

126 FERC ¶ 61,152  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Acting Chairman;  
Sudeen G. Kelly, Marc Spitzer,  
and Philip D. Moeller.

PJM Interconnection, L.L.C.

Docket Nos. ER06-1474-005  
ER06-1474-006

ORDER ON REHEARING AND COMPLIANCE

(Issued February 20, 2009)

1. PJM Interconnection, L.L.C. (PJM) submitted a compliance filing in response to the Commission's April 17 Order.<sup>1</sup> That order accepted, in part, and rejected, in part, PJM's earlier compliance filing that revised its Regional Transmission Expansion Planning protocol to address PJM's planning process for economic transmission expansions outlined in Schedule 6 of the Amended and Restated Operating Agreement (Operating Agreement). In this order, the Commission accepts PJM's compliance filing and rejects the requests for rehearing of the April 17 Order.

**I. Background**

2. The background of this case is described in detail in three previous Commission orders in this proceeding. Briefly, the Commission conditionally accepted PJM's proposal to replace the unhedgeable congestion approach<sup>2</sup> to planning for "economic" transmission expansion<sup>3</sup> with a process that considers forward-looking congestion

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<sup>1</sup> *PJM Interconnection, L.L.C.*, 123 FERC ¶ 61,051 (2008) (April 17 Order).

<sup>2</sup> Unhedgeable congestion is congestion that cannot be mitigated through existing transmission rights or by in-merit generation within the constrained area.

<sup>3</sup> PJM divides transmission expansions into two categories: reliability and economic. Reliability expansions are those needed to ensure that load can be met reliably. Economic expansions (also called "market efficiency" expansions) are those that will reduce the costs of meeting load but are not needed to meet load reliably.

metrics.<sup>4</sup> In accordance with the new planning process approved by the Commission in the April 17 Order, PJM uses a benefit/cost ratio to determine whether an economic enhancement or expansion will be included in the Regional Transmission Expansion Planning process. To be included, a project's benefit/cost ratio must meet a threshold of at least 1.25 to one. To calculate the benefits, PJM considers "energy market benefits" and "capacity benefits."<sup>5</sup> To calculate the costs, PJM includes projected revenue requirements for each economic enhancement.

3. In the April 17 Order, the Commission accepted PJM's formula for choosing economic projects on the condition that PJM submit a compliance filing to amend the economic planning provisions to: (1) calculate load payments net of change in the value of transmission rights; (2) include more specificity regarding the method used to determine the discount rate and recovery period; and (3) review all of its tariff provisions relating to cost estimates for accelerated projects to make sure that they reflect a consistent approach.

## II. Procedural Matters

4. Notice of PJM's compliance filing was published in the *Federal Register*, 73 Fed. Reg. 36,312 (2008), with protests and interventions due on or before July 7, 2008. Old Dominion Electric Cooperative (Old Dominion), Strategic Transmission, LLC (Strategic) and Exelon Corporation (Exelon) filed protests. FirstEnergy Companies and Public Service Electric and Gas Company<sup>6</sup> (First Energy/PSEG), PJM and Strategic filed answers to the protests.

5. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2008), the timely, unopposed motion to intervene serves to make the entity that filed it a party. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2008), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We are not persuaded to accept answers filed by FirstEnergy/PSEG, PJM and Strategic, and will therefore reject them.

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<sup>4</sup> *PJM Interconnection, L.L.C.*, 117 FERC ¶ 61,218 (2006), *order on compliance*, 119 FERC ¶ 61,265 (2007).

<sup>5</sup> Energy and capacity benefits metrics measure, respectively, the change in production costs and the change in load payments in the energy and capacity markets.

<sup>6</sup> PSEG Companies are comprised of: Public Service Electric and Gas Company (PSE&G); PSEG Power LLC (PSEG Power); and PSEG Energy Resources and Trade LLC (PSEG ER&T).

