

PAULA M. CARMODY  
PEOPLE'S COUNSEL

THERESA V. CZARSKI  
DEPUTY PEOPLE'S COUNSEL

## STATE OF MARYLAND



## OFFICE OF PEOPLE'S COUNSEL

6 Saint Paul Street, Suite 2102  
Baltimore, Maryland 21202  
(410) 767-8150 (800) 207-4055  
FAX (410) 333-3616  
[WWW.OPC.STATE.MD.US](http://WWW.OPC.STATE.MD.US)  
September 6, 2018

ASSISTANT PEOPLE'S COUNSEL

WILLIAM F. FIELDS  
GARY L. ALEXANDER  
JOSEPH G. CLEAVER  
JACOB M. OUSLANDER  
MIKHAIL RAYKHER  
ANNA K. RYON  
PATRICK E. O'LAUGHLIN  
PHILLIP H. SHEEHAN, JR.

Ake Almgren, Ph.D.  
Chair, PJM Board  
PJM Interconnection  
PO Box 1525  
Southeastern, PA 19399-1525  
Sent via first class US Mail and e-mail: [ake.almgren@pjm.com](mailto:ake.almgren@pjm.com)

Andrew L. Ott, President and CEO  
PJM Interconnection  
955 Jefferson Avenue  
Norristown, PA 19403-2497  
Phone: (610) 666-8980  
Via overnight delivery and also via e-mail: [ott@pjm.com](mailto:ott@pjm.com)

### **Re: September 2018 TEAC Meeting – Project 9A (Transource)**

Dear Dr. Almgren and Mr. Ott:

I am writing on behalf of the Maryland Office of People's Counsel (OPC). I am directing this letter to the PJM Board of Managers. For the reasons stated below, OPC requests that PJM direct Transource-Maryland (Transource-MD) to provide a current updated estimate of the costs of Project 9A (Transource).

In a July 26, 2018 memorandum to stakeholder members of the TEAC, Steve Herling, PJM Vice President of Planning, stated that, "PJM has initiated the annual review [of its market efficiency transmission projects]. Market efficiency projects that were approved in both the 2014/15 and 2016/17 RTEP window, including the Transource 9A project, will be re-evaluated in the review as prescribed in the PJM Operating Agreement, Schedule 6, section 1.5.7 (f) . . . PJM anticipates completing its reevaluation by the September 2018 TEAC meeting, and seeking final recommendations from the TEAC that PJM will present to the PJM Board regarding the continued inclusion or exclusion of market efficiency projects that have demonstrated changes in costs and benefits in the RTEP."

We understand that PJM relies on the designated transmission owner to calculate the projected cost of a market efficiency project. In that regard, OPC requests that PJM direct Transource Maryland (“Transource-MD”) to update and recalculate the estimated cost (including competitive and non-competitive components) of the Transource 9A project.

Project 9A Transource<sup>1</sup> is a proposed market efficiency solution to transmission congestion. According to the application of Transource Maryland (“Transource-MD”) in which it requested the issuance of a Certificate of Public Convenience and Necessity<sup>2</sup> (“CPCN”) from the Maryland Public Service Commission (the “Maryland Commission”) in Case No. 9471, “[p]otential solutions are evaluated [by PJM] using two criteria: first, the project must address the congestion identified in the Market Efficiency Analysis; and, second, the project benefits must exceed the costs by at least 25 percent.” In other words, a market efficiency transmission project must reflect a minimum ratio of 1.25 benefits to 1.0 costs.

On November 28, 2016, in his prefiled Direct testimony filed on behalf of the Transource Companies in FERC Docket No. ER17-419, Daniel Rogier<sup>3</sup> testified that, “Project 9A had a benefit/cost ratio of 2.48 in the baseline scenario. Its benefit/cost ratio exceeded 2.00 in all sensitivities and reached 4.67 in one sensitivity. Project 9A is expected to deliver congestion savings of approximately \$620 million over 15 years.”<sup>4</sup>

Mr. Rogier also testified that, “The current cost estimate for the Project is approximately \$197.1 million in 2015 dollars. The total estimated cost for Market Efficiency Project 9A, including competitive and non-competitive components, is approximately \$320 million.”

