

152 FERC ¶ 61,162
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Norman C. Bay, Chairman;
Philip D. Moeller, Cheryl A. LaFleur,
Tony Clark, and Colette D. Honorable.

PJM Interconnection, L.L.C.

Docket Nos. ER14-2864-002

Baltimore Gas & Electric Company, *et al.*,
PJM Interconnection, L.L.C.

ER14-2867-002

(Not Consolidated)

ORDER DENYING REHEARING

(Issued August 31, 2015)

1. By order issued February 20, 2015, the Commission accepted subject to condition revisions submitted by PJM Interconnection, L.L.C. (PJM) to Schedule 6 of the Amended and Restated Operating Agreement of PJM (Operating Agreement) and the PJM Open Access Transmission Tariff (Tariff) to allow PJM to plan for and select transmission enhancements or expansions that address a combination of reliability, market efficiency and public policy objectives (Multi-Driver Projects) in its Regional Transmission Expansion Plan (RTEP) (PJM Filing).¹ The Commission also accepted subject to condition, revisions to Schedule 12 of the Tariff regarding the cost allocation method for Multi-Driver Projects submitted by Baltimore Gas & Electric Company, on behalf of the PJM Transmission Owners (PJM Transmission Owner Filing).² The Public Utilities

¹ *PJM Interconnection, L.L.C.*, 150 FERC ¶ 61,117 (2015) (February 20, 2015 Order).

² The PJM Transmission Owners acting through the PJM Consolidated Transmission Owners Agreement include: Monongahela Power Company, The Potomac Edison Company and West Penn Power Company, all doing business as Allegheny Power; American Electric Power Service Corporation on behalf of its operating companies: Appalachian Power Company, Columbus Southern Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power

(continued ...)

Commission of Ohio (Ohio Commission) seeks rehearing of the February 20, 2015 Order, regarding the cost allocation for Multi-Driver Projects involving projects built under the State Agreement Approach³ for public policy projects. In this order, we deny rehearing.

I. Background

2. The PJM Operating Agreement, as approved in compliance with Order No. 1000,⁴ details the procedures for development of the RTEP and the identification of Required Transmission Enhancements.⁵ Under these RTEP procedures, PJM evaluates separate

Company, Ohio Power Company and Wheeling Power Company; Commonwealth Edison Company and Commonwealth Edison Company of Indiana, Inc.; Dayton Power and Light Company; Virginia Electric and Power Company (Dominion Virginia Power) Public Service Electric and Gas Company; PECO Energy Company; PPL Electric Utilities Corporation; Baltimore Gas and Electric Company; Jersey Central Power & Light Company; Metropolitan Edison Company; Pennsylvania Electric Company; Potomac Electric Power Company; Atlantic City Electric Company; Delmarva Power & Light Company; UGI Utilities, Inc.; Allegheny Electric Cooperative, Inc.; CED Rock Springs, LLC; Old Dominion Electric Cooperative; Rockland Electric Company; Duquesne Light Company; Neptune Regional Transmission System, LLC; Trans-Allegheny Interstate Line Company; Linden VFT, LLC; American Transmission Systems, Incorporated; City of Cleveland, Department of Public Utilities, Division of Cleveland Public Power; Duke Energy Ohio, Inc.; Duke Energy Kentucky, Inc.; City of Hamilton, OH; Hudson Transmission Partners, LLC; East Kentucky Power Cooperative, Inc.

³ We note that “PJM’s State Agreement Approach supplements, *but does not conflict or otherwise replace* PJM’s process to consider transmission needs driven by public policy requirements as required by Order No. 1000 [...]” *PJM Interconnection, L.L.C.*, 142 FERC ¶ 61,214, at P 142 (2013) (emphasis added).

⁴ *PJM Interconnection, L.L.C.*, 142 FERC ¶ 61,214 (2013), *order on reh’g and compliance*, 147 FERC ¶ 61,128 (2014), *order on reh’g and compliance*, 150 FERC ¶ 61,038 (2015).

