

UNITED STATES OF AMERICA 107 FERC ¶ 61, 011
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;
Nora Mead Brownell, Joseph T. Kelliher,
and Suedeen G. Kelly.

American Electric Power Service Corporation

Docket No. ER04-603-000

ORDER ACCEPTING PATHWAY AGREEMENT

(Issued April 9, 2004)

1. In this order, the Commission conditionally accepts an Agreement on the Operating and Business Practices to Implement Generation Transfer Pathway (Pathway Agreement)¹ between the operating companies of the American Electric Power System (AEP) and PJM Interconnection, LLC (PJM), to be effective the date the Commission issues an order stating that all conditions for integration of Commonwealth Edison Company (ComEd) into PJM have been met. We find that the Pathway Agreement provides procedures and business rules necessary to facilitate ComEd's integration of its loads and resources into PJM's economic dispatch and we accept it for filing. This action benefits customers by promoting non-discriminatory transmission service and improved reliability through effective competition in regional wholesale power markets.

Background

2. On March 1, 2004, American Electric Power Service Corporation, as agent for AEP, filed the Pathway Agreement between AEP and PJM. AEP states that ComEd intends to become a transmission-owning member of PJM, with plans to integrate its loads and resources into PJM's security-constrained economic dispatch, by May 1, 2004. AEP further states that it plans on joining PJM by October 1, 2004. In the interim, the integration of ComEd's load and generating resources into PJM's security-constrained economic dispatch will require the use of AEP's transmission facilities pursuant to AEP's

¹ The Pathway Agreement provides for a dynamic generation transfer between ComEd's system (the Northern Illinois Control Area (NICA)), and PJM. Holders of firm transmission reservations on AEP with a receipt or delivery point in PJM and a corresponding delivery or receipt point in NICA may assign that service to PJM, and PJM will then have exclusive dispatch rights over those assigned reservations. Currently the pathway consists of 500 MWs of firm service in both directions.

Open Access Transmission Tariff (AEP OATT).² According to AEP, the Pathway Agreement will facilitate ComEd's integration into PJM prior to AEP itself joining PJM, by providing necessary operational and business practices.

The Proposed Pathway Agreement

3. AEP states that the Pathway Agreement provides: (1) the requisite procedures and business rules to ensure that transactions using the pathway do not exceed confirmed reservations; (2) that reliability mechanisms are followed with respect to transactions on the pathway as delineated in the Pathway Agreement; (3) that AEP is adequately compensated for losses as provided in the AEP OATT; and (4) that generators in AEP's control area are unaffected by the transactions.

4. AEP explains that the Pathway Agreement requires Transmission Customers with confirmed Firm Transmission Service Reservations of one month or more under AEP's OATT, with points of source and sink in PJM and ComEd, to assign all or part of such reservations, pursuant to section 23 of AEP's OATT, to PJM for use in integrating ComEd's loads and resources into PJM's economic dispatch. AEP explains that PJM will then have use of such reservations to complete ComEd's integration.

5. AEP further explains that a Dynamic Scheduling arrangement will permit the scheduling of transmission transactions on the pathway through the monitoring of a real-time value to modify the scheduled interchange. AEP defines Dynamic Scheduling as a form of scheduling in increments of less than one hour.

6. AEP states that the Pathway Agreement will become effective when PJM so notifies AEP, at least 30 days prior to the date that the integration of ComEd into PJM's economic dispatch will commence, currently scheduled for May 1, 2004. AEP explains that the Pathway Agreement, by its terms, will expire on the date that transmission service on AEP's transmission system is provided by PJM under PJM's OATT, or it can be terminated earlier for breach or by mutual agreement, subject to the Commission's approval.

² Since ComEd is not directly connected to any of PJM's members, it needs to use AEP's transmission facilities in order to move power between itself and PJM. Once AEP joins PJM, this interim arrangement will no longer be necessary. AEP states, as noted above, that it plans to join PJM by October 1, 2004.

