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April 11, 2003

Honorable Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E. Room 1A
Washington, D.C. 20426

ORIGINAL

Re: PJM Interconnection, L.L.C., Docket No. ER03-406-00²
(Compliance Filing)

Dear Secretary Salas:

Description of Filing

On January 10 and 13, 2003, PJM Interconnection, L.L.C. filed amendments to the PJM Open Access Transmission Tariff ("PJM Tariff") and the Amended and Restated Operating Agreement of PJM Interconnection, L.L.C. ("Operating Agreement") to establish a new annual Financial Transmission Right auction and an allocation mechanism for the auction revenues. On March 12, 2003, the Commission accepted the revisions, finding that the "FTR revisions will facilitate greater price transparency and price certainty in PJM's FTR market, while preserving the rights of load serving entities (LSEs) to rely upon these FTRs to the same extent they currently can, i.e., in the same circumstances and with the same hedging ability." PJM Interconnection, L.L.C., 102 FERC ¶ 61,276, at P 2 (2003) ("Order").

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In accepting the revisions, the Commission directed PJM to make the following modifications to the PJM Tariff and Operating Agreement:

1. Include the procedures governing the self-scheduling of ARR to FTRs. Order at P 25.
2. Provide that members in new zones, at their election, will have the option until at least the second annual auction after the new zone becomes a part of PJM to participate in PJM's annual FTR auction. Id. at P 32.
3. Amend section 7.1.2 to clarify the timing of the annual FTR auction. Id. at P 34.
4. Specify that FTR Options will only be offered after the simultaneous feasibility of allocated ARRs (or FTRs) has been determined and that the offer of FTR Options in the auction is from residual capacity. Id. at P 49.
5. Afford PJM West members an additional transition period (ending June 2005) before having to fully participate in the FTR auctions. Id. at P 50.

In addition, the Commission required that, in its compliance filing, PJM clarify certain issues. These issues include (a) a lack of definitional basis or illustrative examples demonstrating how an FTR request determined by PJM to be "not feasible" in a new zone would be pro rated and allocated in inverse proportion to the effect on the binding constraints; and (b) the sequence for the assignment of Congestion Charges when the total Target Allocations are greater than the total Transmission Congestion Credits for the hour. Id. at P 34.

PJM submits this compliance filing to revise the PJM Tariff and Operating Agreement as directed by the Commission and to address the issues that the Commission directed to be clarified.

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Detailed Description of Compliance Amendments

The following compliance amendments are made to the Appendix to Attachment K of the PJM Tariff and Schedule 1 of the Operating Agreement.¹

Section 5.2.2 (Financial Transmission Rights): A new subsection (e) is added to Section 5.2.2 to specify that transmission customers in new zones that are added to the PJM region will have the choice of receiving a direct allocation of FTRs or an allocation of ARRs for the two succeeding annual FTR auctions after integration of the new zone into the PJM energy market. This complies with the Commission's direction that customers in new zones should have this option. Order at P 32. This subsection also provides that, for these purposes, the Allegheny Power Zone will be treated as a new PJM zone with respect to the annual FTR auction in 2003 and 2004. This complies with the Commission's direction that members in the PJM West region have an additional transition period. Id. at P 50.

Subsection (f) (formerly subsection (e)) of this section is revised to set forth the procedures for allocating FTRs to customers in new PJM zones, if they elect not to participate in ARR allocations, during the longer transition period. These procedures are essentially the same as the procedures for allocating FTRs that were in place prior to the implementation of PJM's annual FTR auction process. Subpart (iv) is added to this subsection to provide that allocated FTRs will follow load when network load shifts as a result of competition. Under this new subpart, customers that are allocated FTRs and

¹ These parts of the PJM Tariff and Operating Agreement are identical; therefore, the same changes are made to both documents.

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later lose load to competition must relinquish a pro-rata amount of their FTRs based on the ratio of load lost to the customer's total load. Such customers will designate the FTRs to be relinquished. The customer gaining the load through competition will be able to request FTRs equal to the amount of the load gained. PJM includes this section because PJM understands the Order and the Commission's decision in Occidental Chem. Corp. v. PJM Interconnection, L.L.C., 101 FERC ¶ 61,005 (2002) to require that allocated FTRs should follow load in the same manner that allocated ARRs follow load. In the Order, the Commission stated "that allocating ARRs (FTRs) on a pro rata basis is a reasonable method of accommodating load shifts." Order at P 55.

Subsection (g) is added to section 5.2.2 to address initial FTR allocations prior to the annual allocation process. It specifies that customers in new PJM zones will receive an initial allocation of FTRs one month prior to the integration of the new zone into the PJM energy market. This allocation will be made under the procedures set forth in subsection (f) of section 5.2.2 and will be in effect from the date of the integration of the new zone until the next annual allocation of FTRs and ARRs.

The changes to section 5.2.2 comply with paragraphs 32 and 50 of the Order, which require longer transition periods than originally proposed for zones newly added to PJM and the Allegheny Power zone.

Section 7.1.1 (Auction Period and Scope of Auctions): This section now is divided into two subsections. Subsection (a) (originally the entire section) is amended to clarify that Financial Right Obligations and Financial Right Options offered in the annual FTR auctions are based only on the residual system capability that remains after the direct allocation of FTRs to customers in new zones and the conversion of allocated

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ARRs to FTRs through self-scheduling in existing zones. These modifications comply with the Commission's directive in paragraph 49 of the Order requiring "PJM to submit revised tariff sheets stating that FTR Options will only be offered after the simultaneous feasibility of allocated ARRs (or FTRs) has been determined and that the offer of FTR Options in the auction is from residual capacity."

Subsection (b) of section 7.1.1 is added to set forth the procedures regarding the conversion of ARRs to FTRs (self-scheduling) as required by paragraph 25 of the Order. This subsection provides that an ARR holder may convert its ARRs to FTRs by expressing its intent to exercise such option prior to the close of round one of the four round FTR auction. The resulting FTRs must have the same source and sink points as the ARRs. They also must be both a 24-hour product and a Financial Transmission Right Obligation. PJM will designate twenty five percent of the megawatt amount of the ARRs to be converted as buy bids in each of the four rounds of the FTR auction. The ARR holder converting its ARRs to FTRs will be a "price taker" and therefore may not designate a price bid for the FTR.

Section 7.1.2 (Frequency and Time of Auctions): This section is revised to clarify that the annual FTR auction will occur in April and May of each year, which is during the two-month period preceding the start of the PJM planning period. This section also specifies that the four rounds of the auction will be conducted sequentially.

These revisions address the concern raised by the Commission that section 7.1.2 was unclear "as to when, during the fiscal year, each round of the four designated auctions would take place, and whether dateline would be consistent year-to-year." Order at P 34.