⁵ Tariff Section 1.38C defines Required Transmission Enhancements as Enhancements and expansions of the Transmission System that (1) a RTEP developed pursuant to Schedule 6 of the Operating Agreement or (2) any joint planning or coordination agreement between PJM and another region or transmission planning authority set forth in Schedule 12-Appendix B designates one or more of the Transmission Owner(s) to construct and own or finance.

drivers that address reliability violations or operational performance issues, relieve economic constraints,⁶ and incorporate the development of transmission solutions to address public policy requirements through a State Agreement Approach.⁷

3. Schedule 12 of the PJM Tariff provides for the cost allocation of Required Transmission Enhancements,⁸ which include Regional Facilities, Necessary Lower Voltage Facilities, and Lower Voltage Facilities.⁹ Cost allocation provisions in Schedule 12 of the PJM Tariff provide that cost responsibility for Regional Facilities and Necessary Lower Voltage Facilities shall be allocated 50 percent annually on a load-ratio share, and 50 percent assigned in accordance with the solution-based distribution factor (DFAX) method analysis. Cost allocation provisions in Schedule 12 of the PJM Tariff also provide that cost responsibility for Lower Voltage Facilities that are needed for reliability are allocated in accordance with the DFAX method analysis provisions of the

⁶ PJM incorporates public policy requirements and initiatives at the assumptions stage of the RTEP process and as part of its enhancement and expansion studies and considers how public policy requirements and initiatives contribute to reliability and economic transmission system needs. From this set of transmission system needs, which reflects PJM's consideration of public policy requirements and initiatives, PJM evaluates potential solutions and selects the optimal reliability and market efficiency projects for an identified transmission need. *See* PJM Operating Agreement, Schedule 6, § 1.5.6 (b).

⁷ *See* P 4 for a description of the State Agreement Approach.

⁸ *See* Tariff, Schedule 12, Section (b)(i).

⁹ Regional Facilities are defined as Required Transmission Enhancements included in the Regional Transmission Expansion Plan that are transmission facilities that: (a) are AC facilities that operate at or above 500 kV; (b) are double-circuit AC facilities that operate at or above 345 kV; (c) are AC or DC shunt reactive resources connected to a facility from (a) or (b); or (d) are DC facilities that meet the necessary criteria as described in section (b)(i)(D). PJM, Intra-PJM Tariffs, OATT, Schedule 12, § (b)(i) (Regional Facilities and Necessary Lower Voltage Facilities) (6.1.0). Necessary Lower Voltage Facilities are defined as Required Transmission Enhancements included in the Regional Transmission Expansion Plan that are lower voltage facilities that must be constructed or reinforced to support new Regional Facilities. PJM, Intra-PJM Tariffs, OATT, Schedule 12, § (b)(i) (Regional Facilities and Necessary Lower Voltage Facilities) (6.1.0). Lower Voltage Facilities are defined as Required Transmission Enhancements that: (a) are not Regional Facilities; and (b) are not "Necessary Lower Voltage Facilities." PJM, Intra-PJM Tariffs, OATT, Schedule 12, § (b)(ii) (Lower Voltage Facilities) (6.1.0).

PJM Tariff.¹⁰ Schedule 12 of the PJM Tariff further provides for assignment of cost responsibility for Economic Projects.¹¹ Schedule 12 of the PJM Tariff was approved by the Commission as part of PJM's Order No. 1000 regional compliance filing.¹²

4. For transmission projects that are requested to meet a state governmental public policy need under the State Agreement Approach, Section 1.5.9 of the Operating Agreement governs the criteria that will be used to designate the entity to develop and finance the project and the cost allocation. PJM's process also provides for a state governmental entity (or group of state governmental entities) to voluntarily submit a project that addresses Public Policy Requirements identified by the state(s) under the State Agreement Approach. Section 1.5.9(a) provides that state governmental entities may agree voluntarily to be responsible for the allocation of all costs of a proposed transmission expansion or enhancement that addresses state Public Policy Requirements identified or accepted by the state(s) in the PJM Region. Section 1.5.9(a) further provides that all costs related to a state public policy project or Supplemental Project included in the RTEP to address state Public Policy Requirements pursuant to this section "shall be recovered from customers in a state(s) in the PJM Region that agrees to be responsible for the projects," and "no costs shall be recovered from customers in a state that did not agree to be responsible for such cost allocation."¹³

II. Multi-Driver Project Proposal

5. The Multi-Driver Project proposal included revisions to the Operating Agreement and Tariff to include provisions for transmission planning and cost allocation. PJM proposed to revise the PJM Operating Agreement to include provisions for Multi-Driver Projects intended to enhance and expand PJM's current RTEP process and to give PJM the flexibility to identify the more efficient or cost-effective transmission facilities that meet PJM's needs using a combination of two or three of the separate project drivers.