Notice of Filing, Interventions, Protests and Answers

7. Notice of AEP's proposed Pathway Agreement was published in the Federal Register, 69 Fed. Reg. 11,612 (2004), with comments, interventions and protests due on or before March 22, 2004. Edison Mission Energy (Edison Mission) and Wisconsin Electric Power Company (Wisconsin Electric) filed timely motions to intervene, with no substantive comments. Midwest Independent Transmission System Operator, Inc. (Midwest ISO), PJM, and International Transmission Company (International Transmission) filed timely motions to intervene and comments. Detroit Edison Company (Detroit Edison) and Consumers Energy Company (Consumer Energy) filed timely motions to intervene and protests. On March 24, 2004, Exelon Corporation (Exelon) filed a motion to intervene out-of-time.

8. Consumers Energy, Detroit Edison and International Transmission protest the proposed Pathway Agreement. In general, they argue that the Pathway Agreement should not be determined in isolation, but should have similar standards and protocols as the Enhanced Reliability Agreement, be consistent with the Joint Operating Agreement (JOA),³ and should not be accepted or implemented until North American Electric Reliability Council's (NERC) review of reliability plans is complete.

9. Consumers Energy argues that the Commission should direct that the Pathway Agreement be amended to require Firm Transmission reservations on all three legs of the transmission path, and clarify that the use must be in the direction of the Firm Transmission reservation. Consumers Energy further argues that the Commission should order AEP and PJM to obtain NERC review of the Agreement and report the outcome as a precondition for Commission approval.

10. Detroit Edison points out that the Pathway Agreement and the JOA are intricately inter-related and shares concerns that AEP's exclusion from the JOA calls into question Midwest ISO's and PJM's ability to monitor reliability in the greater super-region. Detroit Edison also argues that the Commission should address concerns previously articulated in its protest in the JOA Proceeding regarding Dynamic Scheduling.

11. Detroit Edison and Consumers Energy are both concerned that the integration of ComEd into PJM's economic dispatch could adversely affect flows. Detroit Edison elaborates that, as in the JOA Proceeding, it is concerned that the flowgates between AEP, the Midwest ISO and PJM regions could be significantly impacted by the dynamic

³ See Midwest Independent Transmission System Operator, Inc., 106 FERC ¶ 61,251 (2004) (JOA Proceeding).

scheduling of energy across the pathway at issue, resulting in a potentially increased number of Transmission Line Loading Relief (TLR) Procedures being called.

12. Detroit Edison also argues that the Pathway Agreement could impact a hold harmless requirement; the Commission, in Alliance Cos.,⁴ directed that certain Michigan and Wisconsin stakeholders, including Detroit Edison, be held harmless from any adverse operational and financial impacts related to loop flow and congestion resulting from AEP's decision to join PJM. Detroit Edison contends that, since the Commission rejected AEP and ComEd's proposed attempt to address the hold harmless requirement in Docket No. ER04-364-000, this requirement has not been met.⁵ International Transmission shares similar concerns about this provision and requests that the Commission direct AEP to implement a comprehensive hold harmless solution at the same time as operations under the Pathway Agreement commence.

13. Detroit Edison also argues that AEP and PJM should be required to clarify certain technical aspects of the Pathway Agreement. Specifically, Detroit Edison contends that Article 3.1 of the Pathway Agreement and section 23 of AEP's OATT are in conflict since the Pathway Agreement states that PJM can be assigned transmission rights pursuant to AEP's OATT when PJM has committed to "not become a customer," while AEP's OATT requires that transmission rights can only be assigned to another "Eligible Customer."⁶ Also, Detroit Edison seeks clarification from AEP and PJM on how payment for service over the pathway will be assessed or if payment will still be assessed to ComEd.

14. International Transmission shares other concerns, including clarification of PJM's obligations under the Pathway Agreement to share certain operating information with Midwest ISO and other affected parties. In particular, International Transmission states that sharing of dynamic scheduling information by PJM and AEP is necessary to ensure grid reliability.

15. International Transmission requests that the Commission modify the Pathway Agreement so that it terminates no later than October 1, 2004, the date that AEP is scheduled to join PJM. International Transmission is concerned that, if AEP is further

⁴ 100 FERC ¶ 61,137 (2002).

⁵ See Commonwealth Edison Company, et al., 106 FERC ¶ 61,250 (2004) (ComEd).

