

147 FERC ¶ 61,028
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Cheryl A. LaFleur, Acting Chairman;
Philip D. Moeller, John R. Norris,
and Tony Clark.

PJM Interconnection, L.L.C.

Docket No. ER14-972-000

ORDER ON TARIFF REVISIONS AND COST ALLOCATION REPORT

(Issued April 9, 2014)

1. On January 10, 2014, pursuant to section 205 of the Federal Power Act (FPA),¹ 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 Amended and Restated Operating Agreement of PJM (Operating Agreement), filed amendments to Schedule 12- Appendix A of the PJM Tariff to incorporate cost responsibility assignments for 111 baseline upgrades included in the recent update to the Regional Transmission Expansion Plan (RTEP) approved by the PJM Board of Directors (PJM Board) on December 11, 2013 (January 10 RTEP Filing).² In this order, we accept, and suspend for a nominal period, PJM's revised tariff sheets to become effective on April 10, 2014, subject to a compliance filing.

I. Background

2. PJM files cost responsibility assignments for transmission upgrades that were approved by the PJM Board as part of PJM's RTEP, in accordance with Schedule 12 of the Tariff and Schedule 6 of the Operating Agreement. The RTEP provides for the construction of expansions and 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. On March 22, 2013, the Commission accepted revisions to Schedule 12 of the PJM Tariff modifying the cost

¹ 16 U.S.C. §§ 824d (2012).

² See Appendix.

allocation methodologies for transmission projects included in the RTEP.³ These revisions were filed by the PJM Transmission Owners in compliance with Order No. 1000,⁴ and revised methodologies for allocating cost responsibility for all RTEP transmission enhancements, including reliability and economic projects, replacement projects, and high voltage direct current transmission projects.

3. The revisions accepted in the Order No. 1000 Compliance Order only apply to the cost allocations for projects included in the RTEP on a prospective basis. Therefore, the cost responsibility assignments for RTEP projects approved after the Order No. 1000 Compliance Order are segregated in a separate appendix from the previously approved cost responsibility assignments for RTEP projects. Going forward, cost responsibility assignments for all RTEP projects will be located in Schedule 12-Appendix A, while the cost responsibility assignments for RTEP upgrades approved prior to the Order No. 1000 Compliance Order are located in Schedule 12-Appendix.

II. PJM's Filing

4. PJM amends Schedule 12-Appendix A to the Tariff to include the cost responsibility assignments for 17 new transmission enhancements and expansions that will operate at or above 500 kV or will be double-circuit 345 kV facilities included in the most recent update to the RTEP approved by the PJM Board on December 11, 2013. PJM states that the cost responsibility assignments for the 17 Regional Facilities are based on the hybrid cost allocation methodology approved by the Commission in the Order No. 1000 Compliance Order. PJM explains that pursuant to this hybrid methodology, 50 percent of the costs of the Regional Facilities are allocated on a region-wide, postage stamp basis,⁵ and 50 percent are allocated to specifically-identified beneficiaries.

5. PJM states that the region-wide, postage stamp allocations for the new Regional Facilities are based on its annual load-ratio share using the applicable Transmission

³ *PJM Interconnection, L.L.C.*, 142 FERC ¶ 61,214, at PP 411-448 (2013) (Order No. 1000 Compliance Order), *reh'g pending*.

⁴ *Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities*, Order No. 1000, FERC Stats. & Regs. ¶ 31,323 (2011), *order on reh'g*, Order No. 1000-A, 139 FERC ¶ 61,132, *order on reh'g and clarification*, Order No. 1000-B, 141 FERC ¶ 61,044 (2012).

⁵ Or Lower Voltage Facilities needed to support new Regional Facilities (Necessary Lower Voltage Facilities).

Owner zonal loads at the time of each Transmission Owner's annual peak load from the 12-month period ending October 31 of the year preceding the year for which the annual cost responsibility allocation is determined. Similarly, PJM explains, the cost responsibility assignments for the new Regional Facilities to the owners of merchant transmission facilities are based on the merchant transmission facilities' annual peak load (not to exceed actual Firm Transmission Withdrawal Rights set forth in their respective Interconnection Service Agreements) from the 12-month period ending October 31 of the year preceding the year for which the annual cost responsibility allocation is determined.⁶

6. PJM states that all of the 17 Regional Facilities are Reliability Projects and therefore the remaining 50 percent of the costs of these facilities are allocated using the "solutions-based" distribution factor (Solution-Based DFAX) methodology set forth in section (b)(iii) of Schedule 12. PJM states that the Solution-Based DFAX methodology evaluates the projected relative use on the new facility by the load of each transmission zone or merchant transmission facility and allocates costs based on such usage.

7. PJM also submits amendments to Schedule 12- Appendix A of the PJM Tariff to include the cost responsibility assignments for new transmission enhancements and expansions that are not Regional Facilities or needed to support new Regional Facilities (Lower Voltage Facilities). PJM states that with the exception of the 17 Regional Facilities upgrades described above, all of the remaining 94 upgrades approved by the PJM Board on December 11, 2013, are Lower Voltage Facilities needed to address reliability needs, and the costs for these projects are allocated based on the Solution-Based DFAX methodology.⁷

III. Notice, Interventions, Comments, Protests, and Answers

8. Notice of PJM's January 10, 2014 filing was published in the *Federal Register*, 79 Fed. Reg. 3368 (2014), with an errata issued on January 24, 2014 extending the comment due date to February 10, 2014.