¹⁰ See Tariff, Schedule 12, Section (b)(ii).

¹¹ *Id.*, Section (b)(v).

¹² See fn. 4, above.

¹³ A Supplemental Project is defined as a transmission expansion or enhancement that is not required for compliance with the following PJM criteria: system reliability, operational performance or economic criteria, pursuant to a determination by the Office of the Interconnection and is not a state public policy project pursuant to Section 1.5.9(a)(ii) of Schedule 6 of the Operating Agreement. See Operating Agreement, Section 1.0, Definitions.

Multi-Driver Projects can include reliability, economic, or public policy components; however, the public policy component must be identified through the State Agreement Approach. While the existing planning process permits PJM to combine projects addressing reliability or economic congestion in order to reduce cost (single-driver projects), it did not permit PJM to combine projects across categories (e.g., reliability and economic projects). PJM's proposed Multi-Driver Project approach expanded PJM's ability to provide for efficient solutions by allowing PJM to combine projects across categories by one of the following methods: (i) combining separate solutions that address reliability, economics and/or public policy into a single transmission enhancement or expansion that incorporates separate drivers into one Multi-Driver Project or (ii) 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 State Agreement Approach public policy drivers. Accordingly, Multi-Driver Projects can include reliability, economic, or State Agreement Approach public policy components. PJM explained that its proposal to add a Multi-Driver Project approach to PJM's RTEP process was not required under Order No. 1000¹⁴ and, therefore, was not submitted as part of PJM's Order No. 1000 compliance obligations.

6. Because the Tariff did not include a cost allocation method for Multi-Driver Projects, the PJM Transmission Owners proposed several revisions to Schedule 12 of the PJM Tariff to provide for the cost allocation of Multi-Driver Projects. As relevant to the rehearing, in the case of a State Agreement Approach project,¹⁵ PJM will allocate 100 percent of the public policy component to the state or states supporting the project. With respect to the reliability or economic portion of the project non-public policy component, the costs are allocated based on the Tariff designation of the project. If the combined project qualifies as a Lower Voltage Facility, the proportion of costs of the combined project allocated to the non-public policy component are allocated based on the DFAX method. If, on the other hand, the combined project qualifies for regional cost allocation under the PJM Tariff, the proportion of costs of the combined project allocated to the non-public policy component would be allocated 20 percent on a load-ratio share

¹⁴ See *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), *aff'd sub nom. S.C. Pub. Serv. Co. v. FERC*, 762 F.3d 41 (D.C. Cir. 2014) (collectively referred to herein as "Order No. 1000").

¹⁵ State Agreement Approach project refers to a project developed pursuant to Operating Agreement, Schedule 6, Section 1.5.9.

basis and, 80 percent based on the DFAX method. The 20-80 percent regional cost allocation applies when the combined project meets the criteria for regional cost allocation even if the reliability or economic portion of the project, if constructed alone, would have been a Lower Voltage Facility (referred to as Boosted Multi-Driver Projects). The costs of the public policy component of initiatives identified through the State Agreement Approach will continue to be assigned in accordance with the State Agreement Approach.¹⁶

7. In the February 20, 2015 Order, the Commission accepted, subject to a compliance filing,¹⁷ the revisions to the PJM Operating Agreement for Multi-Driver Projects and the revisions to the planning process so that projects identified through the State Agreement Approach may be added to an existing RTEP project or Multi-Driver Project already included in the RTEP if, based on PJM's evaluation of the resulting Multi-Driver Project, the project would be more efficient or cost-effective with the State Agreement Approach project. The February 20, 2015 Order also accepted the PJM Transmission Owner cost allocation proposal to address a Multi-Driver Project that contains a State Agreement Approach driver.

