STATE OF DELAWARE

PUBLIC SERVICE COMMISSION
861 SILVER LAKE BLVD.
CANNON BUILDING, SUITE 100
DOVER, DELAWARE 19904

TELEPHONE: (302) 736-7500
FAX: (302) 739-4849

June ___, 2016

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VIA ELECTRONIC DELIVERY

Mr. Howard Schneider
Chair, PJM Board of Managers
PJM Interconnection, LLC
P.O. Box 1525
Southeastern, PA 19399-1525

RE: Cost Allocation For Artificial Island Project

Dear Chairman Schneider:

Just over a year ago, the Delaware Public Service Commission ("Delaware PSC") submitted a letter to the PJM Board expressing the Delaware PSC's "significant concerns with the potential cost allocation impacts" of the portfolio of transmission system upgrades that comprise the Artificial Island Project. The Delaware PSC was not alone in expressing concerns with the proposed cost allocation for this Project. The Delaware PSC was very clear that it was not proposing or requesting changes to the cost allocation methodologies that apply to the overwhelming number of transmission projects that are approved through the Regional Transmission Expansion Planning ("RTEP") process. Rather, the Delaware PSC recognized that the Artificial Island Project was unique among RTEP projects, which PJM later confirmed by identifying the Project as the only one of more than 1,200 RTEP projects that was approved to address stability issues. The Delaware PSC also recognized that, because the Project is so unique, PJM's standard cost allocation methodologies, when applied to the Artificial Island Project, were not capable of producing just and reasonable transmission rate outcomes.

The PJM Board appeared to understand and, to some extent, share the Delaware PSC's and others' concerns about the proposed Artificial Island Project allocation. In adopting the proposed cost allocation for the Artificial Island Project that PJM later filed with the Federal Energy Regulatory Commission ("FERC"), the PJM Board stated:

> The Board also recognizes the valid concerns raised by Governor Markell, the Delaware Public Service Commission, the Maryland Public Service Commission, and others regarding the allocation of costs associated with this project. PJM must follow its Tariff. And with regard to the cost allocation provisions applicable to this project, PJM also must respect legal precedent in the Atlantic City case allocating specific rate filing responsibilities between PJM and its

> transmission owners. Nonetheless, we recognize that several parties have appropriately questioned the specific allocation in this case. Accordingly, PJM will continue to provide technical analysis and information to affected stakeholders in order to help FERC with its ruling on this particular cost allocation and its cost allocation rules in general.[1]

The Delaware PSC appreciates PJM conducting, at the Delaware PSC's request, an analysis of the locational marginal price ("LMP") benefits of the Artificial Island Project. The results of the analysis were critical in identifying the proportional distribution of benefits from the Artificial Island Project. During the Technical Conference, Mr. Herling confirmed this point, stating that the study conducted by PJM at the Delaware PSC's request is "analytically a good way of pointing to the buses and the zones that would be impacted by the stability of the plant." He added that, "The further away you get, the less market efficiency benefit would be realized, and coincidentally the less impact there would be of the stability of the plant." In short, PJM's "technical analysis and information" provided a realistic assessment of the distribution of benefits from the Artificial Island Project, an assessment that was not capable of being provided by traditional application of a solutions-based DFAX ("SBDFAX") methodology according to existing PJM Tariff provisions, given the unique nature of the Artificial Island Project.

Unfortunately, the Federal Energy Regulation Commission ("FERC") appears not to have fully understood the merits and value of the PJM analysis. In an order issued April 22, 2016, FERC denied the Delaware PSC's and the Maryland Public Service Commission's ("Maryland PSC") complaint, which sought only narrow changes to the PJM Tariff to ensure that the allocation of Artificial Island Project costs aligned in a manner that was "roughly commensurate" with the benefits of the Project as revealed through PJM's analysis. FERC found that the PJM analysis conducted at the Delaware PSC's request was "flawed" because the study compared a scenario where the Project was not in service and one Salem unit was off-line with a scenario where the Project was in service and all Salem units were on-line. Because the study was run for both hourly and annual scenarios, the assumption as posited was that one Salem unit was off-line for an entire year. That assumption, according to FERC, was the "flaw" in the analysis.

On May 23, 2016, the Delaware PSC, the Maryland PSC, and five other parties jointly filed a Request for Rehearing of the April 22 Order. A copy is attached for your review.

The Request for Rehearing attempts to make clear that PJM's analysis was not flawed; the assumption of a one-year outage of a Salem unit was merely a worst-case scenario that was not a necessary element of the analysis. Additionally, the total dollar value of the benefits revealed by the PJM analysis is not necessary to evaluate Artificial Island Project benefits. The value of the PJM analysis is that it shows very clearly, based on an analytically sound approach, the proportional distribution of benefits of the Artificial Island Project. These benefits should serve as the basis for allocating Artificial Island Project costs, consistent with FERC and appellate court determinations that costs and benefits must be "roughly commensurate."

[1] *See* PJM Board Letter to PJM Members Committee, July 29, 2015.

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The SBDFAX methodology, in contrast, was not and is not capable of revealing the proportional distribution of benefits of the Project. A key "flaw" that makes application of SBDFAX to the Artificial Island Project unjust and unreasonable is the placement of the terminus of the Artificial Island Project transmission line. The transmission line could have terminated in a number of locations and provided exactly the same customer benefits that are provided by terminating the line in the Delmarva Zone. Mr. Herling was very clear, during his remarks at the Technical Conference, that if the Artificial Island Project line were to be terminated in any of the neighboring zones, the stability problems at Artificial Island would have been equally resolved. The very objective of the Artificial Island Project – i.e., to address stability problems associated with generation at Artificial Island – makes it unsuitable for application of the flow-based SBDFAX methodology.

The Delaware PSC respectfully requests that the PJM Board join Delaware Governor Markell and members of the Delaware Congressional delegation in sending a letter to FERC expressing the PJM Board's support for, or at least its non-opposition to, the Request for Rehearing that was filed by the Delaware PSC and six other parties. The Delaware PSC understands that the PJM Board perceives it is duty-bound to apply the SBDFAX methodology for purposes of Artificial Island Project cost allocation. However, expressly acknowledging that such an application of SBDFAX does not necessarily produce just and reasonable rates in the context of the Artificial Island Project is not inconsistent with the PJM Board's obligations. While there is no specified deadline for submitting such a letter to FERC, the Delaware PSC requests that the PJM Board take this step at its earliest convenience.

Please feel free to contact me or Mr. Robert Howatt, our Executive Director, should you have any questions or need additional information. Thank you.

Sincerely,

Dallas Winslow

Chairman
Delaware Public Service Commission

CC:
Mr. Vincent Duane, Esq., General Counsel, PJM
Mr. Craig Glazer, Vice President-Federal Government Policy, PJM
Mr. Steve Herling, Vice President-Planning, PJM
Mr. Paul McGlynn, Chair, Transmission Expansion Advisory Committee, PJM
Mr. David Bonar, Delaware Public Advocate

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