

NORTHEAST TRANSMISSION DEVELOPMENT

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Via Email (rtep@pjm.com)

January 6, 2016

PJM Transmission Expansion Advisory Committee
Attn: Paul McGlynn, *Chair*
2750 Monroe Boulevard
Audubon, PA 19403

RE: PJM 2014/15 Long-Term Proposal Window (Market Efficiency)

Dear Paul:

We write to provide comments and express concern over the stated recommendation in the January 7, 2016 PJM Transmission Expansion Advisory Committee ("TEAC") Market Efficiency Update presentation to approve the Hanover Pike project (b1254). It appears as though this approval is intended to address market congestion that could otherwise be resolved by the Keyzers Run project (201415_1-19G), which has been identified as meeting the threshold for approval as a market efficiency project in all cases in previous TEAC Market Efficiency Updates.

The stated recommendation to approve Hanover Pike to address market efficiency in lieu of Keyzers Run is insupportable from an economic standpoint and is inconsistent with PJM's Order No. 1000-approved Tariff. Hanover Pike is not needed for reliability and, even if it were needed for reliability in the future, it was not properly identified for acceleration. Further, Hanover Pike was not submitted for consideration as a market efficiency project. ***Finally, and in any event, Hanover Pike is not a more efficient or cost effective solution than Keyzers Run.*** For these reasons, under PJM's Tariff, Keyzers Run should be recommended for approval under the market efficiency process with Northeast Transmission Development, LLC as the designated entity.

Hanover Pike is Not Necessary for Reliability

Hanover Pike, formerly known as Emory Grove, was originally included in the 2010 RTEP at an estimated cost of \$71 million to address certain thermal and reactive violations with a 2015 in-service date.¹ In October 2011, PJM identified that the updated analysis for the 2011 RTEP indicated the project was no longer needed in 2015 and moved the in-service date back to 2017,² beyond the 5-year planning base case. More recently, PJM's analysis for the 2015 RTEP identified an in-service date of 2021³ for the project, demonstrating that the project is not needed within the 5-year planning base case.

¹ PJM TEAC Reliability Analysis Update, September 8, 2010, Slide 114.

² PJM TEAC Reliability Analysis Update, October 5, 2011, Slide 11.

³ PJM Transmission Construction Status at <http://www.pjm.com/planning/rtep-upgrades-status/construct-status.aspx>.

By shifting the project beyond its initial 2015 in service date, PJM's Order No. 1000 process is implicated, as the rules governing PJM's transition to Order No. 1000 would appear to require that any alleged reliability need be competitively bid. However, no known reliability need for Hanover Park currently exists. The 2016 RTEP will incorporate the 2016 load forecast, which includes an 8,406 MW (over 5%) reduction to summer peak load for the next RTEP study year (2021).⁴ This implies that, even in 2021, the Hanover Pike project will not be needed for reliability. In fact, the only RTEP that identified a reliability need for the Project was the 2010 RTEP, which had a higher load forecast than current models. At that time, the 2015 summer peak load forecast was 8,240 MW for BGE and 66,480 MW for MAAC.⁵ The current load forecast does not reach those levels in the 15-year planning horizon, with a maximum load forecast of 7,374 MW for BGE and 60,940 MW for MAAC in 2031.⁶ As such, the Hanover Pike project is unlikely to be needed for reliability even in the next 15 years.

Under PJM's Tariff, even though Hanover Pike was once identified (in the 2010 RTEP) as a reliability-based project, Hanover Pike cannot still be considered to be in the RTEP for reliability needs as there is no identified reliability need within the current planning horizon, or indeed any known planning horizon.

Hanover Pike Was Not Identified for Acceleration

PJM uses its 12-month planning cycle for "analysis of modifications and accelerations to approved RTEP projects" and the 24-month planning cycle for "analysis of new economic transmission upgrades."⁷

PJM recently completed its Market Efficiency Acceleration Analysis as part of the 12-month planning cycle in October 2015, for which no projects were identified to be accelerated. The Hanover Pike project was clearly not recommended to be accelerated at that time.⁸

The 2014/15 Long-Term Proposal Window is part of the 24-month planning cycle and, as such, the identification of an acceleration candidate during this process clearly does not conform to PJM's standard practice. The only reason Hanover Pike appears to be recommended for acceleration at this time – less than three months from PJM's just completed acceleration analysis – would be as a substitute for Keyzers Run. Substituting Hanover Pike for Keyzers Run at this point in the process is inconsistent with PJM's standard practice and clearly would not be equitable.

Hanover Pike Was Not Proposed For Market Efficiency

PJM received 93 proposals in the 2014/15 Long-Term Proposal Window to address market congestion. The Hanover Pike project was not one of those proposals – it was not submitted for consideration in the 2014/15 Long-Term Proposal Window, which closed in February of 2015. In fact, the Hanover Pike project has not been mentioned or presented once by PJM since discussion and analysis of the market efficiency proposals began in March of 2015. PJM has introduced the Hanover Pike project into the process for the first time nearly one year after the proposal window closed, contemporaneously with a recommendation for approval at the next PJM Board meeting.

⁴ PJM Load Forecast Report, January 2016, Page 2.

⁵ PJM Load Forecast Report, January 2010, Table B-1 on Page 33.

