



# **Consideration of Federal and State Public Policy Initiatives Through PJM's Long-Term Regional Transmission Planning Process**

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## I. Background and Executive Summary

For several months, PJM Interconnection, L.L.C. (“PJM”) has engaged with stakeholders through the Long-Term Regional Transmission Planning (“LTRTP”) Workshop to discuss PJM’s proposed framework for scenario planning analysis, pursuant to which PJM will examine and identify potential long-term impacts on reliability. Through the LTRTP Workshop, PJM has proactively solicited stakeholder feedback regarding its proposed assumptions and approach to conduct long-term regional transmission planning. Following the conclusion of the LTRTP Workshop process, PJM intends to propose Manual revisions (starting at the Planning Committee) that will set forth details regarding how PJM will implement the currently effective provisions of the Amended and Restated Operating Agreement of PJM Interconnection, L.L.C. (“Operating Agreement” or “OA”), which (i) provide that PJM may engage in long-term planning using scenario analyses that take into account potential changes in expected future system conditions, and (ii) permit PJM to choose among alternative solutions to address reliability needs.

Although LTRTP Workshop participants have generally acknowledged that PJM has the authority to engage in long-term, scenario-based planning under the terms of the currently effective Operating Agreement, PJM has received several questions about how PJM plans to consider federal and state public policy initiatives as part of the LTRTP process. In particular, throughout the LTRTP Workshop process, stakeholders have raised questions regarding: (i) whether PJM can factor transmission needs driven by Public Policy Objectives<sup>1</sup> into the selection of the optimal transmission enhancements or expansions to address reliability needs; (ii) whether the Operating Agreement requires that all Public Policy Requirements be addressed solely through the State Agreement Approach process set forth in Operating Agreement, Schedule 6, section 1.5.9; and (iii) whether it is necessary to create a new cost allocation methodology for reliability projects that address transmission needs driven by Public Policy Objectives.

PJM has taken this stakeholder feedback seriously, and therefore drafted this position paper<sup>2</sup> to set forth the precedent on which it has relied to support the following conclusions:

- FERC Order No. 1000 and the currently effective Operating Agreement allow PJM to consider Public Policy Objectives as part of the Regional Transmission Expansion Plan (“RTEP”) process to determine reliability needs;

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<sup>1</sup> **Public Policy Objectives** are “Public Policy Requirements, as well as public policy initiatives of state or federal entities that have not been codified into law or regulation but which nonetheless may have important impacts on long term planning considerations.” OA, Section 1, Definitions, O-P. **Public Policy Requirements** are “policies pursued by: (a) state or federal entities, where such policies are reflected in duly enacted statutes or regulations, including but not limited to, state renewable portfolio standards and requirements under Environmental Protection Agency regulations; and (b) local governmental entities such as a municipal or county government, where such policies are reflected in duly enacted laws or regulations passed by the local governmental entity.” *Id.*

<sup>2</sup> Stakeholders have raised questions about other issues discussed as part of the LTRTP Workshop. However, given the number of questions received from a wide range of stakeholders on the incorporation of federal and state public policy initiatives into long-term planning, PJM has focused this position paper on addressing questions specific to public policy initiatives.

- The currently effective Operating Agreement provides that transmission enhancements or expansions addressing Public Policy Requirements can be developed through the RTEP process or the State Agreement Approach process; and
- The currently effective Open Access Transmission Tariff (“Tariff”) already includes cost allocation methodologies for reliability projects that address transmission needs driven by Public Policy Objectives (which, as defined in the Operating Agreement, include Public Policy Requirements plus state/federal public policy initiatives that have not been codified into law or regulation but which nonetheless may have important impacts on long-term planning considerations).

PJM believes it is imperative to move forward with long-term, scenario-based planning as discussed in the LTRTP Workshop as soon as possible. Additionally, for the reasons previously articulated in the LTRTP Workshop and further below, PJM believes that it can move forward with the process discussed in the LTRTP Workshop through Manual changes only (*i.e.*, that no Operating Agreement changes are necessary at this time). However, PJM also values stakeholder input and welcomes stakeholder response to this position paper.

