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February 27, 2003

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

FILED
OFFICE OF THE
SECRETARY
FEDERAL ENERGY
REGULATORY COMMISSION
FEB 27 P 4:20

Re: PJM Interconnection, L.L.C., Docket No. ER03-406-004

Dear Ms. Salas:

PJM Interconnection, L.L.C. ("PJM"), in compliance with the Commission's January 28, 2004 order in this proceeding,¹ submits for filing revisions 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 address credit requirements for conversion of auction revenue rights ("ARRs") to financial transmission rights ("FTRs"), and the initial allocation of FTRs in new zones.

PJM proposes an effective date of February 28, 2004 for the enclosed revisions.

Background

On January 10, 2003, PJM filed revisions to the PJM Tariff and Operating Agreement to establish a new annual FTR auction and an allocation mechanism for the auction revenues, using ARRs. On March 10, 2003, the Commission accepted PJM's

¹ PJM Interconnection, L.L.C., 106 FERC ¶ 61,049 (2004) ("January 28 Order").

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proposed revisions, finding that the “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.”²

While accepting the filing, the Commission directed PJM to submit certain additional changes in a compliance filing, including procedures governing the self-scheduling of ARRs into FTRs, and transition provisions for new zones added to PJM permitting members in those zones to receive an allocation of FTRs instead of ARRs. PJM submitted the required changes in April 2003. As also directed by the Commission, PJM further explained in the compliance filing, with an illustrative example, how it would allocate FTRs in new zones if FTR requests were found not to be simultaneously feasible.

In the January 28 Order, the Commission accepted PJM’s compliance filing and denied requests for rehearing of the March 12 Order. However, the Commission required PJM to make two further changes. First, the Commission “require[d] PJM to amend its tariff to make clear that an ARR holder need not secure credit in order to self-schedule,”³ i.e., to convert its allocated ARRs into FTRs. Second, the Commission required PJM “to amend Section 5.2.2(e) of its tariff to state that PJM, prior to the initial allocation of FTRs in new regions, will make a filing with the Commission under Section 205 of the Federal Power Act with the proposed allocation of ARRs.” Id. at P 23.

² PJM Interconnection, L.L.C., 102 FERC ¶ 61,276, at P 2 (2003) (“March 12 Order”).

³ January 28 Order at P 16.

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Description of Proposed Revisions

As required by the January 28 Order, PJM is adding to section 7.1.1(b) of Schedule 1 of the Operating Agreement a statement that FTRs obtained from conversion of a market participant's ARR's will not be included in the calculation of such market participant's credit requirement for the annual FTR auction.

As also required by the January 28 Order, PJM is adding to section 5.2.2(e) of Schedule 1 of the Operating Agreement a statement that, prior to the effective date of the initial allocation of FTRs in a new PJM zone, PJM will file with the Commission the FTRs and ARRs allocated in accordance with sections 5 and 7 of Schedule 1.⁴

The identical changes are also made to sections 5.2.2(e) and 7.1.1(b) of the Appendix to Attachment K of the PJM Tariff.

Effective Date

The enclosed sheets reflect an effective date of February 28, 2004, the day after this filing, rather than the March 12, 2003 date assigned to PJM's previously filed ARR provisions. While PJM could generate revised historical versions of each of the several iterations of the affected sheets that has been in effect since March 12, 2003,⁵ there seems to be no practical purpose in doing so. Neither of the enclosed changes has any impact on the period of time from March 12, 2003 through the date of this filing. There have

⁴ In new PJM zones, market participants have a choice of receiving either an initial allocation of FTRs or ARRs. See March 12 Order at P 32. The enclosed revisions therefore state that PJM will report for new zones the initial allocations of both FTRs and ARRs.

⁵ There have been three different versions of each of the affected sheets since March 12, 2003, including a version from PJM's superseded Fifth Revised PJM Tariff and First Revised Operating Agreement that was effective only between March 12 and March 20, 2003.

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been no initial allocations of FTRs in any new PJM zones since March 12, 2003; so the change to section 5.5.2(e) has no effect on this period. And the clarification in section 7.1.1(b) of PJM's credit requirements for FTR auctions can only affect future auctions, and not any auctions that are already completed. Therefore, to the extent necessary, PJM requests waiver of the Commission's rules or orders to permit an effective date of February 28, 2004.

Documents Enclosed

PJM encloses the original and five copies of this transmittal letter and the following:

1. the revised sheets of the PJM Tariff, and redlined versions showing the revisions;
2. the revised sheets of the Operating Agreement, and redlined versions showing the revisions; and
3. a form of Federal Register notice (also enclosed on diskette).

Correspondence and Communications

Correspondence and communications with respect to this filing should be sent to, and PJM requests the Secretary to include on the official service list, the following:

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Service and Federal Register Notice

PJM has served a copy of this filing upon all PJM members, the utility regulatory commissions in the PJM region, and all persons on the Commission's service list for this proceeding. A form of notice suitable for publication in the Federal Register is attached and is enclosed on diskette.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "B. S. Spector", with a stylized flourish at the end.

Barry S. Spector
Paul M. Flynn

Counsel for
PJM Interconnection, L.L.C.

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Tariff Revisions
Non-Redlined Version

K:/Tarrevs/ARR Compliance Sheets (non-redlined).doc

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

1st Rev Second Revised Sheet No. 396
 Superseding Second Revised 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. During the annual allocation process, the Financial Transmission Right allocation for new PJM zones shall be performed simultaneously with the Auction Revenue Rights allocations in existing and new PJM zones. Prior to the effective date of the initial allocation of FTRs in a new PJM zone, PJM shall file with FERC the FTRs and ARRs allocated in accordance with sections 5 and 7 of this Schedule 1.

(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 using the same allocation methodology as specified for the allocation of Auction Revenue Rights in Section 7.4.2 and in accordance with the following:

Issued By: Craig Glazer
 Vice President, Governmental Policy

Effective: February 28, 2004

Issued On: February 27, 2004

Filed to comply with order of the Federal Energy Regulatory Commission, Docket No. ER03-406-001 et. al, issued January 28, 2004, 106 FERC ¶ 61,049.

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

First Revised Sheet No. 403A
Superseding Original Sheet No. 403A

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. To the extent a market participant seeks to obtain FTRs in the annual auction through such conversion, the FTRs sought will not be included in the calculation of such market participant's credit requirement for such annual FTR 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 preceding 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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Tariff Revisions

Redlined Version

K:/Tarrevs/ARR Compliance Sheets (redlined).doc

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

~~Original~~First Revised Sheet No. 403A
~~Superseding Original Sheet No. 403A~~

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Issued By: Craig Glazer
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 Issued On: ~~April 11, 2003~~February 27, 2004

Effective: ~~March 20, 2003~~February 28, 2004

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Notice of Filing