⁶ See Article 3.1 of the Pathway Agreement which states that "PJM agrees for the Term of this Agreement to not become a customer under the AEP OATT."

delayed in joining the PJM market, the Pathway Agreement could remain in effect indefinitely, thereby affording AEP “extraordinary” benefits, including the ability to benefit from the increased transmission of energy through its system beginning with the integration of ComEd into PJM by continuing pancaked transmission charges, without the obligations of Regional Transmission Organization (RTO) membership.

16. Both Midwest ISO and PJM support AEP’s filing and request that the Commission accept the Pathway Agreement as proposed. PJM contends that the Pathway Agreement merely implements existing authority in AEP’s OATT that allows firm transmission holders to assign their rights to service. While Midwest ISO urges Commission-acceptance, it states that the Pathway Agreement has some ambiguities that must be clarified. First, Midwest ISO cautions that, in order to facilitate the safe and reliable operation of the pathway, nothing in the Pathway Agreement should be construed as conflicting with the terms and conditions of the JOA between PJM and the Midwest ISO. Midwest ISO contends that since the JOA is not mentioned in the Pathway Agreement, clarification that the Pathway Agreement will be administered consistently with section 11.1.5 of the JOA is necessary; section 11.1.5 of the JOA specifies, among other things, the application of historic Network Native Load (NNL) allocations to limit flows on Reciprocal Coordinated Flowgates if there is an increased use of pathway capacity beyond the existing 500 MW reservation. Further, Midwest ISO elaborates that the Pathway Agreement must not be construed to circumvent the JOA’s obligation to respect the Available Flowgate Capabilities (AFCs) on Midwest ISO’s Coordinated Flowgates for any new service granted under PJM’s OATT, which may be associated with service under the Pathway Agreement.

17. On April 6, 2004, Exelon and AEP filed answers to the protests. Among other things, AEP explains that PJM will act only as the Scheduling Agent for Eligible Customers holding firm transmission reservations under the OATT and that section 23 of its OATT merely provides a “convenient administrative mechanism . . . to allow transactions under the Pathway Agreement.”

18. On April 7, 2004, the Indiana Utility Regulatory Commission (Indiana Commission) filed a motion to intervene-out-of-time and comments. While not opposing the Pathway Agreement in principle, the Indiana Commission urges the Commission to demand a more transparent process for developing JOAs among AEP, PJM and Midwest ISO. The Indiana Commission also urges the Commission to provide for meaningful input from state commissions and other stakeholders since these JOAs have significant ramifications for reliability, economic efficiency and effective regulation.

Discussion

A. Procedural Matters

19. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2003), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding. Pursuant to Rule 214(d) of the Commission's Rules of Practice and Procedure,⁷ given their interest in this proceeding, the early stage of the proceeding, and the absence of any undue prejudice or delay, we find good cause to grant Exelon's and Indiana Commission's untimely, unopposed motions to intervene.

B. Commission Analysis

i. Collateral Attack

20. Several protesters raise issues which the Commission ruled on in earlier orders. These issues include requests that the Pathway Agreement should be revised: (1) to allow dynamic scheduling signals and pathway flows information to be shared with all affected control area operators in the Midwest ISO footprint;⁸ (2) to mandate that AEP should be a participant in the JOA;⁹ (3) to take into account the impact of the hold harmless requirement;¹⁰ and (4) to require that the transmission pathway and direction of flows

⁷ 18 C.F.R. ' 385.214(d) (2003).

⁸ In the JOA Proceeding, 106 FERC ¶ 61,251 at P 65, the Commission found that the JOA did not diminish in any way the amount or type of information available to control area operators, and that nothing in the JOA prevents the Midwest ISO or PJM from providing needed information to control area operators. The Commission further stated that information on facilities in neighboring regions that is needed by control area operators to optimize emergency procedures should be shared, regardless of specific provisions of the JOA. This applies to information regarding dynamically scheduled use of the pathway.

⁹ In the JOA Proceeding, 106 FERC ¶ 61,251 at P 99, the Commission stated that AEP's participation would further regional coordination, but that it was not essential to the implementation of the enhanced coordination of the JOA.