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Additional Compliance Issues

In the Order, the Commission directed PJM to clarify certain matters. Order at P 34. Specifically, the Commission requires clarification with respect to the following: “(1) PJM has provided no definitional basis or illustrative examples demonstrating how an FTR request determined by PJM to be ‘not feasible’ in a new zone, under Section 5.2.2(e)(iii)² of the PJM OATT, would be pro rated and allocated in ‘inverse proportion to the effect on the binding constraints;’” and (2) “Section 5.2.5 is unclear as to what the sequence will be for the assignment of Congestion Charges when the total Target Allocations are greater than the total Transmission Congestion Credits for the hour.” Id. (footnote added).

To clarify how FTRs are prorated and allocated under section 5.2.2(f)(iii) when all requested Financial Transmission Rights in a new zone are not feasible, PJM provides the following illustrative example:

FTR / ARR Proration Example

If all FTR/ARR requests may not be granted in a new PJM zone, PJM will prorate the FTR/ARR awards in direct proportion to the MW requested and in inverse proportion to the FTR/ARRs impact on the binding transmission constraint as illustrated in the following example:

² As a result of the revisions filed herein section 5.2.2(e)(iii) is now section 5.2.2(f)(iii).

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Line A to B capability is 50 MW

Two FTR requests are submitted exceeding the 50 MW capability of Line A-B:

FTR #	Requested ARRs	Path	Effect per MW on Line AB	Resulting Line AB Flow Impact
#1	200 MW	A to B	.50	100 MW
#2	200 MW	C to D	.25	50 MW

Because the total flow impact on Line A-B resulting from the two FTR requests is 150 MW, proration of the FTRs is required because the capability on Line A-B is only 50 MW.

Proration calculation:

Prorated FTR amount awarded = Line Capability MW * Requested FTR MW / Total requested FTR MW * 1 / FTR effect per MW on Line AB

FTR #1 prorated MW awarded = 50 MW * 200 MW / 400 MW * 1 / 0.50 = 50 MW

FTR #2 prorated MW awarded = 50 MW * 200 MW / 400 MW * 1 / 0.25 = 100 MW

To facilitate the understanding of customers in newly added PJM zones, PJM will include this example in the PJM manuals.

The Commission also requested that PJM clarify the sequence for assignment of congestion charges in section 5.2.5 when Target Allocations exceed congestion revenues. Order at P 34. In accordance with the terms of section 5.2.5(b), the following sequence applies the assignment of congestion charges:

1. Add the total congestion charges collected in both the day-ahead and real-time markets.

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2. Assign each FTR with a negative Target Allocation value the full amount as a negative congestion credit (i.e. a congestion charge).
3. Add the congestion charges collected in steps 1 and 2 and distribute such funds to all FTR holders in proportion to, but not to exceed, their target allocations.

This sequence demonstrates that FTRs with negative Target Allocation values are assigned negative congestion credits (charges) prior to distribution of any funds. See Order at n. 18. Again, to further the understanding of FTR auction participants, PJM will include this sequence in the PJM manuals.

Effective Date

Consistent with the Order and the effective date of the amendments originally filed in this docket, PJM requests that the compliance amendments have an effective date of March 11, 2003.

Documents Enclosed

PJM encloses the original and five copies of each of the following:

1. This transmittal letter;
2. Revised PJM Tariff and Operating Agreement sheets and redlined versions of same;³

³ On March 20, 2003 (as amended on March 27, 2003), in Docket No. RT01-2-006, PJM filed a compliance filing, which included complete revised volumes of the PJM Tariff (Sixth Revised Volume No. 1) and Operating Agreement (Third Revised Rate Schedule FERC No. 24). In that docket, PJM requested an effective date of March 20, 2003 for the new revised volumes. As the compliance filing in this docket is being made subsequent to the requested effective date of the new revised volumes of the PJM Tariff and Operating Agreement, but the effective date of the compliance filing is prior to that date, PJM is submitting the compliance amendments under both the Fifth Revised and Sixth Revised versions of the PJM Tariff and the Second Revised and Third Revised versions of the Operating Agreement. The effective date on the sheets of Fifth Revised version of the PJM Tariff and the First Revised version of the Operating Agreement is designated as March 11, 2003, the effective date of the amendments in this
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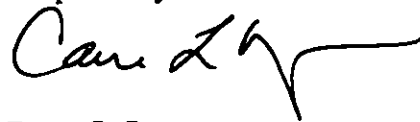
3. A form of Federal Register Notice (also enclosed on diskette).

Service and Federal Register Notice

PJM has served a copy of this filing, on all parties on the Commission's service list for this proceeding, as well as on all members of PJM and each state electric utility regulatory commission in the PJM region. A form of notice suitable for publication in the Federal Register also is attached and enclosed on diskette.

Craig Glazer
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Respectfully submitted,



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docket. The effective date on the sheets of the Sixth Revised version of the PJM Tariff and the Second Revised version of the Operating Agreement is designated as March 20, 2003, the effective date requested in Docket No. RT01-2-006 for the revised volumes.

**PJM OPEN ACCESS
TRANSMISSION TARIFF
(SIXTH REVISED VOLUME NO. 1)**

Revisions

Clean

**PJM Interconnection, L.L.C.
FERC Electric Tariff
Sixth Revised Volume No. 1**

**First Revised Sheet No. 396
Superseding Original Sheet No. 396**

value of a Financial Transmission Right Obligation is negative (a liability to the holder) when the Day-ahead Price at the point of receipt is higher than the Day-ahead Price at the point of delivery.

(c) The hourly economic value of a Financial Transmission Right Option is based on the Financial Transmission Right MW reservation and the difference between the Day-ahead Price at the point of delivery and the point of receipt of the Financial Transmission Right when that difference is positive. The hourly economic value of a Financial Transmission Right Option is positive (a benefit to the Financial Transmission Right holder) when the Day-ahead Price at the point of delivery is higher than the Day-ahead Price at the point of receipt. The hourly economic value of a Financial Transmission Right Option is zero (neither a benefit nor a liability to the holder) when the Day-ahead Price at the point of receipt is higher than the Day-ahead Price at the point of delivery.

(d) A Financial Transmission Right, or the right to Transmission Congestion Credits attributable to a Financial Transmission Right, may be sold or otherwise transferred by agreement, subject to compliance with such procedures as may be established by the Office of the Interconnection for verification of the rights of the purchaser or transferee.

(e) Network Service Users and Firm Transmission Customers that take service that sinks in new PJM zones, at their election, may receive a direct allocation of Financial Transmission Rights instead of an allocation of Auction Revenue Rights. Network Service Users and Firm Transmission Customers may make this election for the succeeding two annual FTR auctions after the integration of the new zone into the PJM interchange energy market. Such election shall be made prior to the commencement of each annual FTR auction. For purposes of this election, the Allegheny Power Zone shall be considered a new zone with respect to the annual Financial Transmission Right auction in 2003 and 2004. Network Service Users and Firm Transmission Customers in new PJM zones that elect not to receive direct allocations of Financial Transmission Rights shall receive allocations of Auction Revenue Rights.

