September 12, 2014

Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E., Dockets, Room 1A, East Washington, D.C. 20426

Re: PJM Transmission Owners Submission of Tariff Revisions Relating to the Allocation of Costs of Multi-Driver Regional Transmission Projects; Docket No. ER14-___-000

Dear Secretary Bose:

Pursuant to section 205 of the Federal Power Act ("FPA"),\(^1\) and Part 35 of the regulations of the Federal Energy Regulatory Commission ("FERC" or "Commission"),\(^2\) the PJM Transmission Owners,\(^3\) acting through the voting protocols of the PJM Consolidated Transmission Owners Agreement ("CTOA"),\(^4\) hereby respectfully submit for filing revisions to Schedule 12 of the PJM Open Access Transmission Tariff ("PJM OATT") as described herein. The PJM Transmission Owners request that the proposed tariff sheets be made effective November 12, 2014.

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\(^1\) 16 U.S.C. § 824d.
\(^2\) 18 C.F.R. Pt. 35.
\(^3\) The PJM Transmission Owners gave final approval to the proposed tariff revisions on July 10, 2014. Twelve of the fifteen PJM Transmission Owners that have the right to approve amendments to Schedule 12, which together represent 85.71 percent of the regulated transmission investment in the PJM region, supported the revisions. Two Transmission Owners voted in opposition; one Transmission Owner abstained.
\(^4\) PJM Interconnection, L.L.C., Consolidated Transmission Owners Agreement, Rate Schedule F.E.R.C. No. 42 (June 19, 2008). This filing has been authorized pursuant to the individual and weighted voting requirements in Section 8.5 of the CTOA. In addition, as more fully described herein, 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 tariff revisions being proposed by this rate adjustment filing.
The PJM Transmission Owners, rather, than PJM, submits this filing because, under Section 9.1 of the PJM OATT and Article 7 of the CTOA, the PJM Transmission Owners have the exclusive authority and responsibility to submit filings under section 205 “in or relating to . . . the transmission rate design under the PJM Tariff.” The PJM Transmission Owners note that PJM is simultaneously submitting a filing with respect to the planning and approval of the classification of transmission facilities to which the instant cost allocation filing relates.

**STATEMENT OF NATURE, REASONS, AND BASIS**

**I. PJM Proposal to Add Multi-Driver Projects to RTEP Approval Criteria.**

Under the general delegation of authorities and responsibilities between PJM and the PJM Transmission Owners, PJM is the planning authority for centralized regional transmission facilities pursuant to the Schedule 6 of the Operating Agreement (“OA”), while the PJM Transmission Owners have the right and responsibility to submit FPA Section 205 rate filings for any regional rate design and cost allocation of such facilities for inclusion in Schedule 12 of the PJM Tariff.

When, from time to time, PJM provides for different categories of Regional Transmission Expansion Plan (“RTEP”) projects in OA Schedule 6 through filings with the Commission, the PJM Transmission Owners provide for the associated rate design and cost allocation methodologies in PJM Tariff Schedule 12 through filings with the Commission.

By filing submitted herein on September 12, 2014, PJM has submitted proposed OA Schedule 6 tariff revisions to provide for PJM Board approval of projects that satisfy more than one of the three types of benefits (“drivers”) that are the basis for including a project in
the RTEP: reliability, economic efficiency, and public policy. These projects are to be defined as “Multi-Driver Projects.” As proposed by PJM in its filing, Multi-Driver Projects may result from combining two or more single driver projects in order to obtain efficiencies in costs and are to be defined in Section 1.38.01 of OA Schedule 6 as “Proportional Multi-Driver Projects.” Alternatively, PJM proposes that a single driver project may be expanded in order to accommodate one or more additional drivers. The latter are defined by PJM in its September 9, 2014 filing at proposed Section 1.15B of OA Schedule 6 as “Incremental Multi-Driver Projects.”

II. Need for Transmission Owners to Submit Cost Allocation for Multi-Driver Projects.

Schedule 12 of the PJM Tariff currently contains no methodology by which to assign the costs of these two kinds of Multi-Driver Projects to Responsible Customers. Schedule 12, at Sections (b)(i)(A)(1) and (b)(i)(A)(2), already provides for a methodology for the assignment of costs of single driver projects included in the RTEP that provide either a reliability or economic efficiency benefit, respectively. Schedule 12, at Section (b)(i)(A)(xii)(B), provides the mechanism for the assignment of the costs of Public Policy Projects that are included in the RTEP. The instant filing takes these existing procedures into account as the starting point for developing the Multi-Driver Project cost allocation.

Specifically, the PJM Transmission Owners propose that when two or more single driver projects are combined to form a Proportional Multi-Driver Project, PJM will determine, based on the ratio of the estimated cost of each project that the Multi-Driver Project replaces to the total of the estimated costs of all projects combined into the Multi-Driver Project,

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5 When terms are capitalized herein, such terms have the same meaning ascribed to them in the PJM Tariff or Operating Agreement.
the relative contribution of each driver to the cost of the Multi-Driver Project. Also, it is proposed that the resulting cost assigned to each driver will then be charged to Responsible Customers in the same way that it would have been charged under Schedule 12 as a single driver project. That is, if the benefits of a 500 kV Proportional Multi-Driver Regional Facility project are apportioned 80% to the reliability driver, 10% to economic efficiency driver, and 10% to public policy driver, 80% of the costs of the project will be collected under the existing Schedule 12 methodology for Regional Facility Reliability Projects, \textit{i.e.}, 50\% load ratio share and 50\% on the basis of the solution-based distribution factor (\textit{DFAX}) method described in Section (b)(iii) of Schedule 12. The costs assigned to the economic efficiency driver benefits will be collected based on the methodology in Schedule 12 for Regional Facility Economic Projects, \textit{i.e.}, 50\% load ratio share and 50\% according to the methodology described in Section (b)(v) of Schedule 12. Finally, the 10\% of costs assigned to the public policy driver will be assigned in accordance with the state agreement referenced in Section 1.5.9(a) of Schedule 6 of the Operating Agreement upon approval by the Commission of a filing in accordance with Section (b)(xii) of Schedule 12.

The Incremental Multi-Driver Projects will also be handled the same way under the attached proposed tariff sheets. But the initial apportionment of benefits undertaken by PJM will identify the costs of the single driver of the project before it was upgraded to accommodate one or more additional benefits, and only the incremental costs of the expansion or modification of the single driver project resulting in the Incremental Multi-Driver Projects will be assigned to the beneficiaries of the additional driver or drivers. For example, if a single driver reliability project that is estimated by PJM to cost $100 million is
approved by the PJM Board as an Incremental Multi-Driver Project at a cost of $120 million, then the original driver beneficiaries will be assigned $100 million under the current Schedule 12 cost assignment method applicable to that driver, and the additional driver, e.g., a public policy driver, will be assigned the $20 million using the method provided for that particular driver if it were a single-driver project. Once a Proportional or Incremental Multi-Driver Project is approved by the PJM Board, the percentage contributions of each driver will not be changed unless the PJM Board subsequently approves an upgrade or modification to the project. Of course, the actual costs of Proportional and Incremental Multi-Driver Projects will be collected using the assignment proportions that are developed using cost estimates.

III. Limited Exception When a Public Policy Driver Causes a Regional Cost Allocation.

A. Specification of OPSI-requested limited exception.

There is a single change provided for in the attached proposed tariff sheets to the cost allocation approved by the Commission in its March 22, 2013 Order. Namely, to the extent that either a Proportional or an Incremental Multi-Driver Project contains a public policy driver pursuant to the Section 1.5.9(a) of Schedule 6 of the Operating Agreement and that project qualifies as a Regional Facility only as a result of that public policy driver being combined as with a Proportional Multi-Driver Project, or added, as with an Incremental Multi-Driver Project, then and only then, the normal cost allocation provisions of Schedule 12 will not be applied. Instead of assigning the 50% of the costs of the non-public policy driver(s) on a load-ratio share basis, only 20% of the costs will be so assigned, and instead of a 50% DFAX/beneficiary pays cost assignment, there will be an 80% DFAX/beneficiary

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6 Proposed Section (b)(xiv)(A)(2).
pays cost assignment. The costs of the public policy driver will continue to be assigned in accordance with the State Agreement under Section 1.5.9(a) of Schedule 6 and are not eligible for cost assignment beyond the limited zones or sub-zones where the costs are agreed to be assigned under a State Agreement, subject to Commission approval of a rate filing pursuant to FPA Section 205.

This modification was proposed to the PJM Transmission Owners on June 17, 2014 in the form of a unanimous (with some not present or not voting) resolution by the Organization of PJM States, Inc. (“OPSI”), and is being incorporated by the PJM Transmission Owners as a compromise proposal. See Attachment C. The PJM Transmission Owners view this compromise proposal as justified in that the public policy component of the project is the result of state mandates and not PJM Board or PJM OA Schedule requirements. By implementing the OPSI resolution, the inclusion of a public policy driver pursuant to the State Agreement Approach will not significantly alter the Schedule 12 cost assignment of the non-public policy drivers, while giving some recognition to the regional benefits resulting from converting a Lower Voltage Facility to a Regional Facility.

It should be emphasized that this is a limited exception to the cost allocation percentages approved by the Commission and contained in Schedule 12 with respect to single driver projects, and is based on the specific requirement that a public policy driver be among the drivers contained in a Multi-Driver Project that would never have undergone a regional cost allocation at all if one or more single driver projects had been approved instead of the Multi-Driver Project. Instead, a different methodology is proposed for this limited
circumstance at the suggestion of OPSI to reduce the costs borne by Responsible Customers that otherwise would have been assigned no part of the cost of the project.

**B. The limited exception complies with the principles in Order No. 1000.**

In Order No. 1000, the Commission set forth six principles for regional cost allocation. This limited exception satisfies all six principles.

1. “The cost of the transmission facilities must be allocated to those in the transmission planning region that benefit from the facilities in a manner that is at least commensurate with estimated benefits.”

   As stated above, the cost allocation will be the same as the cost allocation that the Commission found to be in compliance with the Order No. 1000 principles with one exception. That exception changes the allocation for Regional Facilities if and only if the multi-driver project is classified as a Regional Facility due to the addition of a public policy driver. The only change is that the allocation of the non-public policy drivers in this case will be 20% load ratio share/80% DFAX/beneficiary pays rather than 50%/50%, respectively. This change is in recognition of the fact that the principle on cost allocation of public policy projects installed as a result of the State Agreement Approach should be allocated only to load in those states that agreed to the costs. However, in recognition that Regional Facilities provide other present and future benefits to a broader range of load, some

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additional allocation to the additional drivers is justified. Therefore, this limited exception complies with Principle No. 1.

2. “Those that receive no benefit from transmission facilities, either at present or in a likely future scenario, must not be involuntarily allocated the costs of those facilities.”9 The limited exception complies with this principle. There is no allocation to those that receive no benefit for the same reasons as explained in the filing that was approved by the Commission.

3. “If a benefit to cost threshold is used to determine which transmission facilities have sufficient net benefits to be selected in a regional transmission plan for the purpose of cost allocation, it must not be so high that transmission facilities with significant positive net benefits are excluded from cost allocation.”10 There is no change in the benefit-cost threshold from that approved by the Commission.

4. “The allocation method for the cost of a transmission facility selected in a regional transmission plan must allocate costs solely within that transmission planning region unless another entity outside the region or another transmission planning region voluntarily agrees to assume a portion of those costs.”11 There is no involuntary allocation outside of the planning region, PJM.

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9 Id., at P 637.
10 Id., at P 646 (footnote omitted).
11 Id., at P 657 (footnote omitted).
5. “The cost allocation method and data requirements for determining benefits and identifying beneficiaries for a transmission facility must be transparent with adequate documentation to allow a stakeholder to determine how they were applied to a proposed transmission facility.” As stated above in detail, the cost allocation method and data requirements are transparent.

6. “A transmission planning region may choose to use a different cost allocation method for different types of transmission facilities in the regional transmission plan, such as transmission facilities needed for reliability, congestion relief, or to achieve Public Policy Requirements. Each such allocation method must be set out clearly and explained in detail in the compliance filing for this rule.” Principle No. 6 allows use of a different cost allocation for different types of transmission facilities in the regional plan. This is specifically the case for multi-driver projects and the limited exception described above for which the OPSI Resolution refers to as ‘boosted’ Regional Facilities. Thus the cost allocation for Multi-driver Projects as well as the limited exception complies with Principle No. 6.

IV. This Compromise Submission Reflects Stakeholder Input Per Order No. 1000.

As part of the process of developing a cost allocation methodology, the PJM Transmission Owners undertook extensive outreach to stakeholders. Among other public
discussions, on April 1, 2014, the Section 205 Working Group of the PJM Transmission Owners presented to the PJM Regional Planning Process Task Force ("RPPTF") their preliminary recommendation on a cost allocation for multi-driver projects and responded to questions. On April 2, 2014, some OPSI members addressed the Transmission Owners Agreement-Administrative Committee ("TOA-AC") meeting held on April 2, 2014 concerning this filing and were given an opportunity to ask questions of the PJM Transmission Owners. On April 21, 2014, the Section 205 Working Group participated in a PJM Members Committee Webinar to present a draft proposed multi-driver cost allocation tariff filing and respond to questions. On April 29, 2014, the Section 205 Working Group presented to the RPPTF mathematical examples of how the proposed cost allocation method would work under various scenarios as they were requested to do at the prior RPPTF meeting. At both the Members Committee Webinar and the RPPTF meetings, comments were solicited from stakeholders by May 5, 2014. By the attached Notice issued on May 2, 2014, the PJM Transmission Owners extended the stakeholder comment date to May 15, 2014. By attached Notice issued on May 22, 2014, the PJM Transmission Owners posted changes to the draft proposed tariff provisions in response to comments received and invited further comments by June 6, 2014. Among the comments received were those submitted by OPSI on June 17, 2014 in the form of its attached Resolution #2014-1. Certain OPSI members participated in a June 18, 2014 conference call with members of the Section 205 Working Group concerning the resolution. Upon consideration of all comments received, on July 8, 2014, the TOA-AC members commenced a vote that was completed on July 10, 2014. The instant filing, incorporating the recommendations reflected in the OPSI resolution in all
respects, was approved pursuant to the individual and weighted average voting requirements of Section 8.5 of the CTOA.

Hence, this filing is the result of an open, transparent stakeholder process by which compromises were accommodated to produce a reasonable result with an anticipated minimum amount of disagreement or controversy. In particular, the approach taken in this filing fully comports with the Commission’s Cost Allocation Principle 6: “A transmission planning region may choose to use a different cost allocation method for different types of transmission facilities in the regional transmission plan, such as transmission facilities needed for reliability, congestion relief, or to achieve Public Policy Requirements.”\textsuperscript{15} In furtherance of Principle 6, the Commission stated that “we strongly encourage states to participate actively not only in transmission planning processes in general, but specifically in the identification of transmission needs driven by Public Policy Requirements.”\textsuperscript{16} It added that “[i]f a regional transmission plan determines that a transmission facility serves several functions . . . the regional cost allocation method must take the benefits of these functions of the transmission facility into account in allocating costs roughly commensurate with benefits.”\textsuperscript{17}

Accordingly, the PJM Transmission Owners urge the approval of the proposed cost allocation methodology for Multi-Driver Projects as just and reasonable.