¹⁰ The hold harmless issues were addressed in Docket No. ER04-364-000. See 106 FERC ¶ 61,250 at P 38-40. There, the Commission reiterated its prior holding that
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over the pathway reflect the original reservation.¹¹ These issues were discussed and determined in the aforementioned dockets. We will therefore deny the parties' requests to revisit these issues as they constitute impermissible collateral attacks on prior Commission orders.

ii. **Reliability**

21. Detroit Edison expresses concern that Midwest ISO and PJM will be unable to monitor reliability in an extended region which includes ComEd but not AEP.¹² In addition, Detroit Edison states that "while PJM will have control of the firm transmission rights over the 500 MW pathway, it will not have control over the rest of AEP's system to determine if the use of the 500 MW pathway is impacting reliability in the AEP control area and thereby impacting reliability in the Midwest ISO or in PJM."

22. Detroit Edison has alleged that there are reliability concerns raised by the integration of ComEd into PJM before the integration of AEP. In this order, we do not address the reliability aspects of the proposal. The Commission has previously conditioned its approval of ComEd joining PJM on NERC review and approval of the changes to the PJM reliability plan. At this time, both the NERC Operating Committee and the NERC Board of Trustees have approved the PJM reliability plan.

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an adequate hold harmless mechanism must be in effect at the time that ComEd integrates into PJM.

¹¹ The transmission pathway and direction of flows over the pathway were previously accepted by the Commission in Docket No. ER04-521-000. See PJM Interconnection, LLC, 106 FERC ¶ 61,253 at P 27-29 (2004).

¹² The Commission, in the JOA Proceeding, 106 FERC ¶ 61,251 at P 93, stated that the integration of AEP into PJM is the subject of another proceeding, Docket No. ER03-262-009, where the Commission has made a preliminary, conditional finding that AEP must fulfill its commitment to join PJM by October 1, 2004, and set for hearing questions about this integration, including whether the states of Virginia and Kentucky have authority, under Federal law, or for other public protection reasons, to prevent AEP from fulfilling its commitment. On March 12, 2004, the Presiding Judge issued an Initial Decision concluding, among other things, that AEP should be exempted from the requirements of Virginia and Kentucky laws and regulations to the extent required to consummate its integration into PJM. New PJM Companies, 106 FERC ¶ 63,029 (2004). The Initial Decision is currently pending.

23. We disagree with Detroit Edison's concern that Midwest ISO and PJM will be unable to monitor reliability in an extended region. One of the primary functions of an Independent System Operator (ISO) or RTO is to monitor the reliability of the region under its control.¹³ With PJM, serving as both AEP's¹⁴ and ComEd's¹⁵ reliability coordinator, PJM should be able to determine whether the pathway is impacting reliability in AEP's control area and thereby impacting reliability in Midwest ISO and PJM. Further, neither PJM nor Midwest ISO has indicated that they are not up to the task of or foresee any difficulty monitoring the pathway and any impact it may have on PJM or Midwest ISO. To the contrary, PJM and Midwest ISO agreed to work together to do just that in the JOA Proceeding. We therefore find Detroit Edison's concerns unjustified.

24. Consumers Energy requests that the Commission direct NERC to review the reliability aspects of the Pathway Agreement and report the outcome, as a precondition for Commission acceptance of the Pathway Agreement. When the NERC Operating Committee reviewed PJM and Midwest ISO's reliability, they also reviewed the reliability aspects of the pathway. On April 2, 2004, the NERC Board of Trustees approved the PJM reliability plan. We will therefore deny Consumers Energy's request as moot.

iii. Dynamic Scheduling

25. Consumers Energy expresses concern about the proposed scope of the area to be dynamically scheduled, the possible reliability consequences (if the area is affected by flows), and the potential for increased hubbing. However, Consumers Energy does not request specific Commission action. Indeed, when the NERC Operating Committee reviewed PJM and Midwest ISO's reliability plans, discussed above, it also reviewed the dynamic scheduling of the pathway. On April 2, 2004, the NERC Board of Trustees approved the PJM reliability plan. Moreover, dynamic scheduling over the pathway may well result in the creation of a PJM market node or hub in ComEd, and an active market is a positive, not a negative, force. The Commission will therefore not take any action at this time in response to Consumers Energy's generalized concerns.

¹³ E.g. 18 C.F.R. §§ 35.34(j), (k) (2003).