### III. Discussion

#### A. Requests for Rehearing

6. In Docket No. ER06-1474-005, Old Dominion and PSEG requested rehearing and clarification of the April 17 Order. We address each rehearing request in turn.

##### 1. Transmission Hedging Rights

7. In the April 17 Order, the Commission stated that an accurate measure of actual load benefits must consider the effect of transmission projects on the value of transmission rights such as Auction Revenue Rights, Financial Transmission Rights and Capacity Transfer Rights, because such financial transmission rights allow loads in an import-constrained area to effectively purchase a portion of their energy at the locational marginal price at the source point of the rights outside the load pocket. As a result, the April 17 Order directed PJM to change the formula for calculating the benefits of economic projects by netting the value of transmission rights from the load benefit metric.<sup>7</sup>

8. On rehearing, Old Dominion states that one of the key aims of PJM's proposal to modify its economic planning protocol was to move away from assessing prospective economic projects with reference exclusively to unhedgeable congestion. It argues that in requiring the load benefit metrics to reflect the value of transmission hedging rights, the Commission has essentially put market participants back where they started—applying metrics that measure only unhedgeable congestion. Instead, the Commission should reconsider, noting that the use of a gross congestion metric to assess load benefit, even if only weighted 30 percent in a formula that affords 70 percent weight to a production cost/capacity cost analysis, would result in a more accurate measure of the economic benefits that new transmission would provide.

9. In addition, Old Dominion states that PJM's approach was modeled on Midwest Independent System Operator's (Midwest ISO) weighted gain-no loss metric, which used both a production cost metric (weighted 70 percent) and a load energy payment metric (weighted 30 percent) in assessing the benefit of a potential transmission enhancement. It argues that Commission violated section 205 of the Federal Power Act (FPA)<sup>8</sup> when it required PJM to modify its proposed methodology for measuring the load benefit of a transmission upgrade even though the Commission had previously approved a very similar methodology for the Midwest ISO. Moreover, given the extensive stakeholder support of PJM's as-filed approach (achieved only after significant compromises), it

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<sup>7</sup> April 17 Order, 123 FERC ¶ 61,051 at P 68.

<sup>8</sup> 16 U.S.C. § 824d (2006).

should have been accepted as just and reasonable. Old Dominion notes that its willingness to go along with PJM's change-in-production-cost approach depended heavily on the fact that PJM's proposal accounted for gross congestion as part of the load payment metrics.

10. Old Dominion argues that the Commission was inaccurate when it concluded that PJM's proposal would not correctly measure the benefits to load from a proposed economic project. Old Dominion contends that the Commission incorrectly discounts the fact that hedging itself has an economic cost. For example, Old Dominion states it must purchase transmission hedging rights for a new power supply contract at the expected value of the congestion the hedging rights relieve; hence, Old Dominion, as an individual load, views the associated congestion as a real marginal cost. It further argues that if, on average, Auction Revenue Rights have zero marginal cost for loads, there are winners and losers with regard to which loads hold the Auction Revenue Rights. A losing Auction Revenue Rights holder has no excess Auction Revenue Rights to self-schedule or to enter into the Financial Transmission Rights auction to obtain proceeds to purchase needed Financial Transmission Rights. Old Dominion also argues that transmission is in most ways a better hedge than simply using Auction Revenue Rights.

### **Commission Determination**

11. We disagree with Old Dominion, and reaffirm our finding that PJM's proposal to ignore the value of transmission rights in planning decisions is not just and reasonable. As we found in our April 17 Order, an accurate measure of actual load benefits must consider the effect of transmission projects on the value of hedging rights such as Auction Revenue Rights and Capacity Transfer Rights. If transmission rights are not included in the formula for calculating load benefit, the benefits to load from a transmission project would be significantly overstated, because benefits would be counted even though that load already is fully hedged against congestion on that line. In effect, Old Dominion would calculate benefits as if no transmission line was already in existence.<sup>9</sup> The fact that certain entities are not able to obtain enough transmission rights