\textsuperscript{15} Order No. 1000, \textit{supra}, at P 685.
\textsuperscript{16} \textit{Id.}, at P 688.
\textsuperscript{17} \textit{Id.}, at P 690.
CONTENTS OF FILING

The PJM Transmission Owners submit the following information in substantial compliance with relevant provisions of Section 35.13(B)(1):

- The instant Transmittal Letter;
- Attachment A: Marked Tariff Sheets of Proposed PJM OATT Schedule 12, Section (b)(xiv);
- Attachment B: Clean Tariff Sheets of Proposed PJM OATT Schedule 12, Section (b)(xiv);
- Attachment C: OPSI Resolution #2014-1;
- Attachment D: May 2, 2014 Notice of Transmission Owners Consultation with PJM and the Members Committee regarding Proposed Changes to Schedule 12 for Multi-Driver regarding Proposed Changes to Schedule 12 for Multi-Driver Project Cost Allocation; and

LIST OF PERSONS RECEIVING A COPY OF THIS FILING

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,18 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 document, and will send an e-mail on the same date as this filing.

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18 See 18 C.F.R. §§ 35.2(e) and 385.2010(f)(3).
filing to all PJM Members and all state utility regulatory commissions in the PJM Region\(^{19}\) alerting them that this filing has been made by PJM today and is available by following such link. If the document is not immediately available by using the referenced link, the document will be available through the referenced 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.

**ADDITIONAL SUPPORTING INFORMATION**

I. **Description of Rate Schedule Change – Section 35.13(b)(4)**  
   *See discussion above.*

II. **Reasons for the Rate Schedule Change – Section 35.13(b)(5)**  
   *See discussion above.*

III. **Showing of Requisite Agreements – Section 35.13(b)(6)**  
   Not applicable.

IV. **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.

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\(^{19}\) PJM already maintains, updates, and regularly uses e-mail lists for all PJM members and affected state commissions.
REQUESTED EFFECTIVE DATE

The PJM Transmission Owners request that the enclosed proposed tariff sheets be included in Schedule 12 of the PJM Tariff effective November 12, 2014 without suspension, or with a nominal one-day suspension period.

REQUEST FOR WAIVERS

As no cost of service or rate design change is being made as part of this filing, the PJM Transmission Owners request that the Commission find good cause to waive Section 35.13 of the Commission’s Regulations, 18 C.F.R. § 35.13, including any requirement that the filing contain Statements AA through BM in support of the filing; any Period I-Period II data requirements, and any requirement in Section 35.13(a)(2)(iv) to determine if and the extent to which a proposed change constitutes a rate increase based on Period I-Period II rates and billing determinants. In addition, the PJM Transmission Owners hereby respectfully request a waiver, to the extent one is deemed necessary, of the requirement that it file an attestation pursuant to 18 C.F.R § 35.13(d) as inapplicable under the circumstances presented here, inasmuch as there are no costs contained in this filing to be attested to by any corporate official.

Although the PJM Transmission Owners have not identified any additional waivers of the Commission’s Regulations that are necessary to permit this filing to be granted, the PJM Transmission Owners further request that the Commission grant any additional waivers of its rules and regulations it may deem necessary to approve this rate application by the requested effective date.
NOTICE AND CORRESPONDENCE

The PJM Transmission Owners request that all communications regarding this filing be directed to the individuals listed below, and that their names be entered on the official service list maintained by the Secretary for this proceeding:

Gloria Godson
Vice President, Federal Regulatory Affairs
Pepco Holdings, Inc.
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Chair – CTOA Administrative Committee

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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.

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20 18 C.F.R. § 385.203(b) (2013).
CONCLUSION

For all the reasons set forth herein, the PJM Transmission Owners respectfully request that, the Commission approve the proposed revised PJM Schedule 12 tariff sheets effective November 12, 2014.

Respectfully submitted,

/s/ Gary E. Guy
Gary E. Guy

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On Behalf of the PJM Transmission Owners
ATTACHMENT A

Marked Tariff Sheets of Proposed PJM OATT Schedule 12, Section (b)(xiv)
SCHEDULE 12
Transmission Enhancement Charges

(a) Establishment of Transmission Enhancement Charges.

   (i) Establishment of Transmission Enhancement Charges by Transmission Owners and Entities That Will Become Transmission Owners. One or more of the Transmission Owners may be designated to construct and own and/or finance Required Transmission Enhancements (as defined in Section 1.38C of the Tariff) by (1) the Regional Transmission Expansion Plan periodically developed pursuant to Schedule 6 of the Operating Agreement or (2) any joint planning or coordination agreement between PJM and another region or transmission planning authority set forth in Schedule 12-Appendix B (“Appendix B Agreement”) (collectively, for purposes of this Schedule 12 only, “Regional Transmission Expansion Plan”). Section 1.7 of Schedule 6 of the Operating Agreement recognizes that Transmission Owners, subject to obtaining any necessary regulatory approvals, may seek to recover the costs of Required Transmission Enhancements and obligates PJM Settlement to collect on behalf of Transmission Owner(s) any charges established by Transmission Owners to recover the costs of Required Transmission Enhancements. If a Transmission Owner is designated by the Regional Transmission Expansion Plan to construct and own and/or finance a Required Transmission Enhancement, such Transmission Owner may choose any of the following cost recovery mechanisms, subject to the crediting procedures set forth in section (e) below:

   (1) Decline to seek to recover the costs of Required Transmission Enhancements from customers until such time as it makes a filing pursuant to Section 205 of the Federal Power Act to revise its Network Integration Transmission Service rates;

   (2) Make a filing pursuant Section 205 of the Federal Power Act and the FERC’s rules and regulations to establish the revenue requirement with respect to a Required Transmission Enhancement, without filing to revise its rates for Network Integration Transmission Service generally; or

   (3) Establish the revenue requirement with respect to a Required Transmission Enhancement through the operation of a formula rate in effect applicable to its rates for Network Integration Transmission Service.

A charge established to recover the revenue requirement with respect to a Required Transmission Enhancement is hereafter referred to as a “Transmission Enhancement Charge.” Transmission Enhancement Charges of one or more Transmission Owners for Required Transmission Enhancements shall be established in accordance with this Schedule 12.

(ii) Establishment of Transmission Enhancement Charges With Respect to Required Transmission Enhancements Constructed by Entities in Another Region. The revenue requirement with respect to a Required Transmission Enhancement constructed pursuant to an Appendix B Agreement in another region by an entity designated by such other region shall be governed by the tariffs or agreements in effect in such region. Transmission Enhancement
Charges to recover the costs of such Required Transmission Enhancement for which PJM is responsible shall be determined in accordance with this Schedule 12. Other than with respect to a Required Transmission Enhancement constructed pursuant to an Appendix B Agreement, no PJM Network or Transmission Customer will bear cost responsibility for any required transmission upgrades in another region as a consequence of a Required Transmission Enhancement included in the Regional Transmission Expansion Plan.

(iii) **Transmission Facilities Not Eligible for Cost Responsibility Assignment.** Any alternating current (“A.C.”) facilities or direct current (“D.C.”) facilities that are Attachment Facilities, Local Upgrades, Merchant Network Upgrades, Merchant Transmission Facilities, Network Upgrades, Supplemental Projects as defined in Section 1.42A.02 of the Operating Agreement, or any other Transmission Facilities that operate or are planned to be operated in a manner that requires customers to subscribe to transmission service over such facilities or to a portion of the electric capability of such facilities shall not be eligible for cost responsibility assignment pursuant to this Schedule 12.

(iv) **Entities Not Yet Eligible to Become Transmission Owners.** For purposes of this Schedule 12 only, the term, “Transmission Owner,” shall include any entity that undertakes to construct and own and/or finance a Required Transmission Enhancement pursuant to a designation in the Regional Transmission Expansion Plan to construct and own and/or finance such Required Transmission Enhancement, even if such entity is not yet eligible to become a party to the Consolidated Transmission Owners Agreement. Nothing in the PJM Tariff nor the Consolidated Transmission Owners Agreement shall prevent an entity that undertakes to construct and own and/or finance a Required Transmission Enhancement pursuant to a designation in the Regional Transmission Expansion Plan to construct and own and/or finance such Required Transmission Enhancement from recovering the costs of such Required Transmission Enhancement through this Schedule 12.

(v) **Effective Date.** The assignment of cost responsibility or classification of Required Transmission Enhancements either (1) made by the Transmission Provider prior to February 1, 2013, or (2) applicable to Required Transmission Enhancements approved by the PJM Board pursuant to Section 1.6 of the PJM Operating Agreement prior to February 1, 2013 are set forth in Schedule 12-Appendix. Except as specifically set forth herein, nothing in this Schedule 12 shall change the assignment of cost responsibility or classification of Required Transmission Enhancements included in Schedule 12-Appendix. The assignment of cost responsibility or classification of all other Required Transmission Enhancements shall be set forth in Schedule 12-Appendix A.

(b) **Designation of Customers Subject to Transmission Enhancement Charges.**

(i) **Regional Facilities and Necessary Lower Voltage Facilities.** Transmission Provider shall assign cost responsibility on a region-wide basis for Required Transmission Enhancements included in the Regional Transmission Expansion Plan that (1) (a) are A.C. facilities that operate at or above 500 kV; (b) constitute a single Required Transmission Enhancement comprising two A.C. circuits operating at or above 345 kV and below 500 kV,
where both circuits originate from a single substation or switching station at one end and terminate at a single substation or switching station at the other end, regardless of whether or not the two circuits are routed in the same right-of-way (“Double-circuit 345 kV Required Transmission Enhancement”); (c) are A.C. or D.C. shunt reactive resources (such as capacitors, static var compensators, static synchronous condenser (STATCON), synchronous condensers, inductors, other shunt devices, or their equivalent) connected to a Transmission Facility described in clause (a) or (b) of this subsection, or (d) are D.C. facilities meeting the criteria set forth in subsection (b)(i)(D) (collectively, “Regional Facilities”), or (2) new A.C. Transmission Facilities or expansions or enhancements to existing Transmission Facilities that operate below 500 kV (or 345 kV in the case of a Regional Facility described in clause (1)(b) of this subsection) or new D.C. Transmission Facilities that do not meet the criteria of subsection (b)(i)(D) that must be constructed or strengthened to support new Regional Facilities, based on the planning criteria used by the Transmission Provider in developing the applicable Regional Transmission Expansion Plan (“Necessary Lower Voltage Facilities”) as follows:

(A) Cost responsibility for Regional Facilities and Necessary Lower Voltage Facilities shall be allocated among Responsible Customers as defined in this Schedule 12 as follows:

(1) Fifty percent (50%) shall be assigned annually on a load-ratio share basis as follows:

(a) With respect to each Zone, using, consistent with section 34.1 of the Tariff, the applicable zonal loads at the time of such Zone’s annual peak load from the 12-month period ending October 31 preceding the calendar year for which the annual cost responsibility allocation is determined; and

(b) With respect to Merchant Transmission Facilities, (1) for the calendar year following the year in which it initiates operation, the actually awarded Firm Transmission Withdrawal Rights associated with its existing Merchant Transmission Facility; and (2) for all subsequent calendar years, the annual peak load of the Merchant Transmission Facility (not to exceed its actual Firm Transmission Withdrawal Rights) from the 12-month period ending October 31 of the calendar year preceding the calendar year for which the annual cost responsibility allocation is determined.

(2) Fifty percent (50%) shall be assigned as follows:

(a) In the case of a Required Transmission Enhancement included in the Regional Transmission Expansion Plan to address one or more reliability violations or to address operational adequacy and performance issues (collectively, “Reliability Project”), in accordance with the distribution factor (“DFAX”) analysis described in subsection (b)(iii) of this Schedule 12; and

(b) In the case of a Required Transmission Enhancement included in the Regional Transmission Expansion Plan to relieve one or more economic constraints as described in section 1.5.7(b)(iii) of Schedule 6 of the Operating Agreement
(“Economic Project”), in accordance with the methodology described in subsection (b)(v) of this Schedule 12.

(B) (1) Except for transformers that are an integral component of a Regional Facility, transformers connected to Lower Voltage Facilities, as defined in section (b)(ii) of this Schedule 12, shall not be considered Regional Facilities or Necessary Lower Voltage Facilities; and (2) Transmission Facilities that are not Regional Facilities and deliver energy from a Regional Facility to load shall not be considered Necessary Lower Voltage Facilities.

(C) With respect Required Transmission Enhancements that qualify as Regional Facilities under subsection (b)(i)(1)(b) or subsection (b)(i)(D)(2) of this Schedule 12,

(1) where the Required Transmission Enhancement includes both new Transmission Facilities and pre-existing Transmission Facilities, cost responsibility under this section (b)(i) shall apply only to the cost of the new Transmission Facilities plus the original cost less accumulated depreciation of pre-existing Transmission Facilities that are included in Schedule 12-Appendix or Schedule 12-Appendix A;

(2) cost responsibility shall be assigned under this section (b)(i) only after the Required Transmission Enhancement goes into service as a Double-circuit 345 kV Required Transmission Enhancement or a Double-circuit D.C. Required Transmission Enhancement; and

(3) cost responsibility shall be assigned under this section (b)(i) for any CWIP permitted to be recovered before the Required Transmission Enhancement goes into service only after such Transmission Facilities are approved in a Regional Transmission Expansion Plan as a Double-circuit 345 kV Required Transmission Enhancement or a Double-circuit D.C. Required Transmission Enhancement.

(D) A Required Transmission Enhancement included in the Regional Transmission Expansion Plan that is a D.C. facility, consisting of D.C. lines (i.e., wires or cables) and A.C./D.C. converters, shall be a Regional Facility only if:

(1) such D.C. facility comprises two poles and operates at a voltage of ±433 kV D.C. or above; or

(2) such D.C. Facility constitutes a single Required Transmission Enhancement comprising two D.C. circuits where (i) both circuits originate from a single substation or switching station at one end and terminate at a single substation or switching station at the other end, regardless of whether or not both circuits are routed in the same right-of-way, and (ii) each such circuit consists of two poles and operates at a voltage of ±298 kV D.C. or above (“Double-circuit D.C. Required Transmission Enhancement”).

(ii) **Lower Voltage Facilities.** Transmission Provider shall assign cost responsibility for Required Transmission Enhancements that (a) are not Regional Facilities; and (b) are not
“Necessary Lower Voltage Facilities” as defined in section (b)(i) of this Schedule 12 (collectively “Lower Voltage Facilities”), as follows:

(A) If the Lower Voltage Facility is a Reliability Project, Transmission Provider shall use the DFAX analysis described in subsection (b)(iii) of this Schedule 12; and

(B) If the Lower Voltage Facility is an Economic Project, Transmission Provider shall use the methodology described in subsection (b)(v) of this Schedule 12.

(iii) DFAX Analysis for Reliability Projects.

(A) For purposes of the assignment of cost responsibility for Reliability Projects under subsection (b)(i)(A)(2)(a) and subsection (b)(ii)(A) of Schedule 12, the Transmission Provider, based on a computer model of the electric network and using power flow modeling software, shall calculate distribution factors, represented as decimal values or percentages, which express the portions of a transfer of energy from a defined source to a defined sink that will flow across a particular transmission facility or group of transmission facilities. These distribution factors represent a measure of the use by the load of each Zone or Merchant Transmission Facility (collectively, “Responsible Zone”) of the Required Transmission Enhancement, as determined by a power flow analysis. In general, a distribution factor can be represented as:

\[
\text{Distribution Factor} = \frac{\text{After-shift power flow} - \text{pre-shift power flow}}{\text{Total amount of power shifted}}
\]

\[
\text{Total amount of power shifted} = \text{Modeled incremental megawatt transfer to a given Load Deliverability Area or Merchant Transmission Facility}
\]

\[
\text{Pre-shift power flow} = \text{Megawatt flow over the Required Transmission Enhancement before the incremental megawatt transfer}
\]

\[
\text{After-shift power flow} = \text{Megawatt flow over the Required Transmission Enhancement after the incremental megawatt transfer}
\]

When calculating such distribution factors:

(1) All distribution factors are calculated with respect to the Required Transmission Enhancement subject to cost allocation under subsection (b)(i)(A)(2)(a) and subsection (b)(ii)(A) of this Schedule 12.

