

**Notice Of Attachment H Transmission Owners Stakeholder Process  
For Order No. 1000 Regional Cost Allocation Principles  
(June 13, 2012)**

The Attachment H Transmission Owners<sup>1</sup> have developed the attached Cost Allocation Principles as the basis for a proposed section 205 filing designed to comply with the requirements of Order No. 1000 with respect to the allocation of costs associated with new PJM Board-approved RTEP projects. These Principles are supported by 12 of the 14 Attachment H Transmission Owners representing 99.8% of the Attachment H Transmission Owners' total net transmission investment in PJM network transmission facilities.

The Attachment H Transmission Owners invite members of the Organization of PJM States, representatives to the Members Committee and other PJM Stakeholders to attend a presentation of the Principles and provide comments in regard thereto on July 18, 2012, 10:00 a.m. to 3:00 p.m. (lunch provided) at Washington Marriott at Metro Center, 775 12th Street, N.W., Washington, DC, 20005-3901. If you plan to attend this meeting, either in-person or by conference call/WebEx, please register on the Transmission Owners Agreement-Administrative Committee page of the PJM website located at [www.pjm.com/committees-and-groups/committees/toa-ac.aspx](http://www.pjm.com/committees-and-groups/committees/toa-ac.aspx).

Written comments on the Principles may be submitted for consideration by the Attachment H Transmission Owners by email to: [TO\\_Cost\\_Allocation@pjm.com](mailto:TO_Cost_Allocation@pjm.com). Written comments should be submitted on or before August 1, 2012.

On September 5, 2012 from 10:00 a.m. to 12:00 p.m., the Attachment H Transmission Owners will host a conference call to discuss any revisions to the Principles as a result of comments received on July 18 and written comments received by August 1.

Based on the discussion during the July 18 meeting, a determination will be made if additional meetings are necessary prior to September 5.

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<sup>1</sup> PJM Transmission Owners with revenue requirements provided in Attachment H of the PJM Open Access Transmission Tariff.

## **COST ALLOCATION PRINCIPLES <sup>1</sup>**

1. This proposal applies *only* to RTEP projects approved by the PJM Board in accordance with the RTEPP on and after the effective date of the compliance filing required by Order No. 1000.<sup>2</sup>
2. The following applies to Baseline Reliability and Operational Performance projects.
  - a. Regional Extra High Capacity Projects:<sup>3</sup> 50% Postage Stamp; 50% Solution-based DFAX.<sup>4</sup>
  - b. All Lower Capacity Projects:<sup>5</sup> 100% Solution-based DFAX.
  - c. Solution-based DFAX to be calculated periodically.<sup>6</sup> If flows cannot be measured (such as a SVC) then an appropriate proxy will be used.
3. The following applies to Baseline Market Efficiency Projects directed by PJM in accordance with Schedule 6 (including Schedule 6 modifications accepted by FERC pursuant to the filing of February 29, 2012).
  - a. Regional Extra High Capacity Projects: 50% Postage Stamp; 50% to the zones that benefit from the project through decreased load payments.
  - b. All Lower Capacity Projects: 100% to the zones that benefit from the project through decreased load payments.
  - c. Need to consider whether complementary revisions to the method used by PJM to determine benefits (specifically for Regional Extra High Capacity Projects) for project selection and approval purposes are necessary.

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<sup>1</sup> These Principles are supported by 12 of the 14 Attachment H Transmission Owners (Attachment H TOs). The supporting Attachment H TOs represent 99.8% of the transmission investment on a net plant basis by all Attachment H TO. This level of support significantly exceeds the two-thirds support required by Sections 7.2.1 and 8.5.1 of the Consolidated Transmission Owners Agreement for approval of a change in the PJM Regional Rate Design. The Attachment H TOs that support these Principles are AEP, Dayton, Dominion, Duke, Duquesne, Exelon, FirstEnergy, ODEC, PHI, PPL, PSEG and UGI. In addition, Rockland Electric supports these Principles pending resolution of its concerns regarding item 7 on aging infrastructure.

<sup>2</sup> The precise effective date of the cost allocation filed in accordance with these principles may be established by a Section 205 filing by the TOs.

<sup>3</sup> Regional Extra High Capacity Project is defined in the Appendix.

<sup>4</sup> Solution-based DFAX is described in the Appendix.