9. Notices of intervention were filed by the New York State Public Service Commission (New York Commission) and the Illinois Commerce Commission (Illinois

⁶ Currently, there are three owners of merchant transmission facilities in PJM: Neptune Regional Transmission System, LLC, East Coast Power, L.L.C., and Hudson Transmission Partners, LLC.

⁷ See PJM Tariff, Schedule 12, section (b)(ii)(A) ("If the Lower Voltage Facility is a Reliability Project, [PJM] shall use the DFAX analysis described in subsection (b)(iii) of this Schedule 12").

Commission). Timely motions to intervene were filed by: Consolidated Edison Company of New York, Inc. (Con Edison); City of New York; Jersey Central Power & Light Company; Duke Energy Corporation; Exelon Corporation (Exelon); Buckeye Power, Inc.; Dominion Resources Services, Inc.; American Electric Power Service Corporation; Public Service Electric and Gas Companies (PSE&G); North Carolina Electric Membership Corporation; and the New York Independent System Operator, Inc. Late-filed motions to intervene were filed by: Duquesne Light Company (Duquesne); Old Dominion Electric Cooperative (Old Dominion); Pepco Holdings, Inc. (Pepco); Dayton Power and Light Company (Dayton); County of Westchester, New York (Westchester); Linden VFT, LLC (Linden); PPL Electric Utilities Corporation (PPL); Monitoring Analytics, LLC;⁸ New Jersey Division of Rate Counsel (New Jersey Rate Counsel); and the New Jersey Board of Public Utilities (New Jersey Board).

10. Protests were filed by the New York Commission, Con Edison, City of New York; and Linden. Comments were filed by Exelon and the Illinois Commission. Answers were filed by PJM, PSE&G, PJM Transmission Owners (Transmission Owners),⁹ Linden, and Con Edison.

IV. Discussion

A. Procedural Matters

11. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2013), the notices of intervention and timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding. Given the early stage of this proceeding and the absence of undue prejudice or delay, we grant the unopposed out-of-time motion to intervene submitted by Duquesne; Old Dominion; Pepco; Dayton; Westchester; Linden; PPL; PJM IMM; New Jersey Rate Counsel; and the New Jersey Board.

12. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2013) prohibits an answer to a protest or to an answer unless otherwise ordered by the decisional authority. We will accept the answers filed in this proceeding because they have provided information that assisted us in our decision-making process.

⁸ Monitoring Analytics, LLC serves as the PJM independent market monitor (PJM IMM).

⁹ The Transmission Owners, acting through the Consolidated Transmission Owners Agreement Administrative Committee, although not intervening, submitted a motion for leave to answer.

B. Cost Allocation for the PSE&G Upgrade

1. Comments and Protests

13. Con Edison protests the Solution-Based DFAX portion of PJM's cost allocation for the PSE&G Upgrade (i.e., Baseline Upgrades b2436 and b2437).¹⁰ Con Edison notes that the PSE&G Upgrade involves an upgrade to transmission facilities over which PSE&G delivers power to Con Edison in New York City as part of a wheeling arrangement in which Con Edison, at the same time, delivers power to PSE&G in northern New Jersey (Wheel). Con Edison explains that the Wheel was approved as part of a settlement agreement for inter-regional transmission service between Con Edison and PSE&G that was based on a grandfathered service agreement (Settlement Agreement).¹¹ Con Edison argues that the cost allocation for the PSE&G Upgrade is "grossly distorted" and estimates that it would pay twelve times as much as would PSE&G for the upgrades, even though the costs are not needed to provide service to Con Edison and the termination of service to Con Edison would not allow PSE&G to avoid any of the project's costs.¹² Based on this result, Con Edison challenges the use and results of the Solution-Based DFAX methodology for allocating the costs of these upgrades "*under the facts and circumstances of this case,*" and requests that the Commission reject PJM's proposed cost allocation for these projects.¹³ Barring that, Con Edison requests that the Commission set for hearing the question of what, if any, costs should be allocated to Con Edison.¹⁴

¹⁰ Baseline Upgrades b2436 and b2437 involve a double circuit 345 kV transmission line and consist of 26 upgrade projects with an estimated total cost of \$1,180,300,000. The costs for the PSE&G Upgrade are assigned pursuant to a hybrid mechanism in which 50 percent of the costs of the project are allocated on a region-wide postage stamp basis, and 50 percent are allocated to specifically identified beneficiaries pursuant to the Solution-Based DFAX methodology. Con Edison is not protesting the 50 percent postage stamp allocation for the PSE&G Upgrade.

¹¹ *PJM Interconnection, L.L.C., et al.*, 132 FERC ¶ 61,221 (2010).

¹² Under the Solution-based DFAX methodology, Con Ed states that is being allocated \$629,086,000 of the cost of the PSE&G Upgrade while PSE&G is being allocated \$53,372,000. Con Edison Protest at 2-6.

¹³ Con Edison Protest at 3-4 (emphasis in original).

¹⁴ *Id.* at 7.

