



August 6, 2012 (via Email)

PJM Attachment H Transmission Owners

RE: Order No. 1000 Regional Cost Allocation Principles (June 13, 2012)

Dear PJM Attachment H Transmission Owners:

American Municipal Power, Inc. (AMP) hereby submits comments and a suggestion regarding one specific, but potentially very important, element of the Cost Allocation Principles for Regional Extra High Capacity Projects and Lower Capacity Projects dated June 13, 2012 and posted at <http://www.pjm.com/committees-and-groups/committees/~media/committees-groups/committees/mrc/postings/notice-of-tos-cost-allocation-stakeholder-process.ashx>.

AMP's comments and suggestion pertain to the provision for periodic recalculation of the Solution-based DFAX (see paragraph 2.c of the Cost Allocation Principles document). The posted document correctly observes that "[t]here are many options regarding recalculation interval," and states further that the details are still under discussion. During the July 18, 2012 presentation and conference, in response to a question from AMP's counsel Gary Newell, a representative of the Attachment H Transmission Owners said that the TOs' current thinking is to use a fixed recalculation interval, pursuant to which the Solution-based DFAX would be recalculated every "X" years, but that the specific fixed interval to be used had not been decided upon.

AMP does not disagree with the view (also stated in footnote 6) that the approach to recalculation of the Solution-based DFAX "should balance the benefits of frequent recalculations against the administrative burden to PJM and price uncertainty to

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customers.” We are concerned, however, that the fixed interval approach would not strike the right balance if the fixed interval between recalculations is longer than five (5) years. Over the course of a five-year period, the placing into service of one or more large transmission or generation projects could have enough of an effect on system topography as to materially affect the DFAX results in particular PJM zones or subregions. Those effects could have the result of allocating costs to a zone or subregion that are no longer roughly commensurate with the benefits expected to be received by that zone or subregion.

Therefore, if the Attachment H TOs propose to incorporate a fixed interval for DFAX recalculations that is longer than five years, AMP suggests that the proposal also incorporate a “safety valve” mechanism that would allow a Transmission Owner or Transmission Customer to request a DFAX recalculation within the fixed interval under certain circumstances. Specifically, to be entitled to an intra-interval recalculation, the requesting party should be required to demonstrate reasonable grounds to believe that, due to changes in system topography, the then-effective Solution-based DFAX results are producing a materially incorrect allocation of cost for one or more PJM zones or subregions.

In the interest of conserving PJM’s resources and minimizing price uncertainty, an objective standard for “materially incorrect allocation of cost” might be adopted (e.g., for any transmission project subject to the new cost allocation principles, an updated set of DFAX results would affect the amount of cost allocated to one or more zones or subregions by at least “Y” percent). An objective standard also would be less likely to engender controversy than would the use of a purely subjective analysis for this purpose. There also should be a defined timeframe within which PJM would complete its evaluation and decide whether an intra-period recalculation is warranted (e.g., within “Z” weeks from submission of the recalculation request). It also might be appropriate to have a “blackout period” such that, if an adjusted cost allocation takes effect due to a regularly scheduled DFAX recalculation, at least “W” months must pass before a request for an intra-period recalculation would be considered. Finally, the completion and implementation of an intra-period DFAX recalculation would reset the clock on the fixed interval recalculations (that is, if the fixed recalculation interval is “X” years but an intra-period recalculation is found to be warranted, the date on which the adjusted cost allocation is put into effect would be the start date for the next interval of “X” years).

While the specific mechanics of implementing the suggested “safety valve” obviously would require additional discussion, we believe that some provision for DFAX recalculations within the fixed interval is necessary if the fixed interval between recalculations is to be greater than five years. If the fixed interval is less than five years, the likelihood of topology changes having a significant impact on cost allocation is diminished, as is the burden of any cost allocation that might be rendered “incorrect” by a possible topology change. Therefore, AMP does not see the need to include a mechanism for intra-interval recalculations if the fixed interval between DFAX recalculations is to be five years or less.

Thank you for considering AMP’s comments and suggestions. Please feel free to contact me directly if clarification of AMP’s position is required.



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