

The Delaware Public Service Commission Staff (“Delaware Staff”) appreciates that the Proposed Cost Allocation Principles for Order No. 1000 (“Principles”) presented by the Transmission Owners (“TOs”) on July 18, 2012 (“Presentation”) was a compromise and the result of difficult “discussions” among the TOs. The Delaware PSC Staff supports the Principles for Regional Extra High Capacity (“EHC”) Reliability Projects that do not rely on an arbitrary 100% postage stamp cost allocation based solely on voltage characteristics. The Delaware PSC Staff, however, remains concerned that the result of the Principles would still end in ultimate cost responsibility that does not appropriately reflect the planning, construction, and operation characteristics for EHC Reliability Projects.

As discussed further below, the Delaware PSC Staff has concerns in three main areas as follows:

- Cost responsibility that reflects (to the greatest extent possible) the planning, construction, and operation characteristics for EHC Reliability Projects;
- Inclusion of mitigation mechanisms in the Principles addressing potential volatility in cost responsibility for EHC Projects; and
- Specific discussion to address potential differences between EHC Projects approved pursuant to the effective date in the proposed Principles versus an effective date after the completion of all potential regulatory, legal, or other processes that could result in different cost allocation principles.

Cost Responsibility

The Principles contemplate that EHC Reliability Projects would be allocated on a hybrid approach where half of the costs would be allocated to identified beneficiaries and the remaining half allocated by the postage stamp methodology, based on non-coincident zonal peak load ratio share (Presentation slide 13). While this hybrid approach is an improvement over the existing 100% postage stamp allocation, Delaware PSC Staff believes that the systemic error factor for cost responsibility can be further reduced by an allocation that appropriately reflects the planning, construction, and operation characteristics for EHC Reliability Projects.

In viewing the PJM high voltage system, it appears to Delaware PSC Staff that three regions could reflect the impact of EHC Reliability Projects, i.e., East Region, West Region, and PJM Region. Within each region there could be three categories of cost responsibility; i.e., identified beneficiaries, Region, and PJM.

An EHC Reliability Project in an East or West Region that was not located near the center of PJM and, therefore, will not improve transfer capability between the East and West, could most likely be analyzed to better identify beneficiaries reflecting the planning, construction, and operation characteristics for the specific project. The result of such an analysis could develop cost responsibility limited to beneficiaries in the region in which the construction occurs, expanded to include identified beneficiaries in the neighboring region, as well as the PJM Region if both regions are beneficiaries. An EHC Reliability Project in the center of PJM would most likely provide benefits to both regions and, therefore, postage

stamp cost responsibility would be appropriate. An EHC Reliability Project in the PJM Region could also be analyzed to identify beneficiaries in particular a region(s) as well as the PJM Region.

The Delaware PSC Staff would certainly recognize that as EHC Reliability Projects are constructed and/or have impacts closer to the center of PJM, issues concerning the extent of postage stamp versus beneficiary cost responsibility would increase. The Delaware PSC Staff would suggest, however, that implementing principles for cost allocation of EHC Reliability Projects that relied primarily on analysis reflecting planning, construction, and operation characteristics would have a superior result than Principles that relied solely on an arbitrary 50% between beneficiaries and postage stamp. This superior result would occur even if the result of analysis of the EHC Reliability Project was not conclusive as to all beneficiaries and/or impact(s) so that some portion of the cost responsibility was arbitrarily assigned. As proposed by the TOs, the Principles would permanently include a systemic error in cost responsibility for EHC Reliability Projects as the only solution whereas, in the opinion of Delaware PSC Staff, the systemic error could be avoided by initially relying on cost responsibility reflecting the planning, construction, and operating characteristics of the EHC Reliability Project.