14. Con Edison argues that the proposed allocation of costs to Con Edison is barred by the Transmission Service Agreements (Service Agreements) for point to point transmission service.¹⁵ Con Edison states that the Service Agreements require that energy flows attributed to Con Edison in the Solution-Based DFAX methodology be set to zero and, consequently, that no costs be allocated to Con Edison. Con Edison contends that the PSE&G Upgrade would impermissibly alter the Point of Delivery identified in the Service Agreements by disconnecting existing B and C transmission lines from the Hudson substation,¹⁶ and diverting them to a new substation at Marion on the B and C lines, isolating the Hudson facility and reducing PJM's deliveries to Con Edison via the Hudson substation to zero. Absent the contractually obligated energy flows via the Hudson facility, Con Edison concludes that the energy flows attributed to it in the Solution-Based DFAX methodology must be reduced to zero, as this is the only method that is consistent with the Service Agreements. In contrast, PJM proposes to allocate costs based on flows that would occur via the proposed Marion facility, disregarding the provisions of the Service Agreements.¹⁷

15. Con Edison states that PJM's proposed cost allocation would unreasonably transfer cost responsibility from the local transmission owner and generation and transmission developers that interconnect within PSE&G's service territory to Con Edison. Con Edison contends that such a transfer of costs is unprecedented and completely at odds with the principles underlying the Commission's approval of PJM's regional cost allocation. Furthermore, Commission approval of the cost allocation proposed in this case would have "major adverse consequences" that are not in the interest of Con Edison or any PJM customers, such as undermining the Wheel service. Con Edison opines that approval of the cost allocation for these upgrades would frustrate the Commission's alleged goals of eliminating seams issues and strengthening interregional planning.¹⁸

¹⁵ Transmission Service Agreement dated April 18, 2008 in Docket No. ER08-858-000 – Original Service Agreement No. 1873 and Original Service Agreement No. 1874 - Service Agreement For Point to Point Transmission Service § 5.0.

¹⁶ Con Edison Protest at 16 (citing Service Agreements for Firm Point to Point Transmission Service, § 4.0, "The A line, which connects PSE&G's Linden switching station in New Jersey and Con Edison's Goethals Station in Staten Island, and the B and C lines which connect PSE&G's Fossil Hudson Generating Station in Jersey City and Con Edison's Farragut switching station in Brooklyn.").

¹⁷ *Id.* at 3, 15-18.

¹⁸ *Id.* at 5-7.

16. Con Edison notes that under the Settlement Agreement for the Wheel, it agreed to pay RTEP charges based on two conditions: (1) the postage stamp portion of the cost allocation to Con Edison for any RTEP project must use 900 MW, rather than 1000 MW, as the allocation determinant; and (2) the Wheel must be considered a zone within PJM for the purpose of allocating RTEP costs.¹⁹ Con Edison contends that PJM applied the first condition in its proposed cost allocation, but failed to apply, or even mention, the second condition (Zone Provision).²⁰ Con Edison states that this second provision of the Settlement Agreement distinguishes the Wheel from merchant transmission facilities for cost allocation purposes because the Wheel is considered a zone consisting of two points (a Point of Receipt and a Point of Delivery) and delivers power into PJM equal to and simultaneous with its withdrawals. Con Edison further states that the Solution-Based DFAX allocation in PJM's Filing results in Con Edison's being assigned a much larger portion of costs of the PSE&G Upgrade than merchant transmission facilities, a result that was not envisioned by the Zone Provision of the Settlement Agreement. Con Edison concludes that PJM has given no meaningful consideration to this provision of the Settlement Agreement, a situation which Con Edison says results in a "grossly unjust and unreasonable cost allocation" that the Commission should therefore reject.²¹

17. City of New York supports Con Edison's Protest, and agrees that the proposed cost allocation for the PSE&G upgrades violates both the Settlement Agreement and Service Agreements between Con Edison and PJM that relate to the Wheel. Similarly, the New York Commission states that PJM's Filing seeks to change the point of delivery prescribed in the Settlement Agreement concerning the Wheel, thereby assigning to Con Edison costs for upgrades to remedy a local fault duty problem in the PSE&G service territory and violating the terms of the Settlement Agreement.

18. Linden questions whether PJM's proposed cost allocation for the PSE&G Upgrade is consistent with the PJM Tariff, arguing that PJM has chosen to apply the rules applicable to double circuit 345 kV transmission lines rather than the rules for circuit breakers,²² which Linden says would be more appropriate in this situation. Linden states

¹⁹ *Id.* at 7-8.

²⁰ *Id.* at 8, 18.

²¹ *Id.* at 18-20.

²² Linden maintains that "Cost responsibility for circuit breakers and associated equipment independently included in the [RTEP] and not a part of the design specifications of a transmission element of a Required Transmission Enhancement as described above in this subsection, shall be assigned to the Zone of the owner of the circuit breaker and associated equipment if the owner of the circuit breaker is a

(continued...)

that the use of the new DFAX allocation, which is based on post-project energy flows on the new facilities, “makes no sense where the purpose of the proposed transmission upgrade is the resolution of fault currents.”²³ Both Con Edison and Linden further state that the cost allocation method is inappropriate because it does not take into account the benefits provided to customers who avoid costs for projects cancelled and replaced by the PSE&G Upgrade.²⁴

2. Answers

19. Transmission Owners, PSE&G, and PJM argue that Con Edison improperly attempts to use a protest to collaterally attack the Commission’s acceptance of the cost allocation provisions of Schedule 12 of the PJM Tariff. The Transmission Owners, PSE&G, and PJM assert that the Commission has determined that the provisions of Schedule 12 that Con Edison challenges in its protest are just and reasonable and satisfy the requirements of Order No. 1000. They state that the Commission found that the Solution-Based DFAX methodology is a just and reasonable approach, and that for Regional Facilities, the Commission found that a hybrid approach blending the Solution-Based DFAX methodology and postage stamp allocation is also reasonable.

