



# Public Policy and Multi-Driver Projects

RPPTF  
August 10, 2012

## Order 1000 Requirements:

- Planning authority required to “consider” public policy requirements (defined as legislative and regulatory requirements)
- Order 1000 is a requirement to “*evaluate*” options to meet identified public policy requirements *not* a requirement that PJM, on its own, order such projects be built. (Order 1000, para. 213)

## OPSI Resolution is fully compatible with PJM's view of Order 1000's requirements:

- Key distinction: The process for *evaluating* state-identified requirements (Order 1000 addresses) vs. who *decides* whether such public policy projects should be built and who pays for them (OPSI Resolution addresses by referencing state direction to PJM).

## *How this would work:*

- State provides Public Policy Requirements to PJM
- Stakeholders may identify other Public Policy Considerations
- PJM will provide its evaluation of impact to grid
- States and other stakeholders may identify transmission projects for evaluation
- PJM will provide its evaluation of solution alternatives

- State Options Upon Receiving Evaluation Results:
  - Option A: Do nothing: State decides that no project is cost-effective or there are better means to achieve state public policy objective; *or*
  - Option B: Identify Project to PJM: Requesting state identifies the project it wishes to have included in the plan and the state's willingness to pay for the public policy project *or*
  - Option C: Partner with other states and inform PJM of the proposed cost allocation among the states so agreeing

Impact of State Action/Non-Action: PJM will *not* order the construction of public policy projects (or increments to existing projects to accommodate public policy requirements) other than by state agreement pursuant to the OPSI resolution

## “Multi-Driver Projects” and their Relationship to State Agreement Approach:

- Multi-Driver Approach: PJM may consider ordering projects that accomplish both existing reliability and market efficiency criteria if cost-effective as compared to stand alone projects that separately address reliability and market efficiency;

Multi-Driver Project costs will then be allocated based on identified beneficiary pays approaches

Reliability: 50% solutions-based DFAX/50%

socialization of 50% of 345kV double-circuit and above, 100% solution-based DFAX for lower voltages

Market Efficiency: Consideration of load payment reductions and congestion reductions per the existing tariff.



Incremental additions to planned projects to meet public policy requirements will only be allocated per the OPSI June 12 letter:

- Addresses MD, DE, DC concern that requesting states not bear costs unrelated to meeting their identified public policy goal
- Addresses OPSI resolution that “*no public policy project costs may be allocated for recovery from the residents of non-sponsoring states*” (OPSI resolution p. 2)

PJM believes the state agreement approach as outlined above and embodied in the OPSI June 12 letter:

- Meets Order 1000 requirements
- Appropriately respects that the *identification* of state public policies and the *decisions* to go forward and fund projects (or increments of projects) to effectuate the policy should lie with the states and not FERC or PJM
- Works equally well for stand-alone public policy projects and for public policy “slices” of multi-driver projects

- Multi-driver projects
  - Operating Agreement currently provides for reliability solutions coupled with market efficiency solutions
    - Reliability solutions are developed first
    - Market efficiency solutions are developed incrementally – market efficiency test (1.25 benefit/cost ratio) is applied to additional cost of market efficiency solution above cost of reliability solution
  - Future multi-driver projects could involve
    - Reliability and market efficiency
    - Reliability and public policy
    - Market efficiency and public policy
    - Reliability, market efficiency, and public policy
  - Other drivers, such as aging infrastructure or operational performance, may also be addressed

- **Prioritization of drivers will impact cost allocation**
  - Hierarchical approach
    - Reliability always comes first
    - Pick some order for other drivers
    - Identify solutions to individual drivers and stack incremental costs associated with each additional driver
    - Incremental cost goes into bucket for that driver and allocated according to rules associated with that driver
  - Equal priority approach
    - Identify solutions to individual drivers and compare to total cost of most effective multi-driver solution package
    - Pro-rate costs of individual solutions down to cost of multi-driver solution package
    - Pro-rated costs go into bucket for each driver and allocated according to rules associated with that driver

- **Hierarchical approach**
  - Works well for current approach to reliability and market efficiency where multi-driver project is likely an enhancement to the reliability project
  - Market efficiency criteria may not be satisfied to identify a stand-alone upgrade but would be satisfied for an increment
- **Equal priority approach**
  - Would likely work better where a completely new project resolves multiple drivers, each resolved by smaller individual projects
- **May be appropriate to utilize both approaches, based on the circumstances**

To be collected during meeting

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Questions?