955 Jefferson Avenue
Valley Forge Corporate Center
Norristown, PA 19403-2497

Jacqulynn Hugee
Senior Counsel
610.666.8208 Phone | 610.666.8211 Fax
hugeej@pjm.com

October 23, 2008

Honorable Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426-0001

Re: PJM Interconnection, L.L.C., Docket No. ER08-1016-001

Dear Secretary Bose:

Pursuant to the Federal Energy Regulatory Commission's ("Commission") Order Accepting Tariff Revisions and Directing Further Compliance Filing dated July 25, 2008 issued in these proceedings ("July Order"),[1] PJM Interconnection, L.L.C. ("PJM") hereby submits the following as an informational filing.

I. Background

On May 28, 2008, PJM submitted revisions to its Open Access Transmission Tariff (Tariff) and the Amended and Restated Operating Agreement of PJM Interconnection, L.L.C. (Operating Agreement) to establish a long-term Financial Transmission Rights (FTR) auction. PJM's proposal revised its then current FTR auction process to incorporate procedures for a long-term FTR auction, and permitted the purchase and/or sale of FTRs having terms covering three consecutive planning periods following the period in which the auction occurs. In addition, market participants can buy or sell an FTR covering any single Planning Period within the three-year Planning Period term. In the July Order, the Commission accepted the long-term FTR auction procedures, subject to PJM making an informational filing that provides a detailed explanation, along with illustrative examples, of how its current FTR credit requirement takes into account the credit risk associated with FTRs having terms longer than one twelve-month planning period. Pursuant to the July Order, PJM hereby submits the following.

II. PJM's Informational Filing

Long-term FTRs are essentially annual FTRs that can be used at a later date, and perhaps for multiple annual Planning Periods. They cover the same seasonal timeframes as annual FTRs (June through May), and therefore share the same seasonal congestion variations as well. In fact, the only difference between a long-term FTR and an annual FTR is the year (or years) in which it is effective.

[1] *PJM Interconnection, L.L.C*., 123 FERC ¶ 61,037 (2008).

FTR credit requirements are calculated as cost minus projected value, with the potential for an increased credit requirement based on a portfolio diversification check. PJM uses a weighted average of historical values, adjusted slightly for uncertainty (volatility), to represent the projected values. The same historical values are used for both annual FTR auctions and long-term FTR auctions. The historical values, which are calculated separately for each calendar month, take into account the seasonality that is unique to each transmission path, and also the relative magnitude of congestion on each path, since the historical values are based on actual history. As such, they are the best readily available projection of future value for the current FTR credit construct.

Given that the same adjusted historical value is the best readily available projection of future value, the actual price offered and the same historical values that were taken into account for annual FTRs also provides an appropriate basis for calculating future FTR values. In other words, the existing annual auction credit requirement calculation provides an appropriate grounding for the long-term credit requirement calculation. In order to consistently use the best data available, PJM will recalculate the long-term FTR credit requirements each year after the historical numbers have been updated for the next annual auction.

Credit requirements for long-term FTRs are maintained as long as the months comprising the FTR are still in the future. At the point at which an annual Planning Period of a long-term FTR coincides with a current Planning Period, then during that final annual period of the long-term FTR it effectively becomes an annual FTR. The credit requirement for the long-term FTR then rolls off as each month is experienced and invoiced, just as is done with an annual FTR.

The following is an illustration of credit requirements for an annual FTR:

Example 1: assume an annual FTR is purchased for $1200. The price per month is $100. Assume the adjusted historical value is $1200 per year, with $200 per month in June-September, and $50 per month from October through May. That is four months with $100 cost and $200 value (a profit of $100 per month, or $400 total), and eight months with $100 cost and $50 value (a loss of $50 per month, or $400 total). The total net projected value is zero for the year, but the credit requirement is $400, which is the sum of the eight months with projected losses of $50 per month.

A long-term FTR has an identical exposure profile but over a longer period of time. The following is an illustration of credit requirements for a long-term FTR:

Example 2: assume a three-year long-term FTR is purchased for $3600. The price per month is $100. Assume the adjusted historical value is $1200 per year, with $200 per month each June-September, and $50 per month each October through May. That is twelve months (June through September for each of three years) with $100 cost and $200 value (a profit of $100 per month, or $1200 total), and 24 months (October through May for each of three years) with $100 cost and $50 value (a loss of $50 per month, or $1200 total). The total net projected value is zero, but the credit requirement is $1200, which is the sum of the 24 months with projected losses of $50 per month. Note that *this example is exactly the same as for the annual auction, but multiplied by three for the three year duration.*

The long-term FTR credit requirement therefore takes into consideration the potential for losses over the extended period of time associated with the long-term FTR product. As illustrated in Example 2, this results in a higher credit requirement than that of the annual FTR product.

III. Correspondence

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

Jacqulynn Hugee
Senior Counsel
PJM Interconnection, L.L.C.
955 Jefferson Avenue
Norristown, Pennsylvania 19403
(610) 666-8208
hugeej@pjm.com

Andrew Ott
Senior Vice President - Markets
PJM Interconnection, L.L.C.
955 Jefferson Avenue
Norristown, Pennsylvania 19403
(610) 666-4267
ott@pjm.com

Craig Glazer
Vice President–Federal Government Policy
PJM Interconnection, L.L.C.
1200 G Street, N.W, Suite 600
Washington, D.C. 20005
(202) 423-4743
glazec@pjm.com

IV. Service

PJM has served a copy of this filing on all PJM Members and on all state utility regulatory commissions in the PJM Region by posting this filing electronically, and requests waiver of the requirement to post by mailing paper copies. Waiver of paper service is consistent with Commission's decision to establish electronic service as the default method of service on service lists maintained by the Commission Secretary for Commission proceedings.[2] While Order No. 653 did not amend the posting requirements, application of its rules to initial tariff filings would be consistent with the Commission's "efforts to reduce the use of paper in compliance with the Government Paperwork Elimination Act."[3] Applying amended Rule 385.2010(f) to this filing, PJM will post this filing today to the FERC filings section of its internet site, *http://www.pjm.com/documents/ferc.html*, and send an e-mail to all PJM members and

[2] *See* Electronic Notification of Commission Issuances, Order No. 653, 110 FERC ¶61,110 (2005).

[3] *Id*. at P 2, *citing* 44 U.S.C. § 3504.

all state utility regulatory commissions in the PJM Regions notifying them that the filing is available by following such link.[4]

Respectfully submitted,

Jacqulynn Hugee

Jacqulynn B. Hugee
Senior Counsel
PJM Interconnection, L.L.C.
955 Jefferson Avenue
Norristown, Pennsylvania 19403
(610) 666-8208
hugeej@pjm.com

Craig Glazer
Vice President–Federal Government Policy
PJM Interconnection, L.L.C.
1200 G Street, N.W, Suite 600
Washington, D.C. 20005
(202) 423-4743
glazec@pjm.com

---

[4] PJM already maintains, updates, and regularly uses e-mail lists for all Members and affected commissions.

Document Content(s)