

135 FERC ¶ 61,044
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Marc Spitzer, Philip D. Moeller,
John R. Norris, and Cheryl A. LaFleur.

PJM Interconnection, L.L.C.

Docket Nos. ER11-2140-000
ER11-2140-001

ORDER ON COST ALLOCATION REPORT

(Issued April 21, 2011)

1. On November 17, 2010, PJM Interconnection, L.L.C. (PJM), in accordance with Schedule 12 of the PJM Open Access Transmission Tariff (Tariff) and section 1.6 of Schedule 6 of the PJM Operating Agreement, filed amendments to reflect the assignments of cost responsibility for 134 baseline upgrades included in the most recent update to the Regional Transmission Expansion Plan (RTEP) approved by the PJM Board of Managers (PJM Board) (November 17, 2010 Filing).¹ In this order, we accept PJM's revised tariff sheets for facilities that operate at or above 500 kV, suspend them for a nominal period to become effective February 15, 2011, subject to refund and subject to the outcome of further proceedings. We accept the revised tariff sheets for the facilities that operate below 500 kV to become effective on February 15, 2011. In addition, we grant the requested waiver of the PJM Tariff's 30-day filing provision.

I. Background

2. PJM files cost responsibility assignments for transmission upgrades that are approved by the PJM Board as part of PJM's RTEP, in accordance with Schedule 12 of the Tariff and Schedule 6 of the PJM Operating Agreement, and pursuant to section 205 of the Federal Power Act.² The RTEP provides for the construction of expansions and

¹ The PJM Board approved the baseline upgrades in this proceeding on October 13, 2010. PJM's Tariff provides that RTEP baseline upgrades be filed with the Commission within 30 days of PJM Board approval. PJM requested a waiver of this Tariff requirement.

² 16 U.S.C. § 824d (2006).

upgrades to PJM's transmission system in order to comply with reliability criteria, and to maintain and enhance the economic and operational efficiency of PJM's wholesale electricity markets.³

3. Pursuant to Schedule 12, the costs of new RTEP facilities that operate at or above 500 kV (Regional Facilities), as well as lower voltage facilities that must be constructed or strengthened to support new Regional Facilities (Necessary Lower Voltage Facilities), are allocated on a region-wide basis (postage-stamp allocation).⁴ The costs of new RTEP facilities that operate below 500 kV and are not Necessary Lower Voltage Facilities are allocated based on a beneficiary pays approach using a distribution factor (DFAX) methodology.⁵

II. PJM's Filing

4. The November 17, 2010 Filing includes cost responsibility assignments for 132 baseline upgrades that will operate below 500 kV and are not Necessary Lower Voltage Facilities, and two Regional Facilities. PJM requests that the revised tariff sheets become effective on February 15, 2011.

5. PJM states that the assignments of cost responsibility for the two Regional Facilities are determined on a region-wide basis, based on an annual load-ratio share of each transmission zone's annual peak load from the preceding 12-month period ending October 31.⁶ Regarding the 132 lower voltage facilities, PJM states that the DFAX methodology takes into account the contributions of load to the reliability criteria violations for which lower voltage facilities are identified as solutions in the RTEP.⁷

³ Tariff, Schedule 12, section (b)(i); see *PJM Interconnection, L.L.C.*, Opinion No. 494, 119 FERC ¶ 61,063 (2007), *order on reh'g and compliance filing*, Opinion No. 494-A, 122 FERC ¶ 61,082, *order denying reh'g*, 124 FERC ¶ 61,033 (2008). On August 6, 2009, the United States Court of Appeals for the Seventh Circuit (Seventh Circuit Court) granted a petition for review regarding the use of a postage-stamp cost allocation methodology for new transmission facilities that operate at or above 500 kV, and remanded the case to the Commission for further proceedings. *Illinois Commerce Commission v. FERC*, 576 F.3d 470 (7th Cir. 2009).

⁴ Tariff, Schedule 12, section (b)(i).

⁵ *Id.*, Schedule 12, section (b)(ii).

⁶ *Id.*, Schedule 12, section (b)(i)(A).

⁷ *Id.*, Schedule 12, section (b)(iii)(C).

More specifically, to determine cost responsibility under the DFAX methodology, PJM, based on a computer model of the electric network and using power flow modeling software, calculates distribution factors, represented as decimal values or percentages, which express the portions of a transfer of energy from a defined source to a defined sink that will flow across a particular transmission facility or group of transmission facilities. These distribution factors represent a measure of the effect of the load of each transmission zone or merchant transmission facility on the transmission constraint that requires the lower voltage facility, as determined by a power flow analysis.