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<sup>9</sup> The April 17 2008 Order included an example of an existing transmission line of 10 MW, with PJM contemplating a transmission project that would add 5 MW to the line, and reduce LMP price by \$10 in the load pocket. 123 FERC ¶ 61,051 at P 68-69. If the load pocket has 15 MW of load, Old Dominion's proposed calculation, would result in load benefits of \$150. (15 MW x \$10). But Old Dominion's proposed calculation ignores the current line's capability to transmit 10 MW of cheaper power that is reflected in the Auction Revenue Rights and Capacity Transfer Rights. The true benefit of the 5 MW increase in capacity is only \$50 (5 MW x \$10 cost savings).

to fully hedge against congestion does not imply that transmission rights on the line should be ignored.<sup>10</sup>

12. We also disagree with Old Dominion's contention that the April 17 Order approved a benefit formula that is equivalent to the unhedgeable congestion test that PJM previously implemented. Our April 17 Order approved a formula which included two metrics – (1) a production-cost savings metric, which measures the amount of out-of-merit dispatch is comparable to the unhedgeable congestion metric previously used by PJM; and (2) a load benefit metric. By arguing that the Commission reverted to the old policy, Old Dominion appears to confuse the two metrics and ignores the load benefit metric added by PJM. Under its old planning approach, PJM only assessed the amount of historic congestion and did not attempt to forecast the benefit metrics into the future, like it does now.

13. With regard to Old Dominion's argument that PJM modeled its formula on the Midwest ISO's formula, and therefore, it should have been found to be a just and reasonable approach, we find that our acceptance of a provision with respect to one Regional Transmission Organization (RTO) does not require that the same approach be adopted in every case. The Midwest ISO's formula for calculating benefits, like PJM's, was based on a stakeholder process in which the parties sought to compromise on the provisions. The two stakeholder processes produced planning formulae with significant differences. For example, the Midwest ISO uses a sliding scale for its benefit/cost ratio starting from a benefit/cost ratio of 1.2 for one year projects to a benefit cost ratio of 3.0 for long term projects, which recognizes the greater difficulty in forecasting long term benefits and costs. In contrast, PJM uses a benefit/cost ratio of 1.25 for all projects regardless of length of time, so that proper determination of benefits is important. PJM also provides additional benefits for capacity projects that the Midwest ISO does not provide, so that benefit/cost tolerances should be tighter. In the PJM proceeding, the question of the determination of benefits was raised by the pleadings, and, after evaluating the entire plan, we found PJM's proposal unjust and unreasonable.<sup>11</sup> We need to evaluate each RTO's plan based on the provisions of the plan and the pleadings; an approach that is just and reasonable in one RTO is not necessarily just and reasonable in another.

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<sup>10</sup> Our April 17 Order did not require PJM to assume that load serving entities will be able to fully hedge against congestion. Instead, it only required to subtract from the load benefit metric the amount of hedging rights.

<sup>11</sup> Moreover, Old Dominion's issue with respect to the determination of benefits with respect to Auction Revenue Rights and Capacity Transfer Rights was not raised in the Commission's proceeding that approved the Midwest ISO's formula.

14. With respect to Old Dominion's argument that the Commission violated FPA section 205, we disagree. We reviewed PJM's proposed tariff revision under section 205 and found that PJM had not justified its proposed change as just and reasonable as discussed above. We, therefore, found that this aspect of PJM's filing was unjust and unreasonable as filed and would be rejected in the absence of a revision proposed by PJM. Rather than rejecting the provision outright, we explained the problems we had with the as-filed provision, and accepted the filing subject to the condition that PJM submit a revised provision to accommodate our concerns. We did not direct PJM to revise its filing, but only provided an opportunity for PJM to correct the problem with its filing.<sup>12</sup>

