July 10, 2013

Ms. Kimberly D. Bose  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, DC 20426

Re: Joint Operating Agreement Revisions Regarding Cost Allocation for Interregional Projects  
Docket No. ER13-____-000

Dear Secretary Bose:

Pursuant to Section 205 of the Federal Power Act (“FPA”), Part 35 of the regulations of the Federal Energy Regulatory Commission (“FERC” or “Commission”), Section 9.1(a) of the PJM Interconnection, L.L.C. (“PJM”) Open Access Transmission Tariff (“PJM Tariff” or “PJM OATT”), and Article 7 of the PJM Consolidated Transmission Owners Agreement (“CTOA”), the PJM Transmission Owners, acting through the CTOA, demonstrate that the proposed revisions to the Joint Operating Agreement (“JOA”) between PJM and the New York Independent System Operator, Inc. (“NYISO”) that address the allocation of costs of interregional transmission system expansions and enhancements approved by PJM and NYISO through their interregional transmission coordination procedures set forth in the JOA, being filed contemporaneously by the NYISO, are just and reasonable. This filing is made to comply with

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2. 18 C.F.R. Pt. 35 (2012).
3. PJM Interconnection, L.L.C., Consolidated Transmission Owners Agreement, Rate Schedule FERC No. 42 (June 19, 2008).
4. The amendment of the JOA to include Sections 35.10.2 through 35.10.6 has been authorized pursuant to the individual and weighted voting requirements in Section 8.5 of the CTOA. In addition, pursuant to section 9.1(b) of the PJM Tariff, the PJM Transmission Owners consulted with PJM and with members of the PJM Members Committee and other stakeholders by providing notice of the modifications proposed in this compliance filing, together with a draft of those modifications, on June 21, 2013, conducting a conference call with stakeholders on June 17, 2013, and inviting the submission of written comments by July 3, 2013.
5. PJM Interconnection, L.L.C., Interregional Agreements, NYISO-JOA, Version 3.0.0 (effective Sept. 17, 2010).
6. Pursuant to Order No. 714 and as a result of the technical requirements of FERC’s eTariff filing system and the Notice of Filing Procedures for Order No. 1000 Electronic Compliance Filings, this filing is being filed by PJM on behalf of the PJM Transmission Owners with a Type of Filing Code: 80 as part of an XML filing package that conforms with the Commission’s regulations. However, as noted above, this filing is being submitted as a Section 205 filing consistent with the PJM Transmission Owners’ rights under the PJM Tariff and CTOA. Pursuant to Section 9.1(b) of the PJM Tariff, PJM has agreed to make all filings on behalf of the PJM Transmission Owners in
certain requirements of the Commission’s Order No. 1000 relating to interregional cost allocation. Specifically, as explained below, the proposed amendments to the JOA ensure that the costs of interregional projects selected by the PJM and NYISO regions are allocated in a manner that is just, reasonable, and not unduly discriminatory or preferential, as Section 205 requires, and also complies with the requirements of Order No. 1000 relating to interregional cost allocation.

The filing is the result of extensive discussions among the PJM Transmission Owners, PJM, NYISO and the NYISO Transmission Owners. Those discussions led to an agreement on cost allocation principles for interregional transmission projects located in these two regions that is being proposed as new Sections 35.10.2 through 35.10.6 of the JOA. The PJM Transmission Owners have the exclusive authority and responsibility to file pursuant to Section 205 of the FPA for any changes in or relating to the establishment and recovery of their transmission revenue requirements or the transmission rate design in PJM. As described below, the PJM Transmission Owners acting through the CTOA have approved the cost allocation methodology for interregional transmission projects between PJM and NYISO and have authorized PJM and NYISO to file the cost allocation methodology as Sections 35.10.2 through 35.10.6 of the JOA. As the administrator of the JOA, the proposed revisions are being submitted by NYISO simultaneously with this filing as part of an XML filing package that conforms to the Commission’s regulations. PJM is separately submitting a filing to address the interregional planning and operational requirements of Order No. 1000 as they apply to PJM and NYISO regions through changes to the JOA as well as planning coordination among PJM, NYISO and ISO-New England (“ISO-NE”) through changes to the Northeastern ISO/RTO Planning Coordination Protocol (“Protocol”). PJM has informed the PJM Transmission Owners that it intends to point to this filing by the PJM Transmission Owners to address the interregional cost allocation requirements of Order No. 1000 as they apply to the PJM and NYISO regions.

order to retain administrative control over the PJM Tariff. Thus, the PJM Transmission Owners have requested that PJM submit this Section 205 filing in the eTariff system.