III. Request for Rehearing

8. The Ohio Commission contests only the cost allocation for Boosted Projects, and maintains that cost allocation for Boosted Projects meeting the definition for Regional Projects accepted in the February 20, 2015 Order is unjust and unreasonable.¹⁸ The Ohio Commission states that the Commission incorrectly concluded that there are region-wide benefits associated with a Boosted Multi-Driver Project, and maintains that Boosted Multi-Driver Projects do not provide region-wide benefits. Thus, the Ohio Commission argues, it is unreasonable to assign any non-public policy costs for a Boosted Multi-Driver Project on a load-ratio share basis.¹⁹ Moreover, the Ohio Commission contends that the Commission can accomplish the benefits of a Multi-Driver Project while

¹⁶ The State Agreement Approach requires that a state(s) voluntarily commit to be responsible for costs associated with the inclusion of a project identified through the State Agreement Approach. *See* Operating Agreement, Schedule 6, Section 1.5.9.

¹⁷ PJM submitted the required compliance filing in Docket Nos. ER14-2864-003 and ER14-2864-004, which the Commission accepted. *See PJM Interconnection, L.L.C.*, Docket Nos. ER14-2864-003 and ER14-2864-004 (May 5, 2015) (delegated letter order).

¹⁸ Ohio Commission March 19, 2015 Rehearing Request at 3, 5.

¹⁹ *Id.* at 3-5.

ensuring just and reasonable rates by finding that any Boosted Multi-Driver Project that would result in region-wide cost allocation should be entirely allocated through a DFAX analysis, as there are no region-wide reliability benefits with such projects.²⁰

IV. Determination

9. We deny the Ohio Commission's request for rehearing. In the February 20, 2015 Order, the Commission found that the proposal to allocate the non-public policy component of Boosted Multi-Driver Projects with 20 percent of the costs on a load-ratio share basis and 80 percent based on the DFAX method to be just and reasonable as it reflected the treatment of regional transmission projects and related cost allocation under the PJM Tariff. As part of the Multi-Driver Project analysis, PJM determined that overall costs to ratepayers would be reduced by selecting a single project that satisfies both the public policy objectives through the State Agreement Approach and a reliability or economic objective as opposed to selecting two independent projects at higher cost. The costs for the public policy component of initiatives identified under the State Agreement Approach are allocated 100 percent to the states that agreed to be responsible as provided in the Tariff.²¹ The only issue being addressed here is how to allocate the costs of the non-public policy component for the Boosted Multi-Driver Project that qualifies for regional cost allocation because of the addition of the State Agreement Approach project.

10. The Ohio Commission argues that it is unreasonable to assign any non-public policy costs for a Boosted Multi-Driver Project on a load-ratio share basis because Boosted Multi-Driver Projects do not provide region-wide benefits, but instead address transmission needs identified by PJM at a lower voltage level.²² We disagree. The Commission, in PJM's Order No. 1000 regional compliance proceeding, has already approved a region-wide cost allocation applicable to projects that qualify as Regional Facilities and/or Necessary Lower Voltage Facilities based on a load-ratio share. Under the PJM Transmission Owner's proposal in this proceeding, a portion of the costs for Boosted Multi-Driver Projects, are allocated based on a load-ratio share. When a Boosted Multi-Drive Project results in a Regional Facility and/or Necessary Lower Voltage Facility we find a region-wide allocation of a portion of the costs of Boosted

²⁰ *Id.* at 4.

²¹ *See* Operating Agreement, Schedule 6, Section 1.5.9.

²² *Id.*

Multi-Driver Projects that meet the Commission-approved criteria for regional cost allocation is consistent with the Tariff, and just and reasonable.²³

11. It is true, as maintained by the Ohio Commission, that the individual components of the combined project may not have met the requirements for regional cost allocation had they been planned for and selected separately. However, the projects are not being planned for and selected separately, and we cannot find unjust and unreasonable, a cost allocation based on the characteristics and benefits of the actual project being planned and selected merely because one component of the project has been identified under the State Agreement Approach. When PJM combines projects either within separate categories or through the Multi-Driver Project proposal, the costs are allocated based on the benefits and characteristics of the project planned and selected, and we do not find that combined projects involving a State Agreement Approach project should be allocated differently from any other combined project.

The Commission orders:

We deny the Ohio Commission's request for rehearing, as discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

²³ See *PJM Interconnection, L.L.C.*, 142 FERC ¶ 61,214 at PP 412-420.