(2) The calculation of distribution factors shall be determined using linear matrix algebra, such that distribution factors represent the ratio of (i) a change in megawatt flow on a Required Transmission Enhancement to (ii) a change in megawatts transferred to aggregate load within a Zone or, in the case of a Merchant Transmission Facility, the point of withdrawal associated with Firm Transmission Withdrawal Rights over such Merchant Transmission Facility.
(3) With respect to a Merchant Transmission Facility, zonal peak load shall mean (i) the existing Firm Transmission Withdrawal Rights of the Merchant Transmission Facility being evaluated, if the Merchant Transmission Facility is in service, or (ii) for a Merchant Transmission Facility that is not yet in service, the planned Firm Transmission Withdrawal Rights of the Merchant Transmission Facility being evaluated as identified in the Interconnection Service Agreement in effect for such Merchant Transmission Facility.

(4) In the DFAX analysis, when Transmission Provider models a transfer from generation to all load within an individual Zone, Transmission Provider shall model the transfer to the Zone as a whole (not on a bus-by-bus basis).

(5) In the DFAX analysis, Transmission Provider shall model generation both external and internal to individual Responsible Zones to reflect (a) the boundaries of Locational Deliverability Areas (“LDAs”), as defined in Attachment DD to the Tariff, and (b) limitations with respect to the reliability objective for moving generation capacity across the transmission system. Transmission Provider shall adopt the Capacity Emergency Transfer Objective (“CETO”), as defined in Attachment DD to the Tariff, associated with that LDA and calculated for the applicable planning year to be the transfer limitation into the LDA. In modeling the system generation and load, Transmission Provider shall assume that the percentage of the zonal load in the LDA served by external (or internal) generation to the LDA shall equal the ratio of (i) the CETO associated within that LDA (or generation internal with the LDA) to (ii) the sum of (a) the internal generation within the LDA and (b) the CETO associated with that LDA. For the generation dispatch used in calculating the distribution factor, Transmission Provider shall distribute these amounts of external/internal generation among all generation in the PJM Region external to/internal within the LDA, respectively, in proportion to their capacity. For Responsible Zones that are located within LDAs that are also entirely contained in other larger LDAs, the modeling approach and distribution factor calculations shall be repeated for such Responsible Zones for each LDA. The lowest distribution factor derived from these calculations shall be applied to the Responsible Zone in the calculation of the use of the Required Transmission Enhancement.

(6) No cost responsibility shall be assigned to a Responsible Zone unless the magnitude of the distribution factor is greater than or equal to 0.01. Any distribution factor of a smaller magnitude shall be set equal to zero.

(B) The DFAX analysis will be performed in accordance with the following steps:

(1) Transmission Provider shall calculate a distribution factor and a direction of use for each Responsible Zone by modeling a transfer from all generation in the PJM Region to each Responsible Zone. To establish the use by a Responsible Zone, in megawatts, of a Required Transmission Enhancement, the distribution factor of a Required Transmission Enhancement associated with the resulting transfer modeled by the Transmission Provider to each Responsible Zone shall be multiplied by the Responsible Zone’s peak load.
(2) The Transmission Provider shall separately determine the relative use of the Required Transmission Enhancement by each Responsible Zone in each direction by dividing the megawatts of use by each Responsible Zone determined in Section (iii)(B)(1) by the total use of all Responsible Zones using the Required Transmission Enhancement in the same direction of use.

(3) Transmission Provider shall determine the direction of use percentage of the Required Transmission Enhancement in each direction using a production cost analysis to determine the total use, in megawatt-hours, of the Required Transmission Enhancement by all Zones and Merchant Transmission Facilities in each direction over the course of a year. The Transmission Provider shall calculate the percentage use in each direction by dividing the megawatt-hours of use in each direction by total use in megawatt-hours in both directions of use.

(4) The Transmission Provider shall multiply the relative use by each Responsible Zone of the Required Transmission Enhancement in each direction of use determined in Section (iii)(B)(2), above, by the applicable direction of use percentage determined in Section (iii)(B)(3), above.

(5) The products of the calculation performed in Section (iii)(B)(4), above, shall determine the relative allocation to each Responsible Zone of cost responsibility for the Required Transmission Enhancement.

(C) In the DFAX analysis, the Zones of Public Service Electric and Gas Company and Rockland Electric Company will be treated as one Zone unless and until Rockland Electric Company elects to be treated as a separate Zone in accordance with the terms of the Settlement Agreement And Offer Of Partial Settlement approved by FERC in Docket Nos. ER06-456-000, et al.

(D) Transmission Provider shall round cost responsibility assignments determined using the DFAX analysis described in subsection (b)(iii) of this Schedule 12 to the nearest one-hundredth of one percent.

(E) Transmission Provider shall not account for the ability to adjust use of phase angle regulators (“PARs”) in the DFAX analysis described in subsection (b)(iii) of this Schedule 12. In the DFAX analysis, all PAR angles shall be fixed at their base case settings.

(F) In the DFAX analysis, if the Required Transmission Enhancement is a D.C. facility, the Transmission Provider shall determine cost responsibility assignment as follows:

(1) The Required Transmission Enhancement shall be replaced in the model with a comparable proxy A.C. facility, the impedance of which shall be calculated based
on the length of the D.C. facility that was removed from the model multiplied by an approximate
per unit/mile impedance value for the proxy A.C. facility.

(2) Where a D.C. facility is an integral part of a Required
Transmission Enhancement that also includes A.C. facilities, the methodology described in
Subsection (b)(iii)(F)(1) above shall be used only for the D.C. facility segment of such Required
Transmission Enhancement.

(3) A D.C. facility used to control flow over portions of the
Transmission System shall be modeled with a zero impedance and no control shall be applied.

(G) If Transmission Provider determines in its reasonable engineering judgment
that, as a result of applying the provisions of this Section (b)(iii), the DFAX analysis cannot be
performed or that the results of such DFAX analysis are objectively unreasonable, the
Transmission Provider may use an appropriate substitute proxy for the Required Transmission
Enhancement in conducting the DFAX analysis. If a proxy is used that is not specified in this
Schedule 12, Transmission Provider shall state in a written report (a) the reasons why it
determined the DFAX analysis could not be performed or that the results of the DFAX analysis
were objectively unreasonable; (b) why the substitute proxy produced objectively reasonable
results; and (3) a recommendation as to what changes, if any, should be considered in conducting
the DFAX analysis.

(H) The Transmission Provider shall make a preliminary cost responsibility
determination for each Required Transmission Enhancement subject to this section (b)(iii) of
Schedule 12 at the time such Required Transmission Enhancement is included in the Regional
Transmission Expansion Plan.

(1) When CWIP in connection with a Required Transmission
Enhancement subject to this section (b)(iii) of Schedule 12 is entitled to be recovered, the
preliminary determination of cost responsibility made at the time that the Required Transmission
Enhancement was included in the Regional Transmission Expansion Plan shall be used to assign
cost responsibility for such CWIP and such cost responsibility shall remain unchanged until the
date the Required Transmission Enhancement goes into service. Once a Required Transmission
Enhancement has gone into service, the updated cost responsibility determination provided for in
subsection (b)(iii)(H)(2) shall apply.

(2) Beginning with the calendar year in which a Required
Transmission Enhancement is scheduled to enter service, and thereafter annually at the
beginning of each calendar year, the Transmission Provider shall update the preliminary cost
responsibility determination for each Required Transmission Enhancement using the values and
inputs used in the base case of the most recent Regional Transmission Expansion Plan approved
by the PJM Board prior to the date of the update. All values and inputs used in the calculation of
the distribution factor in a determination of cost responsibility shall be the same values and
inputs as used in the base case of the most recent Regional Transmission Expansion Plan
approved by the PJM Board prior to the determination of cost responsibility.
(iv) **Spare Parts, Replacement Equipment And Circuit Breakers.** Transmission Provider shall assign cost responsibility for spare parts, replacement equipment, and circuit breakers and associated equipment, included in the Regional Transmission Expansion Plan as follows:

(A) Spare parts that are part of the design specifications of a Required Transmission Enhancement at the time such Required Transmission Enhancement is first included in the Regional Transmission Expansion Plan shall be considered part of the Required Transmission Enhancement for the purpose of applying the cost threshold described in subsection (b)(vi) of this Schedule 12 and cost responsibility for such spare parts shall be assigned in the same manner as the Required Transmission Enhancement. Cost responsibility for spare parts independently included in the Regional Transmission Expansion Plan and not a part of the design specifications of a Required Transmission Enhancement as described above in this subsection shall be assigned to the Zone of the owner of the spare part, if the owner of the spare part is a Transmission Owner listed in Attachment J of the Tariff. If the owner of the spare part is not a Transmission Owner listed in Attachment J of the Tariff, cost responsibility shall be assigned on a pro rata basis to the zones that bear cost responsibility for the owner’s Required Transmission Enhancements.

(B) Replacement equipment that is part of the design specifications of a Required Transmission Enhancement at the time the Required Transmission Enhancement is first included in the Regional Transmission Expansion Plan shall be considered part of the Required Transmission Enhancement for the purpose of applying the cost threshold described in section (b)(vi) of this Schedule 12 and cost responsibility for such replacement equipment shall be assigned in the same manner as the Required Transmission Enhancement. Cost responsibility for Required Transmission Enhancement replacement equipment independently included in the Regional Transmission Expansion Plan and not a part of the design specifications of a Required Transmission Enhancement as described above in this subsection, shall be assigned to the same Zones and/or Merchant Transmission Facilities and in the same proportions as the then-existing assignments of cost responsibility for the facilities that the replacement equipment is replacing.

(C) Circuit breakers and associated equipment that are part of the design specifications of a Required Transmission Enhancement at the time the Required Transmission Enhancement is first included in the Regional Transmission Expansion Plan shall be considered part of the Required Transmission Enhancement for the purpose of applying the cost threshold described in subsection (b)(vi) of this Schedule 12 and cost responsibility for such circuit breakers and associated equipment shall be assigned in the same manner as the Required Transmission Enhancement. Cost responsibility for circuit breakers and associated equipment independently included in the Regional Transmission Expansion Plan and not a part of the design specifications of a transmission element of a Required Transmission Enhancement as described above in this subsection, shall be assigned to the Zone of the owner of the circuit breaker and associated equipment if the owner of the circuit breaker is a Transmission Owner listed in Attachment J of the Tariff. If the owner of the circuit breaker is not a Transmission Owner listed in Attachment J of the Tariff, cost responsibility shall be assigned on a pro rata basis to the zones that bear cost responsibility for the owner’s Required Transmission Enhancements.
(v) Economic Projects. Transmission Provider shall assign (i) fifty percent (50%) of cost responsibility for Economic Projects that are Regional Facilities; and (ii) full cost responsibility for Economic Projects that are Lower Voltage Facilities; as follows:

(A) Transmission Provider shall assign cost responsibility for Economic Projects that are accelerations of Reliability Projects as described in section 1.5.7(b)(i) of Schedule 6 of the Operating Agreement (“Acceleration Projects”) by performing and comparing (1) a DFAX analysis consistent with the methodology described in subsection (b)(iii) of this Schedule 12, and (2) a methodology that is intended to act as a proxy for expected economic benefits from reduced Locational Marginal Prices (“LMP Benefit”) over the period that the reliability-based enhancement or expansion is to be accelerated (“LMP Benefits Methodology”). The LMP Benefits Methodology shall determine cost responsibility assignment percentages to Zones and Merchant Transmission Facilities in the following manner. The LMP Benefit to a Zone shall be deemed to be equal to the reduction in Locational Marginal Price payments made by Load Serving Entities as a result of the Acceleration Project assuming the customers purchase all energy needs from the PJM Interchange Energy Market, and LMP Benefits so calculated shall be converted into percentage cost responsibility assignments for the affected Zones. The LMP Benefits Methodology shall not incorporate the financial effects of allocations of Auction Revenue Rights or Financial Transmission Rights. The LMP Benefit to a Merchant Transmission Facility shall be deemed to be equal to the proportionate share of assigned cost responsibility using the DFAX analysis and the assignments of cost responsibility to other Zones in the LMP Benefits Methodology shall be proportionately adjusted, as necessary, to reflect this treatment of Merchant Transmission Facilities to ensure that the total allocation for any economic-based Required Transmission Enhancement equals one hundred percent. If, after performing both analyses and comparing the percentage cost responsibility assignments for the affected Zones calculated pursuant to the DFAX analysis and the LMP Benefits Methodology, the results do not indicate at least a ten percentage point cost responsibility assignment differential between the two methods for any Zone, cost responsibility for the Acceleration Project shall be assigned using the DFAX analysis. If, after performing both analyses and comparing the percentage cost responsibility assignments for the affected Zones calculated pursuant to the DFAX analysis and LMP Benefits Methodology, the results indicate at least a ten percentage point cost responsibility assignment differential between the DFAX analysis and the LMP Benefits Methodology for any Zone, cost responsibility for the Acceleration Project for the period of time the Reliability Project is accelerated (i.e. the period between the date the Reliability Project actually goes into service and the date the Reliability Project originally was scheduled to go in service in the PJM Board approved Regional Transmission Expansion Plan) shall be assigned using the LMP Benefits Methodology. For all periods other than the period of time the Reliability Project is accelerated, cost responsibility for such an Acceleration Project shall be assigned in accordance with the provisions of this Schedule 12 governing the assignment of cost responsibility of Regional Facility Reliability Projects or Lower Voltage Facility Reliability Projects, as applicable.

(B) Transmission Provider shall assign cost responsibility for Economic Projects that are modifications to Reliability Projects as described in section 1.5.7(b)(ii) of Schedule 6 of the Operating Agreement in accordance with the provisions of this Schedule 12.
governing the assignment of cost responsibility of Regional Facility Reliability Projects or Lower Voltage Facility Reliability Projects, as applicable.

(C) Transmission Provider shall assign cost responsibility for Economic Projects that are new enhancements or expansions that could relieve one or more economic constraints as described in section 1.5.7(b)(iii) of Schedule 6 of the Operating Agreement to the Zones that show a decrease in the net present value of the Changes in Load Energy Payment determined for the first 15 years of the life of the Economic Project. The Change in Load Energy Payment for each year shall be determined using the methodology set forth in Section 1.5.7(d) of Schedule 6 of the Operating Agreement. Cost responsibility shall be assigned based on each Zone’s pro rata share of the sum of the net present values of the Changes in Load Energy Payment only of the Zones in which the net present value of the Changes in Load Energy Payment shows a decrease.

