

154 FERC ¶ 61,096
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

PJM Interconnection, L.L.C.

Docket No. ER15-1387-001

ORDER GRANTING REHEARING
AND ACCEPTING PROPOSED TARIFF REVISIONS

(Issued February 12, 2016)

1. In this order, we grant rehearing of a Commission order rejecting the PJM Transmission Owners' proposed revisions to Schedule 12 of the PJM Interconnection, L.L.C. (PJM) Open Access Transmission Tariff (Tariff) to allocate 100 percent of the costs of transmission projects that are included in the PJM Regional Transmission Expansion Plan (RTEP) solely to address Form 715 local transmission owner planning criteria to the zone in which the criteria apply.¹ Accordingly, we also accept the proposed tariff revisions, effective May 25, 2015.

I. March 26, 2015 PJM Transmission Owners Proposal

2. On March 26, 2015, the PJM Transmission Owners proposed revisions to allocate all of the costs of certain RTEP projects, which would not otherwise be included in the RTEP but for the fact that they address local transmission owner planning criteria, to the transmission zone of the transmission owner that filed the criteria. The PJM Transmission Owner proposal addressed projects that are included pursuant to individual transmission owner's FERC Form No. 715 criteria, which are developed according to the transmission owner's local planning criteria, rather than to address PJM regional criteria or North American Electric Reliability Corporation (NERC) reliability standards.² The

¹ *PJM Interconnection, L.L.C.*, 151 FERC ¶ 61,172 (2015) (May 22, 2015 Order).

² PJM's RTEP planning criteria includes PJM planning procedures, NERC Reliability Standards, Regional Entity reliability principles and standards, individual Transmission Owner FERC filed planning criteria as filed in FERC Form No. 715. *See*

(continued ...)

PJM Transmission Owners explained that, historically, these projects are lower voltage transmission projects, the costs of which are allocated using solution-based distribution factor (DFAX) method, and that for 98 percent of the 303 projects included in the RTEP solely to address local transmission owner planning criteria, all of the costs have been allocated exclusively to the zone of the transmission owner that filed the local transmission owner planning criteria that gave rise to the need for the project. The PJM Transmission Owners argued that the proposed revisions will better align the purpose and intent of local transmission owner planning criteria with the need for and beneficiaries of these projects.³ The PJM Transmission Owners requested that the proposed Tariff revisions become effective May 25, 2015.

II. May 22, 2015 Order

3. On May 22, 2015, the Commission rejected the PJM Transmission Owners' proposal. In the May 22, 2015 Order, the Commission found that under Order No. 1000,⁴ transmission projects selected in a regional transmission plan for purposes of cost allocation must be eligible to use the regional cost allocation method.⁵ The Commission

PJM, Intra-PJM Tariffs, Operating Agreement, [Schedule 6, §1.2\(e\) \(Conformity with NERC Reliability Standards and Other Applicable Reliability Criteria\) \(2.0.0\)](#). PJM plans for the more efficient or cost-effective transmission enhancements or expansions to address these criteria needs for inclusion in the RTEP according to Schedule 6, section 1.5.8 of the Operating Agreement. The Operating Agreement describes the process for posting needs, opening a project proposal window, reviewing proposed projects, and determining which transmission projects will be included in the recommended plan (Operating Agreement, Schedule 6, sections 1.5.8 (b-d)). The cost allocation of projects included in the RTEP is described in Schedule 12 of the Tariff. PJM, Intra-PJM Tariffs, Operating Agreement, [Schedule 6, § 1.5.8 \(Development of Long-lead Projects, Short-term Projects, Immediate-need Reliability Projects, and Economic-based Enhancement or Expansions\) \(6.2.0\)](#).

³ PJM Transmission Owners Transmittal at 2.

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), *aff'd sub nom. S.C. Pub. Serv. Auth. v. FERC*, 762 F.3d 41 (D.C. Cir. 2014).