(f) For Network Service Users and Firm Transmission Customers that take service that sinks in new PJM zones that elect to receive direct allocations of Financial Transmission Rights, Financial Transmission Rights shall be allocated in the manner specified below.

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Sixth Revised Volume No. 1

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(i) Subject to the provisions of Section B of Attachment K of the PJM Tariff, by such deadline established by the Office of the Interconnection, each Network Service User in a new PJM zone shall designate a subset of its Network Resources for which Financial Transmission Rights will be assigned. Financial Transmission Rights shall be assigned for each Network Resource in a number of megawatts equal to or less than the installed capacity summer megawatt rating of each designated Network Resource, determined at the new PJM zone transmission bus at which the designated Network Resource is connected. Each Financial Transmission Right shall be to the aggregate load busses of the Network Service User in a new PJM zone. The sum of each Network Service User's assigned Financial Transmission Rights for a Zone must be equal to or less than the Network Service User's peak load for that Zone as determined under Section 34.2 of the Tariff. The sum of each Network Service User's Financial Transmission Rights for Non-Zone Network Load must be equal to or less than the Network Service User's transmission responsibility for Non-Zone Network Load as determined under Section 34.2 of the Tariff.

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(ii) Each Transmission Customer receiving firm Transmission Service shall be assigned Financial Transmission Rights; provided, however, that a Transmission Customer may notify the Office of Interconnection that it does not wish to receive any FTRs or wishes to receive FTRs only for certain Point or Points of Receipt and Point or Points of Delivery, in which event no FTRs or such reduced amount of FTRs shall be issued to the Transmission Customer. The Financial Transmission Right for each instance of Point-to-Point Transmission Service shall be a number of megawatts equal to the megawatts of firm service being provided between the receipt and delivery points as to which the Transmission Customer has firm Point-to-Point Transmission Service.

(iii) All Financial Transmission Rights must be simultaneously feasible. If all Financial Transmission Right requests made when Financial Transmission Rights are allocated for the new zone are not feasible Financial Transmission Rights are prorated and allocated in proportion to the MW level requested and in inverse proportion to the effect on the binding constraints.

(iv) In the event that Network Load changes from one Network Service User to another after an initial or annual allocation of Financial Transmission Rights in a new zone, the Network Service User losing the load must relinquish a pro-rata amount of the Financial Transmission Rights based on the ratio of the Network Load being lost to the Network Service User's total Network Load. Such Network Service User shall designate the Financial Transmission Rights to be relinquished. Subject to section 5.2.2(f)(i) and (iii) of this Schedule, the Network Service User that is gaining the Network Load may request Financial Transmission Rights commensurate with the amount of the Network Load gained.

(g) One month prior to the integration of a new zone into the PJM interchange energy market, Network Service Users and Firm Transmission Customers that take service that sinks in the new zone shall receive an initial allocation of Financial Transmission Rights that will be in effect from the date of the integration of the new zone until the next annual allocation of Financial Transmission Rights and Auction Revenue Rights. Such allocation of Financial Transmission Rights shall be made in accordance with Section 5.2.2(f) of this Schedule.

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5.2.3 Target Allocation of Transmission Congestion Credits.

A target allocation of Transmission Congestion Credits for each entity holding a Financial Transmission Right shall be determined for each Financial Transmission Right. Each Financial Transmission Right shall be multiplied by the Day-ahead Price differences for the receipt and delivery points associated with the Financial Transmission Right, calculated as the Locational Marginal Price at the delivery point(s) minus the Locational Marginal Price at the receipt point(s). For the purposes of calculating Transmission Congestion Credits, the Day-ahead Price of a Zone is calculated as the sum of the Day-ahead Price of the buses that comprise the Zone multiplied by the percent of annual peak load assigned to each node. When the FTR Target Allocation is positive, the FTR Target Allocation is

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7.1.1 Auction Period and Scope of Auctions.

(a) The periods covered by auctions shall be: (1) the one-year period beginning the month after the final round of the annual auction and (2) the one-month period following the date that the monthly auction is conducted. With the exception of FTRs allocated pursuant to section 5.2.2 (e) of this Schedule and the Financial Transmission Rights awarded as a result of the exercise of the conversion option pursuant to section 7.1.1(b) of this Schedule, in the annual auction, the Office of the Interconnection shall offer for sale the entire Financial Transmission Rights capability for the year in four rounds with 25 percent of the capability offered in each round. In the monthly auction, the Office of the Interconnection shall offer for sale any remaining Financial Transmission Rights capability for the month after taking into account all of the Financial Transmission Rights already outstanding at the time of the auction. In addition, any holder of a Financial Transmission Right for the period covered by an auction may offer such Financial Transmission Right for sale in such auction. On-Peak, off-peak and 24-hour FTRs will be offered in the annual and monthly auctions. FTRs will be offered as Financial Transmission Right Obligations and Financial Transmission Right Options, provided that such Financial Transmission Right Obligations and Financial Transmission Right Options shall be awarded based only on the residual system capability that remains after the allocation of Financial Transmission Rights pursuant to section 5.2.2(e) and the award of Financial Transmission Rights pursuant to section 7.1.1(b) of this Schedule. Market Participants may bid for and acquire any number of Financial Transmission Rights, provided that all Financial Transmission Rights awarded are simultaneously feasible with each other and with all Financial Transmission Rights outstanding at the time of the auction and not sold into the auction. An ARR holder may self-schedule an FTR on the same path in the Annual FTR auction according to the rules described in the PJM Manuals.

(b) An Auction Revenue Rights holder may convert Auction Revenue Rights to Financial Transmission Rights. Such Financial Transmission Rights must (i) have the same source and sink points as the Auction Revenue Rights; (ii) be a 24-hour product; and (iii) be Financial Transmission Right Obligations. The Auction Revenue Rights holder must inform the Office of the Interconnection in accordance with the procedures established by the Office of the Interconnection that it intends to exercise the conversion option prior to close of round one of the annual Financial Transmission Rights auction. Once the conversion option is exercised, it will remain in effect for the entire Financial Transmission Rights auction. The Office of the Interconnection will designate twenty-five percent of the megawatt amount of the Auction Revenue Rights to be converted as price-taker bids in each of the four rounds of the Financial Transmission Rights auction.

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An Auction Revenue Rights holder that converts its Auction Revenue Rights may not designate a price bid for its converted Financial Transmission Rights and will receive a price equal to the clearing price set by other bids in the annual Financial Transmission Right auction.