(vi) Required Transmission Enhancements Costing Less Than $5 Million. Notwithstanding Section (b)(i), (b)(ii), (b)(iv) and (b)(v), cost responsibility for a Required Transmission Enhancement for which the good faith estimate of the cost of the Required Transmission Enhancement (a) prepared in connection with the development of the Regional Transmission Expansion Plan and (b) provided to the PJM Board at the time the Required Transmission Enhancement is included for the first time in the Regional Transmission Expansion Plan, does not equal or exceed $5 million shall be assigned to the Zone where the Required Transmission Enhancement is to be located. The determination of whether the estimated cost of a Required Transmission Enhancement does not equal or exceed $5 million shall be based solely on such good faith estimate of the cost of the Required Transmission Enhancement regardless of the actual costs incurred. The estimated cost of a Required Transmission Enhancement shall include the aggregate estimated costs of all of the transmission elements approved by the PJM Board at the time such elements are included in the Regional Transmission Expansion Plan that collectively are intended (i) in the case of a Reliability Project, to resolve a specific reliability criteria violation, or (ii) in the case of an Economic Project, provide a specific LMP Benefit. Where a Required Transmission Enhancement subject to this section (b)(vi) consists of a single transmission element or multiple transmission elements that will be located in more than one Zone, each Zone shall be assigned cost responsibility for the transmission elements or portions of the transmission elements located in such Zone. Merchant Transmission Facilities shall not be assigned cost responsibility for a Required Transmission Enhancement subject to this Section (b)(vi).

(vii) Modifications of Required Transmission Enhancements. Once a Required Transmission Enhancement is included in the Regional Transmission Expansion Plan, any modification to such Required Transmission Enhancement that subsequently is included in the Regional Transmission Expansion Plan as a separate Reliability or Economic Project shall be considered a separate and distinct Required Transmission Enhancement for purposes of cost responsibility assignment under this Schedule 12. Except as provided in Sections (b)(iv) and (b)(xiv) of this Schedule 12, any cost responsibility assignment that has been made for a previously approved Required Transmission Enhancement shall have no impact on the cost responsibility assignment of such modification.
(viii) **FERC Filing.** Within 30 days of the approval of each Regional Transmission Expansion Plan or an addition to such plan by the PJM Board pursuant to Section 1.6 of Schedule 6 of the PJM Operating Agreement, the Transmission Provider shall designate in the Schedule 12-Appendix A and in a report filed with the FERC the customers using Point-to-Point Transmission Service and/or Network Integration Transmission Service and Merchant Transmission Facility owners that will be subject to each such Transmission Enhancement Charge (“Responsible Customers”) based on the cost responsibility assignments determined pursuant to subsections (b)(i) through (v) of this Schedule 12. Those customers designated by the Transmission Provider as Responsible Customers shall have 30 days from the date the filing is made with the FERC to seek review of such designation. Such cost responsibility designations shall be the same as those made for the relevant Regional Facility, Necessary Lower Voltage Facility, or Lower Voltage Facility in the Regional Transmission Expansion Plan.

(ix) **Regions With Which PJM Has Entered Into an Agreement Listed in Schedule 12-Appendix B.** For purposes of this Schedule 12, where costs of a Required Transmission Enhancement are allocated to a region other than PJM pursuant to an agreement set forth in Schedule 12-Appendix B, Responsible Customers for such costs shall be customers in such region. Cost responsibility with respect to the costs of a Required Transmission Enhancements allocated to a region other than PJM shall be allocated within such region in accordance with the applicable tariff or agreement governing the allocation of such costs in such region.

(x) **Merchant Transmission Facilities.**

(A) For purposes of this Schedule 12, where the Transmission Provider has allocated all or a portion of a Required Transmission Enhancement to a Merchant Transmission Facility, the owner of the Merchant Transmission Facility shall be the Responsible Customer with respect to such Required Transmission Enhancement, and shall pay the Transmission Enhancement Charges associated with the Required Transmission Enhancement.

(B) (1) Transmission Provider shall defer collection of Transmission Enhancement Charges from a Merchant Transmission Facility until the Merchant Transmission Facility goes into commercial operation; provided, however, in the event the commercial operation of a Merchant Transmission Facility is delayed beyond the commercial operation milestone date(s) specified in the Interconnection Service Agreement associated with the Merchant Transmission Facility and the Transmission Provider or Transmission Owner constructing the Required Transmission Enhancement demonstrates that the Merchant Transmission Facility is responsible for such delay, Transmission Provider may begin collecting Transmission Enhancement Charges from the Merchant Transmission Facility prior to the Merchant Transmission Facility going into commercial operation. Transmission Enhancement Charges allocated to a Merchant Transmission Facility for which collection is deferred in accordance with this section (b)(x)(B)(1) shall be recorded in appropriate Transmission Provider accounts for deferred charges and collected in accordance with section (b)(x)(B)(3), below.

(2) Transmission Provider shall base the collection of Transmission Enhancement Charges associated with Required Transmission Enhancements from a Merchant
Transmission Facility on the actual Firm Transmission Withdrawal Rights that have been awarded to the Merchant Transmission Facility; provided, however, to the extent that a Merchant Transmission Facility has been awarded less than the amount of Firm Transmission Withdrawal Rights specified in the Interconnection Service Agreement associated with the Merchant Transmission Facility, then Transmission Provider shall record the difference between the amount of Transmission Enhancement Charges collected based on the lesser amount of Firm Transmission Withdrawal Rights and the amount of Transmission Enhancement Charges based on the full amount of Firm Transmission Withdrawal Rights specified in the applicable Interconnection Service Agreement in appropriate accounts for deferred charges and, after the Merchant Transmission Facility has been awarded the full amount of Firm Transmission Withdrawal Rights specified in the Interconnection Service Agreement, collect such deferred amounts in accordance with section (b)(x)(B)(3), below. Notwithstanding the foregoing, Transmission Provider may collect Transmission Enhancement Charges based on more than a Merchant Transmission Facility’s actually awarded Firm Transmission Withdrawal Rights (not to exceed the Firm Transmission Withdrawal Rights specified in the applicable Interconnection Service Agreement) if the Transmission Provider or Transmission Owner demonstrates that the Merchant Transmission Facility is responsible for receiving fewer Firm Transmission Withdrawal Rights than are specified in the applicable Interconnection Service Agreement.

(3) Transmission Provider shall record: (i) in an appropriate deferred asset account, the Transmission Enhancement Charges associated with Required Transmission Enhancements for which collection is deferred in accordance with sections (b)(x)(B)(1) and (b)(x)(B)(2); and (ii) in an appropriate deferred liability account, the revenues associated with the Transmission Enhancement Charges that, absent the deferred charges, would have been due to Transmission Owners or to Transmission Owners’ customers as directed by the applicable Transmission Owner. At such time as collection of such deferred Transmission Enhancement Charges are permitted in accordance with sections (b)(x)(B)(1) and (b)(x)(B)(2), the deferred charges (along with appropriate interest) shall be collected from the Merchant Transmission Facility in equal installments over the twelve months following the commencement of the collection of the deferred charges. Such amounts shall be distributed to Transmission Owners or to Transmission Owners’ customers as directed by the applicable Transmission Owner, and the Transmission Provider shall make appropriate adjustments to the deferred asset and liability accounts. Transmission Provider shall not be responsible for distributing revenues associated with deferred Transmission Enhancement Charges unless and until such charges are collected in accordance with this section (b)(x)(B), and uncollected deferred Transmission Enhancement Charges shall not be subject to Default Allocation Assessments to the Members pursuant to section 15.2 of the Operating Agreement.

(xi) Consolidated Edison Company of New York. (A) Cost responsibility assignments to Consolidated Edison Company of New York for Required Transmission Enhancements pursuant to this Schedule 12 with respect to the Firm Point-To-Point Service Agreements designated as Original Service Agreement No. 1873 and Original Service Agreement No. 1874 accepted by the Commission in Docket No. ER08-858 (“ConEd Service Agreements”) shall be in accordance with the terms and conditions of the settlement approved by the FERC in Docket No. ER08-858-000. (B) All cost responsibility assignments for Required Transmission Enhancements pursuant to this Schedule 12 shall be adjusted at the commencement
and termination of service under the ConEd Service Agreements to take account of the
assignments under subsection (xi)(A).

(xii) Public Policy Projects.

(A) Transmission Facilities as defined in section 1.27 of the Consolidated
Transmission Owners Agreement constructed by a Transmission Owner pursuant to a Public Policy
Requirement as defined in Section 1.38B of the Operating Agreement, but not included in a Regional
Transmission Expansion Plan as a Required Transmission Enhancement, shall be as considered a
Supplemental Project, as defined in Section 1.42A.02 of the Operating Agreement.

(B) If a transmission enhancement or expansion is proposed pursuant to
Section 1.5.9(a) of Schedule 6 of the Operating Agreement which is not a Supplemental Project
(“State Agreement Public Policy Project”), the Transmission Provider shall submit the
assignment of costs to Responsible Customers proposed in connection with such State
Agreement Public Policy Project to the Transmission Owners Agreement Administrative
Committee for consideration and filing pursuant to Section 7.3 of the Consolidated Transmission
Owners Agreement and Section 9.1(a) of the PJM Tariff. Nothing in this Section (b)(xii) shall
prevent the Transmission Provider or the state governmental entities proposing such State
Agreement Public Policy Project from filing a proposed assignment of costs to Responsible
Customers for such project pursuant to Section 206 of the Federal Power Act.

(xiii) Replacement of Transmission Facilities. Unless determined by PJM to be a
Required Transmission Enhancement included in a Regional Transmission Expansion Plan, cost
responsibility for the replacement of Transmission Facilities, as defined in section 1.27 of the
Consolidated Transmission Owners Agreement, shall be assigned to the Zonal loads and Merchant
Transmission Facilities responsible for the costs of the Transmission Facilities being replaced.

(xiv) Multi-Driver Projects.

(A) Assignment of Proportional Multi-Driver Project Costs. The Transmission
Provider shall assign cost responsibility for Proportional Multi-Driver Projects as defined in
Section 1.38.01 of the Operating Agreement in proportion to the relative percentage benefit
that each driver of a Proportional Multi-Driver Project addresses, respectively, reliability
violations or operational performance (“reliability”), economic constraints (“economic”) and/or
Public Policy Requirements (“public policy”) as follows:

(1) As part of the open planning process provided for in Section 1.5.10(h) of
Schedule 6 of the Operating Agreement, the Transmission Provider employs the
Proportional Method as defined in Section 1.5.10(h) of the Operating Agreement to
develop a Proportional Multi-Driver Project, by determining which of the following
drivers a Proportional Multi-Driver Project addresses: reliability, economic, or public
policy, and the extent to which each such driver contributes to the size, scope, and
estimated costs of such Proportional Multi-Driver Project (irrespective of the reliability
cost allocation treatment that is otherwise accorded an incremental market efficiency
modification thereto pursuant to Section (b)(v)(B) of this Schedule 12). The
Transmission Provider shall identify the contribution of each driver in terms of a percentage totaling 100 percent for all such drivers at the time that each Proportional Multi-Driver Project is submitted to the PJM Board for approval and included in the Regional Transmission Expansion Plan. The percentage contribution of each driver shall be based on the ratio of the estimated cost of each project that the Multi-Driver Project replaces to the total of the estimated costs of all projects combined into the Multi-Driver Project.

(2) Once a Proportional Multi-Driver Project is approved by the PJM Board, the percentage contributions of each driver shall not be changed unless the PJM Board subsequently approves an upgrade or modification to the Proportional Multi-Driver Project. In that event, the cost responsibility for the Proportional Multi-Driver Project, including any costs incurred prior to the upgrade or modification, will be determined as if it were a new Proportional Multi-Driver Project, such that the percentage contribution for each driver shall be established anew.

(B) Assignment of Incremental Multi-Driver Project Costs. The Transmission Provider shall assign cost responsibility for Incremental Multi-Driver Projects as defined in Section 1.15B of Schedule 6 of the Operating Agreement using the same methodology described in Section (b)(xiv)(A)(1) treating the estimated cost of modifying the original project as if it were the estimated cost of a separate project included in a Proportional Multi-Driver Project. Any costs that had been expended on the original project prior its designation by Transmission Provider as an Incremental Multi-Driver Project shall be included in the calculation of the Incremental Multi-Driver Project pursuant to this Section (b)(xiv)(B).

(C) The Transmission Provider shall separately assign cost responsibility for the costs assigned to each driver pursuant to this Section (b)(xiv) in accordance with the provisions of Schedule 12 governing the assignment of cost responsibility for a single driver project of each driver’s respective type (reliability, economic or public policy). Except as provided in Section (b)(xiv)(D), cost responsibility will be assigned based on the final voltage and configuration of the Multi-Driver Project determined in accordance with Sections (b)(i), (b)(ii), or (b)(vi) of Schedule 12.

(D) Notwithstanding the cost assignments that would otherwise be provided for in Section (b)(xiv)(C) of this Schedule 12, if a Multi-Driver Project includes a public policy driver that is the result of the State Agreement Approach provided for in Schedule 6, Section 1.5.9 of the Operating Agreement and is a Regional Facility as defined in Section (b)(i) of this Schedule 12 and such Multi-Driver Project would not be a Regional Facility but for the inclusion of the public policy driver, then the percentage of costs of such Multi-Driver Project assigned to the non-public policy drivers in accordance with the procedures set forth in in Section (b)(i)(A)(1) shall be twenty percent (20%) and the percentage of costs assigned to the non-public policy drivers of such Multi-Driver Project in accordance Section (b)(i)(A)(2) shall be eighty percent (80%), and not the fifty percent (50%) cost responsibility percentages provided for in Section (b)(i)(A)(1) and Section (b)(i)(A)(2), respectively, of this Schedule 12.
(c) **Determination of Transmission Enhancement Charges.** In the event that any Transmission Owner recovers the cost of a Required Transmission Enhancement through a Transmission Enhancement Charge, such charge shall be determined as follows:

1. Transmission Provider shall identify in writing and post on the PJM Internet site the Required Transmission Enhancement(s) to which each Transmission Enhancement Charge corresponds. The Transmission Enhancement Charge with respect to a Required Transmission Enhancement shall recover the applicable Transmission Owner’s annual transmission revenue requirement associated with the Required Transmission Enhancement.

2. Each Transmission Enhancement Charge shall be a monthly charge based on all costs and applicable incentives associated with a particular Required Transmission Enhancement for which the Transmission Owner is responsible.

3. A Transmission Owner’s annual transmission revenue requirement associated with a Required Transmission Enhancement shall be determined pursuant to either (i) a unilateral filing by the Transmission Owner under Section 205 of the Federal Power Act and the FERC’s rules and regulations thereunder; or (ii) a formula rate in effect applicable to the Transmission Owner’s rates for Network Integration Transmission Service, including the costs associated with Required Transmission Enhancements.

4. Each Transmission Enhancement Charge applicable to Network Customers and Non-Zone Network Customers shall be recalculated annually to reflect the annual revisions to the billing determinants used by the Transmission Provider to calculate charges to Network Customers for Network Integration Transmission Service under Section 34.1 of the PJM Tariff. The Transmission Provider shall post on its Internet site by October 31 of each calendar year each recalculated Transmission Enhancement Charge that shall be effective during the subsequent calendar year.

5. Each Transmission Enhancement Charge applicable to customers using Point-To-Point Transmission Service shall be calculated monthly to reflect the billing determinants used by the Transmission Provider to determine charges for customers of Point-To-Point Transmission Service in accordance with Section 25 of the PJM Tariff.

6. Each Transmission Enhancement Charge payable by an owner of a Merchant Transmission Facility pursuant to Section (b) of this Schedule shall be calculated as a fixed monthly charge.