## 2. Voting Procedures

15. In the April 17 Order, several protestors raised objections to PJM's failure to include a voting mechanism for economic projects. Specifically, protestors asserted that entities paying for the economic upgrade should have the ability to vote on whether certain projects should proceed to construction. The Commission found the proposed voting mechanisms was unnecessary for identifying economically viable transmission projects because PJM's metrics provided a just and reasonable method of identifying transmission projects with benefits that exceed the costs of the project.<sup>13</sup>

16. PSEG, in its request for rehearing, argues that the Commission erred in failing to require PJM to incorporate a supermajority voting mechanism as part of its economic transmission planning process, under which the purported beneficiaries of an economic project would have the opportunity to vote as to whether or not the project will be constructed. PSEG argues that such action on the part of the Commission is not reasoned decision-making, as it fails to adequately consider the inherently speculative nature of economic transmission planning, runs contrary to language contained in Order No. 890,<sup>14</sup> but fails to give any consideration to the fact that the New York Independent System Operator included a voting mechanism in its planning process.

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<sup>12</sup> PJM could have determined not to file a revision in which case the original proposed tariff change would have been rejected. *See ISO New England, Inc.*, 113 FERC ¶ 61,055 (2005) (explaining that when a tariff revision is determined not to be just and reasonable, the Commission is acting pursuant to section 205 in accepting an alternative provision to which the utility agrees).

<sup>13</sup> April 17 Order, 123 FERC ¶ 61,051 at P 86-87.

<sup>14</sup> *Preventing Undue Discrimination and Preference in Transmission Service*, Order No. 890, 72 Fed. Reg. 12,266 (Mar. 15, 2007), FERC Stats. & Regs. ¶ 31,241, *order on reh'g*, Order No. 890-A, FERC Stats. & Regs. ¶ 31,261 (2007), *order on reh'g*, Order No. 890-B, 73 Fed. Reg. 39,092 (July 8, 2008), 123 FERC ¶ 61,299 (2008).

17. The Commission denies the request for rehearing. As we indicated in our prior orders,<sup>15</sup> a specific type of voting procedure is not required in order for a cost allocation tariff provision to be found just and reasonable. While we found in Order No. 890-A that such a mechanism could be adopted if stakeholders desire,<sup>16</sup> we did not require that such a mechanism be adopted. The voting mechanism proposal offered by PSEG was considered by PJM members but failed to garner majority support among stakeholders. As we stated in Order No. 890 “regional solutions that garner the support of stakeholders, including affected state authorities, are preferable.”<sup>17</sup> We therefore cannot find that PJM’s proposal is unjust and unreasonable for failure to include the voting mechanism PSEG advocates.

## **B. Compliance Filing**

### **1. Transmission Hedging Rights**

18. In the April 17 Order, the Commission accepted PJM’s formula for choosing economic projects on the condition that PJM submit a compliance filing to amend the economic planning provisions to calculate load payments net of change in the value of transmission rights.<sup>18</sup>

19. In its compliance filing, PJM states that it modified section 1.5.7(d) of the Operating Agreement to capture the effect of financial transmission rights on the determination of load benefits. Specifically, PJM will calculate load benefits by subtracting the change in value of Auction Revenue Rights by zone from the change in load energy payment and specifying that the change in load capacity payment will take into account the change in value of Capacity Transfer Rights by zone.

20. Old Dominion protests PJM’s filing for the same reasons stated in its rehearing request and states that if “Old Dominion’s challenge to the April 17 Order is upheld on rehearing or appeal, PJM should be required to implement economic planning protocols consistent with those proposed in its October 9, 2007 filing in the instant docket.”<sup>19</sup>

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<sup>15</sup> *PJM Interconnection, L.L.C.*, 123 FERC ¶ 61,163, at P 114 (2008).

<sup>16</sup> Order No. 890-A, FERC Stats. & Regs. ¶ 31,261 at P 242-243, 252.