7.1.2 Frequency and Time of Auctions.

Subject to section 7.1.1 of this Schedule, annual Financial Transmission Rights auctions shall offer the entire FTR capability of the PJM system in four rounds with 25 percent of the capability offered in each round. All four rounds of the annual Financial Transmission Rights auction shall occur within the two-month period (April – May) preceding the start of the PJM planning period. Each round shall occur over five business days and shall be conducted sequentially. Each round shall begin with the bid and offer period opening the first day at 12:00 midnight (Eastern Prevailing Time) and closing the third day at 5:00 p.m. (Eastern Prevailing Time). Monthly, Financial Transmission Rights auctions shall be held. The bid and offer period shall open at 12:00 midnight (Eastern Prevailing Time) on the thirteenth (13th) business day preceeding the month for which Financial Transmission Rights are being auctioned and shall close at 5:00 PM (Eastern Prevailing Time) on the tenth (10th) business day preceding the month for which Financial Transmission Rights are being auctioned.

7.1.3 Duration of Financial Transmission Rights.

Each Financial Transmission Right acquired in a Financial Transmission Rights auction shall entitle the holder to credits of Transmission Congestion Charges for the period that was specified in the corresponding auction.

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**PJM OPEN ACCESS
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(SIXTH REVISED VOLUME NO. 1)**

Revisions

Redline

PJM Interconnection, L.L.C.
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Original First Revised Sheet No. 396
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value of a Financial Transmission Right Obligation is negative (a liability to the holder) when the Day-ahead Price at the point of receipt is higher than the Day-ahead Price at the point of delivery.

(c) The hourly economic value of a Financial Transmission Right Option is based on the Financial Transmission Right MW reservation and the difference between the Day-ahead Price at the point of delivery and the point of receipt of the Financial Transmission Right when that difference is positive. The hourly economic value of a Financial Transmission Right Option is positive (a benefit to the Financial Transmission Right holder) when the Day-ahead Price at the point of delivery is higher than the Day-ahead Price at the point of receipt. The hourly economic value of a Financial Transmission Right Option is zero (neither a benefit nor a liability to the holder) when the Day-ahead Price at the point of receipt is higher than the Day-ahead Price at the point of delivery.

(d) A Financial Transmission Right, or the right to Transmission Congestion Credits attributable to a Financial Transmission Right, may be sold or otherwise transferred by agreement, subject to compliance with such procedures as may be established by the Office of the Interconnection for verification of the rights of the purchaser or transferee.

(e) Network Service Users and Firm Transmission Customers that take service that sinks in new PJM zones, at their election, may receive a direct allocation of Financial Transmission Rights instead of an allocation of Auction Revenue Rights. Network Service Users and Firm Transmission Customers may make this election for the succeeding two annual FTR auctions after the integration of the new zone into the PJM interchange energy market. Such election shall be made prior to the commencement of each annual FTR auction. For purposes of this election, the Allegheny Power Zone shall be considered a new zone with respect to the annual Financial Transmission Right auction in 2003 and 2004. Network Service Users and Firm Transmission Customers in new PJM zones that elect not to receive direct allocations of Financial Transmission Rights shall receive allocations of Auction Revenue Rights.

(f) For Network Service Users and Firm Transmission Customers that take service that sinks in new PJM zones that elect to receive direct allocations of Financial Transmission Rights, Financial Transmission Rights shall be allocated to each Firm Transmission Customer and Network Service User in a new PJM zone in the manner specified below. Such Financial Transmission Rights shall remain in effect until the first annual allocation of

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~~auction revenue rights to occur after the integration of such new PJM zone into the PJM interchange energy market.~~

(i) Subject to the provisions of Section B of Attachment K of the PJM Tariff, by such deadline established by the Office of the Interconnection, each Network Service User in a new PJM zone shall designate a subset of its Network Resources for which Financial Transmission Rights will be assigned. Financial Transmission Rights shall be assigned for each Network Resource in a number of megawatts equal to or less than the installed capacity summer megawatt rating of each designated Network Resource, determined at the new PJM zone transmission bus at which the designated Network Resource is connected. Each Financial Transmission Right shall be to the aggregate load busses of the Network Service User in a new PJM zone. The sum of each Network Service User's assigned Financial Transmission Rights for a Zone must be equal to or less than the Network Service User's peak load for that Zone as determined under Section 34.2 of the Tariff. The sum of each Network Service User's Financial Transmission Rights for Non-Zone Network Load must be equal to or less than the Network Service User's transmission responsibility for Non-Zone Network Load as determined under Section 34.2 of the Tariff.

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(ii) Each Transmission Customer receiving firm Transmission Service shall be assigned Financial Transmission Rights; provided, however, that a Transmission Customer may notify the Office of Interconnection that it does not wish to receive any FTRs or wishes to receive FTRs only for certain Point or Points of Receipt and Point or Points of Delivery, in which event no FTRs or such reduced amount of FTRs shall be issued to the Transmission Customer. The Financial Transmission Right for each instance of Point-to-Point Transmission Service shall be a number of megawatts equal to the megawatts of firm service being provided between the receipt and delivery points as to which the Transmission Customer has firm Point-to-Point Transmission Service.

(iii) All Financial Transmission Rights must be simultaneously feasible. If all Financial Transmission Right requests made when Financial Transmission Rights are allocated for the new zone are not feasible Financial Transmission Rights are prorated and allocated in proportion to the MW level requested and in inverse proportion to the effect on the binding constraints.

(iv) In the event that Network Load changes from one Network Service User to another after an initial or annual allocation of Financial Transmission Rights in a new zone, the Network Service User losing the load must relinquish a pro-rata amount of the Financial Transmission Rights based on the ratio of the Network Load being lost to the Network Service User's total Network Load. Such Network Service User shall designate the Financial Transmission Rights to be relinquished. Subject to section 5.2.2(f)(i) and (iii) of this Schedule, the Network Service User that is gaining the Network Load may request Financial Transmission Rights commensurate with the amount of the Network Load gained.

(g) One month prior to the integration of a new zone into the PJM interchange energy market, Network Service Users and Firm Transmission Customers that take service that sinks in the new zone shall receive an initial allocation of Financial Transmission Rights that will be in effect from the date of the integration of the new zone until the next annual allocation of Financial Transmission Rights and Auction Revenue Rights. Such allocation of Financial Transmission Rights shall be made in accordance with Section 5.2.2(f) of this Schedule.

