

**Notice of Attachment H Transmission Owners Stakeholder Process
for Order No. 1000 Interregional Cost Allocation Proposals
(June 10, 2013)**

Described on the following pages are the proposals of the Attachment H Transmission Owners¹ for cost allocation of interregional transmission projects involving the Midcontinent Independent System Operator (MISO), the New York Independent System Operator (NYISO) and the Southeastern Regional Transmission Planning (SERTP) regions. These proposals have been developed based on ongoing discussions with stakeholders and representatives in these regions and are subject to revision prior to submission to the Federal Energy Regulatory Commission as required by Order No. 1000.

The Attachment H Transmission Owners will host a conference call on June 17 from 3:00 p.m. to 5:00 p.m. to receive PJM stakeholder comments with regard to these proposals. If you plan to participate in this call, please register on the Transmission Owners Agreement – Administrative Committee page of pjm.com.

Written comments on the proposals may be submitted for consideration by the Attachment H Transmission Owners by email to: TO_Cost_Allocation@pjm.com. Written comments should be submitted on or before June 24, 2013.

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

Attachment H Transmission Owners' Proposal for Cost Allocation of Interregional Transmission Projects involving MISO

MISO as part of its Order No. 1000 regional compliance filing removed regional cost allocation for Baseline Reliability Projects with costs now shared only in the local zone where the project is located. For consistency with its proposed regional treatment of Baseline Reliability Projects, MISO proposed to remove the Cross-Border Baseline Reliability Project type from the MISO-PJM Joint Operating Agreement (JOA).

The Attachment H Transmission Owners believe the cost allocation provisions of the current JOA are compliant with Order No. 1000 and propose to make a filing with FERC explaining why those cost allocations are compliant. The following is the position paper developed by the Attachment H Transmission owners with regard to this matter:

PJM ATTACHMENT H TRANSMISSION OWNERS POSITION PAPER ON INTERREGIONAL COST ALLOCATION BETWEEN PJM AND THE MISO (December 3, 2012)

In Order No. 1000, the FERC required planning regions to engage in interregional planning with neighboring regions and to provide for the allocation of costs of resulting transmission projects in accordance with six interregional cost allocation principles. The hallmarks of those principles include a requirement that the costs of a new transmission facility between two planning regions be allocated only to the regions where the facility is to be located, unless another region agrees to bear its costs under a mutually agreed methodology, and a requirement that any interregional cost allocation methodology allocate costs between participating regions in proportion to the benefits that each region receives from the facility.² The FERC also made it clear that, where regions have in place interregional planning processes and cost allocation methodologies that satisfy these requirements, they need not replace them.³

The 2008 Joint Operating Agreement (“JOA”) between PJM and the MISO provides for an interregional planning process and cost allocation methodologies that satisfy the principles set out in Order No. 1000. The PJM Consolidated Transmission Owners Agreement reserves to the PJM Transmission Owner the rights and responsibilities for proposing the transmission rate design affecting the PJM region for transmission revenue requirements recovered under the PJM Tariff. Those rights and responsibilities include cost allocation among PJM transmission customers both for projects identified in PJM’s planning process and for those that PJM and MISO identify together in their joint planning process, regardless of the region where the projects are to be located.

The JOA details methodologies to allocate the costs of interregional transmission projects approved in the joint PJM/MISO planning process and establishes the exclusive means for allocating transmission project costs between the two RTOs. The methodologies in the JOA allocate the costs of interregional projects that the two regions determine to be needed for reliability and those the regions determine to be needed to enhance market efficiency. In both cases, the project’s costs are allocated between the two regions based on the benefits each region expects to receive from the project. Each

² Order No. 1000, PP 622, 637, 657.

³ Order No. 1000, PP 448, 583.

region then allocates its share of the project's costs to its customers based on the cost allocation methodologies in its tariff.

The JOA's cost allocation methodologies satisfy and indeed go beyond Order No. 1000's cost allocation requirements for interregional facilities. Notably, Order No. 1000's requirements apply only to new transmission facilities located in both regions, i.e., to "interregional transmission facilities."⁴ Transmission customers in a planning region are not required to bear the costs of a new transmission facility located entirely in another region, even if that region believes the new facility will benefit its neighbor. In contrast, the JOA's cost allocation methodologies apply both to new transmission facilities connecting the two regions and to new facilities located in either PJM or the MISO if the two RTOs determine in their joint planning process that customers in both regions benefit from the new facility under the standards specified in the JOA.