¹⁴ Section 4.3 of the Pathway Agreement.

¹⁵ Commonwealth Edison Company, 104 FERC ¶ 61,240 (2003).

iv. PJM as a customer of AEP

26. Detroit Edison alleges that Article 3.1 of the Pathway Agreement¹⁶ is in conflict with section 23 of AEP's OATT.¹⁷ Detroit Edison alleges that the Pathway Agreement states that PJM can be assigned transmission rights pursuant to AEP's OATT, while AEP's OATT requires that transmission rights can only be assigned to another "Eligible Customer" and PJM has committed to "not becomes a customer."

27. It is not clear to us, as Detroit Edison seems to suggest, that section 23 of AEP's OATT's and Article 3.1 of the Pathway Agreement's use of the term "assignment" have the same meaning. Moreover, under AEP's OATT, ComEd was, and under the terms and conditions of both the Pathway Agreement and PJM's OATT, ComEd will continue to be AEP's firm transmission customer (albeit recognizing that PJM will now essentially act

¹⁶ Article 3.1 – Assignment of Rights to Service to PJM of the Pathway Agreement states, in part:

In accordance with section 23 of the AEP OATT and AEP's existing practices and procedures thereunder, Transmission Customers may assign to PJM all or part of their rights to Firm Transmission Service for PJM's use in connection with the Pathway. To be assigned to the Pathway, a Reservation must be for Firm Service in an increment of one month or greater, and must be a Confirmed Reservation with a POR/POD pair of CE-PJM or PJM-CE. Confirmation of the Reservation must have been made on AEP's OASIS, or an OASIS site as authorized and designated by AEP. A Transmission Customer may assign all or a part of the capacity of a Reservation qualifying under this section for scheduling on Pathway by PJM, as Scheduling Agent. PJM agrees for the Term of this Agreement to not become a customer under the AEP OATT. As provided in the AEP OATT, the assigning Transmission Customer shall remain liable for all financial and other Transmission Customer obligations under the AEP OATT with respect to such Reservation except as provided in sections 4.3 and 4.7.

¹⁷ Section 23 of AEP's OATT - Procedures for Assignment or Transfer of Service, states, in part:

Subject to Commission approval of any necessary filings, a Transmission Customer may sell, assign, or transfer all or a portion of its rights under its Service Agreement, but only to another Eligible Customer (the Assignee).

as ComEd's agent in this regard). Indeed, section 9.2(b) of PJM's OATT provides that ComEd will continue to be responsible for all costs, charges and obligations (financial or otherwise) under its transmission service agreement with the Intermediate Transmission Provider, AEP. (This excludes transmission losses, which will be provided in-kind, in real-time, by the PJM Office of Interconnection pursuant to section 9.3 of the PJM OATT, after it allocates those Firm Transmission Reservation Rights to PJM.) In addition, Article 3.1 of the Pathway Agreement similarly provides that the transmission customer, ComEd, will remain liable for all financial obligations.¹⁸

28. The Commission will not reject the Pathway Agreement on the basis of Detroit Edison's claims of a conflict. ComEd remains the Transmission Customer of record under the Pathway Agreement, as it was under AEP's OATT, and continues to remain responsible for, as it was in the past, all costs, charges and obligations under its transmission service agreement with AEP.¹⁹

v. **JOA**

29. Midwest ISO requests that the Pathway Agreement be revised to (1) incorporate by reference the terms and conditions of the JOA; and (2) add language stating that it will be administered consistently with section 11.1.5 of the JOA. We see no need to order such revisions. Both PJM and the Midwest ISO, as signatories to the JOA, have already agreed to carry out the terms of the JOA. The Pathway Agreement is just one of what will likely be a number of agreements which will ultimately be affected by the JOA; their existence does not change or otherwise undercut the JOA. We will therefore deny Midwest ISO's request as unnecessary.

30. Detroit Edison states that the Commission did not address all of the concerns it raised in its January 21, 2004 protest in the JOA Proceeding and therefore should do so here. Specifically, it alleges that the Commission failed to address the following: (1) the new arrangement between ComEd and PJM could adversely affect flows; (2) the new

¹⁸ To the extent that a waiver of section 23 of AEP's OATT may be necessary in order to accomplish this proposal on an interim basis until AEP becomes a member of PJM, the Commission grants such waiver. The waiver will ensure that, assuming ComEd were otherwise not able to do so, ComEd will still be responsible for all costs, charges and obligations under its transmission service agreement, while PJM will be able to dispatch ComEd's system.