In the September 14, 2017 TEAC Market Efficiency update, however, the estimated cost for Project 9A including competitive and non-competitive components had increased

---

<sup>1</sup> Project 9A also includes upgrades to the existing Conastone and Ringgold Substations in Maryland and reconductoring of the Conastone-Northwest double-circuit 230 kV line and the Ringgold-Catoctin 138 kV line in Maryland. The upgrades to these existing facilities will be the responsibility of the incumbent utilities. The upgrades to existing facilities, while not part of the IEC Project, are inter-dependent components of the solution approved by PJM.

<sup>2</sup> Transource-MD’s Application was filed on December 27, 2017.

<sup>3</sup> Mr. Rogier is Vice President, Transmission Strategy and Grid Development for Transource Energy, LLC (“Transource Energy”) and its subsidiary companies including Transource Pennsylvania, LLC (“Transource Pennsylvania”) and Transource Maryland, LLC (“Transource Maryland”) (collectively Transource Maryland 6 and Transource Pennsylvania are referred to as the “Companies,” or each individually as 7 “Company”).

<sup>4</sup> PJM utilizes a 15-year planning horizon to determine project benefits.

by \$20.6 million to \$340.6 million<sup>5</sup> while the initial benefit/cost ratio had decreased from the initial determination of 2.48 to a benefit/cost ratio of 1.30.<sup>6</sup>

Concurrent with the Maryland CPCN proceedings, Transource Pennsylvania (Transource-PA) filed an application for the issuance of a CPCN from the Pennsylvania Public Service Commission for the portion of the Project 9A transmission line which will be sited in Pennsylvania.<sup>7</sup> We are led to understand that, at the latest prehearing conference in those proceedings, the presiding Administrative Law Judges directed Transource-PA to provide updated costs for the September 2018 TEAC meeting.

In contrast, in response to data requests propounded to Transource-MD by the OPC Case No. 9471, Transource-MD stated:

The Company has not provided PJM any documents for PJM's referenced [September 2018 TEAC] re-evaluation concerning changes in construction or other costs estimates for its portion and assigned responsibility of Project 9A, namely the Independence Energy Connection project. The Company's cost estimates for the project, which take into consideration the variability of the costs of components or portions of the project, remain at this time unchanged.

Since 2016, a number of economic developments have occurred which may have a significant impact on Transource-MD's original cost estimates. Some of these developments, such as the implementation of the 2018 federal Tax Cuts and Jobs Act (TCJA), might lower the cost estimate of Project 9A.

However, a number of other developments, may significantly increase the costs in comparison with the original cost estimates.

First, cost estimates must take into account the impact on costs due to the federal imposition of tariffs on steel. In February 2018, the federal Trump administration announced tariffs of 25% on most imported steel and 10% on aluminum imports. According to CNN, "Prices of U.S. Steel's U.S.-made steel rose 5% to 10% in the quarter..."<sup>8</sup> As an example of the impact of these tariffs on steel prices, "the

---

<sup>5</sup> "201415\_1-9A B/C ratio calculation based on the original cost. Cost of project currently under review and will be updated as necessary."

<sup>6</sup> The most recent benefit to cost ratio estimate for Project 9A is the benefit to cost ratio estimate calculated in connection with the analysis presented February 8, 2018 at the TEAC. This benefit to cost ratio is 1.32.

<sup>7</sup> PA-PUC Docket Nos. A-2017-2640195 and A-2017-2640200.

<sup>8</sup> <https://money.cnn.com/2018/08/02/news/companies/us-steelarnings-tariffs/index.html>

average price ArcelorMittal received for its steel in North America, for example, was up 12 percent annually to \$853 a ton.”<sup>9</sup>

Of course, electric transmission wire contains steel. But, as Transource-MD acknowledged in response to OPC data requests, a project such as 9A entails a significant amount of steel:

- The average high-voltage transmission structure anticipated to be used in the IEC Project includes approximately 20 tons of steel and per design specifications the transmission conductor contains 1,816 lbs. of steel per mile (1.093 lb./ft. and 0.344 lb./ft. steel). The East and West Transmission Lines are each comprised of 12 conductors for each circuit (i.e., 6 bundled conductors, each 2 x 795 kcmil) for the entire length.
- “The IEC Project anticipates the use of monopole-type structures, and not lattice-type structures. Steel monopoles are primarily made of plate steel.”

