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OPSI RESOLUTION #2014-1

RESOLUTION REGARDING THE MAY 2014 TRANSMISSION OWNER WORKING GROUP PJM OATT SCHEDULE 12 MULTI-DRIVER COST ALLOCATION PROPOSAL

WHEREAS, in Orders issued from 2011 to 2013, the Federal Energy Regulatory Commission (“FERC”) required and defined how Public Policy (specifically State Public Policy) should be considered and implemented in the transmission planning of Regional Transmission Organizations (RTOs), including PJM. FERC directed that such policies were to be considered along with more traditional reliability and economic efficiency drivers for transmission development in a transparent and non-discriminatory decision-making process. In Order 1000-A, FERC stated: “[O]ur expectation is that state regulators should play a strong role and that public utility transmission providers will consult closely with state regulators to ensure that their respective transmission planning processes are consistent with state requirements.”¹

WHEREAS, OPSI takes note of the Commission’s statement in Order 890 with respect to the Commission’s review of transmission cost allocation proposals: “we consider whether the proposal is generally supported by state authorities and participants across the region.”² This resolution expresses the unified position of the state authorities that are members of OPSI regarding multi-driver cost allocation.

WHEREAS, in tariff schedules filed in response to the Orders stated in note 1 below, PJM modified its two year planning cycle pursuant to which new transmission development would occur and explained how new transmission would be approved for inclusion into PJM’s Regional Transmission Expansion Plan. PJM established procedures for the consideration and adoption of Public Policy as one driver of transmission development, and also established an innovative State Agreement Approach pursuant to which States could request the development of transmission to serve Public Policy needs and agree on the allocation between them of payment for such transmission’s costs.³

1. Multi-Driver Projects and their Cost Allocation Described

¹ See Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities, 136 FERC ¶ 61,051 at ¶s 203-224 (2011), order on rehearing, 139 FERC ¶ 61,132 at ¶s 317-338, order on rehearing and clarification, 141 FERC ¶ 61,044 (2012); PJM Interconnection, LLC, 142 FERC ¶ 61,214 (2013), order on rehearing, 147 FERC ¶ 61,128 (May 15, 2014).

² Preventing Undue Discrimination and Preference in Transmission Service, 118 FERC ¶ 61,119 at P 559 (2007)

³ See Compliance Filing of PJM Interconnection, LLC, Docket No. RM10-23-000 (October 25, 2012); Compliance Filing of PJM Interconnection, LLC, Docket No. ER13-198-002 (July 22, 2013).

WHEREAS, on May 29, 2014, the PJM Markets & Reliability Committee approved proposed revisions to PJM's Open Access Tariff (See Sections 1.15B & 1.38.01) and Operating Agreement Schedule 6 (See Section 1.5.10 Multi-Driver Projects) providing for "Incremental" and "Proportional" methods for developing multi-driver transmission projects, to include transmission developed to meet reliability, economic efficiency and public policy needs. In subsection (e) of that Rule, PJM provided that "the actual costs of a multi-driver project shall be apportioned to the different components (reliability-based enhancement or expansion, Economic based Enhancement or Expansion, and/or Public Policy Requirement) based on the initial estimated costs of the Multi-Driver Project in accordance with the methodology set forth in Schedule 12 of the Tariff".

WHEREAS, proposed Operating Agreement Section 1.5.10(h) defines Proportional and Incremental Methods of Multi-Driver project development as follows:

Proportional Method – "combining separate solutions that address reliability, economics and/or public policy into a single transmission enhancement or expansion that incorporates separate drivers into a Multi-Driver Project" and
Incremental Method – "expanding or enhancing a proposed single driver solution to include one or more additional component(s) to address a combination of reliability, economic and/or public policy drivers."

The TOs proposed OATT Schedule 12(B) further provides that a condition for application of the Incremental Method is that PJM has either "already submitted the project for stakeholder review" or "the Project has already been approved by the Board." A project that satisfies one of these conditions may become the "Original" driver under the incremental method.

WHEREAS, in June 2014, the Section 205 Working Group of the Consolidated Transmission Owners Agreement Administrative Committee released its proposed OATT Schedule 12 multi-driver cost allocation proposal (i.e. the TO Proposal), providing differing cost allocations for multi-driver transmission developed pursuant to the Proportional Method and the Incremental Method. Proportional Method costs are to be allocated "in proportion to the relative percentage benefit that each driver of a Multi-Driver Project addresses" including "the extent to which each such driver contributes to the size, scope and estimated costs of such Multi-Driver Project". (See proposed OATT Schedule 12(b)(xiv)(A)).

