February 5, 2015

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E. Room 1A
Washington, D.C.  20426

Re:  *PJM Interconnection, L.L.C.*, Docket No. ER15-994-000
Compliance Filing to Implement a Distribution Mechanism for Unreserved Use Penalty Revenues

Dear Secretary Bose:

   Pursuant to Section 206 of the Federal Power Act (“FPA”),\(^1\) section 35.13 of the Federal Energy Regulatory Commission’s (“Commission”) regulations,\(^2\) the Commission’s Order No. 890\(^3\) and Order No. 890-A, PJM Interconnection, L.L.C. (“PJM”) submits revisions to the PJM Open Access Transmission Tariff (“PJM Tariff”) to incorporate a mechanism to distribute penalty revenues collected by PJM for unreserved use of transmission service.

I.  **BACKGROUND**

   On February 16, 2007, in Docket Nos. RM05-17-000 and RM05-25-000, the Commission issued Order No. 890 which revises the *pro forma* Open Access Transmission Tariff.

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1. 16 U.S.C. 824e.
2. 18 C.F.R. § 35.13.
Tariff ("Pro Forma Tariff") originally established in Order No. 888.⁴ Among the many reforms implemented by Order No. 890, the Commission required that each transmission customer be subject to an unreserved use penalty for using transmission service it has not reserved and that each transmission provider submit a proposed methodology for distribution of unreserved use penalty revenues to “non-offending” transmission customers.⁵ The Commission clarified in Order No. 890-A that each transmission provider must submit with the Commission: (1) a filing pursuant to Section 205 of the FPA⁷ stating the applicable penalty rate for unreserved use;⁸ and (2) a one-time compliance filing under Section 206 of the FPA proposing the transmission provider’s methodology for distributing penalty revenues from unreserved use of the transmission system.⁹ The Commission further stated that the one-time compliance filing must be submitted at any time prior to the first distribution of penalties.¹⁰ Moreover, the Commission indicated that the first distribution of penalties must occur prior to the due date for the annual compliance report of unreserved use penalties.¹¹ The due date for 2015 compliance filing is April 18.


⁵ Order No. 890 at P 834. See also Order No. 890-A at PP 839 and 849.

⁶ Order No. 890 at P 861.

⁷ 16 U.S.C. § 824d.

⁸ Order No. 890 at P 840.

⁹ Order No. 890-A at P 472.

¹⁰ Id.

¹¹ Id.
In October of 2007, PJM submitted its compliance filing to satisfy the requirements of the Commission’s Order No. 890.\(^\text{12}\) In its Order No. 890 Compliance Filing, PJM incorporated the *pro forma* Order No. 890 revisions to section 13.7\(^\text{13}\) into the PJM Tariff along with previously-accepted variations of the *Pro Forma* Tariff in the PJM Tariff.\(^\text{14}\) The Commission accepted PJM’s proposed revisions on May 15, 2008.\(^\text{15}\) While the revisions included a method for determining penalties, they did not include a mechanism for distributing penalty revenues from unreserved use of the transmission system. Order No. 890 and Order No. 890-A do not require entities to propose a distribution mechanism until prior to the first distribution of unreserved use penalties.

In July 2014, a PJM member utilized unreserved transmission service for the first time, triggering a penalty and the need to create a mechanism by which to distribute the penalty. Pursuant to Order No. 890, PJM submits this filing to revise the PJM Tariff to provide a mechanism for distribution of revenues from unreserved use penalties. PJM will collect and distribute the penalty shortly after this filing is submitted thereby satisfying the Commission’s requirements that: (1) the one-time compliance filing (i.e., this filing) be submitted prior to the first distribution of penalties; and (2) the first distribution of penalties occur prior to the due date for the annual compliance report of unreserved use penalties (i.e., April 18, 2015). PJM will also submit its annual compliance filing on April 18, 2015, which will contain the details of the penalty that triggered this filing.

\(^\text{12}\) *PJM Interconnection, L.L.C.*, OA08-9-000 (Oct. 11, 2007) (“Order No. 890 Compliance Filing”).

\(^\text{13}\) PJM’s unreserved use penalty rate is not at issue in this filing. PJM’s current unreserved use penalty rate in Section 13.7(c) of the PJM Tariff was approved by the Commission in *PJM Interconnection, L.L.C.*, 123 FERC ¶ 61,145 at P 8 (2008) (“Order on Compliance Filing”).

\(^\text{14}\) Order No. 890 Compliance Filing at 20.