20. PSE&G and PJM assert that Con Edison’s argument that PJM has changed the interconnection points for the Con Edison wheel by virtue of the PSE&G Upgrade, in turn eliminating the applicability of any charges to Con Edison, is false. They argue that the two sets of points defining the wheeling arrangement are fully consistent with the fact that the Service Agreements provide for Con Edison’s delivery of 1000 MWs into Northern New Jersey and the re-delivery of those 1000 MWs back into Con Edison’s system in New York. Further, they argue that it is immaterial whether the precise point of interconnection with the PJM system for the B and C lines is the Hudson Station or the Marion substation because following construction of the PSE&G Upgrade, the deliveries to the feeder lines will continue exactly as contemplated in the Service Agreements.

21. PJM argues that the Settlement Agreement and the Schedule 12 provisions of the PJM Tariff memorialize Con Edison’s agreement to pay for RTEP Upgrades for the duration of the Wheel. They point out that the Settlement Agreement provides that Con Edison “shall be assigned cost responsibility for Required Transmission Enhancements

Transmission Owner listed in Attachment J of the Tariff.” *See* Linden Protest at 10 (citing PJM OATT, Schedule 12 (B)(IV)(C)).

²³ Linden Protest at 10-11.

²⁴ *Id.* at 12.

and shall pay Transmission Enhancement Charges during the term of its ... service.”²⁵ PJM asserts that the plain language of the Settlement Agreement clearly contemplates that Con Edison will be responsible for paying for RTEP upgrades while it takes service from PJM and its cost responsibility assignments will be based on its flows over the A, B, C, and J and K transmission lines into and out of PJM.²⁶

22. PSE&G argues that a key component of the Settlement Agreement was Con Edison’s assumption of RTEP obligations for upgrades for which it was assigned cost responsibility under the PJM tariff. PJM submitted revisions to Schedule 12 and its appendices of the PJM tariff to implement the provisions of the Settlement Agreement that requires PJM to assign cost responsibility to Con Edison for upgrades included in the PJM RTEP. PSE&G asserts that Con Edison did not intervene to challenge those allocations and FERC accepted PJM’s filing.²⁷

23. PSE&G also argues that neither the Settlement Agreement nor Con Edison Transmission Service Agreements exempt Con Edison from cost responsibility for the PSE&G Upgrade. PSE&G asserts that the Settlement Agreement specifically provides that the Regional Facilities and Necessary Lower Voltage Facilities shall be “as defined in Schedule 12 of the PJM Tariff.”²⁸ As such, PSE&G argues, the Settlement Agreement does not impose any static understanding as to what constitutes Regional Facilities or Lower Voltage Facilities; and those facility categories can and have changed over time.

24. The Transmission Owners assert that the Commission approved the assignment of transmission expansion costs to merchant transmission facility owners in Opinion No. 503.²⁹ The Transmission Owners also state that the Commission determined that the cost allocation methodology that Linden challenges is just and reasonable and satisfies the requirements of Order No. 1000. The Transmission Owners argue that Linden’s challenge constitutes an impermissible collateral attack on the Commission’s orders.

²⁵ PJM March 3, 2014 Answer at 10-11 (citing Con Edison Protest, Exhibit CE-2 ¶ 20).

²⁶ The J and K lines deliver power from Con Edison to PSE&G in northern New Jersey as part of the Wheel.

²⁷ PJM Interconnection, L.L.C., Docket No. ER12-1661-000 (May 31, 2002).

²⁸ PSE&G February 28 Answer (citing Settlement Agreement at 10).

²⁹ *PJM Interconnection, L.L.C.*, 129 FERC ¶ 61,161 (2009) (Opinion No. 503).

25. Linden asserts that the Transmission Owners mischaracterize Linden VFT's protest as a collateral attack on PJM's filing of a hybrid cost allocation methodology for Regional Facilities. Rather, Linden states that they object to the implementation of that methodology with respect to a particular RTEP project -- the PSE&G Upgrade-- because it inappropriately applied to the unique circumstances of the PSE&G Upgrade project. Specifically, Linden argues that the PSE&G Upgrade is a transmission project that addresses short circuit fault current problems, not the current flows that are modelled by the DFAX methodology.

26. Con Edison likewise argues that their protest was not a collateral attack on the Commission's decision approving the Solution-Based DFAX cost allocation methodology or the formula itself, but rather they challenge, under the particular facts and circumstances of this case, the unjust and unreasonable results produced by that formula, the inputs to the formula, and the manner in which the formula was applied to Con Edison. They argue that the approval of a formula rate does not mean that the inputs to and the results produced by the formula rate are automatically considered just and reasonable. Con Edison asserts that since the application of the formula entails judgments and assumptions by PJM, PJM cannot escape the burden of demonstrating that its proposal is just and reasonable and non-discriminatory. Con Edison also argues that the Settlement Agreement does not bar Con Edison from challenging the results of PJM's formula rate. They assert that Con Edison retains the right to challenge RTEP cost allocations that are unjust and unreasonable in violation of the Federal Power Act.

