

MEMORANDUM

July 31, 2012

TO: Steve Herling, Mike Kormos & Craig Glazer
FROM: The Sustainable FERC Project on behalf of NGO Stakeholders
RE: Order 1000 Compliance—PPR-driven project selection & cost allocation

Based on recent discussions during stakeholder meetings, NGOs are concerned that PJM may be taking positions on the treatment of PPR-driven needs that could conflict with explicit Order No. 1000 compliance requirements. Thus, we seek clarification of PJM views on those requirements to ensure that we understand PJM management's position.

Comments in mid-July meetings suggested that some PJM staff believe Order 1000 contains no requirement for the RTO to consider for RTEP selection, or to have a cost allocation method in place for, PPR-only projects unless they are proposed under OPSI's State Agreement Approach as "supplemental projects" (for which cost allocation is provided) on which the PJM board need not act. It also appeared that some staffers believe PJM's incorporation of OPSI's approach to "State Policy Projects" in its compliance filing would fully meet Order 1000's requirements vis-à-vis treatment of PPR-driven grid needs. Finally, it seemed that some assume that a project-by-project approach to cost allocation for PPR-driven needs could be compliant with Order 1000.

While we hope that these perceptions do not represent PJM's positions, we thought it would be helpful to set forth briefly the Order 1000 provisions that explicitly exclude them. The Final Rule, as we read it, clearly directs PJM to include in its compliance filing the following:

- (1) Procedures PJM will use in the RTEP to i) evaluate on a footprint-wide basis PPR-driven grid needs, and ii) recommend solutions, whether PPR-only projects or Multi-driver-Critical Mass projects, that address identified PPR-driven grid needs (*including needs addressed by any State Policy Projects developed under OPSI's State Agreement Approach*); and
- (2) A cost allocation method (or methods) for transmission solutions to meet identified PPR-driven needs, whether PPR-only or Multi-driver projects, that could be selected in the RTEP for purposes of cost allocation.

More specifically, NGOs believe that Order 1000 is clear on the following three requirements. **First**, transmission providers (TPs) must have in place procedures to consider transmission needs driven by PPRs—procedures that set forth both how the needs will be identified in consultation with stakeholders and how potential solutions to address those needs will be evaluated. ¶ 204 of Order 1000 states in relevant part:

“...without having in place procedures to consider transmission needs driven by Public Policy Requirements, the needs of wholesale customers may not be accurately identified. While we understand that some public utility transmission providers already do have processes in place to determine whether transmission needs reflect Public Policy Requirements, others do not. We correct this deficiency through the requirements below, which are intended to enhance, rather than replace, existing transmission planning

obligations under Order No. 890. Moreover, as with other reforms adopted in this Final Rule, these requirements are intended to be an additional set of minimum obligations for public utility transmission providers and are not intended to preclude additional transmission planning related activities.”

And ¶ 205 specifically describes the minimum obligations in this regard:

“...We therefore direct public utility transmission providers to amend their OATTs to describe the procedures by which transmission needs driven by Public Policy Requirements will be identified in the local and regional transmission planning processes and how potential solutions to the identified transmission needs will be evaluated in the local and regional transmission planning processes.”

Although state entities in PJM’s footprint are preeminently important in identifying state and regional PPR-driven needs and proposing solutions to address those needs, the Order 1000 consultation procedures require that all stakeholders have timely and meaningful opportunity for input on these matters.

Second, proposals by stakeholders to address PPR-driven grid needs must be evaluated by TPs (in consultation with stakeholders). ¶ 211 of the order states in relevant part:

“With regard to the evaluation of potential solutions to the identified transmission needs driven by Public Policy Requirements, we again leave to public utility transmission providers to determine, in consultation with stakeholders, the procedures for how such evaluations will be undertaken, subject to the Commission’s review on compliance and with the objective of meeting the identified transmission needs more efficiently and cost-effectively.... At a minimum, however, this process must include the evaluation of proposals by stakeholders for transmission facilities proposed to satisfy an identified transmission need driven by Public Policy Requirements....”

The OPSI State Agreement Approach for “Supplemental Projects” is certainly congruent with Order 1000, and “State Policy Projects” proposed under that agreement may greatly assist PJM in meeting its Order 1000 planning obligations related to PPR-driven grid needs. However, Order 1000 does not permit PJM to limit its consideration of proposed PPR need solutions to transmission projects on which one or more states may agree. Such a limitation would conflict with Order 1000’s goals, and it would compromise PJM’s role as an objective, independent transmission system planner for the region.

Third, projects to address PPR-driven grid needs must be eligible for selection in the RTEP for purposes of cost allocation and must not be designated as a type of facility for which the cost allocation method is to be determined project-by-project, and the cost allocation method must be decided in advance. ¶ 690 of Order 1000 explicitly states:

“However, a public utility transmission provider must have a regional cost allocation method for any transmission facility selected in a regional transmission plan for purposes of cost allocation. ... a transmission facility proposed to address a Public Policy Requirement must be eligible for selection in a regional transmission plan for purposes of

cost allocation and must not be designated as a type of transmission facility for which the cost allocation method must be determined only on a project-specific basis....”

And ¶ 560 requires that cost allocation methods be determined in advance:

“...while each transmission planning region may develop a method or methods for different types of transmission projects, such method or methods should apply to all transmission facilities of the type in question. Although we allow a different method or methods for different types of transmission facilities, as discussed below regarding regional Cost Allocation Principle 6, if public utility transmission providers choose to propose a different cost allocation method or methods for different types of transmission facilities, each method would have to be determined in advance for each type of facility.”

Finally, we understand the need for PJM to develop objective criteria for selecting projects to meet PPR-driven needs, and we believe that the Final Rule requires that criteria be set forth in PJM’s compliance filing. We also suggest that critical to this task is the identification of, and approach to measuring, benefits and beneficiaries of projects that address PPR-driven needs.