UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

RTO Border Utility Issues **Docket No.: AD06-9-000**

Comments of Paul D. Napoli, Director - Transmission Business Strategy
Public Service Electric and Gas Company
On Behalf Of the PSEG Companies
(March 29, 2007 Technical Conference)

Good afternoon. My name is Paul D. Napoli. I am the Director of Transmission Business Strategy for Public Service Electric and Gas Company ("PSE&G"). I appreciate the opportunity to appear before the Commission this afternoon to discuss RTO border issues on behalf of PSE&G, PSEG Power LLC ("PSEG Power") and PSEG Energy Resources & Trade LLC ("PSEG ERT") (collectively "the PSEG Companies").

PSE&G's transmission facilities, located in PJM, are interconnected with the NYISO via six ties into New York City ("NYC") and Rockland County, NY. Further, PSE&G's franchised service territory abuts the PJM/NYISO seam and the bulk of PSEG Power's generating assets are located in northern and central New Jersey in close proximity to this seam.

Because of the geographic location of our assets and load obligations, we are sensitive to the importance of effective coordination between neighboring RTOs. In this regard, the PSEG Companies commend the Commission for recognizing the importance of regional planning in Order No. 890. We believe, however, that while the eastern RTOs have made strides in addressing certain seams issues, significant improvements are still needed.

Today, I would like to focus on three issues: the need for inter-regional cost allocation mechanisms for transmission projects; improvements in regional transmission planning; and the need to address increasing levels of multi-regional loop flows.

First, a fundamental shortcoming of the current transmission planning construct is the lack of a mechanism to fairly allocate costs for projects with regional impacts. As the Commission is aware, a number of long-line transmission projects have been proposed in PJM. Proponents of these projects claim that they will relieve congestion in eastern PJM and allow increased imports of cheaper power from coal plant sources to the west. Under the current PJM cost allocation method, it is likely that customers in New Jersey would be assigned a high share of the project costs as the supposed recipients of the benefits.

None of these long-line transmission projects have yet been formally proposed in the PJM transmission planning process and the PSEG Companies wish to stress that projects that do mature into formal proposals will need to be justified based on a clear demonstration of their economic or reliability value. If the proponents' claims are accepted at face value, however, it seems reasonable that the benefits alleged to be associated with these projects would also be conferred on customers further to the east in New York and possibly even New England. The current cost allocation mechanism under the PJM tariff, however, does not include any mechanism for analyzing benefits – let alone allocating costs -- across the seams to New York or New England customers.

An additional cost-allocation concern relates to the present ability of cross-seams merchant projects to utilize "headroom" in the transmission grid that utilities have constructed for the use of loads in their own regions. These merchant projects should pay the full costs of interconnecting their facilities. Headroom that existed prior to the interconnection should be preserved.

The lack of a regional cost allocation mechanism may also be affecting the scope of the projects being proposed. Although the rationale supporting these projects should apply with equal or greater force to extensions of transmission lines from the western portions of PJM into NYC and Long Island, none of the projects proposed to date has included this element. The builds into New York that are being constructed – Neptune and the VFT project for example --, are premised upon a business plan of capturing high energy prices in NYC or Long Island. Until a multi-regional cost allocation mechanism is implemented, incentives for PJM projects whose goal is to increase reliability or reduce congestion in the NYC region are not likely to be proposed.

Second, the Commission needs to accelerate the development of effective processes for inter-regional planning in the eastern RTOs. A process for addressing seams issues affecting PJM, NYISO and ISO-NE began several years ago and has been successful in several areas. The development of an inter-regional planning process, however, has lagged. While the Inter-Regional Planning Stakeholder Advisory Committee ("IPSAC") has yielded improvements in a few areas –such as data exchange - most of the groundwork that would be needed to conduct true regional planning has not been completed. Without the development of a common study process, that should include consideration of transmission, generation and demand response solutions on an equal basis, projects that affect multiple regions can never be properly analyzed.

Third, cost allocation issues associated with increasing loop flows need to be addressed. As the use of the transmission grid for transactions has increased, it appears that loop flow issues have increased as well. For example, Allegheny Power has claimed that loop flows have increased constraints on facilitates in its system at the Black Oak Bedington nodes. PJM has addressed this problem through a reliability upgrade in that area, the costs of which are being assigned mainly to the customers of eastern PJM companies including customers of PSE&G. Mechanisms should be in place to allocate costs associated with loop flows to the companies and customers that are actually causing the loop flows to occur. The current lack of this mechanism is creating “free riders” who are engaging in transactions without bearing the full levels of the associated costs.

Some arrangements to address loop flows already exist. For example, loop flows between PJM and New York resulted in the construction of the Ramapo phase angle regulator in New York just across the border from PSE&G’s territory. PSE&G participated in the Ramapo project and helped formulate an agreement that sets forth target levels for use of each region’s respective systems. If “overuse” occurs, payment obligations arise.

Other regional tariffs along the lines of the Ramapo phase angle regulator contract, to track usage of the regional system and to allocate charges for such use should be developed. Absent such mechanisms, inefficient transactions by “free riders” will continue.

The PSEG Companies wish to thank the Commission for the opportunity to appear today and to discuss the three critical issues of inter-regional cost allocation, inter-regional planning and loop flows.