WHEREAS, Incremental Method costs are to be allocated, in addition, by applying "a credit to the costs assigned to the original driver or drivers as follows:

- (1) There shall be no credit to the cost assigned to the original driver if the new driver simply accelerates the time of completion of the project.
- (2) Where the new driver results in a single circuit project modified to become a double circuit project with no change in voltage level, the original project driver and the incremental driver will each be allocated one-half of the cost of the resulting double circuit project, such that the cost to the original driver will be 50 percent of the estimated cost of the double circuit project;
- (3) For all other incremental apportionment Multi-Driver Projects, the original driver will be credited with an amount equal to the ratio of the estimated incremental cost of the new driver(s) to the estimated new total cost of the project multiplied by the estimated cost of the original driver. This credit will be added to the cost of the new driver(s). Where more than

one new driver is added to a Multi-Driver Project, the costs added to each new driver will be in proportion to each driver's respective incremental costs;⁴

- (4) In no event will a credit applied to an original driver be less than zero.” (See Proposed OATT Schedule 12(B))

2. The TOs' Crediting Proposal Unreasonably burdens the development of Public Policy driven Transmission.

WHEREAS, OPSI does not support the TOs' Crediting Proposal applicable to Incremental Method projects. This Proposal unreasonably burdens the development of multi-driver projects, and particularly the development of State Public Policy Components of such projects. Because of the requirements imposed upon the development of public policy projects by Operating Agreement Schedule 6, Sections 1.5.9 and 1.5.10(c), i.e. that participating States must enter into a State Agreement on the allocation of public policy project costs and obtain FERC acceptance of such allocation, the timing of the consideration of public policy driven projects is likely to occur late in PJM's planning cycle. Reliability and economic efficiency projects are expected to be identified and released for Stakeholder consideration earlier in PJM's planning cycle by PJM professionals. Therefore, OPSI Members expect that "original driver" projects will usually be that of the reliability or economics driver while the public policy project will usually be the "incremental driver".

WHEREAS, OPSI does not accept the justification for the TOs' "crediting" procedure (described in (2) and (3) above) stated in Stakeholder Conferences, i.e. that the "Incremental" driver should provide a credit to the "Original" driver since it is the existence of the latter that permits the former to be constructed. The assumption underlying this assertion is that the "Incremental" driver will usually be smaller than the "Original" driver. However, PJM's education on Multi-Driver Project development, which presented realistic examples of Public Policy and non-Public Policy driver transmission components, showed that Public Policy transmission components can be and often are larger than reliability and/or economic efficiency components.

WHEREAS, the TOs' formula (stated in note 4) to govern the size of the credit toward the costs of the Original driver (shown as 25% in their numeric example) could produce much larger percentage contributions and therefore added costs to burden Public Policy transmission component development. Indeed, if that formula is applied to the Public Policy costs stated in the PJM education materials, the TOs proposed credit can increase to 70% of the non-public policy costs (exceeding \$100 million).

WHEREAS, OPSI further urges the adoption of its costing proposal described below as properly incenting and supporting consideration and implementation by RTOs of Federal, State and other Government public policy for the benefit of the Public which FERC has sought to promote in its several Orders cited in note 1. The approach also encourages the development of transmission needed for the development of renewable energy where cost effective, the expected principal objective of Public Policy transmission development, and does not burden or block such development as could occur under the TOs' Proposal.

3. Absent a Modification to the TO Proposal, Certain Multi-Driver Projects Could Produce Inequitable Cost Allocation Results for States Not Party to A State Agreement.

⁴ The crediting method in (3) can be presented as a mathematical formula as follows: original driver credit = (incremental cost/multi-driver cost) X original driver cost.

WHEREAS, for multi-driver projects of either the proportional type or the incremental type, the PJM TOs propose to apply the currently established cost allocation methodology. In particular, when the combination of a public policy driver with an underlying project that is planned at a voltage level under the established cost allocation threshold for Regional Facilities (double circuit 345kV or single circuit 500kV) in such a way that the resulting multi-driver project would be at a voltage level at or above the established cost allocation threshold for Regional Facilities, then the cost allocation methodology for Regional Facilities would be applied to the non-public policy components of the resulting multi-driver project.⁵

WHEREAS, OPSI refers to this type of multi-driver project that is planned at or above a voltage level of double circuit 345kV or single circuit 500kV even though the underlying project is planned, and would otherwise be built, at a lower voltage level (below double circuit 345kV or single circuit 500kV) as a “boosted” project. Such a project is “boosted” to a voltage above the established cost allocation threshold for Regional Facilities only because of its combination with a public policy driver into a multi-driver project. But for its combination with a public policy driver in a “boosted” multi-driver project, the underlying project would not have qualified for any regional postage stamp cost allocation.

