

Cost Allocation Today and Possible Alternatives: Review of Options Discussed to Date

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Goals of the PJM Interconnection Policy Workshop

Complement (but not delay) the work of the IPRTF by focusing on larger policy issues that affect interconnection

Address issues that may require modifications of existing FERC policy

Encourage stakeholder exchanges and dialogue on difficult policy issues, such as cost allocation

Develop a PJM-region position that could provide input into FERC's announced transmission reform initiative

Baseline Transmission Upgrades (including public policy projects)

Planning Drivers (Reliability violations, market efficiency, state agreement approach)

Cost Allocation (“beneficiary pays” – cost allocation roughly commensurate with identified benefits)

Siting

Interconnection Fundamentals

“Cost Causer” pays

- *“But for” test of cost responsibility*

Crediting for later projects utilizing the upgrade

- Generator pays all costs for upgrades that are needed due to its interconnection
 - Includes the facilities required for them to physically interconnect (e.g., attachment facilities) and upgrades to the system necessary for reliability (e.g., network upgrades)
- Generators that are the “first to cause” the need for the upgrade to the system pay for 100% of the costs of the upgrade
- Restudies are triggered to identify impacts and cost responsibility when an interconnecting customer drops out.

Possible Alternative Interconnection Cost Responsibility Options (in no particular order)

- State underwriting for transmission to particular renewable-rich areas as identified by queue requests
- Baseline upgrades for transmission to particular renewable-rich areas as identified by queue requests
- Option for TOs to treat upgrades as supplemental projects
- Baseline upgrades for DOE-identified congestion corridors per Energy Policy Act of 2005
- Enhanced merchant funding for new transmission to renewable-rich areas
- Subscription Option for Generators

State Underwriting Option – Based on demand as identified by the queue and state policies, states voluntarily take responsibility for funding network upgrades based on their renewable portfolio goals

Implementation – Potential methods may include:

Network upgrades that exceed a certain dollar threshold are sent to the state to underwrite as an option under the State Agreement Approach

Network upgrades with 10 or more projects impacting the same facility are provided to the state with an option for state to support through assessment to load

Generators that have impacts on the facility reimburse the state under the terms and conditions of the SAA

Upgrades Move Into Baseline Planning – Planning criteria changed to treat a defined set of network upgrades as baseline upgrades

Implementation – Potential methods may include:

Planning of upgrades to meet future interconnection needs undertaken through the PJM planning process

Could advance as a baseline

Baseline projects may be subject to the competitive planning process on the basis of a certain amount of projects impacting a facility or a cost per MW limit.

Cost Allocation

Costs allocated consistent with existing rules

Supplemental Projects Option – Option for transmission owners to build-out the grid to renewable-rich areas as supplemental projects

Implementation – Potential methods may include:

Transmission owners and/or interconnection customers can voluntarily agree to develop upgrades based on queue activity. Projects would still be subject to cost-review at FERC but not subject to Order 1000 competitive bidding

Cost Allocation

Assigned to a single TO zone consistent with today's cost allocation rules for supplemental projects



Use of DOE “Transmission Corridor” Authority – The DOE was granted authority in the 2005 Energy Policy Act to identify national corridors designed to reduce congestion and promote increased power flows within and across regions.

Implementation – Potential methods may include:

PJM would include DOE-identified corridors as baseline projects

Corridor-designation could be expanded to include reduction in congestion to promote power flows from renewable-rich areas

Cost Allocation

Would follow existing baseline rules

Siting

Backstop siting available per existing Energy Policy Act provisions

Merchant Funding – PJM creates a merchant funding option for network upgrades based on new criteria

**Implementation –
Potential methods
may include:**

Merchant owned and operated transmission

Interconnection and/or financial rights for the merchant

Cost Allocation

Contractual as between merchant and its customers but respecting open access rules

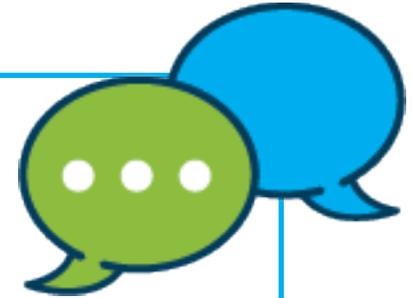
Subscription Option – Based on analysis identifying multiple interconnection projects impacting the same electrical area, PJM examines the level of commercial interest before developing a “multi interconnection network upgrade.

Implementation – Potential methods may include:

PJM studies determine whether there is an advantage to assuming large scale network upgrades in that electrical area and whether the thresholds are met for determining that a large scale deployment is advantageous

PJM would post the identified areas of the system and upgrades on its website to seek subscriptions (i.e. interconnection requests looking to use the line). At different levels of subscription an upgrade would advance in the planning process

All costs associated with the upgrade will be paid by subscribing projects, and the line would be fully subscribed, such that the cost and investment risk of the line is ultimately borne by subscribing generators, and not by customers.



- Mix and match combination of the above options?
- Other options?
- Panel and stakeholder discussion
- Stakeholder input on contents of next policy forum meeting



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