\(^\text{15}\) Order on Compliance Filing at P 8.
II. DESCRIPTION OF PROPOSED REVISIONS

A. Order No. 890 and Order No. 890-A Requirements for the Distribution of Unreserved Use Penalties

In Order No. 890, the Commission required that transmission providers distribute all unreserved use penalties they collect to all non-offending transmission customers.\(^{16}\) While each transmission provider is free to propose its own distribution mechanism,\(^{17}\) the mechanism for identifying a non-offending transmission customer for purposes of making unreserved use penalty distributions may not be based on the entire calendar year. “For instance, for purposes of calculating penalty revenue distributions, it would not be appropriate for transmission providers to lump together all customers who caused any degree of unreserved use over the course of a year into one group and then distribute the penalty revenues to the remaining customers.”\(^{18}\) The Commission noted that it is best to consider the remaining details of a transmission provider’s distribution mechanism, including the period used to identify non-offending customers, on a case-by-case basis on review of the one-time compliance filing proposing the distribution mechanism.\(^{19}\)

B. PJM’s Proposed Revisions

PJM proposes revisions to the PJM Tariff to distribute unreserved use penalty revenues to non-offending transmission customers by way of a reduction of the transmission customer’s Schedule 1A administrative charges that PJM collects. To implement this approach, PJM

\(^{16}\) Order No. 890-A, P 473.

\(^{17}\) Order No. 890 at P 862.

\(^{18}\) Order No. 890-A P 473.

\(^{19}\) Id.
proposes to revise section 13.7(c) of the PJM Tariff to include a provision that requires PJM to distribute unreserved use penalty revenues to non-offending transmission customers through a reduction of the non-offending transmission customers’ Schedule 1A charge on a pro-rata basis.

Specifically, PJM proposes to revise section of the 13.7(c) of the PJM Tariff to read as follows:

The Transmission Provider shall distribute all unreserved use penalties incurred under this section in a given hour to the Transmission Customers that: (1) were using transmission service in the same hour in which the unreserved use penalty was incurred; and (2) did not incur unreserved use penalties under this section during the hour in which the penalties were incurred. The Transmission Provider shall distribute the unreserved use penalties to each such Transmission Customer pro-rata based on the total Schedule 1A charges for all such Transmission Customers for all the hours of the day in which the penalty was incurred.

Under this approach, PJM will distribute all unreserved use penalties to the non-offending transmission customers that utilized transmission service during the same hour in which the penalty was incurred pro-rata based on the daily usage. A non-offending transmission customer is one that (1) used transmission service in the same hour in which the unreserved use penalty was incurred; and (2) did not incur unreserved use penalties during the hour in which the penalties were incurred. The pro-rata percentage on which the distribution to non-offending customers is based on the total Schedule 1A charges for all such transmission customers for all the hours of the day in which the penalty was incurred.

The following example illustrates the proposed distribution mechanism. Assume: (1) Customers A and Customer B are non-offending transmission customers that utilized transmission service at 1:00 P.M. on January 30; (2) Customer C is penalized $7,500 dollars for unreserved transmission use on the same day and hour (i.e., January 30 at 1:00 P.M.) in accordance with section 13.7 of the PJM Tariff; and (3) Customer A and Customer B incurred
Schedule 1A charges of, respectively, $50,000 and $100,000 for transmission service at various hours throughout January 30. Under this scenario, the penalty amount of $7,500 would be distributed to Customer A and Customer B because they are non-offending transmission customers that used transmission service during the same hour in which the unreserved use penalty was incurred (i.e., January 30 at 1:00 P.M.). Customer A’s Schedule 1A charges would be reduced by $2,500 and Customer B’s Schedule 1A charges would be reduced by $5,000 because their respective pro-rata percentage of Schedule 1A charges on which the reduction is based is 33 percent and 66 percent.

The Commission recognized in Order No. 890 that transmission providers are free to propose mechanisms that involve the crediting of operational penalties against revenue requirements. The Commission approved similar mechanisms for penalty distribution for the Midcontinent Independent System Operator, Inc. (“MISO”) and Southwest Power Pool, Inc. (“SPP”) to provide for the distribution of penalty revenues as a reduction of the transmission provider’s costs. SPP’s distribution mechanism for unreserved use penalty reduces SPP’s transmission customers’ Schedule 1A charges.

