

9.4 Allocation of Costs of Network Upgrades.

9.4.1 Network Upgrades Associated with Interconnections.

When under Section 9.3.3 it is determined that a generation or merchant transmission interconnection to a Party's system will have an impact on the Affected System such that Network Upgrades shall be made, the upgrades on the Affected System shall be paid for in accordance with the terms and conditions of the Party's OATT.

9.4.2 Network Upgrades Associated with Transmission Service Requests.

When under Section 9.3.4 it is determined that the granting of a long-term firm delivery service request with respect to a Party's system will have an impact on the Affected System such that Network Upgrades shall be made, the upgrades on the Affected System shall be paid for in accordance with the terms and conditions of the Party's OATT.

9.4.3 Network Upgrades Associated with Incremental Auction Revenue Rights Requests.

When under Section 9.3.5 it is determined that the granting of an Incremental ARR request with respect to a Party's system will have an impact on the Affected System such that Network Upgrades shall be made, the upgrades on the Affected System shall be paid for in accordance with the terms and conditions of the Affected System's tariff provisions.

9.4.4 Network Upgrades Under Coordinated System Plan.

The Coordinated System Plan will identify Interregional Projects as: (i) Cross-Border Baseline Reliability Projects ("CBBRP"), (ii) Interregional Reliability Projects, (iii) Interregional Market Efficiency Projects, (iv) Interregional Public Policy Projects, and (v) Targeted Market Efficiency Projects. Consistent with the applicable OATT provisions, the Coordinated System Plan will designate the portion of the Interregional Project Cost for each such project that is to be allocated to each RTO on behalf of its Market Participants. The JRPC will determine an allocation of costs to each RTO for such Network Upgrades based on the procedures described below. The proposed allocation of costs will be reviewed with the IPSAC and the appropriate multi-state entities and posted on the internet web site of the two RTOs. Stakeholder input will be solicited and taken into consideration by the JRPC in arriving at a consensus allocation of costs.

9.4.4.1 Criteria for Project Designation as an Interregional Project:

Interregional Projects must be: (1) physically located in both the MISO region and the PJM region or (2) physically located wholly in one transmission planning region but jointly determined and agreed upon to provide benefits to the other transmission planning region or both transmission planning regions. A project located solely in one region and paid for and benefiting only the adjacent region must meet the individual OATT requirements of the transmission planning region in which the project will be located to be eligible for inclusion in the local RTO's transmission plan in addition to the project criteria included in section 9.4.4.1.1, 9.4.4.1.2 or

9.4.4.1.3. In addition, an Interregional Project approved by each RTO for inclusion in its regional plan is subject to the construction obligation under each RTO's OATT. For purpose of interregional planning between MISO and PJM, ~~These~~ these

Interregional Projects will be designated in accordance with the following criteria:

9.4.4.1.1 Cross-Border Baseline Reliability Project Criteria:

Projects that meet all of the following criteria will be designated as CBBRPs:

- (i) by agreement of the JRPC, the project is needed to efficiently meet applicable reliability criteria;
- (ii) the project must be a baseline reliability project as defined under the MISO or PJM Tariffs.

9.4.4.1.2 Interregional Reliability Project Criteria:

An Interregional Reliability Project must:

- (i) be selected both in the MISO and PJM regional planning processes and be eligible for each region's cost allocation process; and
- (ii) by agreement of the JRPC, displace one or more reliability projects in either or both PJM and MISO as defined in their respective tariffs and more efficiently or cost-effectively meet applicable reliability criteria than the displaced reliability project(s).

Through their respective regional planning processes, PJM and MISO respectively will evaluate proposals to determine whether the proposed Interregional Reliability Project(s) addresses reliability needs that are currently being addressed with reliability projects in its regional transmission planning process and, if so, which reliability projects in that regional transmission planning process could be displaced by the proposed Interregional Reliability Project. Reliability projects in the MISO regional transmission planning process include Baseline Reliability Projects and Multi-Value Projects that meet Criterion 3 according to MISO's OATT. MISO and PJM will quantify the benefits of an Interregional Reliability Project based upon the total avoided costs of regional transmission projects included in the then-current regional transmission plan that would be displaced if the proposed Interregional Reliability Project was included in the plan.

