Notice of Transmission Owners Consultation with the Members Committee Regarding Proposed Update to Schedule 12 of the PJM Tariff

Pursuant to Section 7.3.2 of the Consolidated Transmission Owners Agreement ("CTOA"), the CTOA Administrative Committee hereby initiates consultation with the PJM Members Committee with regard to a proposed change to Schedule 12 of the PJM Interconnection, L.L.C. ("PJM") Tariff. As discussed herein, the PJM Transmission Owners are proposing revisions to align Schedule 12, section (b)(v)(C) with recent revisions to section 1.5.7 of Schedule 6 of the PJM Operating Agreement, which modified the method through which PJM evaluates the benefits of Required Transmission Enhancements that could relieve one or more economic constraints ("Economic Projects") for inclusion in the PJM Regional Transmission Planning Process ("RTEP").

Background: Evaluation of Economic Project Benefits and Costs and Cost Responsibility Assignment

Historically, when evaluating whether a proposed Economic Project met the required 1.25/1 benefit-to-cost ratio analysis in Schedule 6, section 1.5.7(d) of the Operating Agreement, PJM calculated the net present value of the annual benefits and total costs of a proposed Economic Project “for each of the first 15 years of the life of the economic enhancement or expansion.” In its current form, Schedule 12, section (b)(v)(C) of the PJM Tariff uses similar language to assign the cost responsibility for a New Economic Project project. Specifically, Schedule 12, section (b)(v)(C) requires that the cost of an Economic Project that could relieve one or more economic constraints be assigned to those 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 Economic Project.”

However, on February 19, 2019, the Commission accepted PJM’s proposed revision to Section 1.5.7(d) of Schedule 6 of the OA, which changed the method through which PJM evaluates the annual benefits and total costs of a proposed Economic Project when determining whether such project meets the 1.25/1 benefit-to-cost ratio analysis. Specifically, the

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1 Schedule 12 assigns cost responsibility for three types of Economic Projects described in section 1.5.7(b) of Schedule 6 of the Operating Agreement: accelerations of Reliability Projects (section (b)(v)(A)), modifications of Reliability Projects (section (b)(v)(B)), and new enhancements or expansions that could relieve one or more economic constraints ("New Economic Projects") (section (b)(v)(C)). The proposed change only affects New Economic Projects. The PJM Transmission Owners are not proposing any changes to the cost allocation methodologies for accelerations or modifications of Reliability Projects.

2 While Section 1.5.7(d) of Schedule 6 considers both the change in Total Energy Production Cost and the change in Load Energy Payment in determining whether a project meets the 1.25/1 benefit-to-cost ratio, Schedule 12 considers only changes in Load Energy Payment since the costs of Regional Transmission Expansion Plan projects in PJM are assigned only to load.

3 *PJM Interconnection, L.L.C.*, 166 FERC ¶ 61,114 (2019).
approved revision requires that PJM evaluate a proposed Economic Project by calculating the net present value of the annual benefits and total costs of the proposed project “for the 15 year period starting with the RTEP Year (defined as current year plus five) minus benefits for years when the project is not yet in-service.” With the approval of this revision, the cost allocation methodology for New Economic Projects is no longer aligned with the method through which PJM selects an Economic Project for inclusion in the RTEP, since the language of Schedule 12, section (b)(v)(C) is linked to the first 15 years of the life of the new project, while Schedule 6 of the Operating Agreement establishes a new starting point to measure benefit keyed to the RTEP Year regardless of when the new project is in service.

**Proposed Changes to Schedule 12**

Acting pursuant to Section 9.1 of the PJM Tariff and Article 7 of the CTOA, the PJM Transmission Owners are proposing revisions to Schedule 12, section (b)(v)(C) to align the cost allocation methodology used to determine the benefits of New Economic Projects with the new evaluation metric approved by the Commission to evaluate Economic Projects through the RTEP study process. In order to align Schedule 12, section (b)(v)(C) with revised section 1.5.7(d) of Schedule 6 of the Operating Agreement, the PJM Transmission Owners propose the following two revisions (the “Proposed Revisions”):

1. Deleting the reference in Schedule 12 section (b)(v)(C) to “the first 15 years of the life of the Economic Project,” and

2. Adding language clarifying that the Change in Load Energy Payment, which is used to establish cost responsibility assignments, shall be determined using the methodology set forth in Section 1.5.7(d) of Schedule 6 of the Operating Agreement “for the period specified in that section.”

Taken together, the Proposed Revisions ensure that the cost responsibility assignments for a New Economic Project are determined using the same method PJM uses to determine Load Energy Payment when evaluating the project under Section 1.5.7(d) of Schedule 6 of the Operating Agreement. The change will also ensure that if Section 1.5.7(d) is further modified in the future that the cost allocation of a New Economic Project will remain linked to the determination of whether the project should be included in the RTEP.

The PJM Transmission Owners have included as Attachment A to this stakeholder notice a revised version of Schedule 12 section (b)(v)(C) showing the proposed changes. The PJM Transmission Owners are proposing that the proposed revisions be made effective 60 days after filing.
Written comments on the proposed provisions may be submitted for consideration by email to: (Comments_for_Transmission_Owners@pjm.com) on or before July 1, 2019.
Attachment A
Proposed Modification to Schedule 12, Section (b)(v)(C) of the PJM Tariff
To Confirm with Section 1.5.7(d) of Schedule 6 of the PJM Operating Agreement

(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 for the period specified in that section. 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.