⁶ PJM Load Forecast Report, January 2016, Table B-1 on Page 51.

⁷ PJM Market Efficiency Modeling Practices, January 27, 2015, Page 4.

⁸ PJM TEAC Market Efficiency Update, October 8, 2015, Slides 18-23.

In contrast, Keyzers Run was submitted as a market efficiency project in February 2015 as part of the 2014/15 Long-Term Proposal Window. PJM first presented analysis of Keyzers Run in July, and in September identified Keyzers Run to be a finalist under consideration.⁹ PJM continued to identify Keyzers Run as beneficial in October and evaluated it in combination with other projects – notably various combinations of capacitors – in November and December. PJM showed that Keyzers Run provided incremental benefits in excess of the benefit/cost threshold of 1.25:1 in all of the combinations identified in its December 2015 presentation. Although discussed and analyzed as a finalist over the past several months, the Keyzers Run project surprisingly is not mentioned in the January TEAC presentation.

Under these circumstances, the PJM Tariff does not support recommendation of Hanover Pike for approval as a market efficiency project. The Tariff requires that projects be submitted into the proposal window. Conceptually PJM could advance a project that is in the RTEP for reliability reasons in order to address economic constraints. However, as noted above, the Hanover Pike project's reliability need is no longer supported by PJM's load forecasts and, therefore, Hanover Pike can no longer be considered to be in the RTEP for any real reliability need. Further, as discussed below, the Hanover Pike project was never evaluated as a market efficiency project. The inappropriateness of PJM's proposed action is further demonstrated by disparate treatment of Hanover Pike when contrasted to the analysis of Jacks Mountain, another situation of potential acceleration of a deferred reliability project.

Jacks Mountain is Analogous to Hanover Pike

Similar to Hanover Pike, Jacks Mountain (b0284.1, b0284.3, b0285.1, b0285.2) was previously identified as necessary to resolve certain reliability violations and included in the RTEP. Also similar to Hanover Pike, system condition changes have deferred the identified in-service date. Recently, PJM cancelled the Jacks Mountain upgrades concluding they are no longer required.¹⁰

While Jacks Mountain had been an existing baseline upgrade for reliability, FirstEnergy did submit it for consideration as a market efficiency project in the 2014/15 Long-Term Proposal Window with the PJM assigned Project ID 201415_1-18F. This project was evaluated alongside all of the other proposals submitted for consideration. This is in contrast to Hanover Pike, which was not submitted for consideration in the 2014/15 Long-Term Proposal Window, and not analyzed.

In its evaluation of Jacks Mountain, PJM determined a benefit/cost ratio based on the cost to construct the Jacks Mountain upgrade; not based on the cost to accelerate its in-service date. This is in contrast to Hanover Pike for which no benefit/cost is being determined or presented. There is no evidence that Hanover Pike would be approved had it been submitted as a market efficiency project.

While Jacks Mountain had been properly submitted into the process, analyzed, and a recommendation made based upon such analysis, Hanover Pike has not been submitted into the process and has not been

⁹ PJM TEAC Reliability Analysis Update, September 10, 2015, Slide 52.

¹⁰ PJM TEAC Reliability Analysis Update, November 5, 2015, Slide 3. (PJM should have arguably reached this same conclusion regarding Hanover Pike as the Tariff would require it to be rebid anyway.)

analyzed, yet PJM nevertheless proposes to recommend the project for approval to address market efficiency needs.

Keysers Run is the More Efficient and Cost Effective Solution

Finally – and in any event – had Hanover Pike been submitted into the market efficiency process for evaluation, and a comparison made with Keysers Run, Keysers Run would clearly be recommended as the more efficient and cost effective solution. Hanover Pike was originally estimated to cost \$71 million, in 2010. The more recent information available suggests a current estimated cost of \$113 million.¹¹ In contrast, the Keysers Run project has an estimated cost of \$48.6 million that is supported by a cost commitment proposed as part of the 2014/15 Long-Term Proposal Window.

Keysers Run represents an estimated savings of \$64 million compared to Hanover Pike. The actual savings may be much higher, as the Keysers Run proposal is supported with a cost commitment, which has been recognized by the PJM board and FERC as providing ratepayer benefit. The two projects provide similar system benefits – both in terms of market efficiency and reliability. However, the scope of the projects is distinguishable with the Hanover Pike project necessarily containing a larger scope of work than Keysers Run as it includes a new 230 kV substation and a rebuild of two existing 230 kV transmission lines.

There is no justification for a recommendation to select Hanover Pike over Keysers Run, as Hanover Pike is clearly not the more efficient or cost-effective solution. Further, as discussed above, the selection of a project that has not been properly submitted for consideration and no longer meets any known reliability need would appear to be inconsistent with PJM's Tariff. For these reasons, we strongly believe Board approval of the recommendation would be inappropriate.

Northeast Transmission appreciates the opportunity to participate in all of the competitive solicitations to date and looks forward to continuing to do so moving forward. We respectfully request that the TEAC fully consider the implications of the issues raised above as it considers the PJM recommendation.

Sincerely,

NORTHEAST TRANSMISSION DEVELOPMENT, LLC



Robert Colozza
Senior Vice President

¹¹ PJM TEAC Reliability Analysis Update, January 7, 2016, Slide 22.