27. Con Edison answers that contrary to PSE&G's conflicting assertions, the delivery point in PJM's DFAX allocation is in fact different from the delivery point provided for in the Services Agreements and the change is material. Con Edison also states that the setting of the assumed solution-Based DFAX flows to zero is irrelevant to the actual delivery of energy to Con Edison. They argue that because the actual energy flows associated with the transmission service are unrelated to the flows assumed by the Solution-Based DFAX allocation, it does not follow that the attribution of zero flows in the Solution-Based DFAX allocation would eliminate the transmission service or Con Edison's entitlement to the service.

28. PSE&G answers that the Service Agreements should be read in the context of the Settlement Agreements, which indicates that the points of delivery are the A, B, and C lines. PSE&G asserts that Con Edison is the source of the short circuit problems in Northern New Jersey.

3. Commission Determination

29. We accept PJM's January 10 RTEP filing, subject to a compliance filing, as discussed below. We find that the proposed cost responsibility assignments comply with the requirements of Schedule 12 – Appendix A of the PJM Tariff and section 1.6 of the

Operating Agreement. We further find that PJM's January 10 RTEP Filing is consistent with both the Service Agreements and the Settlement Agreement.

30. Con Edison first argues that the PSE&G Upgrade would impermissibly alter the Point of Delivery identified in the Service Agreements by disconnecting existing B and C transmission lines from the Hudson substation and diverting them to a new substation at Marion, isolating the Hudson facility and reducing PJM's deliveries to Con Edison via the Hudson substation to zero. Con Edison relies on the Service Agreement language that specifies the delivery point as "the B and C lines which connect PSE&G's Fossil Hudson Generating Station in Jersey City and Con Edison's Farragut switching station in Brooklyn." PSE&G and PJM argue that the points defining the wheeling arrangement are fully consistent with the fact that the Service Agreements provide for Con Edison's delivery of 1000 MWs into Northern New Jersey and the re-delivery of those 1000 MWs back into Con Edison's system in New York City. The arguments present an ambiguity requiring interpretation of the Service Agreements, and we find the allocation of costs filed by PJM is consistent with a reasonable interpretation of the Service Agreements. These agreements provide for an exchange of energy at specific receipt and delivery points between Con Edison and PSE&G.

31. The Service Agreements define delivery points of the A, B and C lines, and we find that the specific language relied on by Con Edison does not provide a limitation of the flows contemplated by the Settlement Agreement or the Service Agreements. While the specifications included in the Service Agreements refer to the Hudson and Farragut stations, limiting flows to the Hudson point of delivery would produce a result that is not consistent with the Settlement Agreement, which the Service Agreements were intended to facilitate. Specifically, the Settlement Agreement provides that the Service Agreements were intended:

to facilitate the continuation of an arrangement currently being implemented under two grandfathered contracts between [Con Edison] and PSE&G. The grandfathered contracts provide for [Con Edison] to deliver to PSE&G in northern New Jersey 1000 MW of power and for PSE&G to redeliver the same amount of power to [Con Edison] in New York City.³⁰

Con Edison will still receive its deliveries at its Farragut receipt point, and PSE&G will still make those deliveries. The Agreements require that Con Edison abide by the PJM

³⁰ Settlement Agreement at P 4.

tariff and be responsible to pay for reliability upgrades as determined under that tariff.³¹ As long as Con Edison continues to receive service under the Agreements, it is responsible for the upgrades costs determined under the PJM tariff.

32. The use of a different point as the source for delivery of energy to Farragut does not obviate Con Edison's responsibility to pay for the upgrades making that delivery possible. As reasonably interpreted, the Settlement Agreement refers to cost responsibility assignments for Required Transmission Enhancements based on the simultaneous injections into, and withdrawals from, the PJM system at the A, B, C, and J and K transmission line interfaces, *not specifically defined substations*. As PJM points out, in order to reliably maintain the flows contemplated under the Agreements, the terminus of the B and C lines need to change. Con Edison cannot enjoy the benefits of those upgrades without also sharing in its reasonable share of the costs as defined under the tariff.

33. We find that PJM and PSE&G's answers clarify the reliability concerns addressed by the project. PJM and PSE&G note that the PSE&G Upgrade was approved through the RTEP process and is required for reliability purposes. PSE&G states that the project removes two transformers that connect the B and C lines at the Hudson station, and connect these lines with the Marion switchgear. PSE&G notes that the Hudson transformers have been identified as devices that could interrupt service on their respective lines, and that, because the project will remove these transformers, the project will eliminate a significant reliability weakness of the current configuration. PJM and PSE&G state that the PSE&G project is designed to address a number of identified thermal issues that will affect reliability, as well as short circuit issues. Moreover, PJM contends that the fact that the project addresses short circuit issues does not render it ineligible for regional cost allocation.