### *PJM’s Responses to Questions Raised by Stakeholders*

## **II. PJM’s Proposal To Consider Public Policy Objectives as Part of the RTEP To Determine Reliability Needs Is Consistent With Order No. 1000 and the Currently Effective Operating Agreement**

Pursuant to the process being discussed in the LTRTP Workshop, as part of the RTEP, PJM will consider Public Policy Objectives at the assumptions stage of the RTEP process and, through scenario analyses, will identify transmission system enhancements and expansions that are needed to maintain the reliability of the system in an economic and efficient manner.<sup>3</sup> PJM believes that this approach is consistent with Order No. 1000 and the RTEP process set forth in the currently effective Operating Agreement.

Order No. 1000 requires transmission providers to provide for the consideration of transmission needs driven by public policy requirements in their local and regional transmission planning processes.<sup>4</sup> Order No. 1000-A clarifies that “consideration of transmission needs driven by public policy requirements” means: (i) the identification of transmission needs driven by public policy requirements; and (ii) the evaluation of potential solutions to meet those identified needs.<sup>5</sup> In addition, the Federal Energy Regulatory Commission (“FERC”) has explicitly confirmed that “Order No. 1000 does not preclude any public utility transmission provider from considering in its transmission planning process transmission

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<sup>3</sup> Long-Term Regional Transmission Planning (LTRTP) Framework Update (Dec. 15, 2023), [20231215-item-02---ltrtp-framework-update.ashx \(pjm.com\)](https://www.pjm.com/20231215-item-02---ltrtp-framework-update.ashx).

<sup>4</sup> See Order No. 1000 at P 23.

<sup>5</sup> See Order No. 1000-A, at PP 204, 206, 208–211, 317–319.

needs driven by additional public policy objectives not specifically required by local, state or federal laws or regulations.”<sup>6</sup>

Through the process outlined in the LTRTP Workshop, PJM will “consider” public policy in two distinct ways: (i) pursuant to its Order No. 1000-compliant RTEP planning process and (ii) through the State Agreement Approach.

**Consideration of Public Policy Pursuant to the RTEP Process:** Under PJM’s Order No. 1000-compliant planning process, PJM will consider Public Policy Objectives at the assumptions stage of the RTEP process and, through scenario analyses, will identify those transmission system enhancements and expansions that are needed to maintain the reliability of the system in an economic and efficient manner. PJM’s proposal is supported by the following provisions of Schedule 6 of the Operating Agreement:

- Section 1.5.1(a): PJM “may initiate the enhancement and expansion study process to address or consider, where appropriate, requirements or needs arising from sensitivity studies, modeling assumption variations, scenario analyses, and Public Policy Objectives”;
- Section 1.5.3: PJM “shall employ sensitivity studies, modeling assumption variations, and scenario analyses, and **shall also consider Public Policy Objectives in the studies and analyses**, so as to mitigate the possibility that bright line metrics may inappropriately include or exclude transmission projects from the transmission plan. **Sensitivity studies, modeling assumption variations, and scenario analyses shall take account of potential changes in expected future system conditions, including, but not limited to, load levels, transfer levels, fuel costs, the level and type of generation, generation patterns (including, but not limited to, the effects of assumptions regarding generation that is at risk for retirement and new generation to satisfy Public Policy Objectives)**, demand response, and uncertainties arising from estimated times to construct transmission upgrades. **[PJM] shall use the sensitivity studies, modeling assumption variations and scenario analyses in evaluating and choosing among alternative solutions to reliability, market efficiency and operational performance needs**” (emphasis added);
- Section 1.5.6(b): directing PJM to hold an assumptions meeting at the initiation of the RTEP process to discuss: “(i) the assumptions to be used in performing the evaluation and analysis of the potential enhancements and expansions to the Transmission Facilities; (ii) Public Policy Requirements identified by the states for consideration in [PJM’s] transmission planning analyses; (iii) Public Policy Objectives identified by stakeholders for consideration in [PJM’s] transmission planning analyses; (iv) the impacts of regulatory actions, projected changes in load growth, demand response resources, energy efficiency programs, price responsive demand, generating additions and retirements, market efficiency and other trends in the industry; and (v) alternative sensitivity studies, modeling assumptions and scenario analyses proposed by the Committee participants.” This section further directs PJM to consider the recommendation of the Independent State Agencies Committee (“ISAC”) regarding “the statement of Public Policy Requirements provided individually by the states and any state member’s assessment or prioritization of Public Policy Objectives proposed by other

<sup>6</sup> *PJM Interconnection, L.L.C.*, 142 FERC ¶ 61,214, at P 72 (2013) (“March 2013 Order”) (addressing PJM’s first Order No. 1000 Compliance Filing).

stakeholders,” and to identify which Public Policy Requirements and Public Policy Objectives are used in PJM's assumptions and if not, why not.

