall on a weekend or a holiday recognized by the FERC, then the posting/filing shall be due on the next business day.

d. The date on which the last of the events listed in Section 1.b or Section 1.c occurs shall be that year’s “Publication Date.”

e. Upon written request for a particular year’s Annual Update by any entity having standing under Section 206 of the Federal Power Act with respect to such Annual Update (collectively “Interested Parties”), ATSI will promptly make available to such entity...
and/or a consultant designated by it, a “workable” Excel file containing that year’s Annual Update data.

e. The Annual Update shall include a "workable" Excel file or files containing the data-populated Formula Rate Template as well as supporting calculations and workpapers that demonstrate and explain information not otherwise set out in the FERC Form No. 1 report of ATSI.1

f. The Annual Update for the Rate Year:

   (i) shall include a notice to Interested Parties that a meeting open to all Interested Parties will be held on a date specified in the notice that shall be no earlier than ten (10) business days from the date of posting of the Annual Update and no later than May 25 to discuss the Annual Update, which notice and meeting shall commence with the Rate Year beginning June 1, 2012;

   (ii) shall, to the extent specified in the Formula Rate, be based upon prudently incurred costs, the data for such prudently incurred costs to be taken from the FERC Form No. 1 report of ATSI for the most recent calendar year, and to the extent specified in the Formula Rate, be based upon the books and records of ATSI, with all of the foregoing data, books, and records to be maintained consistent with the USofA and FERC accounting policies;

   (iii) shall provide notice of material changes in ATSI’s accounting policies and practices from those in effect for the calendar year upon which the immediately preceding Annual Update was based (“Material Accounting Changes”); and procedures;

   (iv) shall populate, in accordance with the FERC's orders establishing generally applicable transmission ratemaking policies and with PJM policies and the PJM Tariff, the Formula Rate Template with the data identified in Section 1.f.(ii)

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1 It is the intent of the Formula Rate, including the supporting explanations and allocations described therein, that each input to the Formula Rate Template will be either taken directly from the FERC Form No. 1 or reconcilable to the FERC Form No. 1 by the application of clearly identified and supported information. Where the reconciliation is provided through a worksheet included in the Formula Rate Template, the inputs to the worksheet must meet this transparency standard, and doing so will satisfy this transparency requirement for the amounts that are output from the worksheet and input to the main body of the Formula Rate Template.
above:

(iv) shall include a summary of changes to the inputs to the then-effective Annual Transmission Revenue Requirement to the extent any such change(s) may, in ATSI’s view, have a material effect on rates, as defined in Section 4.b, below;

(iv-v) shall be subject to challenge and review only, and refunds or surcharges with interest in accordance with the procedures set forth in this Attachment H-21B with respect to the accuracy of data and the consistency with the Formula of the charges shown in the Annual Update; and

v. shall be subject to review with respect to the prudence of any new costs and expenditures included for recovery in the Annual Update, provided, however, that the initial burden to raise a substantial doubt as to the prudence of any new expenditure shall be upon the Interested Party raising the challenge; and

vi. (vi) shall not seek to modify the Formula Rate and shall not be subject to challenge by seeking to modify the Formula Rate (i.e., all such modifications to the Formula Rate — including return on equity — will require, as applicable, a Federal Power Actan FPA Section 205 or Section 206 filing); provided however, ATSI may be required by the FERC to modify the Formula Rate in response to a Formal Challenge if the circumstances set forth in Section 4 below apply.

g. Formula Rate inputs for

Stated inputs to the Formula Rate Template: For (i) rate of return on common equity; (ii) “Post—Employment Benefits Other Than other than Pension” pursuant to Statement of Financial Accounting Standards Codification 712-10, “Compensation—Nonretirement—Postemployment Benefits;” (iii) extraordinary property losses; No. 106, Employers’ Accounting for Postretirement Benefits Other Than Pensions (“PBOP”) charges, and (iv) depreciation and/or amortization rates; the values shall be stated values to be used in the Formula Rate formula until changed pursuant to an FPA Section 205 or Section 206 filing. ATSI shall specify these stated-value inputs in a workpaper included with each Annual Update.
Unpopulated Formula Rate line items: With respect to line items in the Formula Rate that are not currently populated with non-zero numerical values (either because FERC policy requires prior authorization for recovery of the underlying costs or because, due to the nature of the associated functional activities, such costs are not considered part of ATSI’s transmission-related revenue requirement), such line items shall not be populated with non-zero values except as may be authorized following an FPA Section 205 filing or required under Section 206.

