

**COMMENTS OF THE MARYLAND PUBLIC SERVICE COMMISSION  
TO PJM INTERCONNECTION, LLC, IN RESPONSE TO THE  
TRANSMISSION COST ALLOCATION PROPOSAL OF THE  
ATTACHMENT H TRANSMISSION OWNERS**

Several transmission owners filed a joint proposal with PJM Interconnection, LLC on June 13, 2012, proposing to significantly alter the cost allocation methodology utilized by PJM for high voltage transmission facilities. As explained below, the Maryland Public Service Commission (Maryland PSC) believes that the existing methodology for allocating the costs of high-voltage transmission facilities is just and reasonable and does not necessarily require alteration. To the extent the transmission owners propose to change the existing cost allocation methodology, the Maryland PSC cautions that those proposed changes raise many questions and would require substantial investigation and refinement prior to implementation.

**BACKGROUND**

On June 13, 2012, several PJM transmission owners filed with PJM a Notice of Stakeholder Process addressing new proposed regional cost allocation principles meant to comply with the requirements of FERC's Order No. 1000.<sup>1</sup> The proposal represents the agreement of 12 of the 14 PJM Attachment H Transmission Owners, consisting of 99.8 percent of the Attachment H Transmission Owners' total net transmission investment in PJM network transmission facilities. On July 18, 2012, these transmission owners made a presentation to PJM stakeholders of their new proposed regional cost allocation principles, and articulated the following fundamental elements.

The proposed cost allocation principles are prospective. If accepted by FERC, the principles would apply only to RTEP projects approved by the PJM Board on or after the

---

<sup>1</sup> *PJM Interconnection, LLC*, 138 FERC ¶ 61,230 (2012) (Order 1000).

effective date of the PJM compliance filing required by Order No. 1000. Additionally, high and lower-voltage projects would be redefined. The proposal provides that the term Extra High Capacity Projects include 500 kV and higher voltage as well as double circuit 345 kV projects. The costs of facilities needed to support the construction or operation of Regional Extra High Capacity Projects would also be allocated in the same manner as the Regional Extra High Capacity components of the project. The proposal defines Lower Capacity Projects as any project that is not a Regional Extra High Capacity Project.

Cost allocation for transmission projects approved by the PJM Board would also change significantly. For Baseline Reliability and Operational Performance projects that meet the definition of Regional Extra High Capacity Projects, 50 percent of costs would be socialized through the Postage Stamp methodology based on a non-coincident zonal peak load ratio share and 50 percent would be apportioned through a new cost allocation method termed Solution-based DFAX. For all Lower Capacity Projects, costs would be allocated 100 percent through Solution-based DFAX.

Regarding Baseline Market Efficiency Projects, 50 percent of the costs of Regional Extra High Capacity Projects would be allocated pursuant to the Postage Stamp methodology. The remaining 50 percent would be assigned to the zones that benefit from the project through decreased load payments. For Lower Capacity Projects, 100 percent of the costs of Baseline Market Efficiency Projects would be apportioned to the zones that benefit from the project through reduced load payments.

The proposal does not attempt to address how Multi-Driver or Public Policy transmission projects are cost allocated. To the extent that such a project is viewed by PJM as a Supplemental Project, this proposal does not touch upon the cost allocation for such Supplemental Projects.

Moreover, the proposal states that the cost allocation methodology for Direct Current transmission lines will be addressed at a later time.

## DISCUSSION

### **I. PJM’S Existing Cost Allocation Methodology Is Just and Reasonable**

Although it is noteworthy that in the contentious subject of transmission cost allocation the Attachment H Transmission Owners have largely achieved agreement among themselves regarding the cost allocation methodology that they believe should be utilized in the future, they have not demonstrated any flaw in PJM’s current postage stamp methodology for allocating the costs of high-voltage transmission facilities. Indeed, in its Order on Remand, FERC addressed this methodology and found it to be just and reasonable.