⁵ May 22, 2015 Order, 151 FERC ¶ 61,172 at P 22 (citing Order No. 1000, FERC Stats. & Regs. ¶ 31,323 at PP 339 & 690).

further stated its understanding that local transmission owner planning criteria are incorporated into the regional transmission planning process, and as a result, projects intended to address such criteria may be selected in PJM's RTEP for purposes of cost allocation. The Commission found that the PJM Transmission Owners' proposal did not comply with the Order No. 1000 requirement that transmission projects selected in the regional transmission plan for purposes of cost allocation be eligible to use the regional cost allocation method,⁶ as it would eliminate regional cost allocation for the subset of transmission projects selected in the regional transmission plan for purposes of cost allocation to address local transmission owner planning criteria. The Commission distinguished the PJM Transmission Owners' proposal from cost allocation provisions accepted in the Midcontinent Independent System Operator, Inc. (MISO) region with respect to what MISO terms Baseline Reliability projects.⁷

III. Rehearing Requests

4. The PJM Transmission Owners contend that the May 22, 2015 Order is based on the incorrect reasoning that every project included in the RTEP is by definition selected in the regional transmission plan for purposes of cost allocation. The PJM Transmission Owners agree that a project must be included in the RTEP to be eligible for regional cost allocation. However, the PJM Transmission Owners contend that projects proposed and considered in the RTEP are not necessarily selected for the purposes of regional cost allocation. Instead, the PJM Transmission Owners state that certain projects proposed and considered in the RTEP are included to address various issues, some of which are local needs and some of which are regional needs.

5. The PJM Transmission Owners also contend that the May 22, 2015 Order is inconsistent with the cost allocation principles of Order No. 1000 because it would require PJM to use the same cost allocation method for multiple types of projects, despite the fact that such projects are planned for different purposes and pursuant to different planning criteria. The PJM Transmission Owners state that the proposal establishes a separate cost allocation method for all local reliability projects that ensures that the allocation of costs for local reliability projects remains consistent with the purpose of the inclusion of local transmission owner planning criteria in the PJM planning process.

⁶*Id.* (citing Order No. 1000, FERC Stats. & Regs. ¶ 31,323 at PP 558, 690).

⁷*Id.* (citing *Midwest Indep. Transmission Sys. Operator, Inc.*, 142 FERC ¶ 61,215, at P 519 (2013) (*MISO*)).

6. The PJM Transmission Owners further contend that the May 22, 2015 Order is inconsistent with Commission precedent allowing the costs of transmission projects selected in a regional transmission planning process to be allocated to a local pricing zone. In particular, the PJM Transmission Owners dispute the Commission's distinction between its proposal and the MISO cost allocation provisions with respect to Baseline Reliability Projects.⁸

7. Dayton Power and Light Company (Dayton) raises similar arguments in its rehearing request. Linden requests clarification that the May 22, 2015 Order is without prejudice, such that PJM and the PJM Transmission Owners can refile revisions to Schedule 12 that meet the Order No. 1000 criteria.⁹

IV. November 12, 2015 Technical Conference

8. In an order issued September 15, 2015,¹⁰ the Commission noted that the rehearing requests raised concerns regarding how PJM plans local transmission projects.¹¹ The Commission directed staff to convene a technical conference to explore issues raised by the rehearing requests, and issues related to a report on cost responsibility assignments for 61 baseline upgrades included in a recent update to the RTEP.¹² On November 12, 2015, Commission staff held the technical conference.

9. In post-technical conference comments, the PJM Transmission Owners and other participants clarified that the intent of the proposal was to create a category of projects that would not be selected in the regional transmission plan for purposes of cost

⁸ PJM Transmission Owners Rehearing Request at 18.

⁹ Linden Clarification Request at 3.

¹⁰ *PJM Interconnection, L.L.C., et al.* 152 FERC ¶ 61,197 (2015) (September 15, 2015 Order).

¹¹ September 15, 2015, Order, 152 FERC ¶ 61,197 at P 16.