COS elements recorded in accounts not specifically provided for in the Formula Rate: any cost, expense or other element of the cost of providing service not specifically provided for shall not be recoverable under the Formula Rate until filed for pursuant to FPA Section 205, accepted by the FERC and, if otherwise required, a favorable accounting determination has been made by the Office of the Chief Accountant regarding the journal entries for the transaction.

2. Section 2 Annual Review Procedures

Each Annual Update shall be subject to the following review procedures (“Annual Review Procedures”):<br />

a. Interested Parties shall have up to one hundred fifty (150) days after the Publication Date ("Review Period") (unless such period is extended with the written consent of ATSI or pursuant to Section 2.c below) to review the calculations (“Review Period”) and to notify ATSI in writing of any specific challenges, including challenges related to Material Accounting Changes, to the application of the Formula Rate (“in an Annual Update (“Preliminary Challenge”)).

b. Interested Parties shall have up to one hundred twenty (120) or thirty-five (35) days after each annual Publication Date (unless such period is extended with the written consent of ATSI) (the "Discovery Period") to serve reasonable information requests on ATSI; provided, however, that the potentially Interested Parties shall make a good faith effort to submit consolidated sets of information requests that limit the number and overlap of questions to the maximum extent practicable. Such information requests shall be limited to what is necessary to determine if: (i) whether ATSI has properly calculated the Annual Update under review (including any corrections pursuant to Section 4); (ii) whether ATSI has correctly applied the Formula Rate and including the procedures in this Attachment H-21A, and to determine the accuracy of data and the consistency with the Formula Rate of the charges shown in the Annual Update as well as the prudence of the new costs and expenditures included for recovery in the annual update. In addition, such information requests shall not solicit information concerning costs or allocations where the costs or allocation method have been determined by the FERC or in the context of other Annual Updates, except that such information requests shall be permitted if they seek to determine if—whether there has been a material
changeMaterial Change in circumstances—(ii) if they seek to verify that ATSI has complied with the FERC determination (or a settlement related thereto), or (iii) if they seek information in connection with corrections pursuant to Sections 3 and 4 below.

c. ATSI shall make a good faith effort to respond to information requests pertaining to the Annual Update within fifteen (15) business days of receipt of such requests. ATSI may give reasonable priority to responding to requests that satisfy the practicable coordination and consolidation provision of Section 2.b. above. Notwithstanding anything to the contrary contained in these Protocols, with respect to any information requests received by ATSI within the Discovery Period and for which ATSI is unable to provide a response within fifteen (15) business days after the end of the Discovery Period, the Review Period shall be extended day-for-day until ATSI's response is provided.

d. Preliminary Challenges or Formal Challenges (defined below) related to Material Accounting Changes are not intended to serve as a means of pursuing other objections to the Formula Rate. Failure to make a Preliminary Challenge or Formal Challenge with respect to a Material Accounting Change in an Annual Update shall act as a barpreclude use of these procedures with respect to that Annual Update, but shall not bar preclude a subsequent Preliminary Challenge or Formal Challenge related to a subsequent Annual Update to the extent such Material Accounting Change affects the subsequent Annual Update.

e. Preliminary or Formal Challenges related to Material Accounting Changes shall be subject to the resolution procedures and limitations in Section 3, except that Section 3.c. shall not apply. In any proceeding initiated to address a Preliminary or Formal Challenge by the FERC, a party or parties (other than ATSI) seeking to modify the Formula Rate in any respect shall bear the burden of proving that the Formula Rate is no longer just and reasonable without such modification and that the proposed modification is just, reasonable and consistent with the original intent of the Formula Rate and the procedures in Attachment H-21A; provided, however, that in any such proceeding, in determining whether the Formula Rate is no longer just and reasonable without modification to reflect a Material Accounting Change and whether the proposed modification is just and reasonable, no offsets unrelated to the applicable Material Accounting Changes may be considered—burden under the FPA.

