



Federal Energy Regulatory Commission
April 19, 2007
Open Commission Meeting
Statement of
Chairman Joseph T. Kelliher

Item E-8: PJM Interconnection, L.L.C. (Docket Nos. EL05-121-000 and EL05-121-002)

"Today, we approve an important order modifying the cost allocation for transmission projects in the PJM Interconnection. This action is significant, and should encourage greater transmission investment in the region.

As the U.S. Supreme Court has held, "allocation of costs is not a matter for the slide rule. It involves judgment on a myriad of facts. It has no claim to an exact science." Today we exercise our judgment on a myriad of facts to allocate transmission costs in a manner that encourages increased transmission investment, avoids significant cost shifts among PJM transmission owners, and is just and reasonable.

As I noted last month when we acted to establish transmission cost allocation rules for the Midwest ISO, the Commission has taken varying approaches towards transmission cost allocation in different regions. That reflects differences among the regional grids. It also reflects the nature of the just and reasonable standard and the reality that cost allocation is an inexact science.

In other regions where we have addressed transmission cost allocation, there was regional consensus. Given the inexact science of cost allocation and the flexibility of the just and reasonable standard, we were able to grant regional preference. Here, there was no regional consensus so it was impossible to provide regional preference.

We take a different approach in PJM than in other regions. Under the order, cost allocation would vary depending on the nature of facility planning and the size of the facility. In PJM, we approve continued use of zonal or "license plate" rates to allocate the costs of existing and new owner-initiated transmission facilities. We do so based on our view that the costs of these facilities were and will be incurred to serve customers in a particular zone and should be borne by those customers.

We also approve with some modifications PJM's current "beneficiary pays" approach for allocating the costs of new, PJM-planned transmission projects below 500 kV. However, we find that the PJM proposal lacks adequate details regarding its method of determining beneficiaries and we require submission of more detail.

The costs of new, PJM-planned facilities that operate at or above 500 kV would be shared on a region wide basis and recovered through a postage stamp rate. We believe a postage stamp rate is appropriate for these costs because facilities of this size represent backbone transmission projects that strengthen the entire regional grid, improving reliability and supporting regional markets.

Our approach is different from the recommendations in the Initial Decision last year. We reverse the judge on cost allocation for existing facilities, finding there is insufficient evidence in the record to conclude that the existing license plate rate design is unjust and unreasonable. In addition, the approach proposed by the judge would result in large cost shifts and sharply increase transmission rates for some PJM utilities. That is a factor that we gave considerably more weight to than the judge did in the Initial Decision. For example, one approach found to be just and reasonable in the Initial Decision would have resulted in increased rates of more than

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70 percent for one transmission customer in PJM. Costs shifts of this magnitude support our rejection of the Initial Decision's move away from license plate rates for existing facilities in PJM.

One of the judge's goals in reallocating costs of existing transmission facilities was sending the right price signals for future investment. I agree we need to encourage greater transmission investment in PJM. But, that can best be accomplished through clear rules to allocate future costs for new transmission investment.

I believe the approach we take today provides for just and reasonable allocation of transmission costs in the PJM Interconnection."