C. Solution-Based DFAX Results

1. Comments and Protests

34. Con Edison asserts that the Commission has made clear that, even after it has approved a formula for calculating a rate or for allocating costs, the resulting rate or cost allocation is subject to review under the just and reasonable standard. Con Edison contends that PJM's proposed Solution-Based DFAX allocation of the costs of the PSE&G Upgrade, even if it is consistent with PJM's tariff, is clearly unjust and

³¹ Con Edison Protest, Exhibit CE-4, at 7.0; Exhibit CE-2, Settlement Agreement at 19.

unreasonable and should be rejected.³² In support of this contention, Con Edison argues that the costs resulting from PJM's proposed application of the DFAX formula to the PSE&G Upgrade are grossly disproportionate to the relative loads of the entities to which the costs are allocated.³³

35. Con Edison further argues that PJM's proposed cost allocation is unjust and unreasonable because it does not meet Order No. 1000's first cost allocation principle, that costs must be roughly commensurate with benefits. Con Edison provides three reasons to support its contention: (1) the DFAX allocation formula, if applied consistent with the Service Agreements, indicates that Con Edison does not benefit from the PSE&G Upgrade; (2) a flow-based formula such as the DFAX cannot allocate costs commensurate with benefits for projects that solve local fault current problems rather than power flow problems; and (3) PJM's transmission service to Con Edison did not contribute to the fault current problems driving the PSE&G Upgrade, and the Upgrade would be needed whether or not PJM provided transmission to Con Edison.³⁴ Similarly, Con Edison states that PJM's Tariff holds developers of interconnecting projects responsible for paying for solutions to incremental fault currents created by their projects. Con Edison therefore questions whether it is just and reasonable to be allocated costs for fixing a problem that the PJM Tariff requires another entity to resolve, essentially exempting PSE&G's customers from cost responsibility for a cost associated with local operational issues on PSE&G's system.

36. The New York Commission contends that the Solution-Based DFAX cost allocation is unjust and unreasonable and, because Con Edison neither caused the need for the upgrades nor benefits from them, PJM's proposed cost allocation fails to adhere to the Commission's "beneficiaries pay" principle.³⁵ Linden also questions whether PJM's proposed cost allocation associated with the cancellation of previously approved RTEP projects and the substitution of a series of new projects is fair, and contends that the proposed allocation does not meet the requirement that costs must be roughly commensurate with benefits. Linden further contends that the resulting cost allocation violates the Commission's policy by failing to demonstrate that the projects' costs were incurred to provide service to Linden or other affected customers, or that Linden and

³² Con Edison Protest at 20-21 (citing *Midwest Independent Transmission System Operator, Inc., et al.*, 143 FERC ¶ 61,149 (2013)).

³³ Con Edison Protest at 21.

³⁴ *Id.* at 22-26.

³⁵ New York State Public Service Commission Protest at 2-3.

those customers received any benefits commensurate with the costs allocated to them. Linden requests that the Commission reject PJM's filing or, failing that, that the Commission suspend the filing and set it for hearing.³⁶

37. As additional support for its contention that PJM's proposed cost allocation is unjust and unreasonable, Con Edison states, even if the methodology has been correctly applied, the *de minimus* and nested zone provisions of the Solution-Based DFAX methodology are unjust and unreasonable as applied to the PSE&G Upgrade. Con Edison contends that these two provisions apply to many of the 26 subprojects comprising the PSE&G Upgrade, and substantially increasing the costs allocated to Con Edison.³⁷

2. Answers

38. The Transmission Owners assert that, contrary to Con Edison's arguments, neither the Commission nor the courts have required cost causation to be the exclusive or even primary focus of cost allocation. The Transmission Owners note that the Commission has explained that, for purposes of assessing compliance with Order No. 1000's requirement that costs be allocated in a manner that is at least roughly commensurate with estimated benefits, beneficiaries include those that cause costs to be incurred or that benefit from a new transmission facility.³⁸ The Transmission Owners argue that the Commission approved all of the provisions of Schedule 12 of the PJM tariff for application to all Reliability Projects that PJM includes in an RTEP and that Con Edison neither protested the filings in which the provision were proposed, nor sought rehearing of any of the Commission orders approving these provisions.

39. PSE&G argues that Con Edison alone is currently deriving virtually all the benefits associated with the Wheel facilities under the Service Agreements which would not exist in the absence of the Settlement Agreement, so Con Edison's comments downplaying the benefits to its system from the existing arrangement are simply not credible. PSE&G also argues that it would be inappropriate to saddle New Jersey customers with the costs of upgrading facilities where PJM has determined that most of the benefits associated with the upgrades flow to Con Edison's customers.

³⁶ Linden Protest at 1-2.

³⁷ Con Edison Protest at 27-30.

³⁸ Order No. 1000, FERC Stats. & Regs. ¶ 31,323, at P 623 (2011).

40. PJM asserts that use of the Solutions-Based DFAX methodology as the determinant of beneficiaries, avoids lengthy and subjective case-by-case litigation as to who is a “beneficiary” in the abstract sense for every transmission project. PJM states that Con Edison’s approach would essentially read out of the PJM Tariff the use of the solution-based DFAX as the determinant of beneficiaries for purposes of cost allocation. PJM argues that this approach would render the cost allocation process developed to comply with Order No. 1000 a nullity as every project would be open to project-by-project substantive *ad hoc* determinations of beneficiaries, which the Schedule 12 cost allocation process is designed to avoid.