PJM's proposal to consider Public Policy Objectives at the assumptions stage of the RTEP process and, through scenario analyses, to identify those transmission system enhancements and expansions that are needed to maintain the reliability of the system in an economic and efficient manner is also supported by prior FERC orders. Specifically, FERC found that PJM complied with Order No. 1000's requirement to “consider” public policy initiatives by incorporating Public Policy Objectives into the sensitivity studies, modeling assumption variations and scenario planning analyses on which PJM relies to identify the need for reliability and economic transmission projects.<sup>7</sup> FERC explained:

Through the regional transmission planning process, PJM identifies, with stakeholder input, enhancements or expansions to the transmission system that may be driven by public policy requirements, and, out of this larger set of transmission needs, those needs for which solutions will be evaluated. In addition, PJM evaluates, with stakeholder input, potential solutions to identified transmission system needs, which may include enhancements or expansions driven by public policy requirements.<sup>8</sup>

FERC concluded that “PJM's approach is, thus, consistent with or superior to the requirements of Order No. 1000.”<sup>9</sup>

**Consideration of Public Policy Pursuant to the State Agreement Approach:** The State Agreement Approach, set forth in Operating Agreement, Schedule 6, section 1.5.9, provides that one or more state governmental entities in the PJM region authorized by their respective states may voluntarily agree to be responsible for the allocation of all costs of a proposed transmission expansion or enhancement that addresses state Public Policy Requirements.

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<sup>7</sup> March 2013 Order at P 119 (“Order No. 1000 does not require PJM to implement a distinct planning process or cost allocation method specifically for public policy transmission projects. PJM has integrated consideration of transmission needs driven by public policy requirements into [its] transmission planning process by incorporating those needs into the sensitivity studies, modeling assumption variations and scenario planning analyses on which PJM relies to identify the need for reliability and economic transmission projects. As discussed above, by considering public policy requirements in developing the transmission enhancement and expansion studies, including in future scenarios, PJM factors transmission needs driven by public policy requirements into the selection of the optimal reliability and market efficiency transmission projects”). See also *PJM Interconnection, L.L.C.*, Order on Rehearing and Compliance, 147 FERC ¶ 61,128, at PP 52, 54 (2014) (“May 2014 Order”) (explaining FERC's concern that the failure to consider public policy requirements could result in the needs of wholesale customers not being accurately identified, but that PJM's approach to considering transmission needs driven by Public Policy Objectives addresses the concern “because it results in the consideration of public policy requirements and whether such public policy requirements contribute to specific transmission system needs”).

<sup>8</sup> May 2014 Order at P 54. Note that although the quoted language refers to the non-defined term “public policy requirements,” FERC made clear that “by considering public policy requirements **and** public policy objectives at the assumptions stage of the Regional Plan process and identifying, through scenario analysis, needed transmission system enhancements and expansions, PJM's regional transmission planning process is ‘consistent with or superior to’ Order No. 1000's requirements regarding consideration of transmission needs driven by public policy requirements.” *Id.* at P 44 (emphasis added).

<sup>9</sup> May 2014 Order at P 54.

The State Agreement Approach was filed as a **supplement** to the Order No. 1000-compliant process described above, as an additional way for PJM to consider Public Policy Requirements as part of the RTEP. In accepting the State Agreement Approach process, FERC found that “PJM’s State Agreement Approach supplements, but does not conflict [with] or otherwise replace, PJM’s process to consider transmission needs driven by public policy requirements as required by Order No. 1000 addressed above.”<sup>10</sup>

If one or more states identify a transmission enhancement or expansion that PJM has not found to be necessary for economic or reliability reasons, but which the state(s) have determined to be necessary to address Public Policy Requirements, the state(s) can proceed with the State Agreement Approach for such projects.<sup>11</sup>