9.4.4.1.3 Interregional Market Efficiency Project Criteria:

Interregional Market Efficiency Projects must meet the following criteria:

- (i) is evaluated as part of a Coordinated System Plan or joint study process, as described in Section 9.3.7 of the JOA; **and**
- (ii) qualifies as an economic transmission enhancement or expansion under the terms of the PJM RTEP and also qualifies as a Market Efficiency

Project or a Multi-Value Project that meets Multi-Value Project Criterion 2 or Criterion 3 under the terms of Attachment FF of the MISO OATT (including all applicable threshold criteria), provided that any minimum Project Cost threshold required to qualify a project under either the PJM RTEP or MISO OATT shall apply the Project Cost of the Interregional Market Efficiency Project and not the allocated cost; ~~and~~

~~(iii) addresses one or more constraints for which at least one dispatchable generator in the adjacent market has a GLDF of 5% or greater with respect to serving load in that adjacent market, as determined using the Coordinated System Plan power flow model.~~

9.4.4.1.3.1 Determination of Benefits to Each RTO from an Interregional Market Efficiency Project:

The RTOs shall jointly evaluate the benefits to the ~~combined~~ MISO and PJM markets; ~~and to each market individually, by evaluating multiple metrics using a multi-year analysis to determine whether a proposed project qualified as an Interregional Market Efficiency Project. The RTOs shall perform this evaluation~~ as follows:

- (a) The RTOs shall utilize their respective tariffs' benefit metrics to analyze the anticipated annual economic benefits of construction of a proposed Interregional Market Efficiency Project to Transmission Customers of each RTO.
- (b) The costs applied in the cost allocation calculation pursuant to Section 9.4.4.2.3 shall be the present value, over the same period for which the project benefits are determined, of the annual revenue requirements for the project. The annual revenue requirements for the Interregional Market Efficiency Project are determined from the estimated Interregional Market Efficiency Project installed costs and the fixed charge rate applicable in each respective RTOs regional process ~~to the constructing transmission owner(s)~~.

To determine the present value of the annual benefits and costs, the discount rate shall be based on the transmission owners' most recent after-tax embedded cost of capital weighted by each transmission owner's total transmission capitalization. Each transmission owner shall provide the RTOs with the transmission owner's most recent after-tax embedded cost of capital, total transmission capitalization, and levelized carrying charge rate, including the recovery period. The recovery period shall be consistent with recovery periods allowed by FERC for comparable facilities.

- (c) Using the cost allocated to each RTO pursuant to Section 9.4.4.2.3 of the JOA, each RTO will evaluate the project using its internal criteria to determine if it qualifies as an economic transmission enhancement or expansion under the terms of the PJM RTEP and also qualifies as a market efficiency project under the terms of Attachment FF of the MISO OATT.

9.4.4.1.4 Interregional Public Policy Project Criteria:

Interregional Public Policy Projects must meet the following criteria:

- (i) be selected both in the MISO and PJM regional planning processes and be eligible for each region's cost allocation process; and
- (ii) by agreement of the JRPC, displace one or more regional projects addressing public policy in MISO or one or more public policy projects in PJM as defined in their respective tariffs and more efficiently or cost-effectively meet applicable public policy criteria than the displaced regional project(s).

Through their respective regional planning processes, PJM and MISO respectively will evaluate proposals to determine whether the proposed Interregional Public Policy Project(s) addresses public policy needs that are currently being addressed with public policy projects in its regional transmission planning process and, if so, which public policy projects in that regional transmission planning process could be displaced by the proposed Interregional Public Policy Project. Public policy projects in the MISO regional transmission planning process include Multi-Value Projects that meet Multi-Value Project Criterion 1 under the terms of Attachment FF to MISO's OATT. Public policy projects in the PJM regional transmission planning process include both economic and reliability projects. MISO and PJM will quantify the benefits of an Interregional Public Policy Project based upon the total avoided costs of regional transmission projects included in the then-current regional transmission plan for purposes of cost allocation that would be displaced if the proposed Interregional Public Policy Project was included in the plan.

9.4.4.1.5 Targeted Market Efficiency Project Criteria:

Upgrades associated with Targeted Market Efficiency Projects must meet the following criteria:

- (i) Are evaluated as part of a Coordinated System Plan or joint study process as described in Section 9.3.7.2(c) and demonstrated to have an expectation for substantial relief of identified historical market efficiency congestion issues;
- (ii) Have an estimated in-service date by the third-summer peak season from the year in which the project was approved;