Similarly, in this filing PJM proposes to offset its administrative charges collected under Schedule 1A. PJM will pass the financial benefit of the penalty revenues on to transmission customers by way of a reduction to the customer’s Schedule 1A charge, except for the penalized

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20 Order No. 890 at P 862.
21 Midcontinent Independent System Operator, Inc., FERC Electric Tariff, Module B at Section 13.7(e). The MISO Tariff provides “[t]hese penalty revenues shall reduce the Transmission Provider’s costs (for other than the penalized Transmission Customer) to be recovered under Schedule 10.”
22 Compliance Filing to Implement a Distribution Mechanism for Unreserved Use Penalty Revenues, ER14-596-000 (Jan. 14, 2014) (unpublished letter order). See also SPP Tariff at §13.7(c) (“The penalty revenues…shall be used to reduce the Schedule 1-A charges collected by the Transmission Provider from the Transmission Customers.”).
customer, which shall not receive the benefit of the reduced administrative charge. The mechanism to distribute penalty revenues from unreserved use of transmission service through a reduction of the non-offending transmission customers’ administrative charges follows the Commission’s requirements described herein and is an equitable means to distribute the benefit of such revenues to PJM customers.

III. EFFECTIVE DATE

In Order No. 890-A, the Commission stated that the “[t]ransmission providers should request an effective date for this distribution mechanism as of the date of the filing and may begin implementing the methodology immediately, subject to refund if the Commission alters the distribution mechanism on review.”23 Therefore, PJM respectfully requests an effective date of February 5, 2015, for the enclosed revisions to the PJM Tariff.

IV. DOCUMENTS ENCLOSED

With this transmittal letter, PJM submits the following attachments:

1) Attachment 1: electronic version of the redlined sections of the PJM Tariff with the revisions proposed herein; and

2) Attachment 2: electronic version of the clean sections of the PJM Tariff with the revisions proposed herein.

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23 Order No. 890-A P 472.
V. CORRESPONDENCE AND COMMUNICATIONS

Correspondence and communications regarding this filing should be sent to the following individuals:

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VI. SERVICE

PJM has served 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. In accordance with the Commission’s regulations,\(^\text{24}\) PJM will post a copy of this filing to the FERC filings section of its internet site, 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\(^\text{25}\) alerting them this filing has been made by PJM and is available by following such link. If the document is not immediately available by using the referenced link, the document will be available through the referenced link within twenty-four hours of the filing. A copy of this filing will be available on the Commission’s eLibrary website at the

\(^{24}\) See 18C.F.R §§ 35.2(e) and 385.2010(f)(3).
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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PJM already maintains, updates, and regularly uses e-mail lists for all PJM Members and affected state commissions.
Attachment 1

Revisions to the PJM Open Access Transmission Tariff

(Marked/Redline Format)
13.7 Classification of Firm Transmission Service:

(a) The Transmission Customer taking Firm Point-To-Point Transmission Service may (1) change its Receipt and Delivery Points to obtain service on a non-firm basis consistent with the terms of Section 22.1 or (2) request a modification of the Points of Receipt or Delivery on a firm basis pursuant to the terms of Section 22.2.

(b) The Transmission Customer may purchase transmission service to make sales of capacity and energy from multiple generating units that are on the Transmission Provider’s Transmission System. For such a purchase of transmission service, the resources will be designated as multiple Points of Receipt, unless the multiple generating units are at the same generating plant in which case the units would be treated as a single Point of Receipt.

(c) The Transmission Provider shall provide firm deliveries of capacity and energy from the Point(s) of Receipt to the Point(s) of Delivery. Each Point of Receipt at which firm transmission capacity is reserved by the Transmission Customer shall be set forth in the Firm Point-To-Point Service Agreement for Long-Term Firm Transmission Service along with a corresponding capacity reservation associated with each Point of Receipt. Points of Receipt and corresponding capacity reservations shall be as mutually agreed upon by the Parties for Short-Term Firm Transmission. Each Point of Delivery at which firm transfer capability is reserved by the Transmission Customer shall be set forth in the Firm Point-To-Point Service Agreement for Long-Term Firm Transmission Service along with a corresponding capacity reservation associated with each Point of Delivery. Points of Delivery and corresponding capacity reservations shall be as mutually agreed upon by the Parties for Short-Term Firm Transmission. The greater of either (1) the sum of the capacity reservations at the Point(s) of Receipt, or (2) the sum of the capacity reservations at the Point(s) of Delivery shall be the Transmission Customer’s Reserved Capacity. The Transmission Customer will be billed for its Reserved Capacity under the terms of Schedule 7. The Transmission Customer may not exceed its firm capacity reserved at each Point of Receipt and each Point of Delivery except as otherwise specified in Section 22. In the event the Transmission Customer (including Third Party Sales by a Transmission Owner) exceeds its firm capacity reserved at any Point of Receipt or Point of Delivery or uses Transmission Service at a Point of Receipt or Point of Delivery that it has not reserved, except as otherwise specified in Section 22, the Transmission Customer shall pay a penalty equal to twice the rate set forth in Schedule 7 as follows:

The unreserved use penalty for a single hour of unreserved use shall be based on the rate for daily Firm Point-To-Point Transmission Service. If there is more than one assessment for a given duration (e.g., daily) for the Transmission Customer, the penalty shall be based on the next longest duration (e.g., weekly). The unreserved penalty charge for multiple instances of unreserved use (i.e., more than one hour) within a day shall be based on the daily rate Firm Point-To-Point Transmission Service. The unreserved penalty charge for multiple instances of unreserved use isolated to one calendar week shall be based on the charge for weekly Firm Point-To-Point Transmission Service. The
unreserved use penalty charge for multiple instances of unreserved use during more than one week during a calendar month shall be based on the charge for monthly Firm Point-To-Point Transmission Service.

