UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Neptune Regional Transmission System, LLC and the Long Island Power Authority, Complainants, v. PJM Interconnection, L.L.C., Respondent	))))))))	Docket No. EL21-39-000

REPLY COMMENTS OF
PJM INTERCONNECTION, L.L.C.
AND
THE INDICATED PJM TRANSMISSION OWNERS

Pursuant to the Commission's June 25, 2021 order in this proceeding,[1] PJM Interconnection, L.L.C. ("PJM") and the Indicated PJM Transmission Owners[2] ("ITOs") respectfully submit these Reply Comments in response to the initial comments and responses filed on October 8, 2021 in this proceeding.

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[1] *Neptune Regional Transmission System, LLC and Long Island Power Authority v. PJM Interconnection, L.L.C.*, 175 FERC ¶ 61,247 (2021) ("June 25 Order").

[2] For the purpose of this filing, the Indicated Transmission Owners are: American Electric Power Service Corporation on behalf of its affiliates, Appalachian Power Company, Indiana Michigan Power Company, Kentucky Power Company, Kingsport Power Company, Ohio Power Company, Wheeling Power Company, AEP Appalachian Transmission Company, Inc., AEP Indiana Michigan Transmission Company, Inc., AEP Kentucky Transmission Company, Inc., AEP Ohio Transmission Company, Inc., and AEP West Virginia Transmission Company, Inc. (collectively "AEP"); The Dayton Power & Light Company d.b.a. AES Ohio; Duke Energy Corporation on behalf of its affiliates Duke Energy Ohio, Inc., Duke Energy Kentucky, Inc., and Duke Energy Business Services LLC; East Kentucky Power Cooperative, Inc.; Exelon Corporation; The FirstEnergy Transmission Companies, including American Transmission Systems, Incorporated, Jersey Central Power & Light Company, Mid-Atlantic Interstate Transmission LLC, West Penn Power Company, The Potomac Edison Company, Monongahela Power Company and Trans-Allegheny Interstate Line Company; PPL Electric Utilities Corporation; Public Service Electric and Gas Company (except as to any discussion in these Reply Comments concerning the ITOs' targeted modifications); and Virginia Electric and Power Company d/b/a Dominion Energy Virginia.

I. BACKGROUND

In the June 25 Order, the Commission addressed a complaint filed on December 31, 2020 ("Complaint") by Neptune Regional Transmission System, LLC ("Neptune") and the Long Island Power Authority ("LIPA") (together, the "Complainants"). The June 25 Order neither granted nor denied the Complaint. Rather, it established paper hearing procedures to develop a further record to determine whether the 1% de minimis threshold and netting provisions of PJM's solution-based distribution factor (DFAX) method result in rates that have become unjust and unreasonable. The June 25 Order set forth a series of questions that PJM and the ITOs were directed to answer and indicated that other parties have the option to respond as well.

On October 8, 2021, various parties filed comments and responses to the Commission's questions. These filings included a joint response from PJM and the ITOs, a response from the Complainants, comments from the New Jersey Board of Public Utilities ("NJBPU"), a brief from the Independent Market Monitor for PJM ("IMM"), and comments from the Michigan Public Service Commission ("Michigan PSC").

In their initial response, PJM and the ITOs provided detailed answers to the Commission's questions. They also provided background information on the PJM Regional Transmission Expansion Plan ("RTEP") baseline planning process and the solution-based DFAX method. The current solution-based DFAX cost allocation method seeks to assign costs to PJM load zones based on the relative degree of usage that each respective load zone places on the new facilities. Finally, although the Commission has found that PJM's solution-based DFAX method is a well-established, non-discriminatory, just and reasonable cost allocation methodology, the ITOs explained that, over the past several months, they have been engaged in discussions and undertaken analyses aimed at identifying potential refinements and improvements to solution-based DFAX, including those that may address a number of the issues raised in the Complaint as well as the Commission's paper hearing questions. As discussed below, those efforts are near completion.

In their initial response, the Complainants reiterate their claims raised in the Complaint against PJM's use of netting and the 1% de minimis threshold, including the claim that they result in unreasonable cost allocations that violate the beneficiary pays approach. The Complainants propose the use of a bus-by-bus or "nodal" analysis as an alternative to the current solution-based DFAX method.[3] They also propose the elimination of the de minimis rule, or in the alternative, a modified de minimis rule with a uniform usage threshold of 0.1% times the largest PJM zone's (AEP) peak load.[4]

In their comments, the NJBPU defends the status quo cost allocation in PJM. However, it requests that the Commission address the issues presented in this proceeding in its current Advance Notice of Proposed Rulemaking process ("ANOPR").[5] In its brief, the IMM questions the merits of the Complaint but suggests that the Commission should address this matter in a new rulemaking proceeding that would concern the "comprehensive" reform of the cost

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[3] Response of the Long Island Power Authority and Neptune Regional Transmission System, LLC to Paper Hearing Questions at 19, 22-23 ("Complainants' Initial Response").