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 Sixth Revised Volume No. 1

~~Original~~ First Revised Sheet No. 397
 Superseding Original Sheet No. 397

~~5.2.3 Target Allocation of Transmission Congestion Credits~~

~~A target allocation of Transmission Congestion Credits for each entity holding a Financial Transmission Right shall be determined for each Financial Transmission Right. Each Financial Transmission Right shall be multiplied by the Day-ahead Price differences for the receipt and delivery points associated with the Financial Transmission Right, calculated as the Locational Marginal Price at the delivery point(s) minus the Locational Marginal Price at the receipt point(s). For the purposes of calculating Transmission Congestion Credits, the Day-ahead Price of a Zone is calculated as the sum of the Day-ahead Price of the buses that comprise the Zone multiplied by the percent of annual peak load assigned to each node. When the FTR Target Allocation is positive, the FTR Target Allocation is~~

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Sixth Revised Volume No. 1

5.2.3 Target Allocation of Transmission Congestion Credits.

A target allocation of Transmission Congestion Credits for each entity holding a Financial Transmission Right shall be determined for each Financial Transmission Right. Each Financial Transmission Right shall be multiplied by the Day-ahead Price differences for the receipt and delivery points associated with the Financial Transmission Right, calculated as the Locational Marginal Price at the delivery point(s) minus the Locational Marginal Price at the receipt point(s). For the purposes of calculating Transmission Congestion Credits, the Day-ahead Price of a Zone is calculated as the sum of the Day-ahead Price of the buses that comprise the Zone multiplied by the percent of annual peak load assigned to each node. When the FTR Target Allocation is positive, the FTR Target Allocation is

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7.1.1 Auction Period and Scope of Auctions.

(a) The periods covered by auctions shall be: (1) the one-year period beginning the month after the final round of the annual auction and (2) the one-month period following the date that the monthly auction is conducted. With the exception of FTRs allocated pursuant to section 5.2.2 (e) of this Schedule and the Financial Transmission Rights awarded as a result of the exercise of the conversion option pursuant to section 7.1.1(b) of this Schedule, in the annual auction, the Office of the Interconnection shall offer for sale the entire Financial Transmission Rights capability for the year in four rounds with 25 percent of the capability offered in each round. In the monthly auction, the Office of the Interconnection shall offer for sale any remaining Financial Transmission Rights capability for the month after taking into account all of the Financial Transmission Rights already outstanding at the time of the auction. In addition, any holder of a Financial Transmission Right for the period covered by an auction may offer such Financial Transmission Right for sale in such auction. On-Peak, off-peak and 24-hour FTRs will be offered in the annual and monthly auctions. FTRs will be offered as Financial Transmission Right Obligations and Financial Transmission Right Options, provided that such Financial Transmission Right Obligations and Financial Transmission Right Options shall be awarded based only on the residual system capability that remains after the allocation of Financial Transmission Rights pursuant to section 5.2.2(e) and the award of Financial Transmission Rights pursuant to section 7.1.1(b) of this Schedule. Market Participants may bid for and acquire any number of Financial Transmission Rights, provided that all Financial Transmission Rights awarded are simultaneously feasible with each other and with all Financial Transmission Rights outstanding at the time of the auction and not sold into the auction. An ARR holder may self-schedule an FTR on the same path in the Annual FTR Auction-auction according to the rules described in the PJM Manuals.

(b) An Auction Revenue Rights holder may convert Auction Revenue Rights to Financial Transmission Rights. Such Financial Transmission Rights must (i) have the same source and sink points as the Auction Revenue Rights; (ii) be a 24-hour product; and (iii) be Financial Transmission Right Obligations. The Auction Revenue Rights holder must inform the Office of the Interconnection in accordance with the procedures established by the Office of the Interconnection that it intends to exercise the conversion option prior to close of round one of the annual Financial Transmission Rights auction. Once the conversion option is exercised, it will remain in effect for the entire Financial Transmission Rights auction. The Office of the Interconnection will designate twenty-five percent of the megawatt amount of the Auction Revenue Rights to be converted as price-taker bids in each of the four rounds of the Financial Transmission Rights auction.

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An Auction Revenue Rights holder that converts its Auction Revenue Rights may not designate a price bid for its converted Financial Transmission Rights and will receive a price equal to the clearing price set by other bids in the annual Financial Transmission Right auction.

7.1.2 Frequency and Time of Auctions.

Subject to section 7.1.1 of this Schedule, ~~Annual~~ annual Financial Transmission Rights auctions shall offer the entire FTR capability of the PJM system in four rounds with 25 percent of the capability offered in each round. All four rounds of the annual Financial Transmission Rights auction shall occur within the two-month period (April – May) preceding the start of the PJM planning period. Each round shall be occur conducted over five business days by such timeline established by the Office of the Interconnection and shall be conducted sequentially. Each round shall begin with the bid and offer period opening the first day at 12:00 midnight (Eastern Prevailing Time) and closing the third day at 5:00 p.m. (Eastern Prevailing Time). Monthly, Financial Transmission Rights auctions shall be held. The bid and offer period shall open at 12:00 midnight (Eastern Prevailing Time) on the thirteenth (13th) business day preceeding the month for which Financial Transmission Rights are being auctioned and shall close at 5:00 PM (Eastern Prevailing Time) on the tenth (10th) business day preceding the month for which Financial Transmission Rights are being auctioned.

7.1.3 Duration of Financial Transmission Rights.

Each Financial Transmission Right acquired in a Financial Transmission Rights auction shall entitle the holder to credits of Transmission Congestion Charges for the period that was specified in the corresponding auction.

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TRANSMISSION TARIFF
(FIFTH REVISED VOLUME NO. 1)**

Revisions

Clean

PJM Interconnection, L.L.C.
 FERC Electric Tariff
 Fifth Revised Volume No. 1

Fourth Revised Sheet No. 259
 Superseding Third Revised Sheet No. 259

(c) For purposes of Section 5.2.1(b) a bus shall be considered at or near the Financial Transmission Right delivery or receipt bus if seventy-five percent or more of the energy injected or withdrawn at that bus and which is withdrawn or injected at any other bus is reflected in the constrained path between the subject Financial Transmission Right delivery and receipt buses that were acquired in the Financial Transmission Rights Auction.

5.2.2 Financial Transmission Rights

(a) Transmission Congestion Credits will be calculated based upon the Financial Transmission Rights held at the time of the constrained hour. Except as provided in paragraph (e) below, Financial Transmission Rights shall be auctioned as set forth in Section 7.

(b) The hourly economic value of a Financial Transmission Right Obligation is based on the Financial Transmission Right MW reservation and the difference between the Day-ahead Price at the point of delivery and the point of receipt of the Financial Transmission Right. The hourly economic value of a Financial Transmission Right Obligation is positive (a benefit to the Financial Transmission Right holder) when the Day-ahead Price at the point of delivery is higher than the Day-ahead Price at the point of receipt. The hourly economic value of a Financial Transmission Right Obligation is negative (a liability to the holder) when the Day-ahead Price at the point of receipt is higher than the Day-ahead Price at the point of delivery.

(c) The hourly economic value of a Financial Transmission Right Option is based on the Financial Transmission Right MW reservation and the difference between the Day-ahead Price at the point of delivery and the point of receipt of the Financial Transmission Right when that difference is positive. The hourly economic value of a Financial Transmission Right Option is positive (a benefit to the Financial Transmission Right holder) when the Day-ahead Price at the point of delivery is higher than the Day-ahead Price at the point of receipt. The hourly economic value of a Financial Transmission Right Option is zero (neither a benefit nor a liability to the holder) when the Day-ahead Price at the point of receipt is higher than the Day-ahead Price at the point of delivery.