FERC determined in its Order on Remand,<sup>2</sup> for example, that transmission facilities operating at 500 kV and above produce regional benefits that inure to all users of the transmission system. In addition to regional reliability benefits, FERC found that 500 kV and above facilities produce greater transfer capability and reserve sharing and reduce transmission losses, compared to lower voltage facilities.<sup>3</sup> The agency further determined that the reliability benefits of high voltage projects are conveyed in rough proportion to the transmission owners’ use of the system. Accordingly, FERC concluded that “the reliability benefits of the new 500 kV and above projects are sufficiently shared by all in the region, including the western zone, to justify regional cost allocation.”<sup>4</sup> FERC also specifically examined PJM’s postage-stamp cost allocation methodology and found it to be just and reasonable. The agency stated “we find that a region-wide postage-stamp allocation of the costs of new transmission facilities that operate at

---

<sup>2</sup> *PJM Interconnection, LLC*, 138 FERC ¶ 61,230 (2012).

<sup>3</sup> *Id.* at P 125.

<sup>4</sup> *Id.* at P 61.

and above 500 kV is a just, reasonable and not unduly discriminatory method of allocating the costs of these facilities to those utilities that use the integrated transmission system and receive the system-wide benefits of these facilities.”<sup>5</sup>

In contrast, FERC determined that PJM’s existing (violation-based or static) DFAX would not justly and reasonably allocate the costs of high-capacity transmission projects. It found that DFAX does not accurately reflect the distributed network benefits that emanate from the upgraded high-voltage facility and that it fails “to capture the full spectrum of reliability benefits that high voltage projects bring to the system by resolving multiple problems in multiple areas to move large amounts of power over long distances.”<sup>6</sup> Instead, FERC determined that the existing DFAX method was appropriate only for allocating the costs of lower-transmission facilities, namely, facilities that are below 500 kV. The agency reasoned “the DFAX method for allocating costs is reasonable for projects that address one or a few violations in a localized geographic area, which as PJM indicates are projects operated at voltages of 345 kV and below.”<sup>7</sup>

The Attachment H transmission owners propose to significantly alter the existing postage-stamp cost allocation for new transmission facilities. First, new 500 kV and above transmission facilities will socialize only 50 percent of their costs – despite the fact that FERC has already determined that these high voltage transmission facilities produce regional benefits and that their costs should be allocated regionally. Second, the transmission owners propose that double-circuit 345 kV facilities will be considered Extra High Capacity Projects whose costs will be partly socialized, through the 50/50 hybrid model. As more fully described below, however, the regional benefits of those 345 kV transmission systems have not been demonstrated, bringing

---

<sup>5</sup> *Id.* at P 49.

<sup>6</sup> *Id.* at P 60.

<sup>7</sup> *Id.* at P 124.

into question whether their costs should be subject to postage-stamp allocation. In short, it is unclear why FERC should reject an existing methodology that it just recently reaffirmed as just and reasonable in its Order on Remand in favor of a new, untested approach.

## **II. The Proposal of the Attachment H Transmission Owners Raises Numerous Questions and Requires Significant Analysis and Refinement Prior to its Implementation**

The Attachment H transmission owners' proposal is largely conceptual and would require significant investigation and refinement prior to implementation. For example, the transmission owners propose that a Solution-based DFAX be utilized in place of PJM's existing static DFAX. The Solution-based DFAX appears to be an improvement over the static DFAX in certain respects. For example, static DFAX is a "once and done" measure of the benefits of transmission upgrades that can become inaccurate over time. The transmission owners' proposal addresses that deficiency by suggesting that the Solution-based DFAX "be calculated periodically."<sup>8</sup> Nevertheless, the recalculation interval is not specified. Instead, the transmission owners state that the benefits of recalculations must be weighed against the administrative burdens imposed on PJM, neither one of which is quantified at this time. Also left unanswered is how the Solution-based DFAX would address the many other deficiencies FERC found with regard to static DFAX in its Order on Remand. For example, FERC determined that the DFAX methodology understates each utility's contribution to the need for high voltage facilities.<sup>9</sup> Additionally, it concluded that "costs pursuant to a DFAX method are not necessarily allocated to those who may benefit from enhanced reliability, reduced losses, and other potential benefits that the new high voltage projects produce."<sup>10</sup> Although the Solution-based DFAX

---

<sup>8</sup> Notice of Stakeholder Process at 2.