- (iii) Have an estimated installed cost less than \$20 million in study year dollars;
- (iv) Is determined to have expected future congestion relief, due to upgrade of that targeted Reciprocal Coordinated Flowgate, equal to the sum of annual congestion over the four (4) year period after the study year, that is equal to or greater than the estimated installed capital cost of the upgrade, including appropriate long term costs, in study year dollars, where:
 - a. Expected future congestion relief in the amount of the Reciprocal Coordinated Flowgate's anticipated reduction of historical congestion net of any anticipated increases in congestion on nearby flowgates based on the RTO analysis;
 - b. Historical congestion in PJM will be quantified in accordance with PJM OATT, Attachment K-Appendix, Section 5.1. It will include charges associated with Day-ahead and Real-time market congestion for Market Buyers, Generating Market Buyers, and Market Sellers;
 - c. Historical congestions in MISO will be quantified in accordance with MISO OATT, Sections 39.2.9 "Day-Ahead Energy and Operating Reserve Market Process" and 40.2.15 "Real-Time Energy and Operating Reserve Market Process." It will include charges associated with Day-Ahead and Real-Time market congestion for both load and generator buses; and
 - d. Annual congestion is the estimated average historical congestion based on the two historical calendar years prior to the study year.
- (v) Is recommended by the JRPC as a Targeted Market Efficiency Project and approved by each RTO's Board.

9.4.4.1.5.1 Determination of Benefits of Each RTO from a Targeted Market Efficiency Project

The RTO shall jointly evaluate the benefits to the combined markets and to each RTO for each potential Targeted Market Efficiency Project resulting from Section 9.3.7.2(c), according to the following process:

- (i) With input from IPSAC, determine the estimated total installed project capital cost in study year dollars;
- (ii) Compare the estimated expected future congestion relief to the estimated project total installed capital cost in study year dollars. The estimated congestion relief shall equal or exceed the total installed capital cost in study year dollars, where:
 - a. Expected future congestion relief is the sum of each RTO's expected congestion relief, adjusted by market-to-market

settlement payments.

9.4.4.2 Interregional Project Benefits and Shares:

The Coordinated System Plan shall designate the share of the Project Cost to be allocated to each RTO as set forth in the following subsections:

9.4.4.2.1 Cost Allocation for Cross-Border Baseline Reliability Projects

- (a) **Method for Thermal Constraints:** The Coordinated System Plan shall designate the share of the Project Cost to be allocated to each RTO based on the relative contribution of the combined Load of each RTO to loading on the constrained facility requiring the need for the CBBRP. The loading contribution will be pre-determined using a joint RTO planning model developed and agreed to by the planning staffs of both RTOs. This model will form the basecase from which reliability needs on the combined systems will be determined for the Coordinated System Plan. The model, adjusted for the conditions driving the upgrade needs, will be used to calculate the DFAX for cost allocation purposes for each RTO, using a source of the aggregate of RTO generation (network resources) for each RTO to a sink of all Loads within that RTO. The DFAX is the appropriate distribution factor for the condition causing the upgrade; OTDF for contingency condition flow criteria violations, and PTDF for normal condition flow criteria violations. The DFAX calculation determines the MW flow impact attributable to each RTO on the constraint requiring the transmission system to be upgraded. The total load of each RTO for the condition modeled is multiplied by the DFAX associated with that RTO to determine the respective MW flow contribution of that RTO to the constraint. The RTOs will quantify the relative impact due to PJM's system and the relative impact due to MISO's system and then will allocate between PJM and MISO the load contributions to the reliability constraint on the system by calculating the relative impacts caused by each RTO. This methodology will determine the extent to which each RTO contributes to the need for a reliability upgrade consistent with the Coordinated System Plan modeling that determined the need for the upgrade. The MISO total load impacts will be allocated to MISO and the PJM total load impacts will be allocated to PJM. PJM and MISO will then reallocate their shares internally in accordance with their respective tariffs. By calculating the impacts in this manner, the RTOs will ensure that the relative contribution of each RTO (including both the aggravating and benefiting contributions of generation and load patterns within each RTO) to the need for a particular upgrade, is appropriately captured in the ensuing allocations, and that the allocation is consistent with the Coordinated System Plan modeling that determined the need for the upgrade.
- (b) **Method for Non-Thermal Constraints:** The JRPC will establish an interface, comprised of a number of transmission facilities, to serve as a

surrogate for allocation of cost responsibility for non-thermal constraints. The interface will be established such that the aggregate flow on the interface best represents the non-thermal constraint which the CBBRP is proposed to alleviate. Allocation of cost responsibility for the non-thermal constraint will be determined by applying the procedures described in this Section to the interface serving as a surrogate for the constraint.

- (c) **Method for Projects that Also Qualify As Interregional Reliability Projects:** For an Interregional Project that meets the criteria of both a CBBRP under Section 9.4.4.1.1 and an Interregional Reliability Project under Section 9.4.4.1.2, the cost will be allocated in accordance with the methodology set forth in Section 9.4.4.2.2.