(d) A Financial Transmission Right, or the right to Transmission Congestion Credits attributable to a Financial Transmission Right, may be sold or otherwise transferred by agreement, subject to compliance with such procedures as may be established by the Office of the Interconnection for verification of the rights of the purchaser or transferee.

(e) Network Service Users and Firm Transmission Customers that take service that sinks in new PJM zones, at their election, may receive a direct allocation of Financial Transmission Rights instead of an allocation of Auction Revenue Rights. Network Service Users and Firm Transmission Customers may make this election for the succeeding two annual FTR auctions after the integration of the new zone into the PJM interchange energy market. Such election shall be made prior to the commencement of each annual FTR auction. For purposes of this election, the Allegheny Power Zone shall be considered a new zone with respect to the annual Financial Transmission Right auction in 2003 and 2004. Network Service Users and

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Superseding Original Sheet No. 259A

Firm Transmission Customers in new PJM zones that elect not to receive direct allocations of Financial Transmission Rights shall receive allocations of Auction Revenue Rights.

(f) For Network Service Users and Firm Transmission Customers that take service that sinks in new PJM zones that elect to receive direct allocations of Financial Transmission Rights, Financial Transmission Rights shall be allocated in the manner specified below.

- (i) Subject to the provisions of Section B of Attachment K of the PJM Tariff, by such deadline established by the Office of the Interconnection, each Network Service User in a new PJM zone shall designate a subset of its Network Resources for which Financial Transmission Rights will be assigned. Financial Transmission Rights shall be assigned for each Network Resource in a number of megawatts equal to or less than the installed capacity summer megawatt rating of each designated Network Resource, determined at the new PJM zone transmission bus at which the designated Network Resource is connected. Each Financial Transmission Right shall be to the aggregate load busses of the Network Service User in a new PJM zone. The sum of each Network Service User's assigned Financial Transmission Rights for a Zone must be equal to or less than the Network Service User's peak load for that Zone as determined under Section 34.2 of the Tariff. The sum of each Network Service User's Financial Transmission Rights for Non-Zone Network Load must be equal to or less than the Network Service User's transmission responsibility for Non-Zone Network Load as determined under Section 34.2 of the Tariff.
- (ii) Each Transmission Customer receiving firm Transmission Service shall be assigned Financial Transmission Rights; provided, however, that a Transmission Customer may notify the Office of Interconnection that it does not wish to receive any FTRs or wishes to receive FTRs only for certain Point or Points of Receipt and Point or Points of Delivery, in which event no FTRs or such reduced amount of FTRs shall be issued to the Transmission Customer. The Financial Transmission Right for each instance of

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Point-to-Point Transmission Service shall be a number of megawatts equal to the megawatts of firm service being provided between the receipt and delivery points as to which the Transmission Customer has firm Point-to-Point Transmission Service.

- (iii) All Financial Transmission Rights must be simultaneously feasible. If all Financial Transmission Right requests made when Financial Transmission Rights are allocated for the new zone are not feasible Financial Transmission Rights are prorated and allocated in proportion to the MW level requested and in inverse proportion to the effect on the binding constraints.
- (iv) In the event that Network Load changes from one Network Service User to another after an initial or annual allocation of Financial Transmission Rights in a new zone, the Network Service User losing the load must relinquish a pro-rata amount of the Financial Transmission Rights based on the ratio of the Network Load being lost to the Network Service User's total Network Load. Such Network Service User shall designate the Financial Transmission Rights to be relinquished. Subject to section 5.2.2(f)(i) and (iii) of this Schedule, the Network Service User that is gaining the Network Load may request Financial Transmission Rights commensurate with the amount of the Network Load gained.

(g) One month prior to the integration of a new zone into the PJM interchange energy market, Network Service Users and Firm Transmission Customers that take service that sinks in the new zone shall receive an initial allocation of Financial Transmission Rights that will be in effect from the date of the integration of the new zone until the next annual allocation of Financial Transmission Rights and Auction Revenue Rights. Such allocation of Financial Transmission Rights shall be made in accordance with Section 5.2.2(f) of this Schedule.

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7. FINANCIAL TRANSMISSION RIGHTS AUCTIONS

7.1 Auctions of Financial Transmission Rights.

Annual and periodic auctions to allow Market Participants to acquire or sell Financial Transmission Rights shall be conducted by the Office of the Interconnection in accordance with the provisions of this Section.

7.1.1 Auction Period and Scope of Auctions.

(a) The periods covered by auctions shall be: (1) the one-year period beginning the month after the final round of the annual auction and (2) the one-month period following the date that the monthly auction is conducted. With the exception of FTRs allocated pursuant to section 5.2.2 (e) of this Schedule and the Financial Transmission Rights awarded as a result of the exercise of the conversion option pursuant to section 7.1.1(b) of this Schedule, in the annual auction, the Office of the Interconnection shall offer for sale the entire Financial Transmission Rights capability for the year in four rounds with 25 percent of the capability offered in each round. In the monthly auction, the Office of the Interconnection shall offer for sale any remaining Financial Transmission Rights capability for the month after taking into account all of the Financial Transmission Rights already outstanding at the time of the auction. In addition, any holder of a Financial Transmission Right for the period covered by an auction may offer such Financial Transmission Right for sale in such auction. On-Peak, off-peak and 24-hour FTRs will be offered in the annual and monthly auctions. FTRs will be offered as Financial Transmission Right Obligations and Financial Transmission Right Options, provided that such Financial Transmission Right Obligations and Financial Transmission Right Options shall be awarded based only on the residual system capability that remains after the allocation of Financial Transmission Rights pursuant to section 5.2.2(e) and the award of Financial Transmission Rights pursuant to section 7.1.1(b) of this Schedule. Market Participants may bid for and acquire any number of Financial Transmission Rights, provided that all Financial Transmission Rights awarded are simultaneously feasible with each other and with all Financial Transmission Rights outstanding at the time of the auction and not sold into the auction. An ARR holder may self-schedule an FTR on the same path in the Annual FTR auction according to the rules described in the PJM Manuals.

(b) An Auction Revenue Rights holder may convert Auction Revenue Rights to Financial Transmission Rights. Such Financial Transmission Rights must (i) have the same source and sink points as the Auction Revenue Rights; (ii) be a 24-hour product; and (iii) be Financial Transmission Right Obligations. The Auction Revenue Rights holder must inform the Office of the Interconnection in accordance with the procedures established by the Office of the Interconnection that it intends to exercise the conversion option prior to close of round one of the annual Financial Transmission Rights auction. Once the conversion option is exercised, it will remain in effect for the entire Financial Transmission Rights auction. The Office of the Interconnection will designate twenty-five percent of the megawatt amount of the Auction Revenue Rights to be converted as price-taker bids in each of the four rounds of the Financial Transmission Rights auction. An Auction Revenue Rights holder that converts its

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Auction Revenue Rights may not designate a price bid for its converted Financial Transmission Rights and will receive a price equal to the clearing price set by other bids in the annual Financial Transmission Right auction.

