Pursuant to Rule 207(a)(5) of the Federal Energy Regulatory Commission's ("Commission") Rules of Practice and Procedure, 18 C.F.R. § 385.207(a)(5), PJM Interconnection, L.L.C. ("PJM") respectfully requests limited waiver of provisions of section 7.3.7 of Attachment K-Appendix of the PJM Open Access Transmission Tariff ("Tariff") and the corresponding provisions of Schedule 1 of the Amended and Restated Operating Agreement of PJM Interconnection, L.L.C. ("Operating Agreement")\(^1\) regarding the posting of results for monthly Financial Transmission Right\(^2\) ("FTR") auctions. PJM respectfully requests that the Commission issue an order on this waiver request by May 1, 2015, 60 days from the date of this filing, with an effective date of May 26, 2014.

I. BACKGROUND

a. General Background

FTRs were created in organized wholesale electricity markets to allow firm Transmission Customers a reasonable opportunity to protect themselves from the costs

\(^1\) Attachment K-Appendix of the Tariff and Schedule 1 of the Operating Agreement are identical. For convenience, where PJM refers herein to Attachment K-Appendix of the Tariff, such references are also intended to encompass the corresponding provisions of Schedule 1 of the Operating Agreement.

\(^2\) Capitalized terms used and not otherwise defined herein have the meaning set forth in the Tariff and Operating Agreement.
of transmission congestion.\textsuperscript{3} FTRs are financially settled instruments that entitle the holder to a stream of revenues based on the hourly congestion price differences in the Day-ahead Energy Market across a specific transmission path.\textsuperscript{4}

The quantity of FTRs that PJM can auction to Market Participants is limited by the physical transfer capability of the Transmission System,\textsuperscript{5} and bids in FTR auctions only become binding if they clear.\textsuperscript{6} PJM has three auction mechanisms through which Market Participants can acquire FTRs: (1) the long-term FTR auction, (2) the annual FTR auction, and (3) monthly FTR auctions for the balance of the Planning Year.\textsuperscript{7} The FTR issues addressed in this waiver request are limited to the monthly FTR auctions.

Section 7.3.7 of Attachment K-Appendix of the Tariff provides, in part, that PJM must post the results of monthly FTR auctions within five (5) business days after the close of the bid and offer period for that auction (“posting requirement”). PJM recently discovered that the results for the June 2014 FTR auction were approved and posted on the sixth business day after the close of the monthly auction and the results for the September 2014 FTR auction were approved and posted on the seventh business days after the close of that auction. This was due to the fact that PJM’s auction clearing

\textsuperscript{3} See \textit{e.g.}, \textit{Pennsylvania-New Jersey-Maryland Interconnection}, 81 FERC 61,257 at p. 14 (1997). ("As a means of protecting against the incurrence of congestion costs, Supporting Companies propose that all firm transmission customers be awarded [FTRs] for their specific receipt and delivery point reservations.")

\textsuperscript{4} See \textit{PJM Interconnection, L.L.C.}, 102 FERC 61,276 at P 3 (2003). ("FTRs are financial rights that entitle the holders to receive transmission congestion credits [that] can be used to hedge or offset transmission congestion charges in PJM’s day-ahead market during periods in which transmission capacity is constrained.")

\textsuperscript{5} See Tariff, Attachment K-Appendix, section 7.2.1. For any FTR auction, PJM uses a linear programming model to select a quantity of FTRs that shall be simultaneously feasible, as limited by the physical transfer capability of the Transmission System, in combination with FTRs outstanding at the time of the auction.

\textsuperscript{6} See Tariff, Attachment K-Appendix, section 7.3.6.

\textsuperscript{7} See Operating Agreement, Schedule 1, sections 7.1 and 7.1A.
software is unable to process a solution within five business days for monthly FTR auctions that, among other factors, have an unusually high volume of FTR bids.

b. Need for Waiver Filing

PJM expects to submit a Federal Power Act (“FPA”) section 205\(^8\) filing with the Commission to address the above-described issue by June 2015, with an expected effective date of no later than August 2015, to incorporate flexibility in the posting requirement in instances where PJM is unable to meet the applicable deadline due to circumstances outside of its immediate control. In the meantime, PJM is bound by the stringent posting requirement of section 7.3.7 of Attachment K-Appendix of the Tariff, and requires a short-term waiver of the five business day posting requirement.