<sup>17</sup> Order No. 890, FERC Stats. & Regs. ¶ 31,241 at P 561.

<sup>18</sup> April 17 Order, 123 FERC ¶ 61,051 at P 70.

<sup>19</sup> Old Dominion July 7, 2008 Protest at 5.

## **Commission Determination**

21. As discussed above in the section addressing Old Dominion's request for rehearing, we find that the value of transmission rights must be included in the calculation of benefits of transmissions projects. We therefore accept PJM's proposal as consistent with the Commission's directive in the April 17 Order.

### **2. Discount Rate and Recovery Period**

22. In the April 17 Order, protestors argued that PJM's Tariff lacked specificity with regard to the discount rate used for determining the benefit of a rate-based transmission expansion and assumed recovery period. The Commission agreed with the protestors' concern and found that the lack of specificity may lead to potential disputes, and therefore directed PJM to provide a more detailed description of the method of determining the discount rate and recovery period.<sup>20</sup>

23. In compliance with this directive, PJM proposes to amend subsection 1.5.7(a) of Schedule 6 of the Operating Agreement to more fully describe the way in which it will determine the discount rate and recovery period for economic transmission projects. Subsection 1.5.7(a) provides that each transmission owner must submit to PJM: (1) the transmission owner's levelized carrying charge rate; (2) a discount rate based on the transmission owner's most recent after-tax embedded cost of capital; and (3) the transmission owner's capital recovery period consistent with recovery periods allowed by the Commission for comparable facilities. PJM proposes to base the discount rate for determining the benefits and costs of economic-based transmission projects on the transmission owners' most recent after-tax embedded cost of capital weighted by each transmission owner's total transmission capitalization. In developing its formula for calculating the benefit/cost ratio of constructing economic transmission, PJM uses a discount rate in both the benefit calculation (the numerator of the benefit/cost ratio), and the cost calculation, (the denominator). PJM argues that a single rate should be used for both the numerator and denominator.

24. Exelon argues that PJM's proposal to use the transmission owners' discount rate will unfairly bias decisions against competitive generation and demand side resource alternatives. Exelon believes that using the discount rate of generator and demand side resources will better reflect investment decisions facing the generator or demand side alternatives to economic transmission and therefore yield better projections of market conditions on which to base the benefits of economic transmission.

25. Old Dominion agrees that the *cost* of investing by a transmission owner should be calculated using the transmission-owner specific discount rate described in PJM's filing.

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<sup>20</sup> April 17 Order, 123 FERC ¶ 61,051 at P 90.



However, Old Dominion suggests that a “no-risk (societal) discount rate” should be used to determine the *benefits* of an economic project, because benefits accrue to load, and not to the transmission owner that constructs the project.<sup>21</sup>

### **Commission Determination**

26. We accept PJM’s proposal to use the discount rate of the transmission owner because it is the transmission owner who will be constructing and/or financing the economic rate-based transmission project, and the costs of the upgrade will be in this transmission owner’s rate base. As PJM has explained in its filing, this will result in a balanced analysis of costs and benefits, since PJM will be using the same discount rate to measure the costs and the benefits of the economic projects.

27. Exelon essentially argues that the discount rate should be that of the generators and demand side resources who would be displaced by a non-market based transmission project, while Old Dominion, on the other hand, argues that the discount rate should be that of load. Because the transmission owner is the party actually building the project, we find it reasonable for PJM to use the interest rate and the risk entailed by the party actually building the project.<sup>22</sup> Since the calculations are performed for a concrete transmission project, only a discount rate relevant for that project should be used. Moreover, discount rates for generators, demand response, and load all vary, and PJM does not have available an easy source for such interest rates. PJM would have to arbitrarily choose a discount rate, which would lead to the very disputes the Commission sought to prevent by accepting the filing subject to the condition that PJM specify a specific interest rate. While perhaps not perfect, using the discount rate of the transmission owner who is building the project is reasonable.