Additionally, no contracts with materials and plant suppliers (including but not limited to) trestles, cabling and tower components, have been entered into for Transource-MD’s portion of Project 9A, namely the Independence Energy Connection project. The prices and costs of each item that Transource MD will be using in the construction of the IEC project have not been determined at present.

Transource-MD states that the “the estimated costs of the IEC take into consideration the variability of costs of components or portions of the project.” However, Transource-MD has yet to disclose the scope of that variability.

Transource-MD concedes that it “has not calculated the impact of the referenced tariffs on the estimated costs of Transource MD’s portion and assigned responsibility for constructing and putting into service Project 9A.” Transource-MD asserts the steel tariffs will not have an impact on the project’s cost because “the tariffs are not applicable to the finished products the Company will employ in the construction of the IEC project (i.e., these import tariffs are not applicable to components and structures to be used in the construction of the IEC Project because the components and structures, e.g., steel monopoles, are not covered by the tariff.)” Even if that were true, Transource-MD has failed to take into account the secondary effects (or economic ripples) of tariffs on pricing.

Second, the tight labor market may have already increased the cost of labor to construct the Project. “With the U.S. economy reaching the lowest unemployment rates in 30 years and the employed share of the adult population at an all-time high, today’s

---

<sup>9</sup> <https://www.nytimes.com/2018/08/01/business/trump-steeltariffs-arcelor-mittal.html>

primary concerns are labor shortages and inflationary pressures resulting from tight labor markets.<sup>10</sup>

Third, it seems likely that changes in interest rates since 2016 will have an impact on the cost of Project 9A. Currently there is no long-term debt financing in place at Transource MD. Until long-term debt financing is in place, all costs will be financed with a combination of equity and short term debt. Transource Energy entered into a \$200 million credit agreement dated April 18, 2017 with PNC Bank, National Association. On February 28, 2018, and consistent with the terms and costs of that Transource Energy credit facility, Transource MD issued a Floating Rate Term Note in a principal amount of \$800,000, due February 28, 2021.

From 2008 to late 2015, the Federal Reserve System (“Federal Reserve”) maintained the Federal Funds rate (*i.e.*, short-term interest rate) at 0.25 percent, an all-time low. Since then, the Federal Reserve has subsequently raised the Federal Funds rate on seven occasions between December of 2015 and June of 2018. In June 2018, the Federal Reserve also signaled that two additional increases were on the way this year.<sup>11</sup> None of these recent and future increases to the Federal Funds rate are reflected in the cost estimates for Project 9A.

Accordingly, we respectfully request PJM to direct Transource-MD to provide a current, updated estimate of the costs of constructing Project 9A as well as all other attendant costs. Of course, you are welcome to send this letter to all TEAC members, or post it on the PJM website, or publish it in any other manner either required by PJM’s rules or that you deem fit.

PAULA M. CARMODY  
People’s Counsel

*/electronic signature/*

By: Gary L. Alexander  
Assistant People’s Counsel  
Email: gary.alexander@maryland.gov  
Direct dial: (410) 767-8161

PMC/gla

---

<sup>10</sup> An Overview Of Economic, Social, And Demographic Trends Affecting The US Labor Market, Lerman et al.,  
<https://www.dol.gov/oasam/programs/history/herman/reports/futurework/conference/trends/trendsV.htm>

<sup>11</sup> <https://www.nytimes.com/2018/06/13/us/politics/federal-reserve-raises-interest-rates.html>

Ake Almgren, Ph.D.  
Andrew L. Ott  
September 6, 2018  
Page 6

cc:

Paul F. McGlynn, PJM Senior Director of System Planning

Steven Herling, PJM Vice President of Planning.

Mary Beth Tung, Director, Maryland Energy Administration

Sondra McLemore, Assistant Attorney General, Maryland Energy Administration

Darryl Lawrence, Esq., Pennsylvania Office of Consumer Advocate

J. Joseph "Max" Curran III, Esq., Venable LLP

William F. Fields, Senior Assistant People's Counsel, Maryland OPC