The absence in the JOA of a methodology for allocating the costs of transmission projects developed to address public policy needs, but not required for reliability or market efficiency, does not represent a deficiency under Order No. 1000's requirements. The cost allocation methodologies in the JOA apply to projects that PJM and the MISO decide through their joint planning process are needed to maintain reliability or enhance market efficiency. The RTOs can take state or federal public policy requirements into account when they analyze their respective reliability and market efficiency needs in the joint planning process, as PJM has recently begun to do in its own planning. This would satisfy Order No. 1000's requirements. Unless the joint planning process is modified to consider transmission needs driven by public policy as a class of projects distinct from the reliability and market efficiency classifications already addressed in the JOA, there is no need to have a separate cost allocation method for such projects.

While the JOA's cost allocation methodologies satisfy and, as explained above, exceed the requirements of Order No. 1000, the PJM Attachment H Transmission Owners do not rule out the potential for improving those methodologies. The PJM Attachment H Transmission Owners look forward to working with the RTOs and with stakeholders to consider the cost allocation methodologies in the coming months.

⁴ Order No. 1000, PP 578, 658.

Attachment H Transmission Owners' Proposal for Cost Allocation of Interregional Transmission Projects involving NYISO

The following is the current Attachment H Transmission Owners' proposal for cost allocation of interregional transmission projects involving NYISO. While this proposal reflects substantial agreement with the New York Transmission Owners and NYISO, it remains subject to change prior to submittal to FERC.

Add the following section to the Amended and Restated Northeastern ISO/RTO Planning Coordination Protocol (Protocol), between and among PJM, NYISO and ISO New England Inc.:

9. Cost Allocation

With respect to Interregional Transmission Projects identified pursuant to Section 7 hereof and other transmission projects identified pursuant to Section 6 hereof involving NYISO and PJM, the cost allocation for such projects shall be in accordance with the Joint Operating Agreement ("JOA") among and between NYISO and PJM. With respect to Interregional Transmission Projects identified pursuant to Section 7 hereof and other transmission projects identified pursuant to Section 6 hereof involving NYISO and ISO-NE, the cost allocation for such projects shall be in accordance with the respective tariffs of NYISO and ISO-NE.

The Parties acknowledge that the cost allocation for Interregional Transmission Projects identified pursuant to Section 7 hereof and other transmission projects identified pursuant to Section 6 hereof involving NYISO and PJM set forth in the JOA shall not be changed without the mutual consent of the holders of Federal Power Act ("FPA") Section 205 filing rights with respect to interregional cost allocation in the PJM region and NYISO region as further described in the JOA. The Parties further acknowledge that the cost allocation for Interregional Transmission Projects identified pursuant to Section 7 hereof and other transmission projects identified pursuant to Section 6 hereof involving the NYISO and ISO-NE set forth in their respective tariffs shall not be changed without the mutual consent of the holders of FPA Section 205 filing rights with respect to interregional cost allocation in the NYISO region and ISO-NE region as further described in such tariffs and other documents and agreements on file with FERC.

Nothing in this Protocol will convey, expand, limit or otherwise alter any rights of the Parties, transmission owners, transmission developers, market participants or other entities to submit filings under FPA Section 205 with regard to cost allocation or any other matter.

Add the following sections to the NYISO-PJM Joint Operating Agreement:

35.10.2 Allocation of Costs of Approved Interregional Transmission Projects

The costs of Interregional Transmission Projects evaluated under the Protocol and selected by PJM and NYISO in their regional transmission plans for purposes of cost allocation under their respective tariffs shall, when applicable, be allocated to the PJM region and the NYISO region in accordance with the cost allocation principles of FERC Order No. 1000, as follows:

- (a) To be eligible for interregional cost allocation pursuant to this Section 35.10.2, an Interregional Transmission Project must be selected in both the PJM and NYISO regional transmission plans for purposes of cost allocation, and must be planned for construction in both the PJM region and the NYISO region.
- (b) The share of the costs of an Interregional Transmission Project allocated to a region will be determined by the ratio of the present value of the estimated costs of such region's displaced regional transmission project or projects to the total of the present values of the estimated costs of the displaced regional transmission projects in the regions that have selected the Interregional Transmission Project in their regional transmission plans.
- (c) The present values of the estimated costs of each region's displaced regional transmission project shall be based on a common base date that will be the beginning of the calendar month of the cost allocation analysis for the subject Interregional Transmission Project (the "Base Date").
- (d) In order to perform the analysis in Section 35.10.2 (b) above, the estimated cost of the displaced regional transmission projects shall specify the year's dollars in which those estimates are provided.
- (e) The present value analysis for all displaced regional transmission projects shall use a discount rate. PJM and NYISO, in consultation with their respective transmission owners, shall agree on the discount rate to be used for the present value analysis.
- (f) PJM and NYISO, in consultation with the transmission owners in their respective regions, shall agree that the cost estimates of the displaced regional transmission projects have been determined in a comparable manner.
- (g) No cost shall be allocated to a region that has not selected the Interregional Transmission Project in its regional transmission plan.
- (h) When a portion of an Interregional Transmission Project is to be located within a region in which there is no displaced regional transmission project, such region may at its sole discretion select the Interregional Transmission Project in its regional transmission plan, provided, however, no portion of the costs of the Interregional Transmission Project shall be allocated to such region in accordance with the methodology in this Section 35.10.2.
- (i) The further allocation of costs allocated to a region pursuant to this Section 35.10.2 among transmission customers within such region shall be governed by the applicable provisions of the region's tariffs and agreements on file with FERC.
- (j) The following example illustrates the cost allocation for such an Interregional Transmission Project:
 - A cost allocation analysis of the costs of Interregional Transmission Project Z is to be performed during a given month establishing the beginning of that month as the Base Date.
 - Region A has identified a reliability need in its region and has selected a transmission project (Project X) as the preferred solution in its regional plan. The estimated cost of Project X is: Cost (X), provided in a given year's dollars. The number

of years from the Base Date to the year associated with the cost estimate of Project (X) is: N(X).

- Region B has identified a reliability need in its region and has selected a transmission project (Project Y) as the preferred solution in its Regional Plan. The estimated cost of Project Y is: Cost (Y), provided in a given year's dollars. The number of years from the Base Date to the year associated with the cost estimate of Project (Y) is: N(Y).
- Regions A and B, through the interregional planning process have determined that an Interregional Transmission Project (Project Z) will address the reliability needs in both regions more efficiently and cost-effectively than the separate regional projects. The estimated cost of Project Z is: Cost (Z). Regions A and B have each determined that Interregional Transmission Project Z is the preferred solution to their reliability needs and have adopted that Interregional Transmission Project in their respective regional plans in lieu of Projects X and Y, respectively. If Regions A and B have agreed to bear the costs of upgrades in other affected transmission planning regions, these costs will be considered part of Cost (Z).
- The discount rate used for all displaced regional transmission projects is: D

Based on the foregoing assumptions, the following formulas will be used:

- Present Value of Cost (X) = PV Cost (X) = Cost (X) / (1+D)^{N(X)}
- Present Value of Cost (Y) = PV Cost (Y) = Cost (Y) / (1+D)^{N(Y)}
- Cost Allocation to Region A = Cost (Z) x PV Cost (X)/[PV Cost (X) + PV Cost (Y)]
- Cost Allocation to Region B = Cost (Z) x PV Cost (Y)/[PV Cost (X) + PV Cost (Y)]

Applying those formulas, if:

- Cost (X) = \$60 Million and N(X) = 8.25 years
- Cost (Y) = \$40 Million and N(Y) = 4.50 years
- Cost (Z) = \$80 Million
- D = 7.5% per year

Then:

- PV Cost (X) = 60/(1+0.075)^{8.25} = 33.039 Million
- PV Cost (Y) = 40/(1+0.075)^{4.50} = 28.888 Million
- Cost Allocation to Region A = \$80 x 33.039/(33.039 + 28.888) = \$42.681 Million
- Cost Allocation to Region B = \$80 x 28.888/(33.039 + 28.888) = \$37.319 Million

35.10.3 Other Cost Allocation Arrangements

- (a) Except as provided in this Section 35.10.3(b), the methodology in Section 35.10.2 is the exclusive means by which any costs of an Interregional Transmission Project may be allocated between or among PJM and NYISO.