The monthly FTR auctions are conducted using complex software. This software analyzes a multitude of inputs, including but not limited to previously approved FTRs for individual Market Participants, volumes of FTR bids submitted each month, and the large PJM footprint which contains many monitored transmission facilities. The time required to clear FTR auctions is primarily due to the different and flexible characteristics of FTRs, which can slow the clearing process for several reasons. First, PJM allows FTR Participants to buy and sell FTRs in the monthly auctions for individual months as well as for quarterly periods containing three consecutive months. The fact that these periods overlap significantly complicates the optimization software because it requires the feasibility analysis to consider the simultaneous impact of FTRs spanning different time periods. Secondly, PJM offers FTR “option” products which provide the potential for positive value for FTR Participants when the day-ahead Locational Marginal Price at the sink is higher than the day-ahead Locational Marginal Price at the source, but do not have a negative value when the day-ahead Locational Marginal Price at the source is

higher than the day-ahead Locational Marginal Price at the sink. In other words, FTR “options” do not provide counterflow that would relieve limits preventing the feasibility of other FTRs in the opposite direction. FTR “options” are therefore much more complex for the optimization software to solve than, for example, offers to buy and sell energy in the Day-ahead Energy Market. Finally, FTR Participants whose FTR bids would require them to post additional collateral are, during the auction clearing period, provided the option of either posting the additional collateral or requesting that PJM remove their bids from the auction. In the case where a FTR Participant requests their bids to be removed, PJM is then required to re-clear the auction with the removed bids, which can cause the five business day deadline to be exceeded.

PJM and its software vendor have consistently improved its hardware and software to handle the increased number of bids in combination with the other input factors over the past ten years. However, despite the upgrades, the software cannot always process auction results for months with high volumes of FTR bids within five business days. This is due both to the complexity inherent in clearing the monthly FTR auctions as described above, and the growth in the total number of FTR bids and FTR Participants over the past ten years. The following graphs show the total number of FTR bids submitted in the month of June from 2005 to 2014, as well as the number of FTR Participants in those months:
Given PJM’s software limitations, the growth in the amount of FTR Participants and FTR bids in its monthly FTR auctions, and the complexity inherent in clearing the monthly FTR auctions given the flexibility afforded to FTR Participants, PJM determined that the prudent course of action is to build in flexibility to the monthly FTR auctions’ posting deadline in the applicable Tariff language. Posting monthly FTR auction results outside the five business day period will have at most a *de minimus* impact on PJM’s markets and operations, and on FTR Participants. This is because FTRs are not effective until the first day of the subsequent month after the monthly FTR auction has been cleared. FTR auctions usually clear approximately one week before the end of
each month, which allows additional time to clear the FTR auction before the FTRs become effective in the event that the five day posting deadline is not strictly met.

II. WAIVER REQUEST

While PJM has met the posting requirement for every month since October 2014, PJM cannot predict with complete certainty that it will be able to comply for all months going forward given its software limitations. Given this and the reasons previously specified, PJM requests a short term waiver of the five business day deadline set forth in section 7.3.7 of Attachment K-Appendix of the Tariff until it submits a FPA section 205 filing with the Commission proposing new market rules related to the posting requirement, and such rules are accepted and made effective by the Commission, which PJM expects to be no later than August 2015. PJM requests that if the waiver request is granted, that the waiver remain in effect until the earlier of December 31, 2015, or the effective date of the FPA section 205 filing, assuming the Commission accepts the FPA section 205 filing.⁹

The FPA section 205 filing will likely not be made earlier than June 2015 because PJM wants to give its stakeholders time to consider, endorse and approve the proposed Tariff and Operating Agreement revisions that will be submitted. PJM will continue to approve and post monthly FTR auction results promptly after the auction clearing software makes those results available, and will comply with the section 7.3.7 posting requirement to the extent its auction clearing software produces auction results prior to the five business day deadline. Further, PJM requests waiver of the posting requirement’s application to the June 2014 and September 2014 FTR auctions, given