### **3. Definition of Total Enhancement Cost**

28. In the April 17 Order, the Commission directed PJM to review all of its tariff provisions relating to cost estimates for accelerated projects to make sure that the cost estimates for merchant transmission projects and economic transmission projects are measured consistently.<sup>23</sup>

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<sup>21</sup> Old Dominion July 7, 2008 Protest at 4.

<sup>22</sup> Old Dominion has not explained why a “no risk” interest rate is appropriate and what that rate should be. Even if we assume load is incurring the costs to build the project, Old Dominion has not justified its assumption that such a project should be assumed to have no risk to load.

<sup>23</sup> April 17 Order, 123 FERC ¶ 61,051 at P 94.

29. In its compliance filing, PJM states that it reviewed all relevant tariff provisions relating to cost estimates for accelerating projects. Based on that review, PJM proposes to modify its language in subsection 1.5.7(d) of Schedule 6 of the Operating Agreement to define total enhancement cost for acceleration of planned reliability-based enhancements or expansions as “the estimated change in annual revenue requirement resulting from the acceleration of the planned reliability-based enhancement or expansion, taking account of all of the costs incurred that would not have been incurred but for the acceleration of the planned reliability-based enhancement or expansion.”<sup>24</sup>

30. Strategic disagrees with PJM’s proposed definition of “total enhancement cost.” Specifically, Strategic argues that this definition does not comport with section 217.3 of PJM’s Tariff, which states that the acceleration cost “shall be limited solely to the time value of advancing the required investment.”<sup>25</sup> Strategic argues that section 217.3 of PJM’s Tariff provides that the costs to accelerate reliability-based upgrades consist merely of the time value of money, and not all the “but for” costs associated with the request to accelerate the reliability-based project.

31. Strategic also argues that if the Commission were to accept PJM’s proposed definition of “total enhancement cost,” it should make a series of clarifications. First, Strategic argues that only true incremental costs should be allowed. Second, Strategic believes that transmission owners should be required to document and verify all cost claims, and PJM should review all such claims for legitimacy. Third, Strategic requests changes that would require transmission owners to provide timely cost estimates (e.g. 30 days from the date PJM requests such information).

32. Finally, Strategic argues that PJM’s proposed tariff language identifies “the estimated change in annual revenue requirement,” the next phrase only mentions “costs incurred” and does not explicitly include benefits.<sup>26</sup> Thus, according to Strategic, the tariff language is not clearly a “but for” test and does not clearly include benefits that reduce costs.

### **Commission Determination**

33. We disagree with Strategic that the definition of “total enhancement costs” does not comport with section 217.3 of the PJM Tariff. In fact, we note that the language proposed in this proceeding is consistent with recent changes made by PJM to section

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<sup>24</sup> PJM, FERC Electric Tariff, Proposed Third Revised Rate Schedule FERC No. 24, First Revised Sheet No. 185Cc.

<sup>25</sup> Strategic July 7, 2008 Protest at 6

<sup>26</sup> *Id.* at 14.

217.3<sup>27</sup> that were accepted by the Commission in a separate proceeding.<sup>28</sup> We also note, in that proceeding, Strategic protested PJM's filing on the same grounds it has raised here, and the Commission rejected the protest, finding that while the time value of money is an appropriate component of any assessment of the costs of an acceleration project, it may not be the only relevant cost applicable to an acceleration project. Other legitimate costs may include the costs of additional overtime, expediting permits, or "rush" fees for capital equipment. For these reasons, we reaffirm the Commission's decision and require no further modifications to the definition of "total enhancement cost."