3. Section 3 Resolution of Challenges

a. If ATSI and any Interested Party(ies) have not resolved any Preliminary Challenge to the Annual Update within twenty-one (21) days after the Review Period ends, an Interested Party shall have an additional twenty-one (21) days (unless such period is extended with the written consent of ATSI to continue efforts to resolve the Preliminary Challenge) to
submit a challenge with written Formal Challenge to the FERC, pursuant to 18 C.F.R. § 385.206 ("Formal Challenge"), which shall be served on ATSI by electronic service on the date of such filing ("Formal Challenge"). However, there shall be no need to make a Formal Challenge or to await conclusion of the time periods in Section 2 if the FERC already has initiated a proceeding to consider the Annual Update. A party’s Formal Challenge may not raise any issue that was not the subject of that party’s Preliminary Challenge during the applicable Review Period.

b. Parties shall make a good faith effort to raise all issues in a Preliminary Challenge prior to filing a Formal Challenge; provided, however, that a Preliminary Challenge shall not be a prerequisite for bringing a Formal Challenge. Failure to notify ATSI of an issue with respect to an Annual Update shall not preclude an Interested Party from pursuing such issue in a Preliminary Challenge or a Formal Challenge.

c. All information and correspondence produced pursuant to these Protocols may be included in any Formal Challenge, in any other proceeding concerning the Formula Rate initiated at the FERC pursuant to the FPA, or in any proceeding before the U.S. Court of Appeals to review a FERC decision.

b-d. Any response by ATSI to a Formal Challenge must be submitted to the FERC within thirty (30) days of the date of the filing of the Formal Challenge, and shall be served on the filing party(ies) by electronic service on the date of such filing.

e-c. Except as provided in Sections 1.f(v) and 2.e, in any proceeding initiated by the FERC concerning the Annual Update or in response to a Formal Challenge, ATSI shall bear the burden of proving that it has reasonably applied the terms of the Formula Rate, and the applicable procedures in these Formula Rate Implementation Protocols, in that year’s Annual Update, and of proving that it has properly calculated the challenged Annual Update pursuant to the Formula Rate, and of proving it has reasonably adopted and applied any Material Changes in that year’s Annual Update.

f. Subject These Protocols in no way limit the rights of ATSI or any Interested Party to Section 4.b, it initiate a proceeding at the FERC at any time with respect to the Formula Rate or any Annual Update consistent with the party's full rights under the FPA, including Sections 205, 206 and 306, and the FERC’s regulations.

d-g. It is recognized that resolution of Formal Challenges concerning Material Accounting Changes may necessitate adjustments to the Formula Rate input data for the applicable Annual Update, or changes to the rate formula to achieve a Formula Rate Template to ensure that the Formula Rate continues to operate in a manner that is just and reasonable end result consistent with the intent of the Formula Rate, and not unduly discriminatory or preferential.
4. **Section 4 Changes to Annual Informational Filings and Formula Rate**

a. **Any Notice.** If any changes to the data inputs, including but not limited to are required to be made to the Annual Update — whether because of changes made under these Protocols, revisions made to ATSI’s prior year’s FERC Form No. 11 report of ATSI, changes to or correction of input data used for a Rate Year or calendar year that would have affected the Annual Update for that Rate Year or calendar year, or as the result of any FERC proceeding to consider the Annual Update, or as a prior year’s Annual Update — ATSI shall promptly notify the Interested Parties, file a correction to the Annual Update with the FERC as an amended informational filing and provide a copy of the amended informational filing to PJM for prompt posting by PJM.

b. **Reflection of Necessary Changes in Charges to Customers.** Any corrections or revisions to the Formula Rate inputs and resulting rates that are required as a result of a change reported in Section 4.a shall be reflected in the Annual Update as follows:

(i) If the change to a Formula Rate input is for the purpose of correcting an input error that has a material effect on rates, ATSI shall request that PJM implement prospectively the rates that result from the procedures set forth herein, shall be incorporated into corrected Annual Update as soon as practicable.

(ii) If the change to a Formula Rate input is for any purpose other than correction of an input error that has a material effect on rates, then the change shall be reflected in the next Annual Update prepared by ATSI.