¹² On March 20, 2015 (as amended on March 27, 2015), PJM submitted amendments to its Tariff to incorporate cost responsibility assignments for 61 baseline upgrades included in the recent update to the RTEP in Docket No. ER15-1344-001 (March 2015 RTEP Filing). On September 15, 2015, the Commission accepted the Tariff records for filing and suspended them for five months, subject to refund, to become effective February 16, 2016, or an earlier date set forth in a subsequent order (*PJM Interconnection, L.L.C., et al.* 152 FERC ¶ 61,197 (2015)).

allocation, rather than an exclusion for projects selected in the regional transmission plan for purposes of cost allocation but then reallocated to the zone of the individual transmission owner. The PJM Transmission Owners clarified that the proposal would only apply to this category of transmission facilities, and that this category of transmission facilities are separate and distinct from reliability projects that are driven by PJM regional planning criteria or NERC reliability standards. The PJM Transmission Owners further stated that a project that only addresses a transmission owner's local planning criteria does not meet any regional planning criteria or NERC reliability standard.

10. In their comments, the PJM Transmission Owners further explain that PJM submits to the Commission a cost assignment responsibility summary that includes the criteria violation, the criteria test (*e.g.*, NERC Reliability Standards, PJM planning procedure, FERC Form 715 Criteria, etc.), the solution and the cost allocation.¹³ The PJM Transmission Owners state, as mentioned in their request for rehearing, that not all transmission projects included in the RTEP are selected in the regional transmission plan for purposes of cost allocation. They further state that, while it is true that a project must be included in the RTEP to be eligible for regional cost allocation, the RTEP includes categories of transmission projects that are not eligible to be regionally cost allocated, including projects costing under \$5 million and certain spare parts and circuit breakers.

11. In post-technical conference comments, Dominion Virginia Power (Dominion) argues that region-wide cost allocation is appropriate for those transmission projects that address local transmission owner planning criteria if those projects have regional benefits. Dominion maintains that some replacement projects, although included in the RTEP solely to address local transmission owner planning criteria, provide region-wide benefits. The PJM Transmission Owners answer that their proposed Tariff revisions in this proceeding do not change the Tariff provisions for replacement facilities, and that, pursuant to section (b)(xiii) of Schedule 12, the cost responsibility for replacement transmission facilities "will be assigned to the zones responsible for the cost of the transmission facilities being replaced."¹⁴ In their response, Dominion, American

¹³ PJM Transmission Owners post-technical conference comments at 7.

¹⁴ PJM Transmission Owners post-technical conference reply comments at 3, citing section (b)(xiii) of Schedule 12. "Unless determined by PJM to be a Required Transmission Enhancement included in a Regional Transmission Expansion Plan, cost responsibility for the replacement of Transmission Facilities, as defined in section 1.27 of the Consolidated Transmission Owners Agreement, shall be assigned to the Zonal loads

Municipal Power, and Old Dominion Electric Cooperative collectively argue that the cited provision is not applicable to replacement projects that are RTEP projects.¹⁵

V. Discussion

12. As discussed below, we grant rehearing of the May 22, 2015 Order and accept the March 26, 2015 proposed Tariff revisions, to be effective May 25, 2015.

13. Based on the rehearing requests and comments on the technical conference, it has become clear that the PJM Transmission Owners' proposed Tariff revisions apply to projects that are included in the regional transmission plan, the RTEP; solely address transmission owner Form 715 local planning criteria; and are not selected in the RTEP for purposes of cost allocation.¹⁶ With this clarification, and consistent with the Commission's prior order in *MISO*,¹⁷ we find that it is just and reasonable for the costs of projects with these characteristics to be allocated entirely to the zone of the individual transmission owner whose Form 715 local planning criteria underlie each project. As the PJM Transmission Owners explain, not all projects included in the RTEP are selected for purposes of cost allocation. The PJM Transmission Owners' proposal would include among the projects that are included in the RTEP, but are not selected for purposes of

and Merchant Transmission Facilities responsible for the costs of the Transmission Facilities being replaced." PJM, Intra-PJM Tariffs, OATT, [Schedule 12, § \(b\)\(xiii\) \(Replacement of Transmission Facilities\) \(6.1.0\)](#).