7. If a Transmission Owner chooses to recover the cost of Required Transmission Enhancements through the operation of a formula rate as described in Section (a), the Transmission Owner must make an informational filing with the Commission one year from the date the selecting Transmission Owner’s formula rates go into effect, and each year thereafter, providing a detailed list of the costs the Transmission Owner has incurred, and the revenues the Transmission Owner has received to provide service.
(d) **Recovery of Transmission Enhancement Charges.**

1. Responsible Customers shall pay Transmission Provider all applicable Transmission Enhancement Charges as required by this Schedule 12 in addition to all other charges for transmission service for which such Responsible Customers are responsible under the Tariff.

2. Transmission Provider shall collect all applicable Transmission Enhancement Charges from each Responsible Customer on a monthly basis. Transmission Provider shall remit or credit all revenues received from Responsible Customers under this Schedule 12 to the Transmission Owner(s) that established such charge or to the appropriate authority in a region other than PJM in the case of Transmission Enhancement Charges established in such region in connection with a Required Transmission Enhancement constructed pursuant to an Appendix B Agreement, to be distributed in accordance with the applicable tariff or agreement governing the distribution of such charges in such region.

(e) **Crediting of Revenue from Transmission Enhancement Charges.** In recognition that a Transmission Owner’s charges for Network Integration Transmission Service set forth in Attachment H are established based upon the Transmission Owner’s total cost of providing FERC-jurisdictional transmission service, including the costs associated with Required Transmission Enhancements, revenue from a Transmission Owner’s Transmission Enhancement Charges for a billing month shall be credited pursuant to this Schedule 12 to the Network Customers in the Transmission Owner’s Zone (including, where applicable, the Transmission Owner) and Transmission Customers purchasing Firm Point-to-Point Transmission Service for delivery in the Transmission Owner’s Zone in proportion to their Demand Charges (including any imputed Demand Charges for bundled service to Native Load Customers) for Network Integration Transmission Service and Reserved Capacity for Firm Point-to-Point Transmission Service; provided that such credits shall be reduced by the amount of any applicable incentives included in such Transmission Enhancement Charges.
ATTACHMENT B

Clean Tariff Sheets of Proposed PJM OATT Schedule 12, Section (b)(xiv)
SCHEDULE 12
Transmission Enhancement Charges

(a) Establishment of Transmission Enhancement Charges.

(i) Establishment of Transmission Enhancement Charges by Transmission Owners and Entities That Will Become Transmission Owners. One or more of the Transmission Owners may be designated to construct and own and/or finance Required Transmission Enhancements (as defined in Section 1.38C of the Tariff) by (1) the Regional Transmission Expansion Plan periodically developed pursuant to Schedule 6 of the Operating Agreement or (2) any joint planning or coordination agreement between PJM and another region or transmission planning authority set forth in Schedule 12-Appendix B (“Appendix B Agreement”) (collectively, for purposes of this Schedule 12 only, “Regional Transmission Expansion Plan”). Section 1.7 of Schedule 6 of the Operating Agreement recognizes that Transmission Owners, subject to obtaining any necessary regulatory approvals, may seek to recover the costs of Required Transmission Enhancements and obligates PJM Settlement to collect on behalf of Transmission Owner(s) any charges established by Transmission Owners to recover the costs of Required Transmission Enhancements. If a Transmission Owner is designated by the Regional Transmission Expansion Plan to construct and own and/or finance a Required Transmission Enhancement, such Transmission Owner may choose any of the following cost recovery mechanisms, subject to the crediting procedures set forth in section (e) below:

(1) Decline to seek to recover the costs of Required Transmission Enhancements from customers until such time as it makes a filing pursuant to Section 205 of the Federal Power Act to revise its Network Integration Transmission Service rates;

(2) Make a filing pursuant Section 205 of the Federal Power Act and the FERC’s rules and regulations to establish the revenue requirement with respect to a Required Transmission Enhancement, without filing to revise its rates for Network Integration Transmission Service generally; or

(3) Establish the revenue requirement with respect to a Required Transmission Enhancement through the operation of a formula rate in effect applicable to its rates for Network Integration Transmission Service.

A charge established to recover the revenue requirement with respect to a Required Transmission Enhancement is hereafter referred to as a “Transmission Enhancement Charge.” Transmission Enhancement Charges of one or more Transmission Owners for Required Transmission Enhancements shall be established in accordance with this Schedule 12.

(ii) Establishment of Transmission Enhancement Charges With Respect to Required Transmission Enhancements Constructed by Entities in Another Region. The revenue requirement with respect to a Required Transmission Enhancement constructed pursuant to an Appendix B Agreement in another region by an entity designated by such other region shall be governed by the tariffs or agreements in effect in such region. Transmission Enhancement
Charges to recover the costs of such Required Transmission Enhancement for which PJM is responsible shall be determined in accordance with this Schedule 12. Other than with respect to a Required Transmission Enhancement constructed pursuant to an Appendix B Agreement, no PJM Network or Transmission Customer will bear cost responsibility for any required transmission upgrades in another region as a consequence of a Required Transmission Enhancement included in the Regional Transmission Expansion Plan.

(iii) **Transmission Facilities Not Eligible for Cost Responsibility Assignment.** Any alternating current (“A.C.”) facilities or direct current (“D.C.”) facilities that are Attachment Facilities, Local Upgrades, Merchant Network Upgrades, Merchant Transmission Facilities, Network Upgrades, Supplemental Projects as defined in Section 1.42A.02 of the Operating Agreement, or any other Transmission Facilities that operate or are planned to be operated in a manner that requires customers to subscribe to transmission service over such facilities or to a portion of the electric capability of such facilities shall not be eligible for cost responsibility assignment pursuant to this Schedule 12.

(iv) **Entities Not Yet Eligible to Become Transmission Owners.** For purposes of this Schedule 12 only, the term, “Transmission Owner,” shall include any entity that undertakes to construct and own and/or finance a Required Transmission Enhancement pursuant to a designation in the Regional Transmission Expansion Plan to construct and own and/or finance such Required Transmission Enhancement, even if such entity is not yet eligible to become a party to the Consolidated Transmission Owners Agreement. Nothing in the PJM Tariff nor the Consolidated Transmission Owners Agreement shall prevent an entity that undertakes to construct and own and/or finance a Required Transmission Enhancement pursuant to a designation in the Regional Transmission Expansion Plan to construct and own and/or finance such Required Transmission Enhancement from recovering the costs of such Required Transmission Enhancement through this Schedule 12.

(v) **Effective Date.** The assignment of cost responsibility or classification of Required Transmission Enhancements either (1) made by the Transmission Provider prior to February 1, 2013, or (2) applicable to Required Transmission Enhancements approved by the PJM Board pursuant to Section 1.6 of the PJM Operating Agreement prior to February 1, 2013 are set forth in Schedule 12-Appendix. Except as specifically set forth herein, nothing in this Schedule 12 shall change the assignment of cost responsibility or classification of Required Transmission Enhancements included in Schedule 12-Appendix. The assignment of cost responsibility or classification of all other Required Transmission Enhancements shall be set forth in Schedule 12-Appendix A.

(b) **Designation of Customers Subject to Transmission Enhancement Charges.**

(i) **Regional Facilities and Necessary Lower Voltage Facilities.** Transmission Provider shall assign cost responsibility on a region-wide basis for Required Transmission Enhancements included in the Regional Transmission Expansion Plan that (1) (a) are A.C. facilities that operate at or above 500 kV; (b) constitute a single Required Transmission Enhancement comprising two A.C. circuits operating at or above 345 kV and below 500 kV,
where both circuits originate from a single substation or switching station at one end and terminate at a single substation or switching station at the other end, regardless of whether or not the two circuits are routed in the same right-of-way (“Double-circuit 345 kV Required Transmission Enhancement”); (c) are A.C. or D.C. shunt reactive resources (such as capacitors, static var compensators, static synchronous condenser (STATCON), synchronous condensers, inductors, other shunt devices, or their equivalent) connected to a Transmission Facility described in clause (a) or (b) of this subsection, or (d) are D.C. facilities meeting the criteria set forth in subsection (b)(i)(D) (collectively, “Regional Facilities”), or (2) new A.C. Transmission Facilities or expansions or enhancements to existing Transmission Facilities that operate below 500 kV (or 345 kV in the case of a Regional Facility described in clause (1)(b) of this subsection) or new D.C. Transmission Facilities that do not meet the criteria of subsection (b)(i)(D) that must be constructed or strengthened to support new Regional Facilities, based on the planning criteria used by the Transmission Provider in developing the applicable Regional Transmission Expansion Plan (“Necessary Lower Voltage Facilities”) as follows:

(A) Cost responsibility for Regional Facilities and Necessary Lower Voltage Facilities shall be allocated among Responsible Customers as defined in this Schedule 12 as follows:

(1) Fifty percent (50%) shall be assigned annually on a load-ratio share basis as follows:

(a) With respect to each Zone, using, consistent with section 34.1 of the Tariff, the applicable zonal loads at the time of such Zone’s annual peak load from the 12-month period ending October 31 preceding the calendar year for which the annual cost responsibility allocation is determined; and

(b) With respect to Merchant Transmission Facilities, (1) for the calendar year following the year in which it initiates operation, the actually awarded Firm Transmission Withdrawal Rights associated with its existing Merchant Transmission Facility; and (2) for all subsequent calendar years, the annual peak load of the Merchant Transmission Facility (not to exceed its actual Firm Transmission Withdrawal Rights) from the 12-month period ending October 31 of the calendar year preceding the calendar year for which the annual cost responsibility allocation is determined.

(2) Fifty percent (50%) shall be assigned as follows:

(a) In the case of a Required Transmission Enhancement included in the Regional Transmission Expansion Plan to address one or more reliability violations or to address operational adequacy and performance issues (collectively, “Reliability Project”), in accordance with the distribution factor (“DFAX”) analysis described in subsection (b)(iii) of this Schedule 12; and

(b) In the case of a Required Transmission Enhancement included in the Regional Transmission Expansion Plan to relieve one or more economic constraints as described in section 1.5.7(b)(iii) of Schedule 6 of the Operating Agreement
(“Economic Project”), in accordance with the methodology described in subsection (b)(v) of this Schedule 12.

(B) (1) Except for transformers that are an integral component of a Regional Facility, transformers connected to Lower Voltage Facilities, as defined in section (b)(ii) of this Schedule 12, shall not be considered Regional Facilities or Necessary Lower Voltage Facilities; and (2) Transmission Facilities that are not Regional Facilities and deliver energy from a Regional Facility to load shall not be considered Necessary Lower Voltage Facilities.

(C) With respect Required Transmission Enhancements that qualify as Regional Facilities under subsection (b)(i)(1)(b) or subsection (b)(i)(D)(2) of this Schedule 12,

(1) where the Required Transmission Enhancement includes both new Transmission Facilities and pre-existing Transmission Facilities, cost responsibility under this section (b)(i) shall apply only to the cost of the new Transmission Facilities plus the original cost less accumulated depreciation of pre-existing Transmission Facilities that are included in Schedule 12-Appendix or Schedule 12-Appendix A;

(2) cost responsibility shall be assigned under this section (b)(i) only after the Required Transmission Enhancement goes into service as a Double-circuit 345 kV Required Transmission Enhancement or a Double-circuit D.C. Required Transmission Enhancement; and

(3) cost responsibility shall be assigned under this section (b)(i) for any CWIP permitted to be recovered before the Required Transmission Enhancement goes into service only after such Transmission Facilities are approved in a Regional Transmission Expansion Plan as a Double-circuit 345 kV Required Transmission Enhancement or a Double-circuit D.C. Required Transmission Enhancement.

(D) A Required Transmission Enhancement included in the Regional Transmission Expansion Plan that is a D.C. facility, consisting of D.C. lines (i.e., wires or cables) and A.C./D.C. converters, shall be a Regional Facility only if:

(1) such D.C. facility comprises two poles and operates at a voltage of ±433 kV D.C. or above; or

(2) such D.C. Facility constitutes a single Required Transmission Enhancement comprising two D.C. circuits where (i) both circuits originate from a single substation or switching station at one end and terminate at a single substation or switching station at the other end, regardless of whether or not both circuits are routed in the same right-of-way, and (ii) each such circuit consists of two poles and operates at a voltage of ±298 kV D.C or above (“Double-circuit D.C. Required Transmission Enhancement”).

(ii) **Lower Voltage Facilities.** Transmission Provider shall assign cost responsibility for Required Transmission Enhancements that (a) are not Regional Facilities; and (b) are not
“Necessary Lower Voltage Facilities” as defined in section (b)(i) of this Schedule 12 (collectively “Lower Voltage Facilities”), as follows:

(A) If the Lower Voltage Facility is a Reliability Project, Transmission Provider shall use the DFAX analysis described in subsection (b)(iii) of this Schedule 12; and

(B) If the Lower Voltage Facility is an Economic Project, Transmission Provider shall use the methodology described in subsection (b)(v) of this Schedule 12.

(iii) DFAX Analysis for Reliability Projects.

(A) For purposes of the assignment of cost responsibility for Reliability Projects under subsection (b)(i)(A)(2)(a) and subsection (b)(ii)(A) of Schedule 12, the Transmission Provider, based on a computer model of the electric network and using power flow modeling software, shall calculate distribution factors, represented as decimal values or percentages, which express the portions of a transfer of energy from a defined source to a defined sink that will flow across a particular transmission facility or group of transmission facilities. These distribution factors represent a measure of the use by the load of each Zone or Merchant Transmission Facility (collectively, “Responsible Zone”) of the Required Transmission Enhancement, as determined by a power flow analysis. In general, a distribution factor can be represented as:

\[
\text{Distribution Factor} = \frac{\text{After-shift power flow} - \text{pre-shift power flow}}{\text{Total amount of power shifted}}
\]

\[
\text{Total amount of power shifted} = \text{Modeled incremental megawatt transfer to a given Load Deliverability Area or Merchant Transmission Facility}
\]

\[
\text{Pre-shift power flow} = \text{Megawatt flow over the Required Transmission Enhancement before the incremental megawatt transfer}
\]

\[
\text{After-shift power flow} = \text{Megawatt flow over the Required Transmission Enhancement after the incremental megawatt transfer}
\]

When calculating such distribution factors:

(1) All distribution factors are calculated with respect to the Required Transmission Enhancement subject to cost allocation under subsection (b)(i)(A)(2)(a) and subsection (b)(ii)(A) of this Schedule 12.

(2) The calculation of distribution factors shall be determined using linear matrix algebra, such that distribution factors represent the ratio of (i) a change in megawatt flow on a Required Transmission Enhancement to (ii) a change in megawatts transferred to aggregate load within a Zone or, in the case of a Merchant Transmission Facility, the point of withdrawal associated with Firm Transmission Withdrawal Rights over such Merchant Transmission Facility.
(3) With respect to a Merchant Transmission Facility, zonal peak load shall mean (i) the existing Firm Transmission Withdrawal Rights of the Merchant Transmission Facility being evaluated, if the Merchant Transmission Facility is in service, or (ii) for a Merchant Transmission Facility that is not yet in service, the planned Firm Transmission Withdrawal Rights of the Merchant Transmission Facility being evaluated as identified in the Interconnection Service Agreement in effect for such Merchant Transmission Facility.

(4) In the DFAX analysis, when Transmission Provider models a transfer from generation to all load within an individual Zone, Transmission Provider shall model the transfer to the Zone as a whole (not on a bus-by-bus basis).