### III. Transmission Enhancements or Expansions Addressing Public Policy Requirements Can Originate Through the Development of the RTEP Process or Directly By a State Through the State Agreement Approach Process

PJM has received feedback from at least one stakeholder that the Operating Agreement requires that all Public Policy Requirements be addressed *solely* through the State Agreement Approach process set forth in Operating Agreement, Schedule 6, section 1.5.9. PJM believes this interpretation conflicts with both Order No. 1000 and the plain language of the Operating Agreement. In fact, as set forth below, contrary to the stakeholder’s interpretation, a project addressing Public Policy Requirements may originate (i) through the process pursuant to which PJM develops the RTEP, including the proposal window process set forth in OA, Schedule 6, section 1.5.8, OR (ii) directly by a state(s) through the State Agreement Approach process set forth in OA, Schedule 6, section 1.5.9.

First, as PJM describes above, Order No. 1000 requires transmission providers to consider public policy requirements as part of regional planning processes. Operating Agreement, Schedule 6, section 1.5 sets forth the process by which PJM develops the RTEP. Section 1.5.8(b) is explicit that “Public Policy Requirements, including (i) federal Public Policy Requirements; (ii) state Public Policy Requirements identified or agreed-to by the states in the PJM Region, ... could be addressed by potential Short-term Projects, Long-lead Projects **or** projects determined pursuant to the State Agreement Approach in the Operating Agreement, Schedule 6, section 1.5.9, as applicable” (emphasis added).<sup>12</sup> Any

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<sup>10</sup> March 2013 Order at P 142. See also May 2014 Order at P 87.

<sup>11</sup> See Operating Agreement, Schedule 6, sections 1.5.8(b) and 1.5.9. See also March 2013 Order at P 352.

<sup>12</sup> A **Short-term Project** is “a transmission enhancement or expansion with an in-service date of more than three years but no more than five years from the year in which, pursuant to Operating Agreement, Schedule 6, section 1.5.8(c), the Office of the Interconnection posts the violations, system conditions, or Public Policy Requirements to be addressed by the enhancement or expansion.” OA, Section 1, Definitions, S-T. A **Long-lead Project** is “a transmission enhancement or expansion with an in-service date more than five years from the year in which, pursuant to Operating Agreement, Schedule 6, section 1.5.8(c), the Office of the Interconnection posts the violations, system conditions, or Public Policy Requirements to be addressed by the enhancement or expansion.” OA, Section 1, Definitions, I-L.

conclusion that all Public Policy Requirements can only be addressed through the State Agreement Approach process ignores this plain language (not to mention the FERC precedent cited above).

Second, PJM acknowledges that there is a sentence in Operating Agreement, Schedule 6, section 1.5.8(d) which provides: "All proposals addressing state Public Policy Requirements shall be provided to the applicable states in the PJM Region for review and consideration as a Supplemental Project or a state public policy project consistent with the Operating Agreement, Schedule 6, section 1.5.9," and that at least one stakeholder interprets this sentence to mean that all Public Policy Requirements have to be addressed through the State Agreement Approach process. This narrow interpretation, however, fails to consider the context of that single sentence within the entire planning process set forth in Operating Agreement, Schedule 6, section 1.5 which, again, sets forth the procedures for developing the RTEP. In brief, pursuant to this process, PJM:

- develops the scopes, assumptions and procedures for the RTEP study (1.5.2);
- conducts studies (1.5.3);
- conducts the relevant Transmission Expansion Advisory Committee ("TEAC") and Subregional RTEP Committee meetings (1.5.6);
- posts on its website Transmission System Needs, including violations, system conditions, economic constraints, and federal or state Public Policy Requirements for inclusion in a proposal window (1.5.8(b));
- unless a proposal window exemption applies, opens a window to address the identified Transmission System Needs (1.5.8(c));
- accepts proposals for potential enhancements or expansions to address the posted violations, system conditions, economic constraints, as well as Public Policy Requirements (1.5.8(c));
- posts all submitted proposals to the website (1.5.8(d));
- if any public policy project is proposed through the proposal window process, forwards such project proposals to the applicable state to review and consider as a Supplemental Project or a state public policy project (1.5.8(d)); and
- reviews all proposals submitted in the window process, including proposals addressing a state Public Policy Requirement, and determines and presents to the TEAC the proposals that merit further consideration for inclusion in the RTEP (1.5.8(d) and 1.5.8(e)).