[4] *See* Complaint at 2 (arguing that "elimination of the de minimis rule or, as an alternative, substantial revision of the de minimis threshold is required"); Complainants' Initial Response at 13-14 (stating that "we continue to encourage the Commission to find that application of the 1% de minimis threshold . . . should be ceased," or "implemented through a single, consistent usage threshold").

[5] Advance Notice of Proposed Rulemaking, *Bldg. for the Future Through Elec. Reg'l Transmission Planning & Cost Allocation & Generator Interconnection*, 176 FERC ¶ 61,024 (2021).

allocation method utilized in PJM.[6] Finally, in its comments, the Michigan PSC argues that the Complaint has no merit and defends the continued use of the 1% de minimis threshold.[7]

II. REPLY COMMENTS

PJM[8] and the ITOs respectfully submit these Reply Comments and request that the Commission take these Reply Comments into consideration as it continues to evaluate the Complaint.

A. The ITOs Have Developed a Targeted Modification to the SBDFAX Method to Address the Issues Raised in the Complaint.[9]

The Commission has found that PJM's solution-based DFAX method is a well-established, non-discriminatory, just and reasonable cost allocation methodology.[10] This proceeding on the other hand only concerns a handful of projects; in fact, the original Complaint

[6] Brief of the Independent Market Monitor for PJM ("IMM Brief") at 2. The ITOs do not believe that this proceeding presents any market-related issues or any other issue that falls within a market monitor's scope of responsibility set forth in the Commission's regulations or that are otherwise assigned to the IMM so as to justify the IMM's participation in this proceeding.

[7] The Michigan PSC's Comments in Response to the Commission's June 25, 2021 Order at 11-17.

[8] PJM does not join in section II.A below regarding prospective changes because (i) the PJM transmission owners have exclusive and unilateral section 205 filing rights regarding transmission revenue requirements or transmission rate design and this section moves beyond the defense of the existing filed rate; and (ii) the proposed revisions have not yet been presented to PJM stakeholders.

[9] Public Service Electric and Gas Company does not join in this section II.A or any discussion in these Reply Comments concerning the ITOs' targeted modification.

[10] *PJM Interconnection, L.L.C.*, 172 FERC ¶ 61,118, at P 24 (2020) ("LIPA and Neptune's rehearing request of the Order on Compliance . . . constitutes a collateral attack on the solution-based DFAX method as a cost allocation method. The justness and reasonableness of the solution-based DFAX method as applied by PJM has already been litigated in a separate complaint proceeding and is thus not properly raised as an issue in this proceeding.") (citing *Linden VFT, LLC v. PJM Interconnection, L.L.C.*, 155 FERC ¶ 61,089 at P 55 (2016), reh'g denied , 170 FERC ¶ 61,122 at PP 34 - 42, 68 (2020)).

is based on analyses of only two RTEP projects.[11] These two RTEP projects[12] represent only a small portion of the hundreds of upgrades that PJM has approved for regional cost allocation in the RTEP pursuant to the solution-based DFAX methodology.

As noted in their initial Response, the ITOs have been engaged, over the past several months, in discussions and have undertaken analyses aimed at identifying potential refinements and improvements to the solution-based DFAX method, including those that may address issues raised in the Complaint as well as the Commission's paper hearing questions. One of the primary goals of this effort was to avoid actions in this proceeding that could result in perpetual cost allocation complaints. The ITOs share the Commission's interest in promoting the continuation of a sustainable period of cost allocation certainty.[13]

The ITOs are pleased to report to the Commission that these efforts have been fruitful. Namely, the ITOs with assistance from PJM have developed a proposal to implement a targeted modification to the solution-based DFAX method to address what is arguably an inadvertent outcome of the application of the current methodology – namely, those situations in which the zone where an upgrade is located (the "host zone") is entirely excluded from cost allocation for that upgrade through application of the de minimis threshold. The ITOs intend to seek approval under the Consolidated Transmission Owners Agreement ("CTOA") in order to submit to the

[11] As discussed below, in total, the Complainants offer data and analyses with respect to forty-two (42) upgrade IDs. This number, however, still represents only a small portion of the hundreds of upgrades that PJM has approved for regional cost allocation in the RTEP pursuant to the solution-based DFAX methodology, meaning that that the Complaint remains unsupported by sufficient evidence.