III. Notice and Interventions

6. Notice of PJM's filing was published in the *Federal Register*, 75 Fed. Reg. 74,032 (2010), with interventions and protests due on or before December 8, 2010.⁸ A notice of intervention and protest was filed by Illinois Commerce Commission (ICC). Motions to intervene were filed by the Office of the Ohio Consumers' Counsel, Duke Energy Corporation, PSEG Companies,⁹ American Municipal Power, PHI Companies,¹⁰ Old Dominion Electric Cooperative, and North Carolina Electric Membership Corporation. Motions to intervene and comments were filed by Dayton Power and Light Company (Dayton) and Exelon Corporation (Exelon).¹¹

IV. Comments and Protests

7. Dayton and Exelon note that a remand of the load-ratio share methodology for new transmission facilities that operate at or above 500 kV is pending before the Commission. Therefore, Dayton and Exelon request that any collections for facilities that operate at or above 500 kV be subject to refund and reallocation based on the outcome of the remand proceeding. Additionally, Dayton states that while it does not protest PJM's proposed cost allocations for lower voltage facilities, Dayton requests additional information explaining how Dayton is allocated cost responsibility for lower voltage

⁸ See Errata Notice issued on November 23, 2010 in this docket extending the comment date to December 17, 2010.

⁹ The PSEG Companies consist of Public Service Electric and Gas Company, PSEG Power LLC, and PSEG Energy Resources & Trade LLC.

¹⁰ The PHI Companies consist of Potomac Electric Power Company, Delmarva Power & Light Company, and Atlantic City Electric Company.

¹¹ Dayton filed a motion to intervene out-of-time, but within the time period provided for by the errata notice.

facility projects b1251, b1251.1, and b1254 in the Baltimore Gas and Electric (BG&E) zone and b1304.1, b1304.2, b1304.3, and b1304.4 in the Public Service Electric and Gas (PSEG) zone.¹² Dayton suggests that there may be some modeling error or input error, since the bulk of the costs of these facilities are allocated to eastern utilities, but some costs are also allocated to the Dayton and Commonwealth Edison (ComEd) zones, even though several utilities between the Dayton and ComEd zones and the east coast are not allocated any costs.

8. The ICC also challenges the proposed cost allocations for projects b1304.1, b1304.2, b1304.3, and b1304.4. The ICC notes that, while these projects are located in northern New Jersey, PJM's application of the DFAX method would allocate significant amounts of project costs to areas on the western edge of PJM, including the ComEd zone. Accordingly, the ICC recommends that the Commission engage in a fact-finding inquiry into the DFAX modeling assumptions for baseline upgrades b1304.1, 1304.2, 1304.3, and b1304.4, and require PJM to re-conduct the DFAX analysis using these alternative modeling assumptions.¹³

9. In addition, the ICC states that PJM has not shown that load in the ComEd zone contributed to the need for the two Regional Facilities. The ICC also states that PJM has not shown that the two Regional Facilities provide corresponding benefits to the electricity customers in the ComEd zone. The ICC requests that the Commission dismiss PJM's proposal with respect to the allocation of costs to the ComEd zone for the two Regional Facilities, or, alternatively, the ICC recommends that the Commission hold its consideration of these matters in abeyance until after the Commission issues a decision in the remand proceeding.

V. Answer

10. PJM filed an answer to the comments of Dayton, Exelon, and the ICC. In its answer, PJM states that while the ICC may challenge the appropriateness of the cost responsibility assignment methodology for Regional Facilities in the remand proceeding, it may not challenge it in this proceeding. Therefore, PJM requests that Commission reject the challenge of the ICC and Exelon to PJM's cost allocation methodology for Regional Facilities.

11. PJM responds to the requests for additional information of Dayton and the ICC by stating that it reviewed its analysis and discovered an error in the generation participation

¹² Dayton Protest at 3.

¹³ ICC Protest at 5.

calculation used to determine some of the 2010 RTEP cost allocations. PJM explains that this error resulted in cost allocation changes to eleven network upgrades, including b1251, b1251.1, b1254, and b1304.1 through b1304.4.¹⁴ PJM provided revised cost allocations for projects b1251, b1251.1, b1254, and b1304.1 through b1304.4. The corrected analysis resulted in a reduction in the cost allocation to Commonwealth Edison (Exelon), and either approximately the same or a reduced cost allocation for Dayton.¹⁵

12. PJM states that notwithstanding the error, Dayton still is allocated costs for projects b1251, b1251.1, b1254, and b1304.1 through b1304.4 even though Dayton is not physically interconnected with either BG&E or PSEG. PJM adds that the Dayton zone is assigned cost responsibility for these lower voltage facilities because the DFAX methodology revealed that the load in the Dayton zone had an impact on the violation causing the need for the upgrades. Finally, PJM states that in contrast, the distribution factors for “utilities-in-between” were below the allocation threshold and thus were set at zero.¹⁶ Therefore, in accordance with Schedule 12, the Dayton zone was assigned cost responsibility for these projects, while the utilities-in-between were not.¹⁷

VI. Deficiency Letter and Response

13. On January 24, 2011, the Commission advised PJM that its filing was deficient, and that additional information was required in order to process the filing. Specifically, the Commission sought cost allocation information, with supporting documentation, for the four projects for which PJM identified an error in its analysis, but did not provide updated cost allocation, and substitute tariff sheets for all projects containing errors.