PJM forwards all public policy projects submitted through a window to the relevant state(s) **regardless** of whether the proposal is needed to address a reliability or economic need, which finding would be necessary for PJM to recommend the proposal as a Short-term Project or Long-lead Project for inclusion in the RTEP pursuant to sections 1.5.8(d) and 1.5.8(e). In short, as discussed above, a project to address a Public Policy Requirement can be initiated in the proposal window process if a public policy project is proposed through the proposal window process.



Third, if one or more states identify a transmission enhancement or expansion that PJM has not found to be necessary for economic or reliability reasons, but which the state(s) have determined to be necessary to address Public Policy Requirements, the state(s) can proceed with the State Agreement Approach for such projects.<sup>13</sup>

#### **IV. It Is Not Necessary To Create a New Cost Allocation Methodology for Reliability Projects To Apply to Transmission Solutions To Address Transmission Needs Driven by Public Policy Objectives**

Several stakeholders have raised concerns about whether the currently effective cost allocation methodologies applicable to reliability projects can be applied to reliability projects that address transmission needs driven by Public Policy Objectives.<sup>14</sup> These stakeholders have also expressed concern about whether using the currently effective cost allocation methodologies would inappropriately result in one state paying for the public policy initiatives of another state. FERC has already addressed these precise issues and has made clear that PJM does not need a separate regional cost allocation method for reliability (or market efficiency) projects that address transmission needs driven by Public Policy Objectives.

Specifically, in their Order No. 1000 compliance filing, the PJM Transmission Owners proposed to apply the cost allocation methods for reliability and economic Projects to transmission facilities that address Public Policy Requirements and Public Policy Objectives<sup>15</sup> *in addition to* reliability and economic transmission needs.<sup>16</sup> Several

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<sup>13</sup> See Operating Agreement, Schedule 6, sections 1.5.8(b) and 1.5.9. See also March 2013 Order at P 352.

<sup>14</sup> Tariff, Schedule 12 sets forth the cost allocation methodologies applicable to (as relevant here) reliability and economic projects.

<sup>15</sup> Although FERC uses the term “public policy requirements” in the Orders quoted herein when it acted on the PJM Transmission Owners’ cost allocation proposal, the PJM Transmission Owners made clear in their compliance filing that the proposed cost allocation methodologies would apply to “Reliability Projects and Economic Projects **that also address public policy requirements and objectives....**” *Indicated PJM Transmission Owners*, PJM Open Access Transmission Tariff Revisions to Modify Cost Allocation for PJM Required Transmission Enhancements, Docket No. ER13-190-000, at 18 (Oct. 11, 2012) (emphasis added). See also *supra* n.8.

<sup>16</sup> See March 2013 Order at P 352 (summarizing the PJM Transmission Owners’ Order No. 1000 compliance filing: “With regard to projects that address public policy requirements, PJM Transmission Owners state that public policy requirements are considered along with other factors (e.g., load growth and generation retirements), and if a Reliability or Economic Project is needed, PJM Transmission Owners propose to use the corresponding cost allocation method as described above. PJM Transmission Owners note that any upgrade not identified by PJM as necessary for reliability or economic reasons may be proposed as a Supplemental Project. The costs of such projects are allocated to the proponent of the project. In addition, if one or more states identify a transmission enhancement or expansion that PJM has not found to be necessary for economic or reliability reasons, but which the state or states have determined to be necessary to address public policy requirements, PJM has provided a ‘State Agreement’ approach for such projects. Under this approach, the states sponsoring the project voluntarily agree to be responsible for its costs, and if the project is not pursued as a Supplemental Project, the costs will be allocated only to customers in the states sponsoring the project, under a cost allocation method submitted by the Transmission Provider to the Transmission Owners Agreement-Administrative Committee (TOA-AC) for consideration and filing under section 205. If the TOA-AC declines to file the cost allocation under section 205, the sponsoring states or PJM may file it under section 206”).

protestors argued that FERC should require the PJM Transmission Owners to modify the cost allocation methodologies for reliability and economic projects to ensure that the states are not allocated any costs associated with federal or state public policies. FERC addressed the Transmission Owners' filing and the related protests as follows:

**441. We accept the PJM Transmission Owners' proposal to apply the cost allocation methods proposed for Reliability and Economic Projects to transmission facilities that address public policy requirements in addition to reliability and economic transmission needs.** We reject the arguments of AWEA and Public Interest Organizations that a separate cost allocation method is necessary for projects that advance public policy requirements but do not meet reliability or economic transmission needs. Order No. 1000 does not explicitly require a separate and unique cost allocation method for reliability, economic, and public policy projects. Because the Commission has found that PJM's proposal to include public policy requirements in its sensitivity analyses complies with Order No. 1000, and therefore addresses transmission needs driven by public policy requirements, there is no need for a separate cost allocation method associated with a non-existent project category. Specifically, PJM identifies reliability transmission needs and economic constraints that result from the incorporation of public policy requirements into PJM's sensitivity analyses, and then allocates the costs of the solutions to such transmission needs in accordance with the type of benefits they provide. Thus, we conclude that **PJM does not need a separate regional cost allocation method for projects to address transmission needs driven by public policy requirements as the costs of such projects are appropriately allocated based on the type of transmission need that PJM's consideration of public policy requirements creates.** While we encourage PJM and its stakeholders to explore future options to improve the regional transmission planning process, the potential for improvement does not prevent the current proposal from complying with Order No. 1000.<sup>17</sup>

**442. We also will not require any changes to ensure that states are not allocated any costs for federal public policy driven transmission projects they do not require, as suggested by PUC of Ohio. We find it reasonable for PJM to allocate, as part of a reliability or market efficiency project, the cost of a project that meets a federal public policy mandate as a secondary benefit, and will not require PJM to divide such a project based on purpose. For the same reason, we deny PUC of Ohio's request to ensure that states not be responsible for any costs associated with meeting another state's public policy requirements.** We note that PJM's proposed regional transmission planning process only authorizes PJM to approve projects that provide solutions to reliability or market efficiency transmission needs of the Transmission System, which PJM has identified.<sup>18</sup>

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<sup>17</sup> March 2013 Order at P 441 (emphasis added).

<sup>18</sup> *Id.* at P 442 (emphasis added).

FERC upheld these findings on rehearing in the May 2014 Order:

389. We deny requests for rehearing and clarification. We affirm the finding in the First Compliance Order that PJM “does not need a separate regional cost allocation method for transmission projects that address transmission needs driven by public policy requirements.”<sup>19</sup>

391. We also disagree with Atlantic Grid’s assertion that PJM lacks a cost allocation method for transmission projects to address public policy requirements due to the low probability of such projects being accepted as reliability or market efficiency projects. As we state above, ***PJM’s scenario-based regional transmission planning process adequately considers the impact of public policy requirements on regional transmission needs through the evaluation and selection of the more efficient or cost-effective set of reliability and market efficiency projects. Accordingly, the cost allocation method for such transmission projects is sufficient.***<sup>20</sup>

394. We decline to require additional detail about the standards that will apply to the selection process, as requested by Atlantic Grid and AWEA. ***A transmission project that meets transmission needs driven by public policy requirements may be selected as either a reliability or market efficiency project, dependent on the outcome of PJM’s scenario-based planning process. PJM provides a clear ex ante cost allocation method for both categories of transmission projects. In this way, PJM’s regional transmission planning process provides a clear understanding of which entities will be allocated the costs for a transmission project selected in the regional transmission plan for purposes of cost allocation.***<sup>21</sup>

Based on this precedent, PJM does not believe it is necessary to develop new cost allocation methodologies for reliability (or market efficiency) projects that address transmission needs driven by Public Policy Objectives.

Notwithstanding the above, PJM notes that PJM does not have the authority to devise or file cost allocation methodologies. Rather, the PJM Transmission Owners have Federal Power Act section 205 filing rights over rates and cost allocation. Thus, any change to the currently effective cost allocation methodologies would need to be initiated by the PJM Transmission Owners.

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<sup>19</sup> May 2014 Order at P 389.

<sup>20</sup> *Id.* at P 391 (emphasis added).

<sup>21</sup> *Id.* at P 394 (emphasis added).