[12] One project, the Metuchen – Edison – Trenton – Burlington Corridor Project ("MTB Project"), consists of the following baseline upgrades broken out into sub IDs: b2835, b2836, and b2837. The second project, the New Springfield and Stanley Terrace stations project is identified as baseline upgrade b2933, which consists of four baseline upgrades. The Complainants reference only two of the Project's four sub IDs in its Complaint.

[13] *See Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities,* Order No. 1000, 136 FERC ¶ 61,051, at PP 559-561 (2010) (explaining that the absence of clear cost allocation rules can undermine development of needed transmission facilities, and conversely, greater certainty as to cost allocation will enhance stakeholders' ability to evaluate the merits of transmission projects).

Commission a proposed modification to the de minimis threshold that will exclude the application of the threshold to the host zone for each upgrade.[14] An example will help illustrate: in calculating the cost allocation for upgrade X, assume PJM determines that there are three zones with measurable DFAX values. Zone A has a DFAX of 0.005 (0.5%), Zone B has a DFAX of 0.002 (0.2%), and Zone C has a DFAX of .012 (1.2%). In this example Zone A is the host zone. Under the current methodology, Zone C would be allocated the entire cost of the upgrade, while Zones A and B, because their DFAX values are below the de minimis threshold, would receive no allocation. Under the refinement that the ITOs intend to seek approval to file, because Zone A is the host zone, it would be excluded from the application of the de minimis threshold. Thus, in this example, Zones A and C would share in the cost of the upgrade based on multiplying their DFAX values by their peak load,[15] while Zone B would continue to be excluded from any cost allocation.

Adopting this modification will address the "irrational results" alleged by the Complaint with respect to those projects where the host zone of an upgrade is allocated no costs at all because the host zone's netted flows are below the de minimis threshold.[16] Analyses performed by the ITOs indicates that applying this modification also would significantly reduce the allocation of costs to the Neptune line,[17] both for the specific projects discussed in the

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[14] Under the CTOA and the Tariff, the proposed modification is subject to a vote of the Transmission Owners Agreement Administrative Committee ("TOA-AC") subsequent to a 30-day notice to the PJM Members Committee. CTOA § 7.3.2; Tariff 9.1(b).

[15] For sake of simplicity, this example assumes that all three zones have DFAX values in the same direction of use.

[16] See Complaint at 32 (stating that in reviewing data on 18 RTEP upgrades constructed in the PSEG zone, 12 out of 18 upgrades "showed PSEG has having significant levels of calculated MW flows over the upgrade, yet in each case PSEG was completely exempted from any cost allocation")

[17] Neptune is the owner and operator of the Neptune line, over which LIPA holds long-term transmission rights. As part of its long-term transmission rights over the Neptune line, LIPA has been assigned the Firm Transmission Withdrawal Rights associated with the Neptune line. Schedule 12 of the PJM Tariff provides that merchant

Complaint as well as for other upgrades. For instance, based on 2021 data, the Neptune line would see a greater than 50% reduction in its total allocation under the ITO's planned modification. This is important because the challenges to the solution-based DFAX method that have been presented to the Commission to date have come almost exclusively from owners or customers of merchant transmission facilities, such as LIPA and Neptune.

Moreover, unlike the Complainants' proposal to significantly alter the existing solution-based DFAX methodology by eliminating or substantially revising the de minimis threshold, the ITOs' planned proposal is specifically targeted to address the concerns regarding non-allocation to host zones, while preserving the primary features of solution-based DFAX that the Commission has previously determined to be just and reasonable. For instance, as PJM and the ITOs explained in their initial response to the Commission's paper hearing questions, the de minimis threshold continues to serve an important function. Namely, it ensures that only those zones that make reasonably significant use of an upgrade, and thus receive reasonably significant benefits from the upgrade, are assigned the costs thereof.[18] Also, applying the de minimis threshold based on DFAX values, rather than discrete megawatt ("MW") limits, appropriately accounts for differences in the size of zonal load served and the greater relative use that a smaller zone may make of an upgrade relative to a larger zone.[19] The ITOs' planned proposal appropriately preserves these important features of solution-based DFAX while surgically addressing the perceived concerns with zones entirely avoiding cost allocations for upgrades constructed within their boundaries. Also, as discussed below, applying the

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transmission facilities which have been awarded Firm Transmission Withdrawals Rights are Responsible Zones for the purpose of allocation of RTEP upgrade project costs. Complaint at 13.

[18] PJM/ITO Initial Response at 8-9.

[19] *Id*. at 10-11.

Complainants' proposed substitute de minimis approaches to a more comprehensive set of projects shows that these proposals would result in significant cost shifts to numerous zones across the entire PJM footprint, which will almost certainly lead to greater controversy and litigation. By contrast, the ITOs' planned proposal is appropriately focused on cost allocations to host zones, thus avoiding substantial PJM-wide cost shifts.

As the Commission has noted, the PJM