WHEREAS, under the TOs’ proposal, 50% of the costs of a boosted multi-driver project that are not apportioned to the public policy driver, will be allocated across the PJM region on a postage stamp basis.⁶ OPSI does not support such a cost allocation method for this new “boosted” multi-driver project type because it does not take into account its unique nature which combines various transmission needs or objectives.

WHEREAS, Multi-driver projects: (1) for which the underlying project driver was already planned at a voltage level at or above the established cost allocation threshold for Regional Facilities including any related Necessary Lower Voltage Facilities that may already qualify for the established regional cost allocation treatment; and (2) that both start out and end up at a voltage level under the established cost allocation threshold for Regional Facilities, are not boosted facilities and the cost allocation for these multi-driver project types is not addressed in this Resolution.

WHEREAS, the State Agreement Approach to public policy project cost allocation encapsulates OPSI’s support for enabling each OPSI State to pursue its public policy through transmission projects, provided that the costs of such pursuit are borne by the State(s) supporting such public policy project, and not by other OPSI states.

THEREFORE, BE IT RESOLVED, that OPSI urges Federal Energy Regulatory Commission, PJM, and the PJM TOs to modify the multi-driver cost allocation proposal in two ways as follows:

⁵ The established cost allocation methodology for Regional Facilities that are reliability transmission projects planned at a voltage level of double circuit 345 kV or 500 kV or above allocates 50% of the costs using a solution-based DFAX model and 50% postage stamp pro rata across the PJM region. The established cost allocation methodology for Regional Facilities that are economic efficiency transmission projects planned at a voltage level of double circuit 345 kV or 500 kV or above allocates 50% of the costs generally using a measure of locational marginal price reduction benefits (or the solution-based DFAX depending on certain factors) and 50% postage stamp pro rata across the PJM region.

⁶ The other 50% of costs that are not apportioned to the public policy driver will be allocated using the beneficiaries test for reliability or economic efficiency projects, as applicable.

- First, OPSI urges that the TOs' crediting concept for incremental multi-driver projects (both the 50/50 version of the credit and the formulaic version of the credit) be eliminated. In other words, the incremental driver would be charged **only** the incremental costs of combining it with an underlying driver in a multi-driver project, and will not be assessed costs for other drivers of the project via a crediting mechanism.⁷
- Second, OPSI urges that the proposed cost allocation for "boosted" multi-driver projects (both proportional and incremental) be revised such that the costs of the "boosted" multi-driver project that are not apportioned to the public policy component of the project would be allocated 20% on a region-wide postage stamp basis (rather than 50%) and the remaining 80% using the benefit metric otherwise applicable to reliability and economic efficiency projects, respectively (rather than 50%). Costs apportioned to the public policy component of a boosted multi-driver project would remain allocated pursuant to the State Agreement Approach as provided for in Operating Agreement Schedule 6, Section 1.5.9.

THEREFORE, BE IT FURTHER RESOLVED, that OPSI advances these two linked recommendations as an inseparable package in light of the equities involved and so as to strike a reasonable balance between cost allocation and enabling those states desiring to pursue a public policy project under a State Agreement approach in a multi-driver context to reach that goal.

⁷ This OPSI Proposal allocates to the Reliability Driver its original cost of construction as a stand-alone transmission project, recognizing its role as the backbone of the PJM transmission system, and allocates the remainder of the Multi-Driver Project's cost after subtracting the Reliability Driver's cost to the other Project Drivers (Economics & Public Policy) on a basis proportional with their stand alone costs. This Proposal is the same as that first presented by PJM as part of its education on a proper Multi-Driver approach. An example of this allocation is stated in Attachment A.

Motion by: Commissioner Lawrence Brenner, Maryland PSC

Seconded by: Chairman Dallas Winslow by Proxy John Farber, Delaware PSC

Vote: Yes: DE, DC, IL, IN, MD, MI, NJ, NC, PA, TN, W VA; Abstain: OH, VA; KY not in attendance

Adopted by the Board of Directors of the Organization of PJM States, Inc.

June 12, 2014