¹⁵ Dominion, American Municipal Power, and Old Dominion Electric Cooperative post-technical conference reply comments at 3.

¹⁶ The Commission notes that transmission facilities selected in a regional transmission plan for purposes of cost allocation are transmission facilities that have been selected pursuant to a transmission planning region's Commission-approved regional transmission planning process for inclusion in a regional transmission plan for purposes of cost allocation because they are more efficient or cost-effective solutions to regional transmission needs. Such transmission facilities often will not comprise all of the transmission facilities in the regional transmission plan; rather, such transmission facilities may be a subset of the transmission facilities in the regional transmission plan. For example, a local transmission facility is a transmission facility located solely within a public utility transmission provider's retail distribution service territory or footprint that is not selected in the regional transmission plan for purposes of cost allocation. See, Order No. 1000, FERC Stats. & Regs. ¶ 31,323 at P 63.

¹⁷ *MISO*, 142 FERC ¶ 61,215 at P 520.

cost allocation, a new category of projects that solely address transmission owner Form 715 local planning criteria. In PJM, such projects are not needed to meet PJM regional criteria or NERC reliability standards. Instead, these projects involve transmission facilities needed as determined solely by individual transmission owner Form 715 local reliability criteria; they are included in the RTEP and approved by the PJM Board only to ensure that such projects are developed in a manner that is consistent with PJM's overall regional expansion plan. The PJM Transmission Owners also explain that only if a transmission project is driven *solely* by an individual transmission owner's Form 715 local planning criteria it is included in this new category of transmission projects. Any project included in the RTEP not only to address an individual transmission owner Form 715 local planning criteria, *but also* to address PJM regional criteria or NERC reliability standards, would not be in this new category and would continue to be selected for purposes of cost allocation, making it eligible to use the regional cost allocation method.

14. Because we are granting rehearing, we here address protests to the PJM Transmission Owners' proposal that in the May 22, 2015 Order we did not need to address on the merits. In protesting the PJM Transmission Owners' proposal, ITC Mid-Atlantic Development, LLC and LSP Transmission Holdings, LLC assert that the proposal would undermine the competitive process.¹⁸ Under section 1.5.8(l) of PJM's Operating Agreement, if a transmission project is located solely within a transmission owner's zone and the project's costs are allocated solely to that zone, the transmission owner in whose zone the project is located will be the Designated Entity for the project.¹⁹ As demonstrated by the record, for 98 percent of projects included in the RTEP solely to address local transmission owner planning criteria, costs have historically been allocated exclusively to the zone of the transmission owner who gave rise to the need for the project. Moreover, we find that the PJM Transmission Owners' proposal is consistent with the Commission's findings in *MISO*.²⁰ The PJM Transmission Owners' proposal will allocate 100 percent of the cost of projects solely needed to address transmission owner Form 715 local planning criteria to the zone of the individual transmission owner whose Form 715 local planning criteria underlie each project. However, to the extent that PJM finds that a project is needed to meet not only transmission owner Form 715 local planning criteria but also regional needs, costs may be allocated outside of the zone of the transmission owner that filed the criteria. In this situation, section 1.5.8(l) of PJM's

¹⁸ May 22, 2015 Order, 152 FERC ¶ 61,197 at PP 10, 14.

¹⁹ PJM, Intra-PJM Tariffs, Operating Agreement, [Schedule 6, § 1.5.8\(l\) \(Transmission Owners Required to be the Designated Entity\) \(6.2.0\)](#).

²⁰ *MISO*, 142 FERC ¶ 61,215 at P 524.

Operating Agreement would not apply, and a nonincumbent transmission developer could be the Designated Entity for the project if it were selected in the RTEP for purposes of cost allocation.

