

**ICC Comments on the PJM Transmission Owners' June 13, 2012**  
**Order 1000 Cost Allocation Proposal**

The Illinois Commerce Commission (“ICC”) offers the following comments with respect to the Proposed Cost Allocation Principles of the PJM Transmission Owners.

**Comments on the Proposal for Baseline Reliability and Operational Performance Projects**

The exclusive use of postage stamp allocation is not a just and reasonable rate design. As such, the Transmission Owners’ proposal is an improvement over the present cost allocation for higher voltage facilities. However, the ICC still has concerns that the 50% postage stamp allocation of Regional Extra High Capacity Projects will result in disproportionate amounts of costs being allocated to Western PJM relative to the benefits Western PJM will receive from those facilities. The basis for this concern is the difference in transmission infrastructure between Eastern and Western PJM, a condition that will likely persist unless there is a great increase in double circuit 345 kV facilities in Western PJM.

The proposed cost allocation is a step in the right direction for purposes of the Order 1000 compliance. However, the proposal would be improved if the allocation method were made subject to periodic review (as is done with RPM) in order to ensure that transmission costs are being reasonably allocated in the event of subsequent changes in the industry or technology.

The ICC suggests that such a review occur every five years. It is critical to remember that postage stamp allocation only serves as a proxy for superior ways of identifying cost causers and beneficiaries. Certain data and analytical limitations currently exist that may warrant some use of a postage stamp allocation approach for an interim period. However, as time progresses, it may be possible to develop more accurate ways of identifying cost causers and beneficiaries. For example, the nation-wide effort to develop cost allocation methods for Order 1000 regional and interregional compliance filings may bring forth new approaches and techniques with respect to transmission cost allocation that could be used in the PJM region. This argues for periodically re-examining the cost allocation method. Transmission cost allocation is a critical function of a RTO and ensuring that costs are properly allocated to cost causers and beneficiaries of transmission expansions is necessary to ensure that transmission development is equitable and economically efficient.

The use of a solution based distribution factor test (“DFAX”) is a significant improvement over PJM’s present practice. One of the principal criticisms of the present violation-based DFAX

analysis is that it is static and only shows the use of a transmission facility at any given time. Conversely, the solution-based DFAX approach included in the Transmission Owners' proposal does not suffer from this defect and, as periodic recalculations are run and further experience is gained with it, there may be ways to further reduce the dependence on postage stamp allocation.

### **Comments on the Proposal for Market Efficiency Projects**

The meaning of the term "decreased load payment" in Paragraph 3(b) is unclear. The ICC suggests that this term be defined. If this payment is intended to be calculated in the same manner as the payment described on Schedule 6, page 459 of the Operating Agreement, then this should be specifically stated. It would be useful if the Transmission Owners would provide clarification on this point at the next stakeholder meeting.

It is also unclear to what the proposal refers in Paragraph 3(c) regarding possible revisions to the "project selection and approval" process. It would be useful if the Transmission Owners would provide clarification on this issue at the next stakeholder meeting.

With respect to the postage stamp allocation component of the proposal, the ICC's above comments regarding reliability projects apply here as well. Similarly, the market efficiency project cost allocation method should be reviewed on the same time interval as the ICC has suggested for the reliability cost allocation method.

### **Additional Comments**

The Transmission Owners' proposal with respect to aging infrastructure merits additional clarification. One suggestion is that, if aging infrastructure is replaced, only the incremental capacity created by the qualifying project should be allocated pursuant to regional cost allocation with the portion of the project used to replace existing capacity subject to the same cost allocation method as the existing facility. It is not clear what modifications (to the PJM RTEP addressed in paragraph 7 of the Appendix of the Cost Allocation Principles) would need to be made to accommodate such a practice, so additional clarification from the Transmission Owners on this point at the next stakeholder meeting would be useful.

Paragraph 4 of the appendix to the proposal also merits further clarification. To the extent that the proposal is treating the recovery of CWIP differently for double circuit 345 KV projects than for 500 kV and above projects, it is discriminatory towards Western PJM and should be modified accordingly.

Respectfully submitted,  
*/s/Nora A. Naughton*

---

Nora A. Naughton  
Supervisory Counsel and  
Special Assistant Attorney General  
Illinois Commerce Commission  
160 N. LaSalle St., Suite C-800  
Chicago, IL 60601  
(312) 793-4344  
(312) 793-1556 (fax)  
nnaughto@icc.illinois.gov  
ILLINOIS COMMERCE COMMISSION

Dated: July 31, 2012