- (b) Subject to the filing rights described in Section 35.10.4 and any stakeholder processes required prior to the exercise of such filing rights, transmission owners, transmission developers and the Parties may enter into a separate agreement to fund or allocate the cost of an Interregional Transmission Project other than as set forth in Section 35.10.2, provided that any such agreement is filed with and accepted by the Commission in accordance with the filing rights set forth in Section 35.10.4.

35.10.4 Filing Rights with Respect to Approved Interregional Transmission Projects

Solely with respect to Interregional Transmission Projects evaluated under the Protocol and selected by PJM and NYISO in their regional transmission plans for purposes of cost allocation under their respective tariffs as set forth in Section 35.10.2, PJM and NYISO agree as follows:

(a) Nothing in Sections 35.10.2 through 35.10.6 of this Agreement or in the Protocol will convey, expand, limit or otherwise alter any rights of the Parties, transmission owners, transmission developers or other market participants to submit filings under Section 205 of the Federal Power Act regarding cost allocation or any other matter.

(b) As applicable, the Parties have been authorized by entities that have cost allocation rights for their respective regions, but are not Parties to this Agreement, to enter into and file the cost allocation provisions set forth in Sections 35.10.2 through 35.10.6 of this Agreement. Such cost allocation provisions shall not be modified without the mutual consent of the holders of Section 205 rights with respect to interregional cost allocation in the PJM region and the NYISO region.

(c) With respect to PJM:

(i) The provisions in Sections 35.10.2 through 35.10.6 have been approved by the PJM Transmission Owners acting through the Consolidated Transmission Owners Agreement (“CTOA”) pursuant to Section 9.1 of the PJM Open Access Transmission Tariff (“PJM Tariff”) and Article 7 of the CTOA, and any amendment to the provisions of Sections 35.10.2 through 35.10.6 or any other provision of this Agreement allocating the costs of Interregional Transmission Projects, shall require approval by the PJM Transmission Owners acting through the CTOA pursuant to Section 9.1 of the PJM Tariff and Article 7 of the CTOA and shall be filed pursuant Section 205 of the Federal Power Act in accordance with the PJM Tariff and Article 7 of the CTOA.

(ii) Nothing in Sections 35.10.2 through 35.10.6 of this Agreement shall limit or alter the rights of the PJM Transmission Owners set forth in the PJM Tariff and CTOA to submit filings under Section 205 of the Federal Power Act.

35.10.4 Merchant Transmission and Individual Transmission Owner Projects

Nothing in this Agreement shall preclude the development of Interregional Transmission Projects that are funded solely by merchant transmission developers or by individual transmission owners.

35.10.5 Consequences to Other Regions from Regional or Interregional Transmission Projects

Except as provided herein or in other documents, agreements or tariffs on file with FERC, neither the PJM region nor the NYISO region shall be responsible for compensating another region for required upgrades or for any other consequences in another planning region associated with transmission projects identified pursuant to Section 6 of the Protocol and Interregional Transmission Projects identified pursuant to Section 7 of the Protocol.

Attachment H Transmission Owners' Proposal for Cost Allocation of Interregional Transmission Projects involving SERTP

The following is the current Attachment H Transmission Owners' proposal for cost allocation of interregional transmission projects involving the transmission owners participating in the SERTP. This proposal remains under discussion with the SERTP transmission owners and is subject to change prior to submittal to FERC.

Add the following provisions to the respective Open Access Transmission Tariffs of PJM and each of the FERC-jurisdictional SERTP transmission owners:

4. Cost Allocation

4.1 Interregional Transmission Facilities Proposed for Interregional Cost Allocation Purposes: For an Interregional Transmission Facility to be considered for Interregional Cost Allocation Purposes within the SERTP and PJM regions, the following criteria must be met:

- A. The Interregional Transmission Facility must be interregional in nature:
 - Be physically located in both the SERTP and PJM regions.
 - Interconnect to the transmission facilities of one or more SERTP Sponsors and the transmission facilities of one or more transmission owners in PJM.