7.1.2 Frequency and Time of Auctions.

Subject to section 7.1.1 of this Schedule, annual Financial Transmission Rights auctions shall offer the entire FTR capability of the PJM system in four rounds with 25 percent of the capability offered in each round. All four rounds of the annual Financial Transmission Rights auction shall occur within the two-month period (April – May) preceding the start of the PJM planning period. Each round shall occur over five business days and shall be conducted sequentially. Each round shall begin with the bid and offer period opening the first day at 12:00 midnight (Eastern Prevailing Time) and closing the third day at 5:00 p.m. (Eastern Prevailing Time). Monthly, Financial Transmission Rights auctions shall be held. The bid and offer period shall open at 12:00 midnight (Eastern Prevailing Time) on the thirteenth (13th) business day preceeding the month for which Financial Transmission Rights are being auctioned and shall close at 5:00 PM (Eastern Prevailing Time) on the tenth (10th) business day preceding the month for which Financial Transmission Rights are being auctioned.

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PJM Interconnection, L.L.C.
 FERC Electric Tariff
 Fifth Revised Volume No. 1

~~Third~~ Fourth Revised Sheet No. 259
 Superceding ~~Second~~ Third Revised Sheet No. 259

(c) For purposes of Section 5.2.1(b) a bus shall be considered at or near the Financial Transmission Right delivery or receipt bus if seventy-five percent or more of the energy injected or withdrawn at that bus and which is withdrawn or injected at any other bus is reflected in the constrained path between the subject Financial Transmission Right delivery and receipt buses that were acquired in the Financial Transmission Rights Auction.

5.2.2 Financial Transmission Rights

(a) Transmission Congestion Credits will be calculated based upon the Financial Transmission Rights held at the time of the constrained hour. Except as provided in paragraph (e) below, Financial Transmission Rights shall be auctioned as set forth in Section 7.

(b) The hourly economic value of a Financial Transmission Right Obligation is based on the Financial Transmission Right MW reservation and the difference between the Day-ahead Price at the point of delivery and the point of receipt of the Financial Transmission Right. The hourly economic value of a Financial Transmission Right Obligation is positive (a benefit to the Financial Transmission Right holder) when the Day-ahead Price at the point of delivery is higher than the Day-ahead Price at the point of receipt. The hourly economic value of a Financial Transmission Right Obligation is negative (a liability to the holder) when the Day-ahead Price at the point of receipt is higher than the Day-ahead Price at the point of delivery.

(c) The hourly economic value of a Financial Transmission Right Option is based on the Financial Transmission Right MW reservation and the difference between the Day-ahead Price at the point of delivery and the point of receipt of the Financial Transmission Right when that difference is positive. The hourly economic value of a Financial Transmission Right Option is positive (a benefit to the Financial Transmission Right holder) when the Day-ahead Price at the point of delivery is higher than the Day-ahead Price at the point of receipt. The hourly economic value of a Financial Transmission Right Option is zero (neither a benefit nor a liability to the holder) when the Day-ahead Price at the point of receipt is higher than the Day-ahead Price at the point of delivery.

(d) A Financial Transmission Right, or the right to Transmission Congestion Credits attributable to a Financial Transmission Right, may be sold or otherwise transferred by agreement, subject to compliance with such procedures as may be established by the Office of the Interconnection for verification of the rights of the purchaser or transferee.

(e) Network Service Users and Firm Transmission Customers that take service that sinks in new PJM zones, at their election, may receive a direct allocation of Financial Transmission Rights instead of an allocation of Auction Revenue Rights. Network Service Users and Firm Transmission Customers may make this election for the succeeding two annual FTR auctions after the integration of the new zone into the PJM interchange energy market. Such election shall be made prior to the commencement of each annual FTR auction. For purposes of this election, the Allegheny Power Zone shall be considered a new zone with respect to the annual Financial Transmission Right auction in 2003 and 2004. Network Service Users and

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Firm Transmission Customers in new PJM zones that elect not to receive direct allocations of Financial Transmission Rights shall receive allocations of Auction Revenue Rights.

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~~Original First Revised~~ Sheet No. 259A
 Superseding Original Sheet No. 259A

~~(f) For Network Service Users and Firm Transmission Customers that take service that sinks in new PJM zones that elect to receive direct allocations of Financial Transmission Rights, Financial Transmission Rights shall be allocated to each Firm Transmission Customer and Network Service User in a new PJM zone in the manner specified below. Such Financial Transmission Rights shall remain in effect until the first annual allocation of auction revenue rights to occur after the integration of such new PJM zone into the PJM interchange energy market.~~

- (i) Subject to the provisions of Section B of Attachment K of the PJM Tariff, by such deadline established by the Office of the Interconnection, each Network Service User in a new PJM zone shall designate a subset of its Network Resources for which Financial Transmission Rights will be assigned, Financial Transmission Rights shall be assigned for each Network Resource in a number of megawatts equal to or less than the installed capacity summer megawatt rating of each designated Network Resource, determined at the new PJM zone transmission bus at which the designated Network Resource is connected. Each Financial Transmission Right shall be to the aggregate load busses of the Network Service User in a new PJM zone. The sum of each Network Service User's assigned Financial Transmission Rights for a Zone must be equal to or less than the Network Service User's peak load for that Zone as determined under Section 34.2 of the Tariff. The sum of each Network Service User's Financial Transmission Rights for Non-Zone Network Load must be equal to or less than the Network Service User's transmission responsibility for Non-Zone Network Load as determined under Section 34.2 of the Tariff.
- (ii) Each Transmission Customer receiving firm Transmission Service shall be assigned Financial Transmission Rights; provided, however, that a Transmission Customer may notify the Office of Interconnection that it does not wish to receive any FTRs or wishes to receive FTRs only for certain Point or Points of Receipt and Point or Points of Delivery, in which event no FTRs or such reduced amount of FTRs shall be issued to the Transmission Customer. The Financial Transmission Right for each instance of

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Point-to-Point Transmission Service shall be a number of megawatts equal to the megawatts of firm service being provided between the receipt and delivery points as to which the Transmission Customer has firm Point-to-Point Transmission Service.

- (iii) All Financial Transmission Rights must be simultaneously feasible. If all Financial Transmission Right requests made when Financial Transmission Rights are allocated for the new zone are not feasible Financial Transmission Rights are prorated and allocated in proportion to the MW level requested and in inverse proportion to the effect on the binding constraints.