41. The Transmission Owners state that the Commission has approved PJM’s use of the *de minimus* provision on more than one occasion. They assert that the *de minimus* threshold, initially set at 0.001, was proposed as part of the offer of settlement that first added the details of the DFAX methodology to Schedule 12, and approved in 2008.³⁹ The PJM Transmission Owners state that the Commission similarly approved the nested provision of Schedule 12 as part of the 2008 contested settlement.⁴⁰

42. In response, Con Edison asserts that PSE&G’s arguments regarding the substantial benefits Con Edison will receive from the PSE&G Upgrade are unsupported. Con Edison argues that PSE&G’s answer does not demonstrate benefits to Con Edison that are commensurate with the proposed allocation of 82 percent of the DFAX costs of that the PSE&G Upgrade. Con Edison also argues that PJM misstates the primary purpose of the PSE&G Upgrade. They assert that the effort of PJM and PSE&G to re-characterize the need for the PSE&G Upgrade is relevant to whether the Solution-Based DFAX allocation to Con Edison is consistent with cost causation and commensurate with its benefits.

3. Commission Determination

43. The reasonableness of the Solution-Based DFAX methodology is beyond the scope of this proceeding. The January 10 RTEP Filing, filed pursuant to section 205 of the FPA, proposes to allocate costs in accordance with the PJM Tariff rate on file as established in PJM’s Order No. 1000 proceeding.

³⁹ Offer of Settlement and Partial Settlement Agreement, Docket Nos., ER06-456, *et al.* (Sept. 14, 2007). See *PJM Interconnection, L.L.C.*, 124 FERC ¶ 61,112 (2008); *PJM Interconnection, L.L.C.*, Letter Order, Docket Nos. ER06-456-015, *et al.*, (Oct. 15, 2008).

⁴⁰ *PJM Interconnection, L.L.C.*, 124 FERC ¶ 61,112 (2008).

44. Con Edison argues that in performing the Solution-Based DFAX analysis, PJM made judgments and assumptions regarding such matters as the netting of generation and load, the nesting of zones, and the application of the *de minimus* rule, without satisfactory explanation. Linden also contends that PJM has not demonstrated the justness and reasonableness of the rates resulting from application of the Solution-Based DFAX methodology.

45. In the Order No. 1000 Compliance Order, the Commission required a compliance filing with details explaining how the Solution-Based DFAX method is used to calculate assignment of cost responsibility.⁴¹ Con Edison notes that the compliance filing is currently pending.⁴² The judgments and assumptions made by PJM in implementing the Solution-Based DFAX methodology should be available within the Transmission Expansion Advisory Committee (TEAC) process. We cannot determine from this record whether the issues raised by Con Edison are generic issues related to the implementation of Solution-Based DFAX or are specific assumptions relating to this project. While details implementing the Solution-Based DFAX methodology should be reviewed within the TEAC process, to the extent Con Edison and Linden raise specific concerns regarding the assumptions for the *de minimus* and nested zone provisions of the Solution-Based DFAX methodology for the PSE&G Upgrade, we accept the filing subject to the condition that PJM submit a compliance filing explaining and justifying the specific assumptions relating to the PSE&G Upgrade within 30 day of the date of this order.

D. Other Issues

1. Comments and Protests

46. Con Edison states that PJM's stakeholder process was fatally deficient.⁴³ Con Edison contends that stakeholders were not made aware of the potential cost allocation of the new projects until PJM filed its proposed cost allocation on January 10, 2014, and that it remains impossible to determine with certainty the cost allocation for all project segments of the PSE&G Upgrade. Con Edison contends that there was no discussion of the proposed cost allocation in the stakeholder process, no opportunity to review the

⁴¹ Order No. 1000 Compliance Order, 142 FERC ¶ 61,214 at P 428.

⁴² Con Edison Answer at 6, n. 34.

⁴³ *Id.* at 4.

calculations underlying the cost allocation, and no opportunity to discuss whether an alternative cost allocation might be more appropriate for the PSE&G Upgrade.⁴⁴

47. To enable it to assess whether PJM's cost allocation is just and reasonable, the Illinois Commission requests that the Commission direct PJM to file, in the current docket, the cost estimates and cost allocations separately for the PSE&G Upgrade and each of its sub-projects. Illinois Commission also requests that the Commission require PJM to provide this level of detail regarding cost allocation in any future Schedule 12-Appendix A filing.⁴⁵ In addition, the Illinois Commission states that it is unable to determine from the information filed whether, and which, existing circuits are being upgraded to voltage levels that are eligible for regional cost allocation, and, therefore, cannot determine if PJM has correctly calculated the "original cost less accumulated depreciation" of the pre-existing single circuit facilities. The Illinois Commission contends that PJM's Schedule 12-Appendix A filings must contain sufficient information and sufficient detail to enable interested parties and the Commission to determine whether PJM has complied with its tariff, particularly Schedule 12.⁴⁶

48. Exelon requests that PJM clarify its interpretation of terms in Schedule 12 defining double-circuit 345 kV facilities as Regional Facilities and explain how PJM determined that certain of the upgrades qualify as Regional Facilities.⁴⁷ Exelon states that PJM provides no details about whether three specific upgrades meet the definition of Regional Facilities pursuant to PJM's Tariff, i.e., where both 345 kV circuits "originate from a single substation or switching station at one end and terminate at a single substation or switching station at the other end."⁴⁸ Exelon also states that it would be helpful for PJM to clarify whether the term "single substation or switching station" requires a substation or switching station to have a bus tie between all elements, and why new 345 kV substations meet this definition.⁴⁹ Exelon believes that the additional information it

⁴⁴ *Id.* at 13-14, 30-33.