For purposes of the foregoing and the Section 1.f(iv), above, a change to an input to the Formula Rate will be deemed to have a material effect on rates if correction of the input would cause an increase or decrease of 3% or more in the average annual rate for Network Integration or firm Point-to-Point transmission service for the ATSI zone, calculated by dividing the Net Revenue Requirement by the total single coincident peak or average 12 coincident peak values, as applicable, used to derive such rates in the Formula Rate.

If any correction or revision of an input to the Formula Rate gives rise to refunds or surcharges for corrected past charges produced by the Formula Rate (with, those refunds or surcharges shall be implemented through an adjustment to the Annual Transmission Revenue Requirement calculated in the next Annual Update, including interest thereon determined in accordance with 18 C.F.R. § 35.19a) in the Annual Update for the next effective rate period. This reconciliation mechanism shall apply in lieu of mid Rate Year adjustments and any refunds or surcharges. However, actual refunds or surcharges (with interest, which adjustment shall be reflected in the Informational Filing for such Annual Update.
Effect of Certain Changes on Duration of the Review Period. Unless otherwise agreed by ATSI and the Interested Parties, a correction made under Section 4.a prior to the time determined in accordance with 18 C.F.R. §35.19a) for the then current rate year shall be made in the event that the Formula Rate is replaced by a stated rate for ATSI; for the filing of a Formal Challenge shall reset the performance dates under Sections 2 and 3 of these Protocols for Interested Party Annual Review, and the revised dates shall run from the posting date(s) for each of the corrections. The scope of the Annual Review shall then be limited to the aspects of the Formula Rate affected by the corrections.

b. Except as specifically provided herein, nothing herein shall be deemed to limit in any way the right of ATSI to file unilaterally, pursuant to Section 205 of the Federal Power Act and the regulations thereunder, to modify the Formula Rate or stated components of the Formula Rate (including, but not limited to, the rate of return on equity, the depreciation rates, PBOPs and transmission incentive mechanisms); or to replace the Formula Rate with a stated rate; or the right of any other entity to request such changes pursuant to Section 206 of the Federal Power Act and the regulations thereunder.

NOTES

1. It is the intent of the Formula Rate, including the supporting explanations and allocations described therein, that each input to the Formula Rate will be either taken directly from the FERC Form No. 1 or reconcilable to the FERC Form No. 1 by the application of clearly identified and supported information. Where the reconciliation is provided through a worksheet included in the filed Formula Rate template, the inputs to the worksheet must meet this transparency standard, and doing so will satisfy this transparency requirement for the amounts that are output from the worksheet and input to the main body of the Formula Rate.
DRAFT ORDER APPROVING SETTLEMENT

[ DATE ]

Dear Mr. Jaffe:

On July 27, 2011, you filed, on behalf of American Transmission Systems, Inc. ("ATSI"), a Settlement Agreement ("Settlement") and Offer of Settlement and accompanying materials pursuant to Rule 602 of the Commission’s Rules of Practice and Procedure resolving the outstanding issues in the above-referenced dockets. Initial comments in support of the Settlement were filed by the Commission’s Trial Staff on [INSERT DATE], and by [INSERT PARTY] on [INSERT DATE]. [No reply comments were filed.] On [INSERT DATE], the Settlement Judge certified the Settlement to the Commission as uncontested. The Settlement is in the public interest and is hereby approved. The documents submitted with the Settlement are accepted for filing and made effective as provided therein. The Offer of Settlement is hereby accepted and made applicable to and binding upon all parties to these proceedings. The Commission’s acceptance of the Settlement does not constitute approval or precedent regarding any principle or issue in these proceedings. The Commission retains the right to investigate the rates, terms and conditions under the applicable standards set forth in the Settlement.

This letter terminates the issues set for hearing and settlement judge procedures in Docket Nos. ER11-2814 and ER11-2815 and all sub-dockets.

By Direction of the Commission,

[ SEAL ]

Kimberly Bose
Secretary
CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing documents upon each person designated on the official service lists for the captioned proceedings, in accordance with Rules 2010 and 602(d) of the Commission’s Rules of Practice and Procedure (18 C.F.R. §§ 385.2010, 385.602(d) (2011)).

Dated this 27th day of July, 2011, at Washington, D.C.

/s/ Stacey Tyrewala

Stacey Tyrewala
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