15. We do not agree with the PJM Transmission Owners' position stated for the first time in their post-technical conference comments that section (b)(xiii) of Schedule 12 provides for regional cost allocation for projects in this new category that replace transmission facilities whose costs have been allocated regionally. Section (b)(xiii) of Schedule 12 applies only to transmission projects that are not Required Transmission Enhancements included in the RTEP.²¹ Because transmission projects needed to address individual transmission owner's local planning criteria filed in FERC Form No. 715 are considered Required Transmission Enhancements, section (b)(xiii) of Schedule 12 does not apply to this category.

16. Dominion argues that the PJM Transmission Owners' proposal is unjust and unreasonable because some transmission projects included in the RTEP to address local transmission owner planning criteria also provide regional benefits. We disagree. We find persuasive the PJM Transmission Owners' unchallenged statement that for 98 percent of the 303 projects included in the RTEP solely to address individual transmission owner Form 715 local planning criteria, all of the costs have been allocated exclusively to the zone of the transmission owner that filed the Form 715 local planning criteria that gave rise to the need for the project. Indeed, the data provided by the PJM Transmission Owners on this point is even more compelling than the data on which the Commission relied in part in *MISO*, where the Commission also found that MISO's proposed cost allocation provisions for Baseline Reliability Projects result in an allocation of costs that is roughly commensurate to the distribution of the project's benefits.²²

17. We note that this order does not address other issues contemplated during the November 12, 2015 Technical Conference, which are still under review by the Commission.

²¹ Section (b)(xiii) of Schedule 12 of the Tariff that states "Unless determined by PJM to be a Required Transmission Enhancement included in a Regional Transmission Expansion Plan" PJM, Intra-PJM Tariffs, OATT, [Schedule 12, § \(b\)\(xiii\) \(Replacement of Transmission Facilities\) \(6.1.0\)](#).

²² *MISO*, 142 FERC ¶ 61,215 at P 521.

The Commission orders:

(A) The PJM Transmission Owners' request for rehearing of the May 22, 2015 Order is hereby granted, as discussed in the body of this order.

(B) The PJM Transmission Owners' March 26, 2015 proposed Tariff revisions are hereby accepted, effective May 25, 2015, as discussed in the body of this order.

By the Commission. Commissioner LaFleur is dissenting in part with a separate statement attached.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

PJM Interconnection, L.L.C.

Docket No. ER15-1387-001

(Issued February 12, 2016)

LaFLEUR, Commissioner *dissenting in part*:

Today's order grants rehearing of the Commission's denial of the PJM Transmission Owners' proposal to allocate 100 percent of the costs of transmission projects included in the PJM Regional Transmission Expansion Plan solely to address Form 715 local transmission owner planning criteria to the zone in which the criteria apply. I generally agree with today's decision to grant rehearing, based on the expanded record developed through the technical conference and additional briefing. However, I would condition acceptance of the PJM Transmission Owners' filing on the preservation of the current regional cost allocation method for certain high voltage projects, even if those projects are selected solely to address local planning criteria.

Cost allocation for high-voltage transmission projects in PJM has been a contentious issue for years¹ and the subject of two of my prior dissents.² In 2012, as part of their Order No. 1000 regional compliance proposal, the PJM Transmission Owners proposed, and the Commission approved, a cost allocation methodology for double-circuit 345 kilovolt (kV) and 500 kV and above transmission projects that allocates 50 percent of the projects' costs on a postage stamp basis, and 50 percent through a solution-based DFAX analysis.³ In approving the PJM Transmission Owners' proposal, the Commission found that these "high-voltage transmission facilities have significant regional benefits that accrue to all members of the PJM transmission system,"⁴ a finding

¹ See, e.g., *PJM Interconnection, L.L.C.*, Opinion No. 494, 119 FERC ¶ 61,063 (2007), *order on reh'g*, Opinion No. 494-A, 122 FERC ¶ 61,082 (2008), *aff'd in part and remanded in part*, *Illinois Commerce Comm'n v. FERC*, 576 F.3d 470 (7th Cir. 2009), *order on remand*, 138 FERC ¶ 61,230 (2012) (First Order on Remand), *order on reh'g*, 142 FERC ¶ 61,216 (2013) (Rehearing Order on Remand), *remanded*, *Illinois Commerce Comm'n, et al. v. FERC*, 756 F.3d 556 (7th Cir. 2014), *order establishing hearing and settlement judge procedures*, 149 FERC ¶ 61,233 (2014).