(5) In the DFAX analysis, Transmission Provider shall model generation both external and internal to individual Responsible Zones to reflect (a) the boundaries of Locational Deliverability Areas (“LDAs”), as defined in Attachment DD to the Tariff, and (b) limitations with respect to the reliability objective for moving generation capacity across the transmission system. Transmission Provider shall adopt the Capacity Emergency Transfer Objective (“CETO”), as defined in Attachment DD to the Tariff, associated with that LDA and calculated for the applicable planning year to be the transfer limitation into the LDA. In modeling the system generation and load, Transmission Provider shall assume that the percentage of the zonal load in the LDA served by external (or internal) generation to the LDA shall equal the ratio of (i) the CETO associated within that LDA (or generation internal with the LDA) to (ii) the sum of (a) the internal generation within the LDA and (b) the CETO associated with that LDA. For the generation dispatch used in calculating the distribution factor, Transmission Provider shall distribute these amounts of external/internal generation among all generation in the PJM Region external to/internal within the LDA, respectively, in proportion to their capacity. For Responsible Zones that are located within LDAs that are also entirely contained in other larger LDAs, the modeling approach and distribution factor calculations shall be repeated for such Responsible Zones for each LDA. The lowest distribution factor derived from these calculations shall be applied to the Responsible Zone in the calculation of the use of the Required Transmission Enhancement.

(6) No cost responsibility shall be assigned to a Responsible Zone unless the magnitude of the distribution factor is greater than or equal to 0.01. Any distribution factor of a smaller magnitude shall be set equal to zero.

(B) The DFAX analysis will be performed in accordance with the following steps:

(1) Transmission Provider shall calculate a distribution factor and a direction of use for each Responsible Zone by modeling a transfer from all generation in the PJM Region to each Responsible Zone. To establish the use by a Responsible Zone, in megawatts, of a Required Transmission Enhancement, the distribution factor of a Required Transmission Enhancement associated with the resulting transfer modeled by the Transmission Provider to each Responsible Zone shall be multiplied by the Responsible Zone’s peak load.
(2) The Transmission Provider shall separately determine the relative use of the Required Transmission Enhancement by each Responsible Zone in each direction by dividing the megawatts of use by each Responsible Zone determined in Section (iii)(B)(1) by the total use of all Responsible Zones using the Required Transmission Enhancement in the same direction of use.

(3) Transmission Provider shall determine the direction of use percentage of the Required Transmission Enhancement in each direction using a production cost analysis to determine the total use, in megawatt-hours, of the Required Transmission Enhancement by all Zones and Merchant Transmission Facilities in each direction over the course of a year. The Transmission Provider shall calculate the percentage use in each direction by dividing the megawatt-hours of use in each direction by total use in megawatt-hours in both directions of use.

(4) The Transmission Provider shall multiply the relative use by each Responsible Zone of the Required Transmission Enhancement in each direction of use determined in Section (iii)(B)(2), above, by the applicable direction of use percentage determined in Section (iii)(B)(3), above.

(5) The products of the calculation performed in Section (iii)(B)(4), above, shall determine the relative allocation to each Responsible Zone of cost responsibility for the Required Transmission Enhancement.

(C) In the DFAX analysis, the Zones of Public Service Electric and Gas Company and Rockland Electric Company will be treated as one Zone unless and until Rockland Electric Company elects to be treated as a separate Zone in accordance with the terms of the Settlement Agreement And Offer Of Partial Settlement approved by FERC in Docket Nos. ER06-456-000, et al.

(D) Transmission Provider shall round cost responsibility assignments determined using the DFAX analysis described in subsection (b)(iii) of this Schedule 12 to the nearest one-hundredth of one percent.

(E) Transmission Provider shall not account for the ability to adjust use of phase angle regulators (“PARs”) in the DFAX analysis described in subsection (b)(iii) of this Schedule 12. In the DFAX analysis, all PAR angles shall be fixed at their base case settings.

(F) In the DFAX analysis, if the Required Transmission Enhancement is a D.C. facility, the Transmission Provider shall determine cost responsibility assignment as follows:

(1) The Required Transmission Enhancement shall be replaced in the model with a comparable proxy A.C. facility, the impedance of which shall be calculated based
on the length of the D.C. facility that was removed from the model multiplied by an approximate per unit/mile impedance value for the proxy A.C. facility.

(2) Where a D.C. facility is an integral part of a Required Transmission Enhancement that also includes A.C. facilities, the methodology described in Subsection (b)(iii)(F)(1) above shall be used only for the D.C. facility segment of such Required Transmission Enhancement.

(3) A D.C. facility used to control flow over portions of the Transmission System shall be modeled with a zero impedance and no control shall be applied.

(G) If Transmission Provider determines in its reasonable engineering judgment that, as a result of applying the provisions of this Section (b)(iii), the DFAX analysis cannot be performed or that the results of such DFAX analysis are objectively unreasonable, the Transmission Provider may use an appropriate substitute proxy for the Required Transmission Enhancement in conducting the DFAX analysis. If a proxy is used that is not specified in this Schedule 12, Transmission Provider shall state in a written report (a) the reasons why it determined the DFAX analysis could not be performed or that the results of the DFAX analysis were objectively unreasonable; (b) why the substitute proxy produced objectively reasonable results; and (3) a recommendation as to what changes, if any, should be considered in conducting the DFAX analysis.

(H) The Transmission Provider shall make a preliminary cost responsibility determination for each Required Transmission Enhancement subject to this section (b)(iii) of Schedule 12 at the time such Required Transmission Enhancement is included in the Regional Transmission Expansion Plan.

(1) When CWIP in connection with a Required Transmission Enhancement subject to this section (b)(iii) of Schedule 12 is entitled to be recovered, the preliminary determination of cost responsibility made at the time that the Required Transmission Enhancement was included in the Regional Transmission Expansion Plan shall be used to assign cost responsibility for such CWIP and such cost responsibility shall remain unchanged until the date the Required Transmission Enhancement goes into service. Once a Required Transmission Enhancement has gone into service, the updated cost responsibility determination provided for in subsection (b)(iii)(H)(2) shall apply.

(2) Beginning with the calendar year in which a Required Transmission Enhancement is scheduled to enter service, and thereafter annually at the beginning of each calendar year, the Transmission Provider shall update the preliminary cost responsibility determination for each Required Transmission Enhancement using the values and inputs used in the base case of the most recent Regional Transmission Expansion Plan approved by the PJM Board prior to the date of the update. All values and inputs used in the calculation of the distribution factor in a determination of cost responsibility shall be the same values and inputs as used in the base case of the most recent Regional Transmission Expansion Plan approved by the PJM Board prior to the determination of cost responsibility.
(iv) **Spare Parts, Replacement Equipment And Circuit Breakers.** Transmission Provider shall assign cost responsibility for spare parts, replacement equipment, and circuit breakers and associated equipment, included in the Regional Transmission Expansion Plan as follows:

(A) Spare parts that are part of the design specifications of a Required Transmission Enhancement at the time such Required Transmission Enhancement is first included in the Regional Transmission Expansion Plan shall be considered part of the Required Transmission Enhancement for the purpose of applying the cost threshold described in subsection (b)(vi) of this Schedule 12 and cost responsibility for such spare parts shall be assigned in the same manner as the Required Transmission Enhancement. Cost responsibility for spare parts independently included in the Regional Transmission Expansion Plan and not a part of the design specifications of a Required Transmission Enhancement as described above in this subsection shall be assigned to the Zone of the owner of the spare part, if the owner of the spare part is a Transmission Owner listed in Attachment J of the Tariff. If the owner of the spare part is not a Transmission Owner listed in Attachment J of the Tariff, cost responsibility shall be assigned on a pro rata basis to the zones that bear cost responsibility for the owner’s Required Transmission Enhancements.

(B) Replacement equipment that is part of the design specifications of a Required Transmission Enhancement at the time the Required Transmission Enhancement is first included in the Regional Transmission Expansion Plan shall be considered part of the Required Transmission Enhancement for the purpose of applying the cost threshold described in section (b)(vi) of this Schedule 12 and cost responsibility for such replacement equipment shall be assigned in the same manner as the Required Transmission Enhancement. Cost responsibility for Required Transmission Enhancement replacement equipment independently included in the Regional Transmission Expansion Plan and not a part of the design specifications of a Required Transmission Enhancement as described above in this subsection, shall be assigned to the same Zones and/or Merchant Transmission Facilities and in the same proportions as the then-existing assignments of cost responsibility for the facilities that the replacement equipment is replacing.

(C) Circuit breakers and associated equipment that are part of the design specifications of a Required Transmission Enhancement at the time the Required Transmission Enhancement is first included in the Regional Transmission Expansion Plan shall be considered part of the Required Transmission Enhancement for the purpose of applying the cost threshold described in subsection (b)(vi) of this Schedule 12 and cost responsibility for such circuit breakers and associated equipment shall be assigned in the same manner as the Required Transmission Enhancement. Cost responsibility for circuit breakers and associated equipment independently included in the Regional Transmission Expansion Plan and not a part of the design specifications of a transmission element of a Required Transmission Enhancement as described above in this subsection, shall be assigned to the Zone of the owner of the circuit breaker and associated equipment if the owner of the circuit breaker is a Transmission Owner listed in Attachment J of the Tariff. If the owner of the circuit breaker is not a Transmission Owner listed in Attachment J of the Tariff, cost responsibility shall be assigned on a pro rata basis to the zones that bear cost responsibility for the owner’s Required Transmission Enhancements.
(v) **Economic Projects.** Transmission Provider shall assign (i) fifty percent (50%) of cost responsibility for Economic Projects that are Regional Facilities; and (ii) full cost responsibility for Economic Projects that are Lower Voltage Facilities; as follows:

(A) Transmission Provider shall assign cost responsibility for Economic Projects that are accelerations of Reliability Projects as described in section 1.5.7(b)(i) of Schedule 6 of the Operating Agreement (“Acceleration Projects”) by performing and comparing (1) a DFAX analysis consistent with the methodology described in subsection (b)(iii) of this Schedule 12, and (2) a methodology that is intended to act as a proxy for expected economic benefits from reduced Locational Marginal Prices (“LMP Benefit”) over the period that the reliability-based enhancement or expansion is to be accelerated (“LMP Benefits Methodology”). The LMP Benefits Methodology shall determine cost responsibility assignment percentages to Zones and Merchant Transmission Facilities in the following manner. The LMP Benefit to a Zone shall be deemed to be equal to the reduction in Locational Marginal Price payments made by Load Serving Entities as a result of the Acceleration Project assuming the customers purchase all energy needs from the PJM Interchange Energy Market, and LMP Benefits so calculated shall be converted into percentage cost responsibility assignments for the affected Zones. The LMP Benefits Methodology shall not incorporate the financial effects of allocations of Auction Revenue Rights or Financial Transmission Rights. The LMP Benefit to a Merchant Transmission Facility shall be deemed to be equal to the proportionate share of assigned cost responsibility using the DFAX analysis and the assignments of cost responsibility to other Zones in the LMP Benefits Methodology shall be proportionately adjusted, as necessary, to reflect this treatment of Merchant Transmission Facilities to ensure that the total allocation for any economic-based Required Transmission Enhancement equals one hundred percent. If, after performing both analyses and comparing the percentage cost responsibility assignments for the affected Zones calculated pursuant to the DFAX analysis and the LMP Benefits Methodology, the results do not indicate at least a ten percentage point cost responsibility assignment differential between the two methods for any Zone, cost responsibility for the Acceleration Project shall be assigned using the DFAX analysis. If, after performing both analyses and comparing the percentage cost responsibility assignments for the affected Zones calculated pursuant to the DFAX analysis and LMP Benefits Methodology, the results indicate at least a ten percentage point cost responsibility assignment differential between the two methods for any Zone, cost responsibility for the Acceleration Project for the period of time the Reliability Project is accelerated (i.e. the period between the date the Reliability Project actually goes into service and the date the Reliability Project originally was scheduled to go in service in the PJM Board approved Regional Transmission Expansion Plan) shall be assigned using the LMP Benefits Methodology. For all periods other than the period of time the Reliability Project is accelerated, cost responsibility for such an Acceleration Project shall be assigned in accordance with the provisions of this Schedule 12 governing the assignment of cost responsibility of Regional Facility Reliability Projects or Lower Voltage Facility Reliability Projects, as applicable.

(B) Transmission Provider shall assign cost responsibility for Economic Projects that are modifications to Reliability Projects as described in section 1.5.7(b)(ii) of Schedule 6 of the Operating Agreement in accordance with the provisions of this Schedule 12.
governing the assignment of cost responsibility of Regional Facility Reliability Projects or Lower Voltage Facility Reliability Projects, as applicable.

(C) Transmission Provider shall assign cost responsibility for Economic Projects that are new enhancements or expansions that could relieve one or more economic constraints as described in section 1.5.7(b)(iii) of Schedule 6 of the Operating Agreement to the Zones that show a decrease in the net present value of the Changes in Load Energy Payment determined for the first 15 years of the life of the Economic Project. The Change in Load Energy Payment for each year shall be determined using the methodology set forth in Section 1.5.7(d) of Schedule 6 of the Operating Agreement. Cost responsibility shall be assigned based on each Zone’s pro rata share of the sum of the net present values of the Changes in Load Energy Payment only of the Zones in which the net present value of the Changes in Load Energy Payment shows a decrease.

(vi) Required Transmission Enhancements Costing Less Than $5 Million. Notwithstanding Section (b)(i), (b)(ii), (b)(iv) and (b)(v), cost responsibility for a Required Transmission Enhancement for which the good faith estimate of the cost of the Required Transmission Enhancement (a) prepared in connection with the development of the Regional Transmission Expansion Plan and (b) provided to the PJM Board at the time the Required Transmission Enhancement is included for the first time in the Regional Transmission Expansion Plan, does not equal or exceed $5 million shall be assigned to the Zone where the Required Transmission Enhancement is to be located. The determination of whether the estimated cost of a Required Transmission Enhancement does not equal or exceed $5 million shall be based solely on such good faith estimate of the cost of the Required Transmission Enhancement regardless of the actual costs incurred. The estimated cost of a Required Transmission Enhancement shall include the aggregate estimated costs of all of the transmission elements approved by the PJM Board at the time such elements are included in the Regional Transmission Expansion Plan that collectively are intended (i) in the case of a Reliability Project, to resolve a specific reliability criteria violation, or (ii) in the case of an Economic Project, provide a specific LMP Benefit. Where a Required Transmission Enhancement subject to this section (b)(vi) consists of a single transmission element or multiple transmission elements that will be located in more than one Zone, each Zone shall be assigned cost responsibility for the transmission elements or portions of the transmission elements located in such Zone. Merchant Transmission Facilities shall not be assigned cost responsibility for a Required Transmission Enhancement subject to this Section (b)(vi).

(vii) Modifications of Required Transmission Enhancements. Once a Required Transmission Enhancement is included in the Regional Transmission Expansion Plan, any modification to such Required Transmission Enhancement that subsequently is included in the Regional Transmission Expansion Plan as a separate Reliability or Economic Project shall be considered a separate and distinct Required Transmission Enhancement for purposes of cost responsibility assignment under this Schedule 12. Except as provided in Sections (b)(iv) and (b)(xiv) of this Schedule 12, any cost responsibility assignment that has been made for a previously approved Required Transmission Enhancement shall have no impact on the cost responsibility assignment of such modification.
(viii) **FERC Filing.** Within 30 days of the approval of each Regional Transmission Expansion Plan or an addition to such plan by the PJM Board pursuant to Section 1.6 of Schedule 6 of the PJM Operating Agreement, the Transmission Provider shall designate in the Schedule 12-Appendix A and in a report filed with the FERC the customers using Point-to-Point Transmission Service and/or Network Integration Transmission Service and Merchant Transmission Facility owners that will be subject to each such Transmission Enhancement Charge ("Responsible Customers") based on the cost responsibility assignments determined pursuant to subsections (b)(i) through (v) of this Schedule 12. Those customers designated by the Transmission Provider as Responsible Customers shall have 30 days from the date the filing is made with the FERC to seek review of such designation. Such cost responsibility designations shall be the same as those made for the relevant Regional Facility, Necessary Lower Voltage Facility, or Lower Voltage Facility in the Regional Transmission Expansion Plan.