⁴⁵ Illinois Commerce Commission Protest at 4-5.

⁴⁶ *Id.* at 5-7.

⁴⁷ Exelon Protest at 2.

⁴⁸ *Id.* at 3.

⁴⁹ *Id.* at 3-4.

requests will provide a basis upon which stakeholders can better evaluate PJM's January 10 RTEP Filing and the Commission can render a decision.⁵⁰

2. Answers

49. PSE&G and PJM assert that there is no transparency issue with the PJM cost allocation methodology or PJM's TEAC process. They assert that the stakeholder process required by Order No. 1000 already occurred with the development of the existing cost allocation methodology. PSE&G also argues that the TEAC meetings are open meetings with agendas and documents posted on the PJM website and thus very transparent. PJM asserts that once the refined estimates for the PSE&G Upgrade were available, the revised cost estimate by project and subpart were posted on the PJM website. PJM contends that information sought by the Illinois Commission is not necessary or relevant for purposes of defining allocation of costs for the projects.

50. PJM responds to Exelon's comments about the definition of Regional Facility and states that the PSE&G Upgrade as proposed satisfies the definition of Regional Facility as defined because both lines originate at a single substation and terminate at a single substation.

3. Commission Determination

51. As PSE&G states, the stakeholder process required by Order No. 1000 already occurred with the development of the existing cost allocation methodology. Regarding the applicability of the cost allocation methodology to the PSE&G Project Upgrade, PJM responded that information including cost estimates for the project was presented for review and discussion at multiple TEAC meetings between April and December 2013. The TEAC meetings are open meetings with agendas and documents posted on the PJM website. PSE&G notes that agenda documents dating back to the April 2013 TEAC meeting specifically mention the same tie-line facilities that were ultimately upgraded as part of the PSE&G Upgrade. We find that PJM followed its tariff in making these allocations and that, except as noted above, the documents provided constituted sufficient and reasonable notice and information to Con Edison of the potential upgrades. PJM states that the specific information sought by the Illinois Commission for the PSE&G Upgrade, although not available at the time of the filing, has been posted through the RTEP process, and is available on the PJM web site.

⁵⁰ *Id.* at 4.

52. We agree with PJM that information regarding original cost less accumulated depreciation of the pre-existing single circuit facilities is not necessary for purposes of determining whether PJM has correctly implemented the cost allocation methodology.

The Commission orders:

The proposed tariffs revisions are accepted and suspend for a nominal period, subject to a compliance filing, to become effective April 10, 2014, as discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

Appendix

PJM Interconnection, L.L.C.
Intra-PJM Tariffs

[SCHEDULE 12.APPX A - 2, OATT SCHEDULE 12.APPENDIX A - 2 Baltimore Gas and Electric, 1.0.0](#)

[SCHEDULE 12.APPX A - 3, OATT SCHEDULE 12.APPENDIX A - 3 Delmarva Power & Light Comp, 1.0.0](#)

[SCHEDULE 12.APPX A - 4, OATT SCHEDULE 12.APPENDIX A - 4 Jersey Central Power & Ligh, 1.0.0](#)

[SCHEDULE 12.APPX A - 7, OATT SCHEDULE 12.APPENDIX A - 7 Pennsylvania Electric Compan, 1.0.0](#)

[SCHEDULE 12.APPX A - 8, OATT SCHEDULE 12.APPENDIX A - 8 PECO Energy Company, 1.0.0](#)

[SCHEDULE 12.APPX A - 9, OATT SCHEDULE 12.APPENDIX A - 9 PPL Electric Utilities Corpo, 1.0.0](#)

[SCHEDULE 12.APPX A - 10, OATT SCHEDULE 12.APPENDIX A - 10 Potomac Electric Power Comp, 1.0.0](#)

[SCHEDULE 12.APPX A - 12, OATT SCHEDULE 12.APPENDIX A - 12 Public Service Electric and, 1.0.0](#)

[SCHEDULE 12.APPX A - 14, OATT SCHEDULE 12.APPENDIX A - 14 Monongahela Power Company, 1.0.0](#)

[SCHEDULE 12.APPX A - 15, OATT SCHEDULE 12.APPENDIX A - 15 Commonwealth Edison Company, 1.0.0](#)

[SCHEDULE 12.APPX A - 17, OATT SCHEDULE 12.APPENDIX A - 17 AEP East Operating Companie, 1.0.0](#)

[SCHEDULE 12.APPX A - 20, OATT SCHEDULE 12.APPENDIX A - 20 Virginia Electric and Power, 1.0.0](#)

[SCHEDULE 12.APPX A - 23, OATT SCHEDULE 12.APPENDIX A - 23 American Transmission Syste, 1.0.0](#)

[SCHEDULE 12.APPX A - 25, OATT SCHEDULE 12.APPENDIX A - 25 East Kentucky Power Coopera, 1.0.0](#)