14. On February 22, 2011, PJM provided the requested information. PJM requested that the substitute tariff sheets submitted on February 22, 2011 be accepted to be effective February 15, 2011, the same effective date that it requested for the revised tariff sheets filed on November 17, 2010.

¹⁴ In addition to the projects identified by the ICC and Dayton, PJM noted errors for baseline upgrades b1188.6, b1224, b1235, and b1232.

¹⁵ For Dayton, the allocations for projects b1251 and b1251.1 increased from 0.48 percent to 0.49 percent, and for project b1254 increased from 0.49 percent to 0.50 percent.

¹⁶ PJM points out that a distribution factor less than 0.001 shall be set equal to zero. Tariff, Schedule 12, section (b)(iii)(C)(5).

¹⁷ PJM Answer at 11.

15. Notice of PJM's supplemental filing was published in the *Federal Register*, 76 Fed. Reg. 12,099 (2011), with interventions and protests due on or before March 15, 2011. Several comments and protests were received raising a concern with the location of and need for two projects (b0492 and b0560). The protests object to the construction of generation, substation, and transmission facilities in Kempton, MD. PJM filed a motion to answer the comments and protests regarding project b0492 and b0560. PJM contends that the comments and protests raise issues beyond the scope of this proceeding.

VII. Discussion

A. Procedural Matters

16. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure,¹⁸ the notices of intervention and timely, unopposed motions to intervene serve to make them parties to this proceeding.

17. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2010), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept the answers of PJM because they have provided information that assisted us in our decision-making process.

B. Commission Determination

18. As discussed further below, we accept PJM's revised tariff sheets reflecting cost assignments for the new lower voltage facilities as being consistent with the methodology set forth in Schedule 12 to be effective February 15, 2011. In addition, we grant the requested waiver of the Tariff's 30-day filing provision.

19. ICC requests that the Commission direct PJM to perform the DFAX analysis using alternative modeling assumptions, and Dayton requests additional information regarding the cost allocations for certain lower voltage facilities located in the BG&E and PSEG zones. PJM reviewed its analysis and corrected the cost allocation for the projects identified by ICC and Dayton, and four additional projects based on its review. As previously noted, the corrected analysis resulted in a reduction in the cost allocation to Commonwealth Edison, and either approximately the same or a reduced cost allocation for Dayton. As corrected, PJM states that costs for projects b1251, b1251.1, b1254, and b1304.1 through b1304.4 were appropriately assigned.

¹⁸ 18 C.F.R. § 385.214 (2010).

20. While questioning whether specific modeling assumptions accomplish the objectives of the DFAX methodology, the ICC does not state that the modeling assumptions were inconsistent with the Tariff provisions, and we will not require PJM to run alternative modeling assumptions not required by the Tariff.¹⁹ A further inquiry into the modeling assumptions required by the Tariff is beyond the scope of this proceeding. The DFAX methodology revealed that the load in the Dayton zone had an impact on the violation causing the need for the upgrades, and the Dayton zone had a distribution factor at or above the allocation threshold established in Schedule 12. Therefore, we find that PJM has appropriately allocated costs for projects b1251, b1251.1, b1254, and b1304.1 through b1304.4. In addition, in its February 22, 2011 filing, PJM provided the cost allocation for the four additional projects for which it identified an error in its original analysis.

21. With respect to the assignment of costs for the two Regional Facilities, we accept PJM's revised tariff sheets, subject to refund and subject to the outcome of further proceedings. Issues regarding cost allocation of Regional Facilities are pending in other proceedings as a result of the remand of Opinion No. 494 and Opinion No. 494-A.

22. Several comments and protests were received raising a concern with the location of and the need for projects b0492 and b0560. This proceeding addresses the allocation of costs for the transmission projects approved by the PJM Board on October 13, 2010. Because the cost allocations for these projects were previously approved by the Commission,²⁰ the comments regarding projects b0492 and b0560 are outside the scope of this proceeding.

The Commission orders:

(A) PJM's revised tariff sheets to reflect the assignments of cost responsibility for 132 lower voltage facilities are hereby accepted for filing to become effective on February 15, 2011, as discussed in the body of this order.

(B) PJM's revised tariff sheets to reflect the assignments of cost responsibility for two Regional Facilities are hereby accepted for filing and suspended for a nominal period to become effective on February 15, 2011, subject

¹⁹ See *PJM Interconnection, L.L.C.*, 127 FERC ¶ 61,016 (2009).

²⁰ See *PJM Interconnection, L.L.C.*, 121 FERC ¶ 61,034 (2007) and *PJM Interconnection, L.L.C.*, 124 FERC ¶ 61,197 (2008).

to refund and to the outcome of further proceedings as a result of the remand of Opinion No. 494 and Opinion No. 494-A, as discussed in the body of this order.

By the Commission

(S E A L)

Kimberly D. Bose,
Secretary.