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March 28, 2017

VIA ELECTRONIC DELIVERY

Mr. Howard Schneider, Chairman, Board of Managers
PJM Interconnection, LLC
PO Box 1525
Southeastern, PA 19399-1525

RE: Artificial Island Project

Dear Chairman Schneider:

The Delaware Public Service Commission (“Delaware PSC”) submits this letter to address certain aspects of the Artificial Island Project (“Project”) that are under consideration by PJM Staff and will be under consideration by the PJM Board. The Delaware PSC appreciates PJM Staff’s and the PJM Board’s efforts to undertake further analysis of the Project, to help ensure that the total cost of the project is minimized. The Delaware PSC urges PJM Staff and the PJM Board to give full and thoughtful consideration to any outstanding technical and engineering issues that have been raised, or will be raised in comments. It is important that the final Project selection represents an efficient, reliable and cost effective outcome for consumers, consistent with the Delaware PSC’s and the Organization of PJM States, Inc.’s (“OPSI”) advocacy on cost containment. Finally, and perhaps most importantly for consumers in the DPL Zone, the Delaware PSC urges the PJM Board to redouble its efforts to ensure that, once a final Project design is approved, the costs of that final Project design are allocated in a manner that is just and reasonable based on the unique circumstances that are motivating the Project.

Due to uncertainties with the estimates of costs and construction activity for certain portions of the Project, the PJM Board suspended the Project for six months to allow PJM Staff to perform a comprehensive analysis to support a future course of action. The PJM Board approved the suspension of the Project at its August 2016 meeting. At a single-issue

Transmission Expansion Advisory Committee (“TEAC”) meeting on March 3, 2017, PJM Staff presented the results of its review of the Project. PJM Staff provided stakeholders information concerning multiple meetings that had been conducted with Project entities to allow PJM Staff to undertake a more granular review and reevaluation of the cost and the cost components for the Project.¹ PJM Staff’s recommendation to the PJM Board now reflects a change in the termination of the proposed 230 kV line to the Hope Creek substation and a cost reduction from the previous February 2016 estimate of \$418 million to a now-recommended \$279 million. The Delaware PSC appreciates PJM Staff’s efforts to “sharpen its pencil” and achieve a better cost containment outcome for the Project. The Delaware PSC hopes for similar results as further transmission expansion needs arise.

The Delaware PSC recognizes and appreciates that cost allocation is not a relevant factor in the selection of the particular components of the Project. The components of the Project should be determined based on optimal engineering and overall cost containment objectives. While the Project has resulted in much activity before the Federal Energy Regulatory Commission (“FERC”) concerning cost allocation, the Delaware PSC does not favor PJM including cost allocation issues as relevant factors in determining the components of the Project. Such an outcome would place PJM Staff and the PJM Board in the position of allowing cost allocation considerations to possibly outweigh sound and cost-effective engineering decisions.

The Delaware PSC commends PJM’s participation in the complaint proceeding for the Project (FERC Docket No. EL15-95) as fulfilling a role mainly as a provider of facts and information for the parties. In response to the FERC’s request for PJM to identify various types of RTEP projects, PJM identified seven categories of RTEP projects, including one for (generation) stability. In that stability category, PJM identified **only one project** (the Project) from over 1,200 transmission projects that have been approved since the inception of PJM’s RTEP process.

FERC has pending before it a Request for Rehearing that was jointly filed by the Delaware PSC and six other entities. FERC will need to determine whether the Solutions-Based Distribution Factor (“SBDFAX”) cost allocation for the Project is in compliance with previously identified criteria for just and reasonable cost allocation results. The Request for Rehearing and other documents filed by Delaware agencies and others have been very clear that a key flaw in the application of SBDFAX to the Project is that SBDFAX depends directly on the placement of the terminus of the Project transmission line that will now start at Hope Creek. The transmission line could be terminated in a number of locations and provide exactly the same customer benefits that are provided by terminating the line in the Delmarva Zone.

¹ The Delaware PSC has concerns about the timing of PJM’s announcement relative to the communications by certain stakeholders to the PJM Board in advance of the March 3, 2017 TEAC meeting. Going forward, PJM Staff and the PJM Board should make clear that all stakeholders must await “public” release of study results before sending correspondence to the PJM Board, so that all stakeholders are comparably apprised and so that no set of stakeholders is unduly advantaged over others.

Mr. Herling was very clear, during his remarks at the January 12, 2016 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 Project – i.e., to address stability problems associated with generation at Artificial Island – makes the Project uniquely unsuitable for application of the SBDFAX methodology to determine cost allocation. In addition, load growth, energy flows and North American Electric Reliability Corporation (“NERC”) reliability criteria violations are not requiring that the Project terminate on the Delmarva Peninsula. FERC, either in the context of the Request for Rehearing or in response to any new cost allocation filing by PJM, must address this deficiency. Given the uniqueness of the Project, and the unchallenged fact that the Project is in a category of its own, FERC’s adoption of a cost allocation basis for the Project other than SBDFAX would not jeopardize the application of the existing FERC-approved cost allocation for projects in the other six RTEP categories that PJM has identified.

To help ensure a just and reasonable cost allocation outcome, the Delaware PSC renews its request that the PJM Board send 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 produce just and reasonable rates in the context of the Artificial Island Project is not inconsistent with the PJM Board’s obligations. In addition, to the extent that PJM files a new cost allocation proposal for the Project, or files to reaffirm its prior cost allocation proposal for the Project, PJM should state in that filing that, while it perceives a contractual obligation to apply SBDFAX for purposes of cost allocation for the Project, PJM views such application of SBDFAX in the unique circumstances of this Project to produce a cost allocation outcome that is not just and reasonable. PJM should also provide in such a filing its analysis of alternative cost allocation approaches, as PJM committed to explore during the FERC Technical Conference.²

The Delaware PSC appreciates the PJM Board’s consideration of the Delaware PSC’s and other parties’ continuing concerns about the cost allocation approach for the Project.

² During the January 12, 2016 Technical Conference that was held for Docket Nos. EL16-95 et al., Mr. Herling stated, at pages 139-140 of the Transcript, as follows:

“MR. HERLING: That's one additional beneficiary. It's not the only beneficiary. But it's an additional beneficiary. You got to decide whether that's a big enough issue to solve. We're talking about a couple of projects here. I realize it's a lot of money, but if we never have another stability problem ever again, okay, we can create a different solution, a different cost allocation solution, okay. I would like to keep it reasonably simple, but we could come up with a different approach that blends in other types of beneficiaries. But honestly I wouldn't expect it to be used very often.

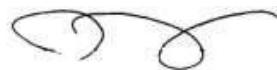
MS. MARTIN: Because you could come up with it yourself?

MR. HERLING: Oh, sure.”

Chairman Howard Schneider
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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. Jordan Seemans, Esq., Legislative Liaison for Governor Carney
Mr. Drew Slater, Delaware Public Advocate