(ix) **Regions With Which PJM Has Entered Into an Agreement Listed in Schedule 12-Appendix B.** For purposes of this Schedule 12, where costs of a Required Transmission Enhancement are allocated to a region other than PJM pursuant to an agreement set forth in Schedule 12-Appendix B, Responsible Customers for such costs shall be customers in such region. Cost responsibility with respect to the costs of a Required Transmission Enhancements allocated to a region other than PJM shall be allocated within such region in accordance with the applicable tariff or agreement governing the allocation of such costs in such region.

(x) **Merchant Transmission Facilities.**

(A) For purposes of this Schedule 12, where the Transmission Provider has allocated all or a portion of a Required Transmission Enhancement to a Merchant Transmission Facility, the owner of the Merchant Transmission Facility shall be the Responsible Customer with respect to such Required Transmission Enhancement, and shall pay the Transmission Enhancement Charges associated with the Required Transmission Enhancement.

(B) (1) Transmission Provider shall defer collection of Transmission Enhancement Charges from a Merchant Transmission Facility until the Merchant Transmission Facility goes into commercial operation; provided, however, in the event the commercial operation of a Merchant Transmission Facility is delayed beyond the commercial operation milestone date(s) specified in the Interconnection Service Agreement associated with the Merchant Transmission Facility and the Transmission Provider or Transmission Owner constructing the Required Transmission Enhancement demonstrates that the Merchant Transmission Facility is responsible for such delay, Transmission Provider may begin collecting Transmission Enhancement Charges from the Merchant Transmission Facility prior to the Merchant Transmission Facility going into commercial operation. Transmission Enhancement Charges allocated to a Merchant Transmission Facility for which collection is deferred in accordance with this section (b)(x)(B)(1) shall be recorded in appropriate Transmission Provider accounts for deferred charges and collected in accordance with section (b)(x)(B)(3), below.

(2) Transmission Provider shall base the collection of Transmission Enhancement Charges associated with Required Transmission Enhancements from a Merchant
Transmission Facility on the actual Firm Transmission Withdrawal Rights that have been awarded to the Merchant Transmission Facility; provided, however, to the extent that a Merchant Transmission Facility has been awarded less than the amount of Firm Transmission Withdrawal Rights specified in the Interconnection Service Agreement associated with the Merchant Transmission Facility, then Transmission Provider shall record the difference between the amount of Transmission Enhancement Charges collected based on the lesser amount of Firm Transmission Withdrawal Rights and the amount of Transmission Enhancement Charges based on the full amount of Firm Transmission Withdrawal Rights specified in the applicable Interconnection Service Agreement in appropriate accounts for deferred charges and, after the Merchant Transmission Facility has been awarded the full amount of Firm Transmission Withdrawal Rights specified in the Interconnection Service Agreement, collect such deferred amounts in accordance with section (b)(x)(B)(3), below. Notwithstanding the foregoing, Transmission Provider may collect Transmission Enhancement Charges based on more than a Merchant Transmission Facility’s actually awarded Firm Transmission Withdrawal Rights (not to exceed the Firm Transmission Withdrawal Rights specified in the applicable Interconnection Service Agreement) if the Transmission Provider or Transmission Owner demonstrates that the Merchant Transmission Facility is responsible for receiving fewer Firm Transmission Withdrawal Rights than are specified in the applicable Interconnection Service Agreement.

(3) Transmission Provider shall record: (i) in an appropriate deferred asset account, the Transmission Enhancement Charges associated with Required Transmission Enhancements for which collection is deferred in accordance with sections (b)(x)(B)(1) and (b)(x)(B)(2); and (ii) in an appropriate deferred liability account, the revenues associated with the Transmission Enhancement Charges that, absent the deferred charges, would have been due to Transmission Owners or to Transmission Owners’ customers as directed by the applicable Transmission Owner. At such time as collection of such deferred Transmission Enhancement Charges are permitted in accordance with sections (b)(x)(B)(1) and (b)(x)(B)(2), the deferred charges (along with appropriate interest) shall be collected from the Merchant Transmission Facility in equal installments over the twelve months following the commencement of the collection of the deferred charges. Such amounts shall be distributed to Transmission Owners or to Transmission Owners’ customers as directed by the applicable Transmission Owner, and the Transmission Provider shall make appropriate adjustments to the deferred asset and liability accounts. Transmission Provider shall not be responsible for distributing revenues associated with deferred Transmission Enhancement Charges unless and until such charges are collected in accordance with this section (b)(x)(B), and uncollected deferred Transmission Enhancement Charges shall not be subject to Default Allocation Assessments to the Members pursuant to section 15.2 of the Operating Agreement.

(xi) Consolidated Edison Company of New York. (A) Cost responsibility assignments to Consolidated Edison Company of New York for Required Transmission Enhancements pursuant to this Schedule 12 with respect to the Firm Point-To-Point Service Agreements designated as Original Service Agreement No. 1873 and Original Service Agreement No. 1874 accepted by the Commission in Docket No. ER08-858 (“ConEd Service Agreements”) shall be in accordance with the terms and conditions of the settlement approved by the FERC in Docket No. ER08-858-000. (B) All cost responsibility assignments for Required Transmission Enhancements pursuant to this Schedule 12 shall be adjusted at the commencement
and termination of service under the ConEd Service Agreements to take account of the assignments under subsection (xi)(A).

(xii) Public Policy Projects.

(A) Transmission Facilities as defined in section 1.27 of the Consolidated Transmission Owners Agreement constructed by a Transmission Owner pursuant to a Public Policy Requirement as defined in Section 1.38B of the Operating Agreement, but not included in a Regional Transmission Expansion Plan as a Required Transmission Enhancement, shall be as considered a Supplemental Project, as defined in Section 1.42A.02 of the Operating Agreement.

(B) If a transmission enhancement or expansion is proposed pursuant to Section 1.5.9(a) of Schedule 6 of the Operating Agreement which is not a Supplemental Project ("State Agreement Public Policy Project"), the Transmission Provider shall submit the assignment of costs to Responsible Customers proposed in connection with such State Agreement Public Policy Project to the Transmission Owners Agreement Administrative Committee for consideration and filing pursuant to Section 7.3 of the Consolidated Transmission Owners Agreement and Section 9.1(a) of the PJM Tariff. Nothing in this Section (b)(xii) shall prevent the Transmission Provider or the state governmental entities proposing such State Agreement Public Policy Project from filing a proposed assignment of costs to Responsible Customers for such project pursuant to Section 206 of the Federal Power Act.

(xiii) Replacement of Transmission Facilities. Unless determined by PJM to be a Required Transmission Enhancement included in a Regional Transmission Expansion Plan, cost responsibility for the replacement of Transmission Facilities, as defined in section 1.27 of the Consolidated Transmission Owners Agreement, shall be assigned to the Zonal loads and Merchant Transmission Facilities responsible for the costs of the Transmission Facilities being replaced.

(xiv) Multi-Driver Projects.

(A) Assignment of Proportional Multi-Driver Project Costs. The Transmission Provider shall assign cost responsibility for Proportional Multi-Driver Projects as defined in Section 1.38.01 of the Operating Agreement in proportion to the relative percentage benefit that each driver of a Proportional Multi-Driver Project addresses, respectively, reliability violations or operational performance ("reliability"), economic constraints ("economic") and/or Public Policy Requirements ("public policy") as follows:

(1) As part of the open planning process provided for in Section 1.5.10(h) of Schedule 6 of the Operating Agreement, the Transmission Provider employs the Proportional Method as defined in Section 1.5.10(h) of the Operating Agreement to develop a Proportional Multi-Driver Project, by determining which of the following drivers a Proportional Multi-Driver Project addresses: reliability, economic, or public policy, and the extent to which each such driver contributes to the size, scope, and estimated costs of such Proportional Multi-Driver Project (irrespective of the reliability cost allocation treatment that is otherwise accorded an incremental market efficiency modification thereto pursuant to Section (b)(v)(B) of this Schedule 12).
Transmission Provider shall identify the contribution of each driver in terms of a percentage totaling 100 percent for all such drivers at the time that each Proportional Multi-Driver Project is submitted to the PJM Board for approval and included in the Regional Transmission Expansion Plan. The percentage contribution of each driver shall be based on the ratio of the estimated cost of each project that the Multi-Driver Project replaces to the total of the estimated costs of all projects combined into the Multi-Driver Project.

(2) Once a Proportional Multi-Driver Project is approved by the PJM Board, the percentage contributions of each driver shall not be changed unless the PJM Board subsequently approves an upgrade or modification to the Proportional Multi-Driver Project. In that event, the cost responsibility for the Proportional Multi-Driver Project, including any costs incurred prior to the upgrade or modification, will be determined as if it were a new Proportional Multi-Driver Project, such that the percentage contribution for each driver shall be established anew.

(B) Assignment of Incremental Multi-Driver Project Costs. The Transmission Provider shall assign cost responsibility for Incremental Multi-Driver Projects as defined in Section 1.15B of Schedule 6 of the Operating Agreement using the same methodology described in Section (b)(xiv)(A)(1) treating the estimated cost of modifying the original project as if it were the estimated cost of a separate project included in a Proportional Multi-Driver Project. Any costs that had been expended on the original project prior its designation by Transmission Provider as an Incremental Multi-Driver Project shall be included in the calculation of the Incremental Multi-Driver Project pursuant to this Section (b)(xiv)(B).

(C) The Transmission Provider shall separately assign cost responsibility for the costs assigned to each driver pursuant to this Section (b)(xiv) in accordance with the provisions of Schedule 12 governing the assignment of cost responsibility for a single driver project of each driver’s respective type (reliability, economic or public policy). Except as provided in Section (b)(xiv)(D), cost responsibility will be assigned based on the final voltage and configuration of the Multi-Driver Project determined in accordance with Sections (b)(i), (b)(ii), or (b)(vi) of Schedule 12.

(D) Notwithstanding the cost assignments that would otherwise be provided for in Section (b)(xiv)(C) of this Schedule 12, if a Multi-Driver Project includes a public policy driver that is the result of the State Agreement Approach provided for in Schedule 6, Section 1.5.9 of the Operating Agreement and is a Regional Facility as defined in Section (b)(i) of this Schedule 12 and such Multi-Driver Project would not be a Regional Facility but for the inclusion of the public policy driver, then the percentage of costs of such Multi-Driver Project assigned to the non-public policy drivers in accordance with the procedures set forth in in Section (b)(i)(A)(1) shall be twenty percent (20%) and the percentage of costs assigned to the non-public policy drivers of such Multi-Driver Project in accordance Section (b)(i)(A)(2) shall be eighty percent (80%), and not the fifty percent (50%) cost responsibility percentages provided for in Section (b)(i)(A)(1) and Section (b)(i)(A)(2), respectively, of this Schedule 12.
(c) **Determination of Transmission Enhancement Charges.** In the event that any Transmission Owner recovers the cost of a Required Transmission Enhancement through a Transmission Enhancement Charge, such charge shall be determined as follows:

(1) Transmission Provider shall identify in writing and post on the PJM Internet site the Required Transmission Enhancement(s) to which each Transmission Enhancement Charge corresponds. The Transmission Enhancement Charge with respect to a Required Transmission Enhancement shall recover the applicable Transmission Owner’s annual transmission revenue requirement associated with the Required Transmission Enhancement.

(2) Each Transmission Enhancement Charge shall be a monthly charge based on all costs and applicable incentives associated with a particular Required Transmission Enhancement for which the Transmission Owner is responsible.

(3) A Transmission Owner’s annual transmission revenue requirement associated with a Required Transmission Enhancement shall be determined pursuant to either (i) a unilateral filing by the Transmission Owner under Section 205 of the Federal Power Act and the FERC’s rules and regulations thereunder; or (ii) a formula rate in effect applicable to the Transmission Owner’s rates for Network Integration Transmission Service, including the costs associated with Required Transmission Enhancements.

(4) Each Transmission Enhancement Charge applicable to Network Customers and Non-Zone Network Customers shall be recalculated annually to reflect the annual revisions to the billing determinants used by the Transmission Provider to calculate charges to Network Customers for Network Integration Transmission Service under Section 34.1 of the PJM Tariff. The Transmission Provider shall post on its Internet site by October 31 of each calendar year each recalculated Transmission Enhancement Charge that shall be effective during the subsequent calendar year.

(5) Each Transmission Enhancement Charge applicable to customers using Point-To-Point Transmission Service shall be calculated monthly to reflect the billing determinants used by the Transmission Provider to determine charges for customers of Point-To-Point Transmission Service in accordance with Section 25 of the PJM Tariff.

(6) Each Transmission Enhancement Charge payable by an owner of a Merchant Transmission Facility pursuant to Section (b) of this Schedule shall be calculated as a fixed monthly charge.

(7) If a Transmission Owner chooses to recover the cost of Required Transmission Enhancements through the operation of a formula rate as described in Section (a), the Transmission Owner must make an informational filing with the Commission one year from the date the selecting Transmission Owner’s formula rates go into effect, and each year thereafter, providing a detailed list of the costs the Transmission Owner has incurred, and the revenues the Transmission Owner has received to provide service.
(d) Recovery of Transmission Enhancement Charges.

1. Responsible Customers shall pay Transmission Provider all applicable Transmission Enhancement Charges as required by this Schedule 12 in addition to all other charges for transmission service for which such Responsible Customers are responsible under the Tariff.

2. Transmission Provider shall collect all applicable Transmission Enhancement Charges from each Responsible Customer on a monthly basis. Transmission Provider shall remit or credit all revenues received from Responsible Customers under this Schedule 12 to the Transmission Owner(s) that established such charge or to the appropriate authority in a region other than PJM in the case of Transmission Enhancement Charges established in such region in connection with a Required Transmission Enhancement constructed pursuant to an Appendix B Agreement, to be distributed in accordance with the applicable tariff or agreement governing the distribution of such charges in such region.

(e) Crediting of Revenue from Transmission Enhancement Charges. In recognition that a Transmission Owner’s charges for Network Integration Transmission Service set forth in Attachment H are established based upon the Transmission Owner’s total cost of providing FERC-jurisdictional transmission service, including the costs associated with Required Transmission Enhancements, revenue from a Transmission Owner’s Transmission Enhancement Charges for a billing month shall be credited pursuant to this Schedule 12 to the Network Customers in the Transmission Owner’s Zone (including, where applicable, the Transmission Owner) and Transmission Customers purchasing Firm Point-to-Point Transmission Service for delivery in the Transmission Owner’s Zone in proportion to their Demand Charges (including any imputed Demand Charges for bundled service to Native Load Customers) for Network Integration Transmission Service and Reserved Capacity for Firm Point-to-Point Transmission Service; provided that such credits shall be reduced by the amount of any applicable incentives included in such Transmission Enhancement Charges.
ATTACHMENT C

OPSI Resolution #2014-1
RESOLUTION REGARDING THE MAY 2014 TRANSMISSION OWNER WORKING GROUP PJM OATT SCHEDULE 12 MULTI-DRIVER COST ALLOCATION PROPOSAL

WHEREAS, in Orders issued from 2011 to 2013, the Federal Energy Regulatory Commission (“FERC”) required and defined how Public Policy (specifically State Public Policy) should be considered and implemented in the transmission planning of Regional Transmission Organizations (RTOs), including PJM. FERC directed that such policies were to be considered along with more traditional reliability and economic efficiency drivers for transmission development in a transparent and non-discriminatory decision-making process. In Order 1000-A, FERC stated: “[O]ur expectation is that state regulators should play a strong role and that public utility transmission providers will consult closely with state regulators to ensure that their respective transmission planning processes are consistent with state requirements.”