¹⁹ AEP is, apparently, not concerned about any potential financial loss in this regard, as it agreed to the Pathway Agreement now before us.

arrangement should be distinguished from other dynamic scheduling arrangements; and (3) the flowgates between AEP, Midwest ISO, and PJM could be significantly impacted by the dynamic scheduling of energy across the pathway, resulting in a potential increase in the number of TLR Procedures being called.

31. Insofar as Detroit Edison argues that the Commission did not address all of its arguments in the JOA Proceeding, the proper avenue for relief is a request for rehearing of the order in that proceeding²⁰ - - not a protest in this proceeding.

32. Moreover, Detroit Edison has not shown that the dynamic scheduling arrangement between ComEd and PJM will adversely affect flows. In any event, the concerns raised by Detroit Edison will be mitigated by the JOA. For example, section 11.1.5 of the JOA specifically addresses the dynamically scheduled pathway, which, in addition to being subject to the detailed procedures for coordinated flowgates, will be e-tagged²¹ and be limited in certain scenarios. The integration plan for ComEd also requires approval by NERC, and, as explicitly ordered in the JOA Proceeding,²² the Market Monitoring Units must closely monitor the AEP seam. Finally, the hold harmless condition we required will protect Detroit Edison if there are any adverse impacts from a change in flows caused by ComEd's integration into PJM.

33. In the Pathway Agreement, PJM and AEP build upon the operating procedures which PJM and Midwest ISO have initiated in order to enhance their combined operational reliability and administer a joint and common market. In the JOA Proceeding, PJM and Midwest ISO have agreed to respect the flowgates on each other's system that are impacted by transactions on its system. In order to respond to potential problems which might occur during this new era of joint coordination between RTOs, the Commission directed the two RTOs to make an informational filing on or about every 60 days detailing the progress made in implementing each section of the JOA. The progress report should: (1) explain how implementation of the JOA has resulted in an efficient and reliable operation of their combined transmission systems; (2) indicate any modifications to the JOA, the Seams White Paper,²³ or implementation of those documents that would

²⁰ 16 U.S.C. § 8251(a) (2000); 18 C.F.R. § 385.713 (2003).

²¹ The Pathway Agreement defines e-tags as electronic tags used to identify transactions.

²² 106 FERC ¶ 61,251 at P 100.

²³ Managing Congestion To Address Seams; A Proposal for Congestion
(continued...)

result in more efficient and reliable operation of their combined transmission systems; and (3) indicate the two RTOs' plans to adopt such modifications and to make appropriate filings with the Commission.²⁴ In addition, the Commission directed the two RTOs to address how parties could propose new flowgates for both RTOs during all phases of the JOA.²⁵ This progress report along with new flowgate provisions provide vehicles through which the RTOs (and the market monitors), NERC and the Commission will be able to identify and address any problems which could arise due to dynamic scheduling.

34. Moreover, the hold harmless requirement, which the Commission upheld in its order rejecting ComEd and AEP's hold harmless proposal,²⁶ specifically addresses adverse impacts on Wisconsin and Michigan utilities due to flows resulting from ComEd's integration into PJM, including increased incidents of TLR Procedures. Further, as noted above the reliability plans have been approved by the both the NERC Operating Committee and the NERC Board of Trustees; this two-tiered review should resolve any reliability concerns.

The Commission orders:

The Pathway Agreement is hereby accepted for filing, as discussed in the body of this order, to become effective the date the Commission issues an order stating that all conditions for integration of ComEd into PJM have been met.

By the Commission.

(S E A L)

Linda Mitry,
Acting Secretary.

(...continued)

Management Coordination, Submitted by PJM and the Midwest ISO (Version 4.0 August 4, 2003) (Seams White Paper).

²⁴ JOA Proceeding, 106 FERC ¶ 61,251 at P 103.

²⁵ Id. at P 35-37.

²⁶ See Supra note 10.