² First Order on Remand, 138 FERC ¶ 61,230 (LaFleur, Comm'r, dissenting); Rehearing Order on Remand, 142 FERC ¶ 61,216 (LaFleur, Comm'r, dissenting).

³ *PJM Interconnection, L.L.C.*, 142 FERC ¶ 61,214, at PP 412-426 (2013).

⁴ *Id.* P 413; see also *id.* P 414 ("In supporting the postage-stamp component, the

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that was not limited by the type of transmission need (e.g., local planning criteria) underlying the project.

In this case, the PJM Transmission Owners provide data demonstrating that the overwhelming majority of projects approved to address local planning criteria are already allocated solely to the zone in which they are located through the DFAX methodology, and therefore propose to automatically allocate the costs of all such projects to a particular zone, without the potential for regional cost allocation. However, by their own admission, the overwhelming majority of these projects are also lower voltage facilities.⁵ They therefore fail to demonstrate that this dataset is representative of high-voltage projects that the PJM Transmission Owners previously argued, and the Commission previously found, confer regional benefits justifying the application of the 50/50 regional cost allocation methodology.

I continue to believe that these high-voltage projects in PJM, even if developed solely to address local planning criteria, provide regional benefits that warrant some regional cost allocation. I also believe the currently-effective 50/50 methodology reasonably balances the near-term benefits identified through the DFAX analysis with a recognition of the high-voltage projects' broader regional benefits.⁶ Without a more targeted record, I am not persuaded that the PJM Transmission Owners have rebutted the Commission's prior findings regarding the *per se* regional benefits of these high-voltage transmission projects to the PJM region. I therefore would condition approval of their filing on the preservation of the Commission-approved, bright-line thresholds for regional cost allocation for high-voltage projects, even if those projects are included in the regional transmission plan solely to address local planning criteria.⁷

PJM Transmission Owners state, and we agree, that an advantage of this method is that it captures the full spectrum of benefits associated with high-voltage facilities, including difficult to quantify regional benefits, such as improved reliability, reduced congestion, reduced power losses, greater carrying capacity, reduced operating reserve requirements, and improved access to generation. The PJM Transmission Owners also note, and we also agree, that this postage stamp method accounts for changes in system use over the lifetime of a high-voltage facility.”).

⁵ *E.g.*, PJM Transmission Owners March 26, 2015 Transmittal Letter at 2 (“Historically, such Local Reliability Projects have been almost exclusively Lower Voltage Transmission Projects as defined by the PJM Tariff. . .”).

⁶ *See, e.g.*, *PJM Interconnection, L.L.C.*, 142 FERC ¶ 61,214 at P 420.

⁷ While I dissent in part, I do not believe that the decision in this case is simple, in

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More generally, Order No. 1000 was intended to ensure just and reasonable transmission rates through the improvement and expansion of regional planning and the introduction of competition. Even if crafted within the letter of Order No. 1000 and the Commission's compliance orders, proposals to limit access to existing regional cost allocation and competitive bidding processes are, in my view, inconsistent with the rule's underlying goals. As we continue to monitor Order No. 1000 implementation, we should be open to directing regulatory changes to align the application of the rule with its goals. I will continue to review proposals to revise regions' Order No. 1000 planning processes to ensure that, where possible and consistent with its letter, the spirit of Order No. 1000 is also upheld.

Accordingly, I respectfully dissent in part.

Cheryl A. LaFleur
Commissioner

no small part due to the Midcontinent Independent System Operator, Inc. precedent relied upon by the PJM Transmission Owners to justify their proposal. I also recognize that the design of Order No. 1000 planning processes in varying regions, with widely divergent planning structures, has resulted in a complex landscape that can sometimes appear difficult to reconcile.