34. Strategic raises concerns about the transparency of the cost process and what it characterizes as vaguely specified costs. It maintains that the transmission owner's control of costs can lead to what it terms potential anticompetitive activities of transmission owners, and suggests revisions to the tariff provision to address this concern. However, under section 6 of the Operating Agreement, PJM through the Office of the Interconnection controls the Regional Transmission Expansion Planning process, not the transmission owners. As the Commission made clear in Order No. 2003, RTOs are permitted greater leeway in utilizing the "but for" pricing test for interconnection cost determination because the RTO is independent of the transmission owners.<sup>29</sup>

35. Strategic's concerns about the inclusion and determination of the costs of specific projects should be addressed on a case-by-case basis. The PJM Tariff already contains detailed provisions with respect to the determination and allocation of costs for new

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<sup>27</sup> For instance, at 217.3(b), it states "the New Service Customer shall pay all costs that would not have been incurred under the Regional Transmission Expansion Plan but for the acceleration of the construction of the upgrade." In addition, this section no longer includes the disputed language, which stated that the acceleration cost "shall be limited solely to the time value of advancing the required investment." See Docket No. ER08-1378-000.

<sup>28</sup> *PJM Interconnection, L.L.C.*, 125 FERC ¶ 61,021, at P 28-34 (2008).

<sup>29</sup> *Standardization of Generator Interconnection Agreements and Procedures*, Order No. 2003, FERC Stats. & Regs. ¶ 31,146, at P 698 (2003), *order on reh'g*, Order No. 2003-A, FERC Stats. & Regs. ¶ 31,160 (2004), *order on reh'g*, Order No. 2003-B, FERC Stats. & Regs. ¶ 31,171 (2004), *order on reh'g*, Order No. 2003-C, FERC Stats. & Regs. ¶ 31,190 (2005), *affirmed sub nom. Nat'l Ass'n of Regulatory Util. Comm'rs v. FERC*, 475 F.3d 1277 (D.C. Cir. 2007); See also, *FPL Energy*, 118 FERC ¶ 61,169 (2007), *order on reh'g*, 123 FERC ¶ 61,289 (2008) (discussing the role of RTO determination in costs and benefits).

service requests.<sup>30</sup> This proceeding addresses only the criteria to be used in assessing the costs for acceleration projects. Consideration of specific concerns about the determination of costs is beyond the scope of this proceeding and needs to be addressed in specific proceedings in which they arise.

36. Finally, we disagree with Strategic's argument that the "but for" test does not account for the benefits of the acceleration projects. To illustrate its concern, Strategic suggests that if an upgrade with a capital cost of \$10,000,000 in 2012 costs \$8,000,000 in 2009 if accelerated, then the \$2,000,000 savings "should be offset against any legitimate 'costs incurred' so that only the net cost (if any) is charged to the acceleration." The savings in the above example, however, are not ignored as Strategic suggests, but are included by PJM in the market efficiency analysis. If these circumstances occurred, as Strategic recognizes, the Transmission Owner would have "a smaller revenue requirement" because there would be an offset to the original costs of the project. This change in the revenue requirement then would be reflected in the total enhancement cost for the upgrade used to determine the benefit/cost ratio for the acceleration. Obviously, if, as a result of an acceleration, the revenue requirement for the upgrade is lowered, the probability increases that the benefits and costs of the upgrade will meet the 1.25:1 benefit to cost threshold. Thus, the market efficiency analysis process will take into account the "benefits" of an acceleration project that result from cost savings with regard to one aspect of the project that offset costs of another aspect of the project thus reducing the revenue requirement for the entire project.

The Commission orders:

(A) The requests for rehearing are hereby denied, as discussed in the body of this order.

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<sup>30</sup> These portions of the PJM Tariff include: interconnection procedures and feasibility studies, which describe feasibility studies to determine, feasibility and cost of the proposed interconnection (section 36.2); interconnection service agreement, including cost reimbursement procedures (sections 212-214) and cost responsibility for necessary facilities (section 217, including section 217.3).

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(B) PJM's compliance is hereby accepted, as discussed in the body of this order.

By the Commission. Commissioner Kelliher is not participating.

( S E A L )

Kimberly D. Bose,  
Secretary.

Document Content(s)

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