9.4.4.2.2 Cost Allocation for an Interregional Reliability Project:

The cost of an Interregional Reliability Project, selected in the regional transmission plans of both PJM and MISO, will be allocated as follows:

- (i) The share of the costs an Interregional Reliability Project allocated to a region will be determined by the ratio of the present value(s) of the estimated costs of such region's displaced reliability projects as agreed to by the RTOs to the total of the present value(s) of the estimated costs of the displaced reliability projects in both regions that have selected the Interregional Reliability Project in their respective regional plans.
- (ii) For purposes of this subsection, a displaced reliability project's estimated costs shall be determined by PJM and MISO in accordance with their respective procedures for defining project estimated costs. Notwithstanding the foregoing, both RTOs shall work to ensure that their cost estimates for displaced reliability projects are determined in a similar manner. The applicable discount rate(s) used for the MISO region shall be the discount rate proposed by the Transmission Owner that produces the cost estimate for the proposed project. The applicable discount rate(s) used for the PJM region shall be the discount rate included in the assumptions reviewed by the PJM Board of Managers each year for use in the economic planning process.
- (iii) Costs allocated to each region shall be further allocated within each region pursuant to the cost allocation methodology contained in each region's respective regional transmission planning process.

9.4.4.2.3 Cost Allocation for an Interregional Market Efficiency Project:

For Interregional Market Efficiency Projects that meet all of the qualifications in Section 9.4.4.1.3, the applicable project costs shall be allocated to the respective RTOs in proportion to the net present value of the total benefits calculated for each RTO pursuant to each RTO's respective tariff.

9.4.4.2.4 Cost Allocation for an Interregional Public Policy Project:

The cost of an Interregional Public Policy Project, selected in the regional transmission plans of both PJM and MISO, will be allocated as follows:

- (i) The share of the costs for an Interregional Public Policy Project allocated to a region will be determined by the ratio of the present value(s) of the estimated costs of such region's displaced public policy projects to the total of the present value(s) of the estimated costs of the displaced public policy projects in both regions that have selected the Interregional Public Policy Project in their respective regional plans.
- (ii) For purposes of this subsection, a displaced regional public policy project's estimated costs shall be determined by PJM and MISO in accordance with their respective procedures for defining project estimated costs. Notwithstanding the foregoing, both RTOs shall work to ensure that their cost estimates for displaced public policy projects are determined in a similar manner. The applicable discount rate(s) used for the MISO region shall be the discount rate developed by MISO for cost estimates for projects under review by the MISO Board of Directors. The applicable discount rate(s) used for the PJM region shall be the discount rate included in the assumptions reviewed by the PJM Board of Managers each year for use in the economic planning process.
- (iii) Costs allocated to each region shall be further allocated within each region pursuant to the cost allocation methodology contained in each region's respective regional transmission planning process.

9.4.4.2.5 Cost Allocation for a Targeted Market Efficiency Project:

For Targeted Market Efficiency Projects that meet all of the qualifications in Section 9.4.4.1.5, the applicable project costs shall be allocated to the respective RTOs in proportion to the determination of expected future congestion relief for each RTO calculated pursuant to that Section.

~~9.4.4.3—Determination of Interregional Cost Allocation Share Outside of Coordinated System Plan:~~

~~Either RTO may request that a project be tested against the interregional cost allocation criteria during the interim periods between periodic formal releases of the Coordinated System Plan. The RTOs will conduct reviews between the formal cycles on at least an annual basis. Such tests will be performed on the best available joint planning model, as determined by the JRPC.~~

~~The joint planning model will be a minimum 5-year horizon case, modeling peak summer conditions, and will be developed by February of each year. It will be based on the current RTEP basecase for PJM and the current MTEP basecase for MISO. The basecase~~

~~developed by each RTO will be based on documented procedures, which, in turn, will guide the development of the joint RTO planning model. Any disputes that arise will be resolved through the dispute resolution procedures documented in Article XIV. Each year the model will be updated by the RTOs to include changes to long term firm transmission service, load forecast, topology changes, generation additions/retirements and any other relevant system changes that may have occurred since the previous years' basecase development. The joint RTO planning model will be available to any member of PJM or MISO.~~

9.4.4.4-3 Cost Recovery of Interregional Allocation Shares:

The cost recovery of any share of cost of an Interregional Project allocated to either RTO shall be recovered by each RTO according to the applicable tariff provisions of the RTO to which such cost recovery is allocated.

9.4.4.5-4 Transmission Owners Filing Rights:

Nothing in this Section 9.4 shall affect or limit any Transmission Owners filing rights under Section 205 of the Federal Power Act as set forth in the applicable Tariffs and applicable agreements.

9.4.4.6-5 Amendments:

The RTOs shall amend Article IX of this Agreement in accordance with the applicable tariffs and/or agreements.