

Artificial Island...what's happening and what's being done?

Recent discussions surrounding the Artificial Island (AI) transmission project have been filled with misunderstandings regarding the cost impact to Delawareans. As the state's public utility regulatory agency, the Delaware Public Service Commission (PSC) is eager to correct the factual record, provide perspective on our involvement in the process, and restate the overarching issue that exists in the method for assigning the costs of the AI project.

First, the facts: The AI project consists of a transmission line to be built across the Delaware River, from the Artificial Island nuclear complex in New Jersey to a substation to be built near Odessa, Delaware. Substation work at the NJ nuclear complex and other improvements are also included. The construction is split between three different entities: LS Power, Pepco Holdings (the parent company of Delmarva Power), and Public Service Electric & Gas (PSEG). The original cost estimate, approved by PJM, for total construction was \$275 million.

So far, Pepco Holdings and LS Power have not changed the PJM cost estimates. However, the initial cost-estimate by PJM for PSEG's portion of the work was \$137 million and, although relied upon by the PJM Board for project approval, was subsequently increased by an additional \$135.3 million by PSEG in March 2016. This 'update' in cost-estimates increased the total project cost to around \$410.5 million. PJM is now exploring ways with PSEG to help minimize that increased cost. The PSC has expressed concerns to PJM regarding the process for developing cost estimates for recommendations and ultimate approval by the PJM Board. PSC Chairman Dallas Winslow was able to forge an agreement among all of the PJM states to register their concerns with the PJM Board in a letter dated May 13, 2016.

PJM is the operator of the wholesale electricity grid in the mid-Atlantic region. Under Federal Energy Regulatory Commission (FERC) authority, PJM is the responsible operator of the wholesale electric transmission grid in the mid-Atlantic and must manage and maintain reliability of the system. The PSC has no regulatory authority over PJM.

Jurisdiction over cost allocation for PJM-approved transmission projects rests with FERC. The cost for the main portion of the project is allocated on the basis of how the energy flows on the new line. It is no surprise that energy would flow from the generating station to users on the Delmarva Peninsula if that is where the line is built. It is also no surprise then, that a transmission line built from the generator into New Jersey or Pennsylvania, which could also solve the plant stability issue, would have energy flows and costs assigned to those electric zones instead. The Delmarva Peninsula does not need this line or the related generation to maintain a reliable transmission grid or to serve customer load. This flow-based cost allocation process works well for 99.9% of transmission line improvements. However, there were two projects (AI being one) out of over 1200 PJM projects for which the flow-based allocation was unrelated to the need for the project, creating an unjust, unreasonable, and unduly discriminatory cost allocation.

The question on everyone's mind is what will electric customers have to pay. Such cost calculations have been a significant source of confusion. Knowing that the project continues to evolve, the current approved cost allocation method approximates 86% of the total project costs, roughly \$354 million would be charged to Delmarva Peninsula electric customers over the life of the project. Adding that into rates will result in a 53% increase in transmission costs (not the overall bill) for all Delaware electricity customers (including municipal and DE Co-op customers). PSC Staff have calculated a "worst case" cost for customers at \$1.43 per kilowatt of peak demand (paid by Delaware, Maryland & Virginia electric customers). The actual cost to any particular customer will depend on peak use. A typical residential customer with a 2.8 kilowatt peak demand would see an increase of about \$4.10 per month. Business and industrial customers would see substantially more, depending on their individual peak demand.

Secondly, some have wondered where the regulators have been during this process. Simply put, PSC Staff and the Commission have been involved from the beginning. The PSC actively engages in FERC and PJM issues on behalf of Delaware ratepayers on a regular basis, although much of this work occurs behind-the-scenes. As noted above, the PSC regrettably does not have jurisdiction over this process. That jurisdiction rests with the FERC. Despite this, the PSC has been actively involved in the AI issue since 2013. At the first opportunity for comments to PJM on what is now the AI project in June 2014, comments were sent to PJM expressing concerns that costs “could be significant to Delaware ratepayers.” Letters written from the PSC along with several other supporting documents regarding the AI project can be found on our website at http://depsec.delaware.gov/ai_project.shtml.

Until PJM made its formal filing of the AI project with the FERC, the PSC had no legal proceeding in which to fight the cost allocation to Delaware. At the first opportunity to make a legal challenge the PSC, with the Maryland PSC, filed a complaint at the FERC on August 28, 2015. Initial signs were hopeful when FERC’s order set the case for further investigation and technical conference, but unfortunately, despite efforts of many agencies FERC denied the complaint on April 26, 2016. Press releases were sent throughout the process. The next avenue of legal recourse available was the filing of a request for rehearing at the FERC, which asks them to reconsider their previous order. The request for rehearing was filed on May 23, 2016, and it is currently pending. That filing has been supported by Governor Markell, our Congressional delegation, our local legislative leaders, and many other agencies, associations and individual businesses including LS Power. On Tuesday, June 7, 2016 the PSC approved a Maryland and Delaware letter to the PJM Board seeking their formal support for a rehearing at FERC.

The PSC is exhausting all possible avenues to appeal this unjust, unreasonable, unduly discriminatory and arbitrary allocation of costs to the Delmarva Peninsula, and Delaware in particular. We will continue to alert the public through press releases, social media, and updates to our website regarding any progress on our efforts.

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