- (iv) In the event that Network Load changes from one Network Service User to another after an initial or annual allocation of Financial Transmission Rights in a new zone, the Network Service User losing the load must relinquish a pro-rata amount of the Financial Transmission Rights based on the ratio of the Network Load being lost to the Network Service User's total Network Load. Such Network Service User shall designate the Financial Transmission Rights to be relinquished. Subject to section 5.2.2(f)(i) and (iii) of this Schedule, the Network Service User that is gaining the Network Load may request Financial Transmission Rights commensurate with the amount of the Network Load gained.

(g) One month prior to the integration of a new zone into the PJM interchange energy market, Network Service Users and Firm Transmission Customers that take service that sinks in the new zone shall receive an initial allocation of Financial Transmission Rights that will be in effect from the date of the integration of the new zone until the next annual allocation of Financial Transmission Rights and Auction Revenue Rights. Such allocation of Financial Transmission Rights shall be made in accordance with Section 5.2.2(f) of this Schedule.

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7. FINANCIAL TRANSMISSION RIGHTS AUCTIONS

7.1 Auctions of Financial Transmission Rights.

Annual and periodic auctions to allow Market Participants to acquire or sell Financial Transmission Rights shall be conducted by the Office of the Interconnection in accordance with the provisions of this Section.

7.1.1 Auction Period and Scope of Auctions.

(a) The periods covered by auctions shall be: (1) the one-year period beginning the month after the final round of the annual auction and (2) the one-month period following the date that the monthly auction is conducted. With the exception of FTRs allocated pursuant to section 5.2.2 (e) of this Schedule and the Financial Transmission Rights awarded as a result of the exercise of the conversion option pursuant to section 7.1.1(b) of this Schedule, in the annual auction, the Office of the Interconnection shall offer for sale the entire Financial Transmission Rights capability for the year in four rounds with 25 percent of the capability offered in each round. In the monthly auction, the Office of the Interconnection shall offer for sale any remaining Financial Transmission Rights capability for the month after taking into account all of the Financial Transmission Rights already outstanding at the time of the auction. In addition, any holder of a Financial Transmission Right for the period covered by an auction may offer such Financial Transmission Right for sale in such auction. On-Peak, off-peak and 24-hour FTRs will be offered in the annual and monthly auctions. FTRs will be offered as Financial Transmission Right Obligations and Financial Transmission Right Options, provided that such Financial Transmission Right Obligations and Financial Transmission Right Options shall be awarded based only on the residual system capability that remains after the allocation of Financial Transmission Rights pursuant to section 5.2.2(e) and the award of Financial Transmission Rights pursuant to section 7.1.1(b) of this Schedule. Market Participants may bid for and acquire any number of Financial Transmission Rights, provided that all Financial Transmission Rights awarded are simultaneously feasible with each other and with all Financial Transmission Rights outstanding at the time of the auction and not sold into the auction. An ARR holder may self-schedule an FTR on the same path in the Annual FTR Auction auction according to the rules described in the PJM Manuals.

(b) An Auction Revenue Rights holder may convert Auction Revenue Rights to Financial Transmission Rights. Such Financial Transmission Rights must (i) have the same source and sink points as the Auction Revenue Rights; (ii) be a 24-hour product; and (iii) be Financial Transmission Right Obligations. The Auction Revenue Rights holder must inform the Office of the Interconnection in accordance with the procedures established by the Office of the Interconnection that it intends to exercise the conversion option prior to close of round one of the annual Financial Transmission Rights auction. Once the conversion option is exercised, it will remain in effect for the entire Financial Transmission Rights auction. The Office of the Interconnection will designate twenty-five percent of the megawatt amount of the Auction Revenue Rights to be converted as price-taker bids in each of the four rounds of the Financial Transmission Rights auction. An Auction Revenue Rights holder that converts its

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Auction Revenue Rights may not designate a price bid for its converted Financial Transmission Rights and will receive a price equal to the clearing price set by other bids in the annual Financial Transmission Right auction.

7.1.2 Frequency and Time of Auctions.

Subject to section 7.1.1 of this Schedule, ~~Annual~~ annual Financial Transmission Rights auctions shall offer the entire FTR capability of the PJM system in four rounds with 25 percent of the capability offered in each round. All four rounds of the annual Financial Transmission Rights auction shall occur within the two-month period (April – May) preceding the start of the PJM planning period. Each round shall be ~~occur~~ conducted over five business days by such timeline established by the Office of the Interconnection and shall be conducted sequentially. Each round shall begin with the bid and offer period opening the first day at 12:00 midnight (Eastern Prevailing Time) and closing the third day at 5:00 p.m. (Eastern Prevailing Time). Monthly, Financial Transmission Rights auctions shall be held. The bid and offer period shall open at 12:00 midnight (Eastern Prevailing Time) on the thirteenth (13th) business day preceeding the month for which Financial Transmission Rights are being auctioned and shall close at 5:00 PM (Eastern Prevailing Time) on the tenth (10th) business day preceding the month for which Financial Transmission Rights are being auctioned.

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PJM Interconnection, L.L.C.) Docket No. ER03-406-00_

NOTICE OF FILING

Take notice that on April 11, 2003, in compliance PJM Interconnection, L.L.C., 102 FERC ¶61,276 (2003), PJM Interconnection, L.L.C. ("PJM") submitted for filing revisions to certain provisions of the PJM Open Access Transmission Tariff and the Amended and Restated Operating Agreement of PJM Interconnection L.L.C. relating to PJM's annual Financial Transmission Right auction process.

Copies of this filing were served upon each person designated on the official service list compiled by the Secretary in this proceeding, all PJM members, and each state electric utility commission in the PJM region.

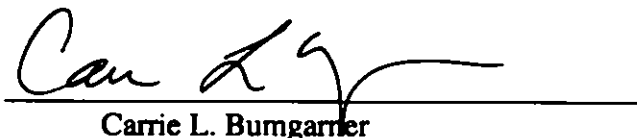
Any person desiring to be heard or to protest this filing should file a petition to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rules 210, 211 and 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. §§ 385.210, 385.211, 385.214). All such petitions or protests should be filed on or before the Comment Date. Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceeding. Any person wishing to become a party must file a petition to intervene. Copies of this application are on file with the Commission and are available for public inspection. This filing may also be viewed on the web at <http://www.ferc.gov> using the "FERRIS" link, select "General Search" and follow the instructions (call 202-208-2222 for assistance). Comments, protests and interventions may be filed electronically via the Internet in lieu of paper. See 18 CFR § 385.2001(a)(1)(iii) and the instructions on the Commission's web site under the "e-Filing" link.

Comment Date:

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding, all PJM members, and each state electric utility regulatory commission in the PJM region.

Dated at Washington, D.C. this 11th day of April, 2003.

A handwritten signature in black ink, appearing to read "Carrie L. Bumgarner", is written over a horizontal line.

Carrie L. Bumgarner

Counsel for
PJM Interconnection, L.L.C