



May 13, 2016

VIA ELECTRONIC DELIVERY

Mr. Howard Schneider, Chairman, Board of Managers
Mr. Andrew Ott, President and CEO
PJM Interconnection
PO Box 1525
Southeastern, PA 19399-1525

Re: **ESTIMATES OF TRANSMISSION PROJECTS AND COST CONTAINMENT**

Dear Chairman Schneider and President Ott,

The Board of the Organization of PJM States, Inc. (OPSI), appreciates the opportunity to address the PJM Board (Board) directly with issues of common concern. Likewise, the OPSI Board appreciates PJM's willingness to discuss transmission cost development and other topics during our recent OPSI Spring Meeting.

As discussed below, circumstances identified in a recent Transmission Expansion Advisory Committee (TEAC) meeting have highlighted OPSI concerns regarding: i) shortfalls in PJM's existing processes for estimating the cost of transmission projects to be included in the Regional Transmission Expansion Planning (RTEP) Report where the Transmission Owner (TO) is required to be the Designated Entity;¹ ii) the approval of the Board of such projects; and iii) the associated impact on effective cost containment.

At the March 10, 2016 TEAC meeting, PJM Staff (Staff) provided a project update that nearly doubled the Staff's cost estimate for transmission facilities approved by the Board in July

¹ As described in Schedule 6 – Regional Transmission Expansion Planning Protocol, 1.5.8.(l) Transmission Owner Required to be the Designated Entity.

2015 for inclusion in the RTEP.² Staff's March TEAC presentation on the cost increase described the difficulty in arriving at the original cost estimate. In particular, Staff appeared to have been handicapped by a lack of specific cost information reflecting particular requirements of the TO's facilities prior to their recommendation of the project for approval by the Board.

Certain provisions in Schedule 6 that do not require such specific cost information from the TO even though a TO is required to be the Designated Entity under specific circumstances appear to have contributed to Staff's difficulties in pricing the project. As described in Schedule 6:³

Transmission Owners Required to be the Designated Entity. Notwithstanding anything to the contrary in this Section 1.5.8, in all events, the Transmission Owner(s) in whose Zone(s) a project proposed pursuant to Section 1.5.8(c) of this Schedule 6 is to be located will be the Designated Entity for the project, when the Short-term Project or Long-lead Project is: (i) a Transmission Owner Upgrade; (ii) located solely within a Transmission Owner's Zone and the costs of the project are allocated solely to the Transmission Owner's Zone; or (iii) located solely within a Transmission Owner's Zone and is not selected in the Regional Transmission Expansion Plan for purposes of cost allocation.

Particularly in the case where facilities are required to be constructed by a TO that has been made a Designated Entity pursuant to this provision, the TO is not obligated by the provisions of Schedule 6, above, to provide detailed cost estimates to Staff for the facilities to be constructed. OPSI understands that the development of detailed design level cost estimates could incur additional expenses. However, Staff should have the ability to require such cost estimates under particular circumstances as those described above.

Staff has identified next steps to better understand the updated cost estimates, including opportunities for reductions in facilities costs, as well as potential further discussions with the Board. OPSI is hopeful that the updated cost estimate can be revisited.

OPSI would suggest to the Board, however, that potential limitations have already been identified in existing PJM processes for cost estimation and Board approval of projects to be included in the RTEP. Therefore, OPSI submits the following recommendations for the Board's consideration:

1. For TOs that are required to be the Designated Entity as described in Schedule 6,

² <http://www.pjm.com/~media/committees-groups/committees/teac/20160310/20160310-reliability-analysis-update.ashx>

³ Schedule 6 – Regional Transmission Expansion Planning Protocol, 1.5.8.(l) Transmission Owner Required to be the Designated Entity.

Section 1.5.8 (l), Staff should have the ability to require input on the estimation of costs for construction or upgrading of their facilities **prior** to finalizing the estimate of costs supporting a Staff recommendation for approval by the Board.

2. For projects being submitted to the Board for approval, each TO or nonincumbent developer should be required to confirm for the Board that it has reviewed Staff's estimates of project costs and that those estimates remain accurate.
3. For projects that do not include a guaranteed maximum price, cost cap, or similar cost containment mechanism, the TO or nonincumbent developer should be required to approve the cost estimate for the project being provided to the Board for its approval.
4. For transmission projects that do not have a guaranteed maximum price, cost cap, or similar cost containment mechanism, the TO or nonincumbent developer should be required to submit the actual costs of Board-approved projects to PJM for its RTEP Reporting.

OPSI appreciates the efforts of PJM to meet its vision of achieving reliable operations, efficient wholesale markets, and infrastructure planning. In addition to those goals, cost impacts on customers are of great importance to the OPSI jurisdictions. Transmission costs that have not been subject to appropriate review and oversight could result in reduced cost containment. OPSI looks forward to continued discussion with the Board and PJM on this important issue as well as the broader issue of PJM cost containment.

Sincerely,

/s/ M. Beth Trombold

M. Beth Trombold
OPSI President

Copies:

Members, PJM Board
Members, OPSI Board
Mr. Craig Glazer, PJM
Mr. Steve Herling, PJM
Mr. Paul McGlynn, PJM