# Cost Allocation Today and Possible Alternatives

Ken Seiler, Vice President – Planning

Interconnection Policy Workshop: Session 2

June 24, 2021

# Policy Workshop Goals

| Goals of the PJM Interconnection Policy Workshop | |
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| | Complement (but not delay) the work of the IPRTF by focusing on larger policy issues that affect interconnection |
| | Address issues that may require modifications of existing FERC policy |
| | Encourage stakeholder exchanges and dialogue on difficult policy issues, such as cost allocation |
| | Develop a PJM-region position that could provide input into FERC's announced transmission reform initiative |

# Key Ingredients: Baseline and Interconnection Policy

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| **Baseline Transmission Upgrades (including public policy projects)** | Planning Drivers (Reliability violations, market efficiency, state agreement approach |
| | Cost Allocation ("beneficiary pays"– cost allocation roughly commensurate with identified benefits) |
| | Siting |
| **Interconnection Fundamentals** | "Cost Causer" pays<br>▪ *"But for" test of cost responsibility* |
| | Crediting for later projects utilizing the upgrade |

# Overview: Interconnection Cost Allocation Policy Today

- Generator pays all costs for upgrades that are needed due to its interconnection
  - Includes the facilities required for them to physically interconnect (e.g., attachment facilities) and upgrades to the system necessary for reliability (e.g., network upgrades)
- Generators that are the “first to cause” the need for the upgrade to the system pay for 100% of the costs of the upgrade
  - They are reimbursed by subsequent generators that interconnect according to the subsequent generator’s impact
- Restudies are triggered to identify impacts and cost responsibility when an interconnecting customer drops out.

# Discussion Points: Seeding the Stakeholder Discussion

## Possible Alternative Interconnection Cost Responsibility Options (in no particular order)

- State underwriting for transmission to particular renewable-rich areas as identified by queue requests
- Baseline upgrades for transmission to particular renewable-rich areas as identified by queue requests
- Option for TOs to treat upgrades as supplemental projects
- Baseline upgrades for DOE-identified congestion corridors per Energy Policy Act of 2005
- Enhanced merchant funding for new transmission to renewable-rich areas

# Option 1 – State Underwriting

**State Underwriting Option** – Based on demand as identified by the queue and state policies, states voluntarily take responsibility for funding network upgrades based on their renewable portfolio goals

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| **Implementation – Potential methods may include:** | Network upgrades that exceed a certain dollar threshold are sent to the state to underwrite as an option under the State Agreement Approach |
| | Network upgrades with 10 or more projects impacting the same facility are provided to the state with an option for state to support through assessment to load |
| | Generators that have impacts on the facility reimburse the state under the terms and conditions of the SAA |

# Option 2 – Enhancing Baseline Transmission

**Upgrades Move Into Baseline Planning** – Planning criteria changed to treat a defined set of network upgrades as baseline upgrades

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| **Implementation – Potential methods may include:** | Planning of upgrades to meet future interconnection needs undertaken through the PJM planning process |
| | Could advance as a baseline |
| | Baseline projects may be subject to the competitive planning process on the basis of a certain amount of projects impacting a facility or a cost per MW limit. |
| **Cost Allocation** | Costs allocated consistent with existing rules |

# Option 3 – Supplemental Project Option

**Supplemental Projects Option** – Option for transmission owners to build-out the grid to renewable-rich areas as supplemental projects

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| **Implementation – Potential methods may include:** | Transmission owners and/or interconnection customers can voluntarily agree to develop upgrades based on queue activity. Projects would still be subject to cost-review at FERC but not subject to Order 1000 competitive bidding |
| **Cost Allocation** | Assigned to a single TO zone consistent with today's cost allocation rules for supplemental projects |

# Option 4 – Build-out to DOE-Identified Corridors

**Use of DOE "Transmission Corridor" Authority** – The DOE was granted authority in the 2005 Energy Policy Act to identify national corridors designed to reduce congestion and promote increased power flows within and across regions.

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| **Implementation – Potential methods may include:** | PJM would include DOE-identified corridors as baseline projects |
| | Corridor-designation could be expanded to include reduction in congestion to promote power flows from renewable-rich areas |
| **Cost Allocation** | Would follow existing baseline rules |
| **Siting** | Backstop siting available per existing Energy Policy Act provisions |

# Option 5 – Merchant Funding

**Merchant Funding** – PJM creates a merchant funding option for network upgrades based on new criteria

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| **Implementation – Potential methods may include:** | Merchant owned and operated transmission |
| | Interconnection and/or financial rights for the merchant |
| **Cost Allocation** | Contractual as between merchant and its customers but respecting open access rules |

# Discussion

- Mix and match combination of the above options?
- Other options?
- Panel and stakeholder discussion
- Stakeholder input on contents of next policy forum meeting

# Contact

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# Cost Allocation Alternatives