

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

PJM Interconnection, L.L.C.

: Docket No. ER06-1218-003

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**COMMENTS  
OF  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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The Public Utilities Commission of Ohio (PUCO) appreciates the opportunity to provide comments to the Federal Energy Regulatory Commission (FERC) in response to the PJM compliance filing of January 22, 2007 to FERC November 22, 2006 *Order Accepting Long-Term Transmission Rights Proposal, Subject to Modifications* (hereinafter November 22, 2006 Order).<sup>1</sup>

**EXECUTIVE SUMMARY**

In summary, the PUCO comments are as follows:

1. **The PUCO strongly urges the FERC to make a determination in this case to eliminate the consideration of an uplift mechanism that utilizes a Load Ratio Share (LRS) across the entire PJM footprint because the benefits flow mostly to the Eastern States while the costs flow mostly to the Western States. This is unjust and unreasonable and violates general rate making principles.**
2. **The PUCO supports the proposed uplift methodology that allocates the charge to all Financial Transmission Rights (FTR) holders on a pro-rata basis according to the total target allocations. We believe it to be a fair solution in assigning cost with**

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<sup>1</sup> November 22, 2006 Order, Docket No. ER06-1218-000, ER06-1218-001 (hereinafter November 22, 2006 Order).

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**causation as it is consistent with the PUCO's general philosophy that those who benefit should pay.**

- 3. The PUCO supports further stakeholder discussions to investigate other alternative uplift methodologies.**

## **BACKGROUND**

With the passage of Energy Policy Act of 2005, the Federal Energy Regulatory Commission (FERC) issued Order 681 on July 20, 2006, which required transmission organizations to make available long-term firm transmission rights. The Order gave seven guidelines by which the long-term transmission rights must be structured.<sup>2</sup> In its November 22, 2006 Order, FERC ordered PJM to submit revisions to Guideline (2) of the Final Rule.<sup>3</sup> Guideline (2) reads as follows:

The long-term firm transmission right must provide a hedge against locational marginal congestion charges or other direct assignment of congestion costs for the period covered and quantity specified. Once allocated, the financial coverage provided by a financial long-term transmission right should not be modified during its term (the full-funding requirement) except in the case of extraordinary circumstances or through voluntary agreement of both the holder of the right and the transmission organization.<sup>4</sup>

In PJM January 22, 2007 compliance filing to the November 22, 2006 Order, PJM stated that the minimal compliance only requires full funding of FTRs converted from

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<sup>2</sup> *Long-Term Transmission Rights in Organized Electricity Markets*, Order No. 681, Final Rule, 116 FERC ¶ 61,077 (2006) (hereinafter Order 681).

<sup>3</sup> November 22, 2006 Order at ¶ 38.

<sup>4</sup> November 22, 2006 Order at ¶ 26.

stage 1A ARR<sup>5</sup>. PJM believed that it would be prudent to fully fund all FTRs to prevent the creation of different FTR products. Furthermore, PJM proposed a full funding cost allocation mechanism that would allocate the charge to all FTR holders on a pro-rata basis according to the total target allocations for all FTRs held at any time during the relevant planning period as an interim solution until the issue of uplift of under funded FTRs could be further vetted in future stakeholder meetings.<sup>6</sup>

## DISCUSSION

The PUCO has been participating in PJM's stakeholder meetings and has been monitoring the FTR full funding uplift issue. The uplift issue has been a very contentious issue with different market participants having contrasting opinions on who should pay for underfunding of the FTRs. Proposed ways of uplift included LRS and Target Allocation (TA).

The PUCO strongly urges the FERC to make a determination in this case that eliminates any uplift method that utilizes a LRS across the entire PJM footprint. LRS may be appropriate where costs or benefits are equally created or gained throughout the PJM footprint, but in this particular case, the majority of the benefits will be experienced by the Eastern States where the full funding uplift is created while the Western States will be made responsible for a disproportionate distribution of the costs, via a LRS methodology. This is unjust and unreasonable and violates general rate making principles.

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<sup>5</sup> Stage 1A ARR<sup>5</sup> is the first stage of the Auction Revenue Rights (ARRs) allocation process.

<sup>6</sup> PJM Interconnection, L.L.C., January 22, 2007 Cover letter for compliance filing in response to November 22, 2006 Order at 3, 7.

The PUCO supports an uplift methodology that allocates the charge to all FTR holders on a pro-rata basis according to the Total Target Allocations (TTA). The TTA takes into account the quantity of FTRs purchased and the value of congestion. The Locational Marginal Price, which is used to calculate the value of congestion, is designed to increase price transparency and to provide price signals to locate the development of new generation and transmission resources. We believe TTA to be an adequate and fair solution in assigning cost with causation as it is consistent with the PUCO's general philosophy that those who benefit should pay.

Finally, the PUCO supports further stakeholder discussions to investigate other alternative uplift methodologies that may bring greater efficiencies into the market. If the Commission were to eliminate LRS as a possible allocation methodology in this case, the stakeholder discussions would be more efficient and constructive.

## CONCLUSION

The Public Utilities Commission of Ohio respectfully asks that its comments be favorably considered by the Commission in its consideration of the proposals at issue.

Respectfully submitted,

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## **CERTIFICATE OF SERVICE**

I hereby certify that the foregoing have been served in accordance with 18 C.F.R. § 385.2010 upon each person designated on the official service list compiled by the Secretary in this proceeding.

/s/ Thomas W. McNamee

Thomas W. McNamee  
Assistant Attorney General