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Date: February 10, 2010
To: PJM Board of Managers
From: Kevin B. Jones, Director of Power Market Policy

Re: Categorization of Supplemental Projects and Baseline Upgrades for RTEP

At the November 18, 2009 and January 13, 2010 TEAC meetings PJM introduced three projects (b1099 – b1101) in the PSEG zone, totaling \$337 million dollars, as RTEP baseline upgrade projects qualifying for Schedule 12 cost allocation. In response to questions raised by LIPA regarding these projects, PJM indicated that the projects were required to meet Transmission Owner reliability criteria. PJM also explained that the post-contingency DFAX analysis for each project would result in the cost allocation of 100% of each project's costs to the PSEG Zone. LIPA again raised questions pertaining to the categorization of these projects at the January 28th Members Committee meeting and on February 8, 2010, LIPA discussed this issue with PJM Staff to better understand PJM's rationale behind this categorization.

LIPA respectfully requests that the PJM Board consider whether the appropriate categorization has been made for RTEP projects B1099 through B1101. Based on the information that has been provided by PJM at this time, each of these projects is solely required to meet a local Transmission Owner criteria and there has been no explanation or information provided that suggests that such criteria as well as the project as a whole is, in fact, regional in nature—which is critical to an appropriate categorization of a project as an RTEP baseline upgrade.

The PJM Operating Agreement defines both Regional RTEP projects (i.e., baseline upgrade) as well as Supplemental RTEP projects:

Regional RTEP Project shall mean a transmission expansion or enhancement rated at 230 kV or above which is required for compliance with the following PJM criteria: system reliability, operational performance or economic criteria, pursuant to a determination by the Office of the Interconnection.

Supplemental Project shall mean a Regional RTEP Project(s) or Subregional RTEP Project(s), which is not required for compliance with the following PJM criteria: System reliability, operational performance or economic criteria, pursuant to a determination by the Office of the Interconnection.

In explaining the reference to "PJM criteria" to the Federal Energy Regulatory Commission, PJM has stated that "...it is clear that the criteria at issue are regional, rather than local, criteria."¹ Thus, the determination of whether a project is a baseline upgrade versus a Supplemental Project must take into consideration whether the criteria violated is regional or local. Based on the information that PJM has provided to LIPA in response to questions regarding the classification of B1099-B1101, it does not appear that the categorization of the projects in question has fully considered whether the specific Transmission Owner criteria violated is regional or local. Further, that review and determination must be provided to stakeholders to ensure full transparency in such categorization decisions.

It is LIPA's understanding that PJM Staff presently considers all "the individual Transmission Owner FERC filed planning criteria" to qualify as PJM criteria. This formulation is overly broad and does not make the necessary distinction between regional and local criteria. Under this formulation, a PJM

¹ Answer of PJM Interconnection L.L.C. to Answers and Protests, Docket No. OA08-32 at 7 (Jan. 22, 2008)

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Transmission Owner could impose excessive local design requirements and regionally allocate the associated project costs to other entities that do not have a voice in the development of the PJM Transmission Owner criteria and receive little benefit from the criteria or associated projects. Simply because a Transmission Owner planning criteria has been filed as part of that Transmission Owner's FERC Form 715 information does not, in itself, establish that these criteria should be anything other than local criteria whose costs of compliance are paid for locally.

FERC, in response to a PSEG protest on the use of the term "PJM criteria" in the Supplemental Project definition² stated that the determination of whether a project met the definition of a Supplemental Project was a factual question. LIPA believes PJM must provide a detailed explanation of the specific factors in determining whether projects are or are not Supplemental Projects. For that factual finding to be appropriate, LIPA believes that PJM must find that it is resolving a "regional criteria" or at least a local reliability criteria that has clear regional benefits. This would be in line with the original PSEG protest that argued that the presumption is that local projects are paid for by local customers and that the threshold should remain that incorporation of a PJM Transmission Owner Criteria into this framework is only appropriate where it has a "regional criteria" character."

LIPA also would note that the provisions in Manual 14B related to Transmission Owner criteria seem to go well beyond what FERC has approved for a definition of baseline projects allocable under Schedule 12. In other jurisdictions, including New York, FERC has made it clear that local reliability rules that do not have significant regional benefits should be allocated to customers in the local area. PJM cannot extend by a manual reference alone the cost responsibility for local Transmission Owner criteria to customers outside the region that benefits from the local criteria.

LIPA requests that the PJM Board consider the foregoing concerns when reviewing this latest set of RTEP projects and their eligibility to be considered baseline projects.

Cc: Ken Lotterhos, Navigant Consulting, Inc.

² PJM Interconnection L.L.C., 123 FERC ¶ 61,163, P 143 (2008).