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July 26, 2018

Transmission Expansion Advisory Committee (TEAC)

RE: Market Efficiency Transmission Planning Project Evaluation Process

Dear Stakeholders,

PJM has received a number of questions regarding the process for reevaluating market efficiency transmission enhancements previously approved by the PJM Board of Managers (PJM Board) for inclusion in the Regional Transmission Expansion Plan (RTEP). This letter is intended to explain how PJM conducts the reevaluation and set forth the anticipated timeline for the current reevaluation cycle.

In accordance with the PJM Operating Agreement, Schedule 6, section 1.5.7(f), PJM annually reviews the costs and benefits of constructing new, previously approved market efficiency projects included in the RTEP. Those reevaluations confirm those projects continue to prove cost beneficial.

Specifically, in its reevaluation, PJM reviews: (i) changes in construction cost estimates for approved market efficiency projects; (ii) anticipated resource development, including merchant transmission, generation and demand response; and, (iii) changes in system conditions, including but not limited to, changes in the load forecast. After accounting for changes in system conditions, PJM reevaluates the congestion reduction benefit of the approved projects over a 15-year period from the project's in-service date. Then, for each project, PJM compares the congestion reduction benefit to the project's cost. To remain an approved market efficiency project, upon reevaluation, each project must meet or exceed a benefit-to-cost ratio of 1.25.

PJM has initiated the annual review. Market efficiency projects that were approved in both the 2014/15 and 2016/17 RTEP window, including the Transource 9A project, will be re-evaluated in the review as prescribed in the PJM Operating Agreement, Schedule 6, section 1.5.7 (f).

During its annual review, PJM will provide periodic updates to the Transmission Expansion Advisory Committee (TEAC). PJM anticipates completing its reevaluation by the September 2018 TEAC meeting, and seeking final recommendations from the TEAC that PJM will present to the PJM Board regarding the continued inclusion or exclusion of market efficiency projects that have demonstrated changes in costs and benefits in the RTEP.

Sincerely,

A handwritten signature in black ink, appearing to read "S. Herling", written in a cursive style.

Steven R. Herling