- B. The Interregional Transmission Facility must be selected in the regional transmission plans of both the SERTP and PJM regions:
 - Meet the qualification criteria for transmission facilities potentially eligible to be included in the regional transmission plans for purposes of cost allocation in both the SERTP and PJM regions, pursuant to their respective regional transmission planning processes.
 - The costs of the Interregional Transmission Facility eligible for interregional cost allocation shall only be allocated to a region if that region, in its sole discretion, has selected the Interregional Transmission Facility in its regional transmission plan.
 - No cost shall be allocated to a region that has not selected the Interregional Transmission Facility in its regional transmission plan.

- C. The Interregional Transmission Facility must be proposed for purposes of cost allocation in both the SERTP and PJM regions.
 - The transmission developer and project submittal must satisfy all criteria specified in the respective regional transmission processes.
 - The proposal should be submitted in the timeframes outlined in the respective regional transmission planning processes.

4.2 Allocation of Costs for Interregional Transmission Facilities Between the SERTP and PJM Regions: The cost of an Interregional Transmission Facility, selected for purposes of cost allocation in the regional transmission plans of both the SERTP and PJM regions, shall be allocated as follows:

- A. The share of the costs of an Interregional Transmission Facility allocated to a region will be determined by the ratio of the present value of the estimated costs of such region's displaced regional transmission project to the total of the present values of the estimated costs of the displaced regional transmission projects in all regions that have selected the Interregional Transmission Facility in their regional transmission plans. The present values for each cost allocation analysis shall be based on a common base date that will be the beginning of the calendar month of the cost allocation analysis for the subject Interregional Transmission Facility (the "Base Date"). The discount rate for each region shall be the currently applicable discount rate used in planning studies by that region at the time of the Base Date. The applicable discount rate for the SERTP region shall be [INSERT]. The applicable discount rate for the PJM region shall be the discount rate included in the assumptions that are reviewed with the PJM Board each year for use in the economic planning process. All cost estimates shall be updated using comparable cost estimating procedures immediately prior to the Base Date.
- B. When all or a portion of an Interregional Transmission Facility is to be located within a region in which there is no displaced regional transmission project, such region may at its sole discretion select the Interregional Transmission Facility in its regional transmission plan, provided, however, that no portion of the costs of the Interregional Transmission Facility shall be allocated to such region in accordance with Section 4.2 (A).
- C. Nothing in these Section 4 provisions shall govern the further allocation of costs allocated to a region pursuant to this Section 4.2 among transmission customers within such region. The further allocation of costs allocated to a region pursuant to this Section 4.2 to transmission customers within a region shall be governed by the applicable provisions of any tariff of a region or agreement among a region and its transmission owners allocating or otherwise addressing filing rights under Section 205 of the Federal Power Act ("FPA").
- D. The following example illustrates the cost allocation provisions in Section 4.2(A) for an Interregional Transmission Facility:
 - o A cost allocation analysis of the costs of Interregional Transmission Facility Z is to be performed during a given month establishing the beginning of that month as the Base Date.
 - o Region A has identified a reliability need in its region and has selected a transmission project (Project X) as the preferred solution in its regional plan. The estimated cost of Project X is: Cost (X), provided in a given year's dollars. The number of years from the Base Date to the year associated with the cost estimate of Project (X) is: N(X).
 - o Region B has identified a reliability need in its region and has selected a transmission project (Project Y) as the preferred solution in its Regional Plan. The estimated cost of Project Y is: Cost (Y), provided in a given

- year's dollars. The number of years from the Base Date to the year associated with the cost estimate of Project (Y) is: $N(Y)$.
- Regions A and B, through the interregional planning process have determined that an Interregional Transmission Facility (Project Z) will address the reliability needs in both regions more efficiently and cost-effectively than the separate regional projects. The estimated cost of Project Z is: Cost (Z). Regions A and B have each determined that Interregional Transmission Facility Z is the preferred solution to their reliability needs and have adopted that Interregional Transmission Facility in their respective regional plans in lieu of Projects X and Y, respectively. If Regions A and B have agreed to bear the costs of upgrades in other affected transmission planning regions, these costs will be considered part of Cost (Z).
- The discount rate used for all displaced regional transmission projects is: D.