7 Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities, Order No. 1000, FERC Stats. & Regs. ¶ 31,323 (2011), order on reh’g and clarification, Order No. 1000-A, 139 FERC ¶ 61,132 (2012); order on reh’g and clarification, Order No. 1000-B, 141 FERC ¶ 61,044 (2012).

8 PJM Tariff, § 9.1(a); CTOA, § 7.3.1.

9 Since PJM is not directly interconnected with ISO-NE, an agreement on interregional cost allocation among the three ISOs/RTOs was not necessary. See Order No. 1000 at P 603. Section 9 of the Protocol addresses cost allocation, but simply states that with respect to interregional transmission projects between PJM and NYISO, the JOA shall govern and with respect to interregional transmission projects between ISO-NE and NYISO, the cost allocation provisions of their respective tariffs shall govern. Protocol, Section 9. A copy of Section 9 of Northeastern ISO/RTO Planning Coordination Protocol is included for illustrative purposes as Attachment B to this filing.

10 The PJM Transmission Owners note that PJM’s compliance filing will be submitted in accordance with the requirements of the Commission’s September 19, 2012 “Notice of Filing Procedures for Order No. 1000 Electronic Compliance Filings,” issued in Docket No. RM10-23-000. Inasmuch as this filing is submitted under section 205 of the FPA, those requirements are inapplicable. See Order No. 1000 at P 797 (“public utility transmission owners that are part of Commission-jurisdictional RTOs and ISOs may demonstrate compliance through that RTO’s or ISO’s
required by Order No. 1000, this filing provides the necessary demonstration that the proposed cost allocation provisions are consistent with the cost allocation principles as they apply to the PJM region for interregional cost allocation methodologies set forth in Order No. 1000.

I. Order No. 1000 Interregional Cost Allocation Requirements

Order No. 1000 requires each public utility transmission provider within a region to develop a method or set of methods for allocating the costs of new interregional transmission facilities that two (or more) neighboring transmission planning regions determine resolve the needs of each region more efficiently and cost-effectively. An interregional transmission facility is defined as one located in two or more transmission planning regions. Order No. 1000 requires that public utility transmission providers in a region have a common method or methods for allocating the cost of a new interregional transmission facility among the beneficiaries of that facility in the two neighboring regions in which the facility is located. An interregional transmission facility must be selected in both of the relevant regional transmission planning processes for purposes of cost allocation in order to be eligible for interregional cost allocation.

An interregional cost allocation methodology must satisfy six cost allocation principles adopted in Order No. 1000: (1) costs must be allocated in a way that is roughly commensurate with benefits; (2) there must be no involuntary allocation of costs to non-beneficiaries; (3) a benefit to cost threshold ratio cannot exceed 1.25; (4) costs must be allocated solely within the transmission planning region or pair of regions unless those outside the region or pair of regions voluntarily assume costs; (5) there must be a transparent method for determining benefits and identifying beneficiaries; and (6) there may be different methods for different types of transmission facilities.

11 Order No. 1000 at P 482.
12 Id. at P 482 n. 374.
13 Id. at P 578. The Commission went on to explain that neighboring regions could use a method for allocating the costs of an interregional facility between them that differs from the method or methods that each region uses to further allocate its share of the costs of the interregional project within its region. Id.
14 Id. at P 582.
15 Order No. 1000-A at P 524; Order No. 1000 at PP 587, 603. These six interregional cost allocation principles only apply to “a new transmission facility that is located in two neighboring transmission planning regions and accounted for in the interregional transmission coordination procedure in an OATT.” Order No. 1000 at P 603.
A. The Agreed-Upon Methodology for Allocation of Costs of Interregional Projects Between the PJM and NYISO Regions.

The JOA was executed by PJM and NYISO in May 2007 and filed separately by each entity in Dockets Nos. ER07-1369-000 and ER07-1376-000, respectively.\textsuperscript{16} The Commission accepted these filings by letter orders dated Nov. 2, 2007.\textsuperscript{17} The PJM Transmission Owners have authorized PJM and NYISO to revise the JOA to incorporate an agreed upon cost allocation methodology consistent with the requirements of Order No. 1000.\textsuperscript{18} Pursuant to Order No. 1000’s requirements, the cost allocation proposal set forth in the JOA requires a project proposed for interregional cost allocation to be planned for construction in both the PJM and NYISO regions. The proposal also requires that the interregional project must be selected in both the PJM and NYISO regional transmission planning processes for purposes of cost allocation. Accordingly, the project and its developer must satisfy the qualification criteria and submittal requirements of the two regions.

The primary purpose of the agreed-upon interregional cost allocation methodology is to provide a means for the PJM and NYISO regions to allocate an interregional project’s costs between the two regions. In general, the agreed-upon methodology adopts an avoided cost approach in allocating the costs of an approved project between the two regions. The proposal calculates the benefits of an interregional project as the avoided costs due to the project, \textit{i.e.}, the cost savings achieved by replacing higher cost regionally-planned transmission projects with the more efficient and cost effective proposed interregional project that addresses long-term needs that would have been addressed by the displaced projects.

The proposed interregional project’s costs would be allocated between the regions on a \textit{pro rata} basis based upon the ratio of each region’s avoided costs to the total avoided costs for both regions in which the facility would be located. This joint proposal does not address allocation within each region, except to indicate that further cost allocation is left to the respective regional cost allocation processes (in the case of PJM, Schedule 12 of the PJM Tariff). Importantly, given the iterative nature of transmission planning and the significant lead time prior to the need for a party to commit to a significant regional or interregional project, the proposal provides that the allocation will be based upon the present values of the displaced projects as of a common base date keyed to the cost allocation analysis of the proposed interregional project.


\textsuperscript{18} The PJM Transmission Owners have coordinated with NYISO and the NYISO Transmission Owners regarding the preparation of the discussion found in this section, and it is the PJM Transmission Owners’ understanding that substantially the same discussion is being incorporated into the transmittal letters for the NYISO region that are being filed in compliance with the Order No. 1000 interregional cost allocation requirements.
The transmission project for interregional cost allocation will be included in the regional transmission plans of PJM and NYISO after each region has performed all evaluations included in its respective regional process, along with all requisite approvals and, if applicable, agreements being obtained through the regional processes necessary for the project to be included in the affected regional transmission plans.


The cost allocation methodology included in Sections 35.10.2 through 35.10.6 of the JOA satisfies Order No. 1000’s six interregional cost allocation principles.

1. Principle One: Allocation Commensurate with Estimated Benefits

The agreed-upon methodology would allocate the costs of interregional projects in a manner that is “roughly commensurate with the estimated benefits” to each region (Cost Allocation Principle 1), because the costs are allocated in proportion to the quantifiable benefits of avoided/displaced transmission within each region. In the context of cost allocation within a planning region, the Commission has found that a cost allocation that “includes avoided costs could be a reasonable approach for allocating costs in a manner that is roughly commensurate with benefits.” The Commission specifically approved an avoided cost approach for allocating the cost of reliability projects within a region, finding that it “reasonably captures the benefits of such projects.”

An avoided cost approach to interregional cost allocation is particularly appropriate in light of the purpose of interregional coordination under Order No. 1000. As the Commission explained in Order No. 1000-A, its interregional coordination reforms do not require the establishment of interregional planning processes to develop integrated interregional plans, but rather call upon public utility transmission providers to consider “whether the local and regional transmission planning processes result in transmission plans that meet local and regional transmission needs more efficiently and cost-effectively, after considering opportunities for collaborating with public utility transmission providers in neighboring transmission planning regions.” Since the purpose of interregional coordination is thus to determine whether an interregional project might beneficially displace one or more projects included in regional or  

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19 Order No. 1000 at P 622.


21 Pub. Serv. Co. of Colorado, 142 FERC ¶ 61,206 at P 312.

22 Order No. 1000-A at P 511. See also Order No. 1000 at P 368, where the Commission explained that it was requiring further reforms in interregional coordination because, in the absence of coordination between regions, transmission providers “may be unable to identify more efficient and cost-effective solutions to the individual needs identified in their respective regional and local planning processes, potentially including interregional transmission facilities.”
local plans, the cost of the displaced projects represents a reasonable measure of the benefits of the interregional project for cost allocation purposes.

The PJM Transmission Owners recognize that the Commission has held that the sole use of an avoided cost methodology does not comply with the principles applicable to regional cost allocation because it does not account for economic or public policy benefits. These findings, however, are not determinative or relevant with respect to interregional cost allocation. Order No. 1000 does not require the consideration of public policy or economic benefits at the interregional level. Accordingly, the Commission’s concerns about the sole use of an avoided cost methodology for regional cost allocation are inapplicable at the interregional level. The regional planning process and regional cost allocation methodologies in PJM and the NYISO address reliability and market efficiency needs and public policy considerations in a manner the Commission has found to comply with the requirements of Order No. 1000. Therefore, Order No. 1000 expressly holds that such considerations need not be repeated at the interregional level.

Measuring the benefits of interregional transmission projects for cost allocation purposes through the avoided cost approach is also appropriate in light of the ability of each region to decline to select an interregional project in its regional plan for cost allocation purposes if the project is not cost-effective for that region. Allocating an interregional project’s cost in proportion to the costs of the regional project or projects that it would displace takes into account the essentially voluntary nature of interregional coordination and results in a close “alignment of transmission planning and cost allocation,” which was a “central underpinning” of the Commission’s interregional coordination reforms.

2. Principle Two and Principle Four: No Involuntary Allocation to a Region that Does Not Benefit or in Which a Facility Is Not Located

The agreed-upon approach complies with Cost Allocation Principle 2 and Cost Allocation Principle 4 because under Section 35.10.2(g) of the JOA a facility is eligible for interregional cost allocation only if it is included in each region’s regional transmission plan. Accordingly, either NYISO or PJM may avoid involuntary cost allocation by simply not selecting the interregional project in its own regional plan. In addition, by only allocating costs

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24 Order No. 1000 at P 401 (footnotes omitted) (Order No. 1000 does not “require[.] . . . consideration of transmission needs driven by Public Policy Requirements, or the evaluation of economic considerations” in interregional coordination).
26 See Order No. 1000-A at P 512. This ability is a corollary of the requirement that an interregional project be selected for interregional cost allocation in the regional plans of the affected regions. Id. at P 509.
27 Order No. 1000 at P 582.
28 Id. at P 637.
29 Id. at P 657.
to regions that are able to avoid costs, the agreed-upon approach assures that there will be no allocation to a region that does not benefit. Principle 4 also requires that the interregional planning process identify the consequences of an interregional facility for other regions, such as upgrades that may be required there, and, if there is an agreement to share the costs of such upgrades, the allocation method must address those costs. The cost allocation methodology proposed in the JOA does not provide for the sharing of costs of upgrades that might be required in a region in which an interregional facility is not located.

3. Principle Three: Benefit-Cost Analysis

The agreed-upon methodology also satisfies Cost Allocation Principle 3 because it does not establish a benefit/cost threshold for interregional cost allocation. While not specifically on point, it also bears noting that the agreed-upon methodology provides that proposed interregional cost allocation projects must be accepted in the respective regional processes, as Order No. 1000 requires. This requirement means that, inasmuch as PJM’s and NYISO’s regional processes require a benefit-to-cost ratio threshold that does not exceed 1:25 for market efficiency projects, the portion of an interregional project allocated to each region would be required to satisfy that threshold.

4. Principle Five: Transparency

Since the benefits that form the basis of cost allocation under the avoided cost approach are readily quantifiable, the cost allocation method and data requirements for determining benefits and identifying beneficiaries would be transparent, satisfying Cost Allocation Principle 5, and there would be sufficient documentation to allow stakeholders to determine how the cost allocation method was applied to a proposed facility.

5. Principle Six: Flexibility to Use Single or Multiple Methodologies for Different Projects

Finally, with regard to Cost Allocation Principle 6, this straight-forward approach would apply to all types of transmission facilities proposed for interregional cost allocation under the JOA.

30 Id.
31 See JOA, § 35.10.6.
32 Order No. 1000 at P 646.
33 Id. at P 436.
34 See, e.g., PJM Operating Agreement, Schedule 6, §1.5.7(d).
35 Order No. 1000 at P 668.
36 Id. at P 685.
II. Proposed Changes To The JOA To Address The Allocation Of The Costs Of Interregional Projects.

The PJM and NYISO Transmission Owners have agreed to add several provisions to the JOA to address the allocation of costs of interregional transmission projects involving PJM and NYISO. Although, as described above, NYISO will be making the electronic tariff filing to amend the JOA, the PJM Transmission Owners have attached as Attachment A, a copy of the proposed tariff language for illustrative purposes. Specifically, the PJM and NYISO Transmission Owners are proposing to add Sections 35.10.2 through 35.10.6 to address the costs of interregional projects.

Section 35.10.2: Section 35.10.2 describes the criteria that must be met for an interregional project to be considered for purposes of cost allocation between the PJM and NYISO regions and the procedures for allocating the costs between the two regions. As explained previously, the avoided cost allocation methodology fully complies with Order No. 1000’s interregional cost allocation requirements.\(^{37}\) To be eligible for interregional cost allocation under Section 35.10.2(a), an interregional transmission project must be selected in both the PJM and NYISO regional transmission plans for purposes of cost allocation and planned for construction in both regions. This reflects Order No. 1000’s requirement that interregional projects selected for cost allocation be selected in each region’s regional transmission planning process for purposes of cost allocation.\(^{38}\)

Sections 35.10.2(b)-(f) outline the procedures for executing the cost allocation methodology. Specifically, the costs of an interregional project selected by the two regions for purposes of interregional cost allocation will be divided between the two regions based on the ratio of the net present value of each region’s regional benefit to the sum of the net present value of the benefits identified for both regions. The present value of the estimated costs of each region’s displaced regional project shall be based on a common date that will be the beginning of the calendar month of the cost allocation analysis for the interregional transmission project. The present value analysis shall also use a discount rate that will be determined by PJM and NYISO in consultation with their respective transmission owners and, in NYISO, in consultation with other stakeholders.

Section 35.10.2(g) specifically provides that no cost shall be allocated to a region that has not selected the interregional transmission project in its regional plan. If the region includes the interregional transmission project in its regional plan, but there is no need or displaced regional transmission project and the neighboring region does have a regional need or displaced regional project, than Section 35.10.2(h) clarifies that the neighboring region with the need for or the displaced regional project shall be allocated all of the costs of the interregional transmission project. Section 35.10.2(i) states that the costs of any interregional transmission project allocated to a particular region pursuant to Section 35.10.2 shall be allocated to the customers within that

\(^{37}\) See supra, Section I.B.

\(^{38}\) Order No. 1000 at P 436.
region pursuant to the applicable cost allocation methodology established by the region’s tariff for that project. With respect to PJM, Schedule 12 of the PJM Tariff will govern that further cost allocation. Finally, Section 35.10.2(j) provides an illustrative example of the cost allocation methodology.

Section 35.10.3: Section 35.10.3 states that Section 35.10.2 is the exclusive means by which the costs of any interregional transmission project may be allocated between PJM and NYISO, unless a transmission owner or developer volunteers to use a different allocation through agreement with PJM and NYISO that is properly filed with and accepted for filing by the Commission.

Section 35.10.4: Section 35.10.4 addresses the Section 205 filing rights for the cost allocation provisions that are being added to the JOA. The PJM Transmission Owners have the exclusive rights to file pursuant to Section 205 of the FPA for any changes in or relating to the establishment and recovery of their transmission revenue requirements or the transmission rate design in PJM. The provisions in Section 35.10.2 through 35.10.6 have been approved by the PJM Transmission Owners acting through the CTOA pursuant to Section 9.1 of the PJM Tariff and Article 7 of the CTOA. The PJM Transmission Owners have authorized PJM and NYISO to enter into and file the cost allocation provisions in Section 35.10.2 through Section 35.10.6 of the JOA that are attached as Attachment A to this filing. Any changes to Sections 35.10.2 through 35.10.6 or any other provisions of the JOA regarding the allocation of costs of interregional transmission projects will require approval by the PJM Transmission Owners acting through the CTOA.

The preservation of the PJM Transmission Owners’ Section 205 filing rights remain critical to the PJM process and accordingly, Section 35.10.4 generally provides that this joint proposal does not modify any entities’ existing Section 205 filing rights except as specifically provided in Section 35.10.2 through Section 35.10.6. In that regard, Section 35.10.4 provides that the cost allocation provisions adopted in the JOA are not to be modified under FPA Section 205 absent the mutual consent of the holders of the FPA Section 205 rights and the Long Island Power Authority and the New York Power Authority.

Section 35.10.5: Section 35.10.5 states that nothing in the JOA shall preclude the development of interregional transmission projects by merchant transmission developers or by individual transmission owners.

Section 35.10.6: Section 35.10.6 is intended to address the Commission’s rulings in certain regional compliance orders that cost allocation principle number 4 requires the regional planning processes to determine if selecting a project in a regional plan will have consequences for other regions, and if so, to state whether the selecting region would fund any such resulting upgrades in such neighboring region(s). This provision of the JOA provides that the JOA does not authorize either the PJM or NYISO to compensate another region for a required upgrade.

III. ADDITIONAL SUPPORTING MATERIAL

To the extent necessary, the PJM Transmission Owners submit the following additional information in substantial compliance with relevant provisions of Section 35.13:

A. Contents of this Filing – Section 35.13(b)(1)

This filing consists of the following documents:

- The instant Transmittal Letter;
- Attachment A: Tariff Sheets of the proposed changes to Sections 35.10.2 through 35.10.6 of the JOA for illustrative purposes;\(^40\)
- Attachment B: Proposed Section 9 to the Northeastern ISO/RTO Planning Coordination Protocol for illustrative purposes.\(^41\)

B. Proposed Effective Date– Section 35.13(b)(2)

Pursuant to 18 C.F.R. § 35.3, the PJM Transmission Owners request an effective date of for the cost allocation provisions of the JOA (Sections 35.10.2 through 35.10.6) coincident with the date the Commission permits the corresponding planning-related revisions to the JOA and Protocol filed by the NYISO and PJM to take effect.

C. List of Persons Receiving a Copy of This Filing – Section 35.13(b)(3)

On behalf of the PJM Transmission Owners, PJM has served a copy of this filing on all PJM Members and on all state utility regulatory commissions in the PJM Region by posting this filing electronically. In accordance with the Commission’s regulations,\(^42\) PJM will post a copy of this filing to the FERC filings section of its internet site, located at the following link: http://www.pjm.com/documents/ferc-manuals/ferc-filings.aspx with a specific link to the newly-filed documents, and will send an e-mail on the same date as this filing to all PJM Members and all state utility regulatory commissions in the PJM Region\(^43\) alerting them that this filing has been made by PJM and is available by following such link. PJM also serves the parties listed on the Commission’s official service list for this docket. If the documents are not immediately available by using the referenced link, the documents will be available through the referenced

\(^{40}\) As noted above, as the administrator of the JOA, the proposed revisions to the JOA are being submitted by NYISO simultaneously with this filing as part of an XML filing package that conforms with the Commission’s regulations.

\(^{41}\) The proposed revisions to the Northeastern ISO/RTO Planning Coordination Protocol, including Section 9, are being submitted by ISO-NE simultaneously with this filing.

\(^{42}\) See 18 C.F.R §§ 35.2(e) and 385.2010(f)(3) (2012).

\(^{43}\) PJM already maintains updates and regularly uses e-mail lists for all PJM members and affected state commissions.
link within 24 hours of the filing. Also, a copy of this filing will be available on the Commission’s eLibrary website located at the following link: http://www.ferc.gov/docs-filing/elibrary.asp in accordance with the Commission’s regulations and Order No. 714.

D. Description of Rate Schedule Change – Section 35.13(b)(4)

See discussion above.

E. Reasons for the Rate Schedule Change – Section 35.13(b)(5)

See discussion above.

F. Showing of Requisite Agreements – Section 35.13(b)(6)

Not applicable.

G. Costs or expenses that have been alleged or judged to be illegal, duplicative or unnecessary that are the product of discriminatory employment practices – Section 35.13(b)(7)

None.

IV. REQUEST FOR WAIVERS

The PJM Transmission Owners request that the Commission grant any additional waivers of its rules and regulations as necessary to accept the PJM Tariff modifications.
V. NOTICE AND CORRESPONDENCE

The PJM Transmission Owners request that all communications regarding this filing be directed to the individuals listed below in their capacity as representatives of the PJM Transmission Owners acting at the direction of the CTOA Administrative Committee, and that their names be entered on the official service list maintained by the Secretary for this proceeding:

Megan E. Sullivan
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The PJM Transmission Owners request that the Commission waive the requirements of Rule 203 of its regulations to the extent necessary to allow each of the listed persons to be included on the official service list for this proceeding.

44 18 C.F.R. § 385.203(b).
VI. CONCLUSION

For the reasons set forth herein, the PJM Transmission Owners respectfully request that the Commission accept the proposed Sections 35.10.2 through 35.10.6 of the JOA being filed by NYISO and Section 9 of the Protocol being filed by ISO-NE on behalf of the PJM Transmission Owners, and authorize them to take effect without suspension, condition or modification as discussed above.

Respectfully submitted,

/s/ Kenneth G. Jaffe
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/s/ Donald A. Kaplan
Donald A. Kaplan
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On Behalf of the PJM Transmission Owners

Enclosures
ATTACHMENT A
PROPOSED COST ALLOCATION CHANGES TO NYISO-PJM JOA

Existing Language:

35.10 Coordination of Transmission Planning Studies

35.10.1 Scope of Activities:

Transmission planning activities will be coordinated in accordance with the Amended and Restated Northeastern ISO/RTO Planning Coordination Protocol (the “Protocol”), between and among PJM Interconnection, L.L.C., the New York Independent System Operator, Inc. and ISO New England Inc., effective as of December 12, 2004 as amended on --.

Proposed Cost Allocation Language:

35.10.2 Allocation of Costs of Approved Interregional Transmission Projects

The costs of Interregional Transmission Projects, as defined in the Protocol, 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 pursuant to agreements and tariffs on file at FERC for each region, 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 common discount rate. PJM and NYISO, in consultation with their respective transmission owners, and in NYISO in consultation with other stakeholders, 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, and in NYISO in consultation with other stakeholders, shall review and determine that the cost estimates of the displaced regional transmission projects have been determined in a comparable manner prior to applying this cost allocation.

(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 evaluated under the Protocol is included by a region (Region 1) in its regional transmission plan but there is no regional need or displaced regional transmission project in Region 1 and the neighboring region (Region 2) has a regional need or displaced regional project for the Interregional Transmission Project and selects the Interregional Transmission Project in its regional transmission plan, all of the costs of the Interregional Transmission Project shall be allocated to Region 2 in accordance with the methodology in this Section 35.10.2 and none of the costs shall be allocated to Region 1.

(i) The portion of the costs allocated to a region pursuant to this Section 35.10.2 shall be further allocated to the transmission customers within such region pursuant to the applicable provisions of the region’s tariffs and, if applicable, 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) = \( \frac{60}{1+0.075}^{8.25} \) = 33.039 Million
• PV Cost (Y) = \( \frac{40}{1+0.075}^{4.50} \) = 28.888 Million
• Cost Allocation to Region A = \( \frac{80 \times 33.039}{33.039 + 28.888} \) = $42.681 Million
• Cost Allocation to Region B = \( \frac{80 \times 28.888}{33.039 + 28.888} \) = $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 and transmission developers in PJM and the NYISO and the Parties may enter into a separate agreement to allocate the cost of an Interregional Transmission Project, and other transmission projects identified pursuant to Section 6 of the Protocol in a manner other than as set forth in Section 35.10.2, provided that any such agreement is filed with and accepted by FERC in accordance with the filing rights set forth in Section 35.10.4, and such agreement shall apply only to the share of the costs of such Interregional Transmission Project or such other transmission projects allocated to the PJM region and the NYISO region.
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, other market participants, or other entities in PJM or NYISO 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 and the Long Island Power Authority and the New York Power Authority 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.

35.10.5 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.

35.10.6 Consequences to Other Regions from Regional or Interregional Transmission Projects

Except as provided herein in sections 35.10.2 and 35.10.3 of this Agreement, or where cost responsibility is expressly assumed by NYISO or PJM in other documents, agreements or tariffs on file with FERC, neither the NYISO region nor the PJM region shall be responsible for compensating another region or each other for required upgrades or for any other consequences in another planning region associated with regional or interregional transmission facilities, including but not limited to, transmission projects identified pursuant to Section 6 of the Protocol and Interregional Transmission Projects identified pursuant to Section 7 of the Northeastern Planning Protocol.
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 the NYISO region, including the Long Island Power Authority and the New York Power Authority, 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, including the Long Island Power Authority and the New York Power Authority, 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.