<sup>9</sup> Order on Remand at P 121.

<sup>10</sup> *Id.* at P 123.

purports to spread costs more widely than static DFAX,<sup>11</sup> it is not clear that it would allocate costs to all beneficiaries or in a manner roughly commensurate with benefits. If it does not, that would be a violation of Cost Allocation Principle 1 articulated in FERC's Order 1000.<sup>12</sup>

The proposal of the Attachment H transmission owners also leaves unanswered whether double circuit 345 kV transmission facilities provide region-wide benefits that should be allocated throughout the PJM region like 500 kV facilities. The transmission owners state that double circuit 345 kV facilities are "the functional equivalent" of 500 kV facilities, but no demonstration of benefits is made. In its Order on Remand, FERC determined that "existing and future 500 kV and above high voltage facilities will provide PJM members with various benefits, including greater reliability, greater transfer capability, greater opportunities for reserve sharing, and reduced transmission losses, as well as various market efficiency benefits."<sup>13</sup> In making that determination, FERC observed that the U.S.-Canada Task Force addressing the major 2003 blackout found that the 500 kV system in PJM and the 765 kV system in AEP were better able to absorb voltage and current swings and served as a barrier to prevent the spread of the cascading outage.<sup>14</sup> However, no such finding was made by FERC or the Task Force concerning 345 kV facilities. Instead, FERC found in its Order on Remand that "the 345 kV and below projects primarily address localized problems."<sup>15</sup> The proposal to socialize double circuit 345 kV facilities therefore requires additional scrutiny.

The transmission owners' proposal does not address cost allocation for Direct Current transmission lines, other than to say that application of DFAX to Direct Current lines is complex

---

<sup>11</sup> In the July 18, 2012 Proposed Regional Cost Allocation Principles for Order No. 1000, the Attachment H transmission owners stated (at 19) "Solution-based DFAX allocates a portion of the costs to those who benefit from the new facilities as opposed to only those that cause the violation."

<sup>12</sup> Order 1000 at P 622.

<sup>13</sup> Order on Remand at P 125.

<sup>14</sup> *Id.* at P 70.

<sup>15</sup> *Id.* at P 60.

and requires more analysis. Additionally, the transmission owners are largely silent regarding Public Policy and Multi-Driver projects. The transmission owners state only that Public Policy projects would be considered “Supplemental” according to PJM’s Regional Transmission Expansion Plan. The Maryland PSC looks forward to reviewing the transmission owners’ proposal regarding Direct Current lines when it becomes available. Regarding Public Policy projects, the Maryland PSC repeats the comments it made in its June 28, 2012 joint letter with the Delaware and District of Columbia Public Service Commissions to PJM. There, we stated that the costs associated with a Public Policy project must be allocated to all beneficiaries of the project, including non-sponsoring states, in accordance with Cost Allocation Principle 1 of FERC’s Order 1000.

### **CONCLUSION**

For the foregoing reasons, the Maryland PSC comments that PJM’s existing transmission cost allocation methodology is just and reasonable and the proposal of the Attachment H transmission owners should be fully explored and further refined prior to its implementation.

Respectfully submitted,

\_\_\_\_\_  
/s/

Ransom E. Ted Davis  
Associate General Counsel  
Public Service Commission of Maryland  
William Donald Schaefer Tower  
6 St. Paul Street  
Baltimore, Maryland 21202  
Telephone: 410-767-8076  
Fax: 410-333-1270  
Email: [tdavis@psc.state.md.us](mailto:tdavis@psc.state.md.us)

On behalf of  
The Maryland Public Service Commission