The Delaware PSC Staff is reserving comment on the issue of cost responsibility for market efficiency EHC Projects as there does not appear to be a justification presented for a 50% postage stamp allocation with the remainder allocated to the zones that benefit from the project through decreased load payments. It would appear that, by definition, a market efficiency EHC Project has an identifiable market and corresponding benefits and costs to determine efficiency. Given that the benefits/market efficiency/decreased load payments relies on specific/identifiable determinants, there should be little, if any, need for a default 50% postage stamp cost responsibility. The Delaware PSC Staff would appreciate further discussion from the TOs justifying the proposed cost responsibility for market efficiency EHC Projects.

The Delaware PSC Staff is also reserving comment on any further development of principles for the cost responsibility of DC lines, stand-alone public policy projects, and critical mass/multi-driver projects not currently addressed by the Principles.

Mitigation Mechanism

The Principles contemplate periodic recalculation of the DFAX portion of cost responsibility (Presentation slide 20). During discussion of this component, the TOs indicated that the period for the recalculation had not been determined and perhaps a 5-year period could be proposed with provisions for annual (or other) DFAX recalculations during the 5-year period. The Delaware PSC Staff could support the proposal for a long-term period for DFAX recalculations with provisions for more frequent DFAX recalculations within that long-term period to address shifts in cost responsibility. The issue of volatility as a result of DFAX recalculations was raised and Delaware PSC Staff could agree that substantial shift in the DFAX recalculation would not occur frequently as a result of changes in load, facilities, etc.

The Delaware PSC Staff would suggest, however, that even though the expectation is that substantial shift in cost responsibility as a result of DFAX recalculation would not be frequent, the Principles should still include a mechanism to address the potential for such substantial shifts in cost responsibility. One mechanism that could be considered is a band around which a shift in cost responsibility from DFAX recalculation would occur. For example, cost responsibility would not change unless greater than 10% of the existing cost responsibility shifted as a result of DFAX. Additionally, to avoid volatility in cost responsibility, where such substantial shift in cost responsibility was identified as a result of DFAX recalculation, it would be spread over a 5-year period. As a result, if the cost responsibility for a zone responsible for an EHC Project was \$100/MW-YR and a DFAX recalculation identified a shift to \$110/MW-YR, the increase from \$100/MW-YR would be spread over a five-year period. To be equitable, and address concerns of cost recovery during the 5-year phase-in period for a shift in cost responsibility resulting for DFAX recalculations, the phase-in period would apply to decreases as well as increases in cost responsibility.

Effective Date

The Presentation indicates that the Principles would only apply to RTEP projects approved by the PJM Board on or after the effective date of the (Order No. 1000) compliance filing (Presentation slide 13). While the Delaware PSC Staff appreciates the need for certainty in the application of the Principles, the Presentation does not include, and there was no discussion by the TOs or participants, regarding the issue of the impact on EHC Projects' cost responsibility if the Principles were subsequently revised as a result of regulatory, legal, or other processes. The Delaware PSC Staff would suggest that it would be helpful if there was discussion by TOs addressing the issue of any changes to the proposed Principles, especially the 50% proposal for cost responsibility of EHC Projects for reliability, which could be required subsequent to the proposed effective date.

Conclusion

The Delaware PSC Staff recognizes the improvement over the current 100% postage stamp cost responsibility for high voltage projects provided by the proposed Principles and the extent of the effort incurred by the TOs to achieve the compromise summarized in the Presentation. The significance of the cost responsibility for RTEP projects approved by the PJM Board, however, deserves the best efforts of all stakeholders to analyze the planning, construction, and operating characteristics of the project rather than rely on a default methodology with little, if any, reflection of the important characteristics of the project. The Delaware PSC Staff would suggest that ultimately the result of the Principles is not only cost recovery (admittedly, the most significant result), but also contributes price/cost signals to the decisions regarding the necessity for future planning of transmission and generation facilities as well as alternatives to those facilities. The cost allocation methodology, therefore, should reflect, to the greatest extent possible, the planning, construction and operation characteristics of transmission facilities rather than simply reflect that which is that which is uncontroversial and straightforward.