<sup>5</sup> Lower Capacity Project is defined in the Appendix.

<sup>6</sup> There are many options regarding recalculation interval, but any method should balance the benefits of frequent recalculations against the administrative burden to PJM and price uncertainty to customers. Details to be discussed.

4. Cost allocation of a double circuit 345 kV project as a Regional Extra High Capacity Project will not begin until such project is energized as a double circuit facility. Any CWIP permitted to be recovered prior to the facility being energized will be allocated as a Lower Capacity Project, provided, however, that any CWIP permitted to be recovered after the project is approved in an RTEP as a double circuit 345 kV project and prior to the facility being energized as a double circuit facility will be allocated as a Regional Extra High Capacity Project.
5. Network upgrade projects for generation and merchant transmission interconnections will continue to be charged on a “but for” basis.
6. Project cost incurred due to state RPS requirement will be allocated to the PJM loads in that state (or states, if applicable).<sup>7</sup>
7. Aging infrastructure projects are allocated to the zone of the TO that owns the aging infrastructure unless the aging infrastructure is replaced as part of a PJM directed project needed for Baseline Reliability, Operational Performance, or Market Efficiency. If PJM modifies the manner in which aging infrastructure projects are included in an RTEP, such that the portion of the project associated with the replacement of aging infrastructure is separately identified from the portion needed for Baseline Reliability, etc., the potential for changes in this principle will be addressed.
8. Notwithstanding the above, all projects with an estimated cost of < \$5M are charged to the zone in which they are located.
9. As previously agreed, cost allocation for multi-driver, critical mass, public policy, or other still undefined planning criteria will be addressed upon development of that planning criteria, if any.
10. Direct Current transmission lines are not addressed by this proposal and will be addressed at a later time.
11. These Principles will be reflected in necessary, more detailed revisions to the PJM Open Access Transmission Tariff and a FERC filing under section 205 of the Federal Power Act, to be developed by the Attachment H Transmission Owners, subject to a vote under section 7.2 of the Consolidated Transmission Owners Agreement.

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<sup>7</sup> At this point a RPS project would only arise as a supplemental project; however, supplemental projects are not included in this proposal. Operating Agreement provisions will need to be implemented before PJM can order based on a RPS driver, a project which is not a supplemental project.

## Appendix

### **Description of DFAX Calculation**

- a. The zonal flow contribution will be calculated based on the non-contingency flow on the reinforcement identified to resolve the violation(s), not on the facilities that were identified as causing the reliability violations (*note: this is a change from the present DFAX procedure*).
- b. Other than as noted in a, above, the zonal flow contribution will be calculated using PJM's current DFAX methodology, including the proposed increase in the DFAX threshold.<sup>8</sup>

### **Definition of Transmission Projects**

“Regional Extra High Capacity Project” is defined as:

- a. 500 kV and higher voltage projects\*;
- b. A double circuit 345 kV project\* included in the RTEP as a single project where both circuits originate from the same substation on one end and terminate in the same substation on the other end, even though the two circuits may be routed in different rights-of-way. A double circuit 345 kV project may include pre-existing facilities, however only (i) the cost of the new facilities and (ii) the original cost of any pre-existing facilities that are included in Schedule 12 Appendix of the PJM Tariff, less accumulated depreciation, will be included in the cost allocated as a Regional Extra High Capacity Project (Line); or
- c. A dynamic resource (capacitor, SVC or equivalent (*i.e.*, Statcom, Synchronous Condenser, etc.), inductor and other shunt device) or other component connected to Regional Extra High Capacity Lines.\*

\* Facilities included in the project which in and of themselves do not meet the Regional Extra High Capacity definition, but are nonetheless required to support construction or operation of a Regional Extra High Capacity Project, will be cost allocated in the same manner as the Regional Extra High Capacity components of the project. (This is to function as the parallel of the “Necessary Lower Voltage Facilities” concept presently applicable to  $\geq 500$  kV projects.) Where voltage is a determining factor in cost allocation, the low-side voltage of a transformer determines its voltage classification.

“Lower Capacity Project” is defined as any project not defined above as a “Regional Extra High Capacity Project.”

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<sup>8</sup> PJM has confirmed that using solution based DFAX will not require any changes to generation dispatch modeling.