The Transmission Provider shall distribute all unreserved use penalties incurred under this section in a given hour to the Transmission Customers that: (1) were using transmission service in the same hour in which the unreserved use penalty was incurred; and (2) did not incur unreserved use penalties under this section during the hour in which the penalties were incurred. The Transmission Provider shall distribute the unreserved use penalties to each such Transmission Customer pro-rata based on the total Schedule 1A charges for all such Transmission Customers for all the hours of the day in which the penalty was incurred.
Attachment 2

Revisions to the PJM Open Access Transmission Tariff

(Clean Format)
13.7 Classification of Firm Transmission Service:

(a) The Transmission Customer taking Firm Point-To-Point Transmission Service may (1) change its Receipt and Delivery Points to obtain service on a non-firm basis consistent with the terms of Section 22.1 or (2) request a modification of the Points of Receipt or Delivery on a firm basis pursuant to the terms of Section 22.2.

(b) The Transmission Customer may purchase transmission service to make sales of capacity and energy from multiple generating units that are on the Transmission Provider’s Transmission System. For such a purchase of transmission service, the resources will be designated as multiple Points of Receipt, unless the multiple generating units are at the same generating plant in which case the units would be treated as a single Point of Receipt.

(c) The Transmission Provider shall provide firm deliveries of capacity and energy from the Point(s) of Receipt to the Point(s) of Delivery. Each Point of Receipt at which firm transmission capacity is reserved by the Transmission Customer shall be set forth in the Firm Point-To-Point Service Agreement for Long-Term Firm Transmission Service along with a corresponding capacity reservation associated with each Point of Receipt. Points of Receipt and corresponding capacity reservations shall be as mutually agreed upon by the Parties for Short-Term Firm Transmission. Each Point of Delivery at which firm transfer capability is reserved by the Transmission Customer shall be set forth in the Firm Point-To-Point Service Agreement for Long-Term Firm Transmission Service along with a corresponding capacity reservation associated with each Point of Delivery. Points of Delivery and corresponding capacity reservations shall be as mutually agreed upon by the Parties for Short-Term Firm Transmission. The greater of either (1) the sum of the capacity reservations at the Point(s) of Receipt, or (2) the sum of the capacity reservations at the Point(s) of Delivery shall be the Transmission Customer’s Reserved Capacity. The Transmission Customer will be billed for its Reserved Capacity under the terms of Schedule 7. The Transmission Customer may not exceed its firm capacity reserved at each Point of Receipt and each Point of Delivery except as otherwise specified in Section 22. In the event the Transmission Customer (including Third Party Sales by a Transmission Owner) exceeds its firm capacity reserved at any Point of Receipt or Point of Delivery or uses Transmission Service at a Point of Receipt or Point of Delivery that it has not reserved, except as otherwise specified in Section 22, the Transmission Customer shall pay a penalty equal to twice the rate set forth in Schedule 7 as follows:

The unreserved use penalty for a single hour of unreserved use shall be based on the rate for daily Firm Point-To-Point Transmission Service. If there is more than one assessment for a given duration (e.g., daily) for the Transmission Customer, the penalty shall be based on the next longest duration (e.g., weekly). The unreserved penalty charge for multiple instances of unreserved use (i.e., more than one hour) within a day shall be based on the daily rate Firm Point-To-Point Transmission Service. The unreserved penalty charge for multiple instances of unreserved use isolated to one calendar week shall be based on the charge for weekly Firm Point-To-Point Transmission Service. The
unreserved use penalty charge for multiple instances of unreserved use during more than one week during a calendar month shall be based on the charge for monthly Firm Point-To-Point Transmission Service.

The Transmission Provider shall distribute all unreserved use penalties incurred under this section in a given hour to the Transmission Customers that: (1) were using transmission service in the same hour in which the unreserved use penalty was incurred; and (2) did not incur unreserved use penalties under this section during the hour in which the penalties were incurred. The Transmission Provider shall distribute the unreserved use penalties to each such Transmission Customer pro-rata based on the total Schedule 1A charges for all such Transmission Customers for all the hours of the day in which the penalty was incurred.