Based on the foregoing assumptions, the following formulas will be used:

- Present Value of Cost (X) = $PV \text{ Cost (X)} = \text{Cost (X)} / (1+D)^{N(X)}$
- Present Value of Cost (Y) = $PV \text{ Cost (Y)} = \text{Cost (Y)} / (1+D)^{N(Y)}$
- Cost Allocation to Region A = $\text{Cost (Z)} \times PV \text{ Cost (X)} / [PV \text{ Cost (X)} + PV \text{ Cost (Y)}]$
- Cost Allocation to Region B = $\text{Cost (Z)} \times PV \text{ Cost (Y)} / [PV \text{ Cost (X)} + PV \text{ Cost (Y)}]$

Applying those formulas, if:

- Cost (X) = \$60 Million and $N(X) = 8.25$ years
- Cost (Y) = \$40 Million and $N(Y) = 4.50$ years
- Cost (Z) = \$80 Million
- D = 7.5% per year

Then:

- $PV \text{ Cost (X)} = 60 / (1+0.075)^{8.25} = 33.039$ Million
- $PV \text{ Cost (Y)} = 40 / (1+0.075)^{4.50} = 28.888$ Million
- Cost Allocation to Region A = $\$80 \times 33.039 / (33.039 + 28.888) = \42.681 Million
- Cost Allocation to Region B = $\$80 \times 28.888 / (33.039 + 28.888) = \37.319 Million

4.3 Merchant Transmission and Individual Transmission Owner Projects:

Nothing in this Section 4 shall preclude the development of Interregional Transmission Facilities that are funded solely by merchant transmission developers or by individual transmission owners.

4.4 Exclusivity with Respect to Interregional Transmission Facilities: The following provisions shall apply regarding other cost allocation arrangements:

- A. Except as provided in Section 4.4(B), the provisions in this Section 4 are the exclusive means by which any costs of an Interregional Transmission Facility may be allocated between or among the SERTP and PJM regions.
- B. Transmission owners and transmission developers may propose to fund or allocate the cost of an Interregional Transmission Facility other than set forth in Section 4.2, provided that such proposal is approved and filed with the Federal Energy Regulatory Commission in accordance with the filing rights with respect to cost allocation set forth in Section 4.5 and provided further that no allocation shall be made to any region that has not agreed to that allocation.

4.5 Filing Rights with Respect to Interregional Transmission Facilities: Solely with respect to Interregional Transmission Facilities evaluated under this Attachment K-XXX and selected by SERTP and PJM in their regional transmission plans for purposes of cost allocation under their respective tariffs, the following provisions shall apply:

- A. Nothing in this Section 4 will convey, expand, limit or otherwise alter any rights of the transmission owners, transmission developers or other market participants to submit filings under FPA Section 205 regarding cost allocation or any other matter.
- B. The cost allocation provisions in this Section 4 shall not be modified without the mutual consent of the holders of the FPA Section 205 rights with respect to interregional cost allocation in the SERTP and PJM regions.
- D. With respect to the SERTP region:
 - o [INSERT]
- D. With respect to the PJM region:
 - o The provisions of this Section 4 have been approved by the PJM Transmission Owners acting through the Consolidated Transmission Owners Agreement (“CTOA”) pursuant to Section 9.1 of the PJM Open Access Transmission Tariff (“PJM Tariff”) and Article 7 of the CTOA, and any amendment to the provisions of this Section 4 or any other provision of this Attachment K-XXX allocating the costs of Interregional Transmission Facilities, shall require approval by the PJM Transmission Owners acting through the CTOA pursuant to Section 9.1 of the PJM Tariff and Article 7 of the CTOA and shall be filed pursuant to FPA Section 205 in accordance with the PJM Tariff and Article 7 of the CTOA.
 - o Nothing in this Section 4 shall limit or alter the rights of the PJM Transmission Owners set forth in the PJM Tariff and CTOA to submit filings under FPA Section 205.

4.6 Consequences to Other Regions from Interregional Transmission Facilities: Except as provided in this Section 4, or in other documents, agreements or tariffs on file with FERC, neither the SERTP region nor the PJM region shall be responsible for

compensating another planning region for required upgrades or for any other consequences in another planning region associated with Interregional Transmission Facilities identified pursuant to this Attachment K-XXX.