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2004 SEP -1 P 4: 04

**FEDERAL ENERGY
REGULATORY COMMISSION**

Paul M. Flynn
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September 1, 2004

ORIGINAL

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

Re: PJM Interconnection, L.L.C., Docket No. ER03-406-006

Dear Ms. Salas:

PJM Interconnection, L.L.C. ("PJM"), in compliance with the Commission's August 2, 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 state that the initial allocation of financial transmission rights ("FTRs") in new zones will be filed with the Commission under section 205 of the Federal Power Act ("FPA").²

PJM proposes an effective date of September 1, 2004 for the enclosed revisions.

Background

On January 28, 2004, the Commission issued an order in this docket directing PJM to amend section 5.2.2(e) of its tariff to provide that, prior to the initial allocation of

¹ PJM Interconnection, L.L.C., 108 FERC ¶ 61,117 (2004) ("August 2 Order").

² 16 U.S.C. § 824d.

Dkt/OSEC

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FTRs in new regions, PJM will file the proposed allocation of FTRs with the Commission. PJM Interconnection, L.L.C., 106 FERC ¶ 61,049, at P 23 (2004) (“January 28 Order”).

As required by the January 28 Order, PJM submitted a compliance filing on February 27, 2004 that added to section 5.2.2 the statement that “[p]rior 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.”

In the August 2 Order, the Commission found that “PJM’s proposed revisions generally comply with our directive that the PJM OATT obligate PJM to make a filing prior to its initial allocation of FTRs in new regions, setting forth its proposed allocation of ARRs.” August 2 Order at P 13. The Commission found, however, that “to ensure clarity,” PJM must “include specific language in its tariff stating that its filing showing the [initial] allocation of FTRs will be made under section 205 of the FPA.” Id. The Commission directed PJM to make such a change in a compliance filing within 30 days of the August 2 Order. Id. at ordering paragraph (B).

Description of Proposed Revisions

As required by the August 2 Order, PJM is inserting the words “under section 205 of the Federal Power Act” into the statement in section 5.2.2(e) of Schedule 1 of the Operating Agreement that prior to 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.

The identical change is made to section 5.2.2(e) of the Appendix to Attachment K of the PJM Tariff.

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Effective Date

The enclosed sheets reflect an effective date of September 1, 2004. No purpose would be served in assigning an earlier effective date to this compliance change, which would require resubmission of multiple earlier versions of the affected sheets. Notwithstanding the lack of an explicit reference to FPA section 205 in the tariff, each of the interim FTR allocations for new zones PJM filed earlier this year was submitted under section 205 of the FPA. Therefore, to the extent necessary, PJM requests waiver of the Commission's rules or orders to permit an effective date of September 1, 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).

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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:

Craig Glazer
Vice President, Government Policy
PJM Interconnection, L.L.C.
1200 G Street, N.W.
Suite 600
Washington, D.C. 20005
(202) 393-7756

Barry S. Spector
Paul M. Flynn
Wright & Talisman, P.C.
1200 G Street, N.W.
Suite 600
Washington, D.C. 20005
(202) 393-1200

Vincent P. Duane
Deputy General Counsel
PJM Interconnection, L.L.C.
955 Jefferson Avenue
Norristown, PA 19403
(610) 666 4367

Service and Federal Register Notice

PJM has served a copy of this filing on 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,



Barry S. Spector
Paul M. Flynn

Counsel for
PJM Interconnection, L.L.C.

Tariff Revisions

Non-Redline Version

K://PJM/Tarrevs/Tariff ER03-406 Comp. Filing (clean).doc

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. The Day-ahead Prices determined for purposes of this subsection shall exclude the Locational Marginal Price adjustments for third-party transmission losses provided by Section 9.3.

(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. The Day-ahead Prices determined for purposes of this subsection shall exclude the Locational Marginal Price adjustments for third-party transmission losses provided by Section 9.3.

(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, under section 205 of the Federal Power Act, the FTRs and ARRs allocated in accordance with sections 5 and 7 of this Schedule 1.

Issued By: Craig Glazer
 Vice President, Government Policy

Effective: September 1, 2004

Issued On: September 1, 2004

Filed to comply with order of the Federal Energy Regulatory Commission, Docket Nos. ER03-406-005, issued August 2, 2004, 108 FERC ¶ 61,117.

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

Original Sheet No. 396.01

(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:

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Tariff Revisions

Redline Version

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

Fourth Revised Sheet No. 396
 Superseding Third 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. The Day-ahead Prices determined for purposes of this subsection shall exclude the Locational Marginal Price adjustments for third-party transmission losses provided by Section 9.3.

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(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.

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Operating Agreement Revisions

Non-Redline Version

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PJM Interconnection, L.L.C.
Third Revised Rate Schedule FERC No. 24

Substitute First Revised Sheet No. 126A
Superseding First Revised Sheet No. 126A

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Redline Version

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PJM Interconnection, L.L.C.
Third Revised Rate Schedule FERC No. 24

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Notice of Filing

**UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION**

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

NOTICE OF FILING

September __, 2004

Take notice that on September 1, 2004, PJM Interconnection, L.L.C. ("PJM") submitted 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 state that the initial allocation of FTRs in new zones will be filed with the Commission under section 205 of the Federal Power Act.

PJM proposes an effective date of September 1, 2004 for the proposed revisions.

PJM states that copies of the filing were served on all PJM members, the utility regulatory commissions in the PJM region, and all persons on the Commission's service list for this proceeding.

Any person desiring to intervene or to protest this filing must file in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure (18 CFR 385.211 and 385.214). 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 notice of intervention or motion to intervene, as appropriate. Such notices, motions, or protests must be filed on or before the comment date. Anyone filing a motion to intervene or protest must serve a copy of that document on the Applicant. On or before the comment date, it is not necessary to serve motions to intervene or protests on persons other than the Applicant.

The Commission encourages electronic submission of protests and interventions in lieu of paper using the "eFiling" link at <http://www.ferc.gov>. Persons unable to file electronically should submit an original and 14 copies of the protest or intervention to the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426.

This filing is accessible on-line at <http://www.ferc.gov>, using the "eLibrary" link and is available for review in the Commission's Public Reference Room in Washington, D.C. There is an "eSubscription" link on the web site that enables subscribers to receive email notification when a document is added to a subscribed docket(s). For assistance with any FERC Online service, please email FERCOnlineSupport@ferc.gov, or call (866) 208-3676 (toll free). For TTY, call (202) 502-8659.

Comment Date: 5:00 pm Eastern Time on (insert date).

Magalie R. Salas, Secretary