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⁹ The December 31, 2015 date is being proposed so there is an end date on the effectiveness of the waiver request in the event that PJM files the FPA section 205 filing later than expected or the Commission rejects or modifies the FPA section 205 filing.
PJM was unable to comply with the posting requirement for those months through no fault of its own.¹⁰

PJM requests that the waiver request be made effective May 26, 2014 - the day before the June 2014 FTR auction results were supposed to be posted in accordance with the five business day posting requirement. PJM is requesting this effective date so the waiver request may apply to the June 2014 and September 2014 FTR auctions and any monthly FTR auctions for which PJM is unable to comply with the posting requirement that may occur between today’s date and the expiration of the waiver request’s effectiveness, if it is granted.

III. THE REQUESTED WAIVER CONFORMS TO THE COMMISSION’S APPLICABLE CRITERIA

Under the standard that has emerged, the Commission has held that limited tariff waivers are justified when (1) the underlying error was made in good faith, (2) the waiver request is of limited scope, (3) a concrete problem needs to be remedied, and (4) the waiver does not have undesirable consequences, such as harming third parties.¹¹ PJM’s waiver request satisfies each of these four criteria.

First, in good faith, PJM erred by not posting the results for some recent monthly FTR auctions within five business days due to software limitations. PJM promptly posted those results when its auction clearing software made the results available and as discussed, PJM will continue to post the monthly FTR auction results as they are made available by its software.

¹⁰ If the Commission does not grant the waiver request to apply to the months of June and September 2014, PJM will file a self-report with the Commission’s Office of Enforcement in accordance with its compliance obligations to the Commission.

Second, the requested waiver is of limited scope. It will apply only to monthly FTR auctions in which PJM’s software is unable to process the results of such auctions in accordance with the posting requirement due to the months having an unusually high volume of FTR bids, among other factors, if such conditions do in fact occur. The waiver also applies to the monthly FTR auctions for June 2014 and September 2014. As discussed, PJM requests that if the waiver request is granted, that the waiver remain in effect until the earlier of December 31, 2015, or the effective date of the FPA section 205 filing, assuming the Commission accepts the FPA section 205 filing.

Third, the waiver will remedy the concrete problem of monthly FTR auction results not being posted within five business days after the close of the bid and offer period due to software limitations, which for the reasons discussed, may cause PJM to inadvertently violate the posting requirement in section 7.3.7.

Fourth, a limited waiver of the five day posting provision will at most have a *de minimus* impact on the market or reliability, and will not harm third parties. This is because FTRs are not effective until the first day of the subsequent month after the monthly FTR auction has been cleared. FTR auctions usually clear approximately one week before the end of each month, which allows additional time to clear the FTR auction before the FTRs become effective in the event that the five day posting deadline is not strictly met.

Based upon the foregoing, good cause exists to grant this waiver request. PJM respectfully requests that the Commission issue an order on this waiver request by May, 1, 2015, 60 days from the date of this filing, with an effective date of May 26, 2014.
IV. CORRESPONDENCE AND COMMUNICATIONS

The following individuals are designated for inclusion on the official service list in this proceeding, and for receipt of any communications regarding this filing.

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V. 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, PJM will post a copy of this filing to the FERC Filings section of its website, located at http://www.pjm.com/documents/ferc-manuals/ferc-filings.aspx, with a specific link to the newly filed document, and will send an email on the same date this filing is made to all PJM Members and all state utility regulatory commissions in the PJM Region alerting them of the filing and its availability on PJM’s website. PJM also serves the parties listed on the Commission’s official service list for this docket. Notwithstanding the foregoing, if the document is not immediately available by using the referenced link, it will be available within 24 hours of the filing. A copy of this filing also will be available on the Commission’s eLibrary website located at http://www.ferc.gov/docs-filing/elibrary.asp in accordance with the Commission’s regulations and Order No. 714.

12 See 18C.F.R §§ 35.2(e) and 385.2010(f)(3).

13 PJM already maintains updates and regularly uses e-mail lists for all PJM members and affected state commissions.
VI. CONCLUSION

For good cause shown, PJM respectfully requests that the Commission grant the limited tariff waiver described herein.

Respectfully submitted,

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