WHEREAS, OPSI takes note of the Commission’s statement in Order 890 with respect to the Commission’s review of transmission cost allocation proposals: “we consider whether the proposal is generally supported by state authorities and participants across the region.” This resolution expresses the unified position of the state authorities that are members of OPSI regarding multi-driver cost allocation.

WHEREAS, in tariff schedules filed in response to the Orders stated in note 1 below, PJM modified its two year planning cycle pursuant to which new transmission development would occur and explained how new transmission would be approved for inclusion into PJM’s Regional Transmission Expansion Plan. PJM established procedures for the consideration and adoption of Public Policy as one driver of transmission development, and also established an innovative State Agreement Approach pursuant to which States could request the development of transmission to serve Public Policy needs and agree on the allocation between them of payment for such transmission’s costs.

1. Multi-Driver Projects and their Cost Allocation Described

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WHEREAS, on May 29, 2014, the PJM Markets & Reliability Committee approved proposed revisions to PJM’s Open Access Tariff (See Sections 1.15B & 1.38.01) and Operating Agreement Schedule 6 (See Section 1.5.10 Multi-Driver Projects) providing for “Incremental” and “Proportional” methods for developing multi-driver transmission projects, to include transmission developed to meet reliability, economic efficiency and public policy needs. In subsection (e) of that Rule, PJM provided that “the actual costs of a multi-driver project shall be apportioned to the different components (reliability-based enhancement or expansion, Economic based Enhancement or Expansion, and/or Public Policy Requirement) based on the initial estimated costs of the Multi-Driver Project in accordance with the methodology set forth in Schedule 12 of the Tariff”.

WHEREAS, proposed Operating Agreement Section 1.5.10(h) defines Proportional and Incremental Methods of Multi-Driver project development as follows:

Proportional Method – “combining separate solutions that address reliability, economics and/or public policy into a single transmission enhancement or expansion that incorporates separate drivers into a Multi-Driver Project” and

Incremental Method – “expanding or enhancing a proposed single driver solution to include one or more additional component(s) to address a combination of reliability, economic and/or public policy drivers.”

The TOs proposed OATT Schedule 12(B) further provides that a condition for application of the Incremental Method is that PJM has either “already submitted the project for stakeholder review” or “the Project has already been approved by the Board.” A project that satisfies one of these conditions may become the “Original” driver under the incremental method.

WHEREAS, in June 2014, the Section 205 Working Group of the Consolidated Transmission Owners Agreement Administrative Committee released its proposed OATT Schedule 12 multi-driver cost allocation proposal (i.e. the TO Proposal), providing differing cost allocations for multi-driver transmission developed pursuant to the Proportional Method and the Incremental Method. Proportional Method costs are to be allocated “in proportion to the relative percentage benefit that each driver of a Multi-Driver Project addresses” including “the extent to which each such driver contributes to the size, scope and estimated costs of such Multi-Driver Project”. (See proposed OATT Schedule 12(b)(xiv)(A)).

WHEREAS, Incremental Method costs are to be allocated, in addition, by applying “a credit to the costs assigned to the original driver or drivers as follows:

1. There shall be no credit to the cost assigned to the original driver if the new driver simply accelerates the time of completion of the project.
2. Where the new driver results in a single circuit project modified to become a double circuit project with no change in voltage level, the original project driver and the incremental driver will each be allocated one-half of the cost of the resulting double circuit project, such that the cost to the original driver will be 50 percent of the estimated cost of the double circuit project;
3. For all other incremental apportionment Multi-Driver Projects, the original driver will be credited with an amount equal to the ratio of the estimated incremental cost of the new driver(s) to the estimated new total cost of the project multiplied by the estimated cost of the original driver. This credit will be added to the cost of the new driver(s). Where more than
one new driver is added to a Multi-Driver Project, the costs added to each new driver will be in proportion to each driver’s respective incremental costs;\(^4\)

(4) In no event will a credit applied to an original driver be less than zero.” (See Proposed OATT Schedule 12(B))

2. **The TOs’ Crediting Proposal Unreasonably burdens the development of Public Policy driven Transmission.**

**WHEREAS,** OPSI does not support the TOs’ Crediting Proposal applicable to Incremental Method projects. This Proposal unreasonably burdens the development of multi-driver projects, and particularly the development of State Public Policy Components of such projects. Because of the requirements imposed upon the development of public policy projects by Operating Agreement Schedule 6, Sections 1.5.9 and 1.5.10(c), i.e. that participating States must enter into a State Agreement on the allocation of public policy project costs and obtain FERC acceptance of such allocation, the timing of the consideration of public policy driven projects is likely to occur late in PJM’s planning cycle. Reliability and economic efficiency projects are expected to be identified and released for Stakeholder consideration earlier in PJM’s planning cycle by PJM professionals. Therefore, OPSI Members expect that “original driver” projects will usually be that of the reliability or economics driver while the public policy project will usually be the “incremental driver”.

**WHEREAS,** OPSI does not accept the justification for the TOs’ “crediting” procedure (described in (2) and (3) above) stated in Stakeholder Conferences, i.e. that the “Incremental” driver should provide a credit to the “Original” driver since it is the existence of the latter that permits the former to be constructed. The assumption underlying this assertion is that the “Incremental” driver will usually be smaller than the “Original” driver. However, PJM’s education on Multi-Driver Project development, which presented realistic examples of Public Policy and non-Public Policy driver transmission components, showed that Public Policy transmission components can be and often are larger than reliability and/or economic efficiency components.

**WHEREAS,** the TOs’ formula (stated in note 4) to govern the size of the credit toward the costs of the Original driver (shown as 25% in their numeric example) could produce much larger percentage contributions and therefore added costs to burden Public Policy transmission component development. Indeed, if that formula is applied to the Public Policy costs stated in the PJM education materials, the TOs proposed credit can increase to 70% of the non-public policy costs (exceeding $100 million).

**WHEREAS,** OPSI further urges the adoption of its costing proposal described below as properly incenting and supporting consideration and implementation by RTOs of Federal, State and other Government public policy for the benefit of the Public which FERC has sought to promote in its several Orders cited in note 1. The approach also encourages the development of transmission needed for the development of renewable energy where cost effective, the expected principal objective of Public Policy transmission development, and does not burden or block such development as could occur under the TOs’ Proposal.

3. **Absent a Modification to the TO Proposal, Certain Multi-Driver Projects Could Produce Inequitable Cost Allocation Results for States Not Party to A State Agreement.**

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\(^4\) The crediting method in (3) can be presented as a mathematical formula as follows: \( \text{original driver credit} = \left( \frac{\text{incremental cost}}{\text{multi-driver cost}} \right) \times \text{original driver cost}. \)
WHEREAS, for multi-driver projects of either the proportional type or the incremental type, the PJM TOs propose to apply the currently established cost allocation methodology. In particular, when the combination of a public policy driver with an underlying project that is planned at a voltage level under the established cost allocation threshold for Regional Facilities (double circuit 345kV or single circuit 500kV) in such a way that the resulting multi-driver project would be at a voltage level at or above the established cost allocation threshold for Regional Facilities, then the cost allocation methodology for Regional Facilities would be applied to the non-public policy components of the resulting multi-driver project.5

WHEREAS, OPSI refers to this type of multi-driver project that is planned at or above a voltage level of double circuit 345kV or single circuit 500kV even though the underlying project is planned, and would otherwise be built, at a lower voltage level (below double circuit 345kV or single circuit 500kV) as a “boosted” project. Such a project is “boosted” to a voltage above the established cost allocation threshold for Regional Facilities only because of its combination with a public policy driver into a multi-driver project. But for its combination with a public policy driver in a “boosted” multi-driver project, the underlying project would not have qualified for any regional postage stamp cost allocation.

WHEREAS, under the TOs’ proposal, 50% of the costs of a boosted multi-driver project that are not apportioned to the public policy driver, will be allocated across the PJM region on a postage stamp basis.6 OPSI does not support such a cost allocation method for this new “boosted” multi-driver project type because it does not take into account its unique nature which combines various transmission needs or objectives.

WHEREAS, Multi-driver projects: (1) for which the underlying project driver was already planned at a voltage level at or above the established cost allocation threshold for Regional Facilities including any related Necessary Lower Voltage Facilities that may already qualify for the established regional cost allocation treatment; and (2) that both start out and end up at a voltage level under the established cost allocation threshold for Regional Facilities, are not boosted facilities and the cost allocation for these multi-driver project types is not addressed in this Resolution.

WHEREAS, the State Agreement Approach to public policy project cost allocation encapsulates OPSI’s support for enabling each OPSI State to pursue its public policy through transmission projects, provided that the costs of such pursuit are borne by the State(s) supporting such public policy project, and not by other OPSI states.

THEREFORE, BE IT RESOLVED, that OPSI urges Federal Energy Regulatory Commission, PJM, and the PJM TOs to modify the multi-driver cost allocation proposal in two ways as follows:

5 The established cost allocation methodology for Regional Facilities that are reliability transmission projects planned at a voltage level of double circuit 345 kV or 500 kV or above allocates 50% of the costs using a solution-based DFAX model and 50% postage stamp pro rata across the PJM region. The established cost allocation methodology for Regional Facilities that are economic efficiency transmission projects planned at a voltage level of double circuit 345 kV or 500 kV or above allocates 50% of the costs generally using a measure of locational marginal price reduction benefits (or the solution-based DFAX depending on certain factors) and 50% postage stamp pro rata across the PJM region.

6 The other 50% of costs that are not apportioned to the public policy driver will be allocated using the beneficiaries test for reliability or economic efficiency projects, as applicable.
• First, OPSI urges that the TOs’ crediting concept for incremental multi-driver projects (both the 50/50 version of the credit and the formulaic version of the credit) be eliminated. In other words, the incremental driver would be charged only the incremental costs of combining it with an underlying driver in a multi-driver project, and will not be assessed costs for other drivers of the project via a crediting mechanism.⁷

• Second, OPSI urges that the proposed cost allocation for “boosted” multi-driver projects (both proportional and incremental) be revised such that the costs of the “boosted” multi-driver project that are not apportioned to the public policy component of the project would be allocated 20% on a region-wide postage stamp basis (rather than 50%) and the remaining 80% using the benefit metric otherwise applicable to reliability and economic efficiency projects, respectively (rather than 50%). Costs apportioned to the public policy component of a boosted multi-driver project would remain allocated pursuant to the State Agreement Approach as provided for in Operating Agreement Schedule 6, Section 1.5.9.

**THEREFORE, BE IT FURTHER RESOLVED,** that OPSI advances these two linked recommendations as an inseparable package in light of the equities involved and so as to strike a reasonable balance between cost allocation and enabling those states desiring to pursue a public policy project under a State Agreement approach in a multi-driver context to reach that goal.

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⁷ This OPSI Proposal allocates to the Reliability Driver its original cost of construction as a stand-alone transmission project, recognizing its role as the backbone of the PJM transmission system, and allocates the remainder of the Multi-Driver Project’s cost, after subtracting the Reliability Driver’s cost, to the other Project Divers (Economics & Public Policy) on a basis proportional with their stand alone costs. This Proposal is the same as that first presented by PJM as part of its education on a proper Multi-Driver approach. An example of this allocation is stated in Attachment A.

*Motion by: Commissioner Lawrence Brenner, Maryland PSC  
Seconded by: Chairman Dallas Winslow by Proxy John Farber, Delaware PSC  
Vote: Yes: DE, DC, IL, IN, MD, MI, NJ, NC, PA, TN, W VA; Abstain: OH, VA; KY not in attendance  
Adopted by the Board of Directors of the Organization of PJM States, Inc.  
June 12, 2014*
ATTACHMENT D

May 2, 1014 Notice of Transmission Owners Consultation with PJM and the Members Committee regarding Proposed Changes to Schedule 12 for Multi-Driver regarding Proposed Changes to Schedule 12 for Multi-Driver Project Cost Allocation
Notice of Transmission Owners Consultation with PJM and the
Members Committee regarding Proposed Changes to Schedule 12 for
Multi-Driver Project Cost Allocation

(May 2, 2014)

Pursuant to Section 7.3.2 of the Consolidated Transmission Owners Agreement
(CTOA), the Section 205 Working Group of the CTOA Administrative Committee
initiated consultation with PJM Interconnection, L.L.C. (PJM) and the PJM
Members Committee with regard to proposed changes to Schedule 12 of the PJM
Tariff to establish a method for cost allocation for Multi-Driver Projects on April
15, 2015.

Representatives of the Section 205 Working Group participated in the April 21,
2014 Members Committee Information Webinar and the April 29, 2014 Regional
Planning Process Task Force meeting to explain the proposed changes and
respond to questions and hear comments of participants. Written comments
were requested to be submitted for consideration by the Section 205 Group by e-
mail to: TO_Cost_Allocation@pjm.com on or before May 5, 2014.

At the request of several Regional Planning Process Task Force meeting
participants, the Section 205 Group has extended the deadline for submittal of
written comments to May 15, 2014.
ATTACHMENT E

May 22, 2014 Notice of Transmission Owners Consultation with PJM and the Members Committee regarding Proposed Changes to Schedule 12 for Multi-Driver Project Cost Allocation
Notice of Transmission Owners Consultation
with PJM and the Members Committee regarding Proposed Changes
to Schedule 12 for Multi-Driver Project Cost Allocation
(May 22, 2014)

Pursuant to Section 7.3.2 of the Consolidated Transmission Owners Agreement (CTOA),
the Section 205 Working Group of the CTOA Administrative Committee initiated consultation
with PJM Interconnection, L.L.C. (PJM) and the PJM Members Committee with regard to proposed
changes to Schedule 12 of the PJM Tariff to establish a method of cost allocation for Multi-Driver
Projects.

Representatives of the Section 205 Working Group participated in the April 21, 2014
Members Committee Information Webinar and the April 29, 2014 Regional Planning Process
Task Force (RPPTF) meeting to explain the proposed changes, respond to questions and hear
comments of webinar and meeting participants. In addition, written comments on the proposed
changes for consideration by the Section 205 Working Group were requested on or before May
5, 2014. The deadline for written comments was subsequently extended to May 15, 2014 at the
request of RPPTF participants.

In anticipation of a scheduled PJM Markets & Reliability Committee endorsement of
RPPTF Operating Agreement (OA) Schedule 6 Multi-Driver project provisions, stakeholders
requested parallel review of any changes to OATT Schedule 12 Multi Driver project cost
allocation provisions resulting from the incorporation of stakeholder comments. While the
Section 205 Group continues to consider stakeholder comments and changes to OATT Schedule
12 cost allocation provisions, revised tariff language incorporating stakeholder comments is
provided herewith as requested and summarized as follows:

- Added paragraph headings to identify Proportional and Incremental methods
  of cost allocation
- Removed stipulation of Board approval of project changes required prior to or
  within the next or current planning cycle
- Removed stipulation of Board approval of project changes based upon
  unanticipated reliability needs

Written comments are requested to be submitted for consideration by the Section 205
Group by e-mail to: TO_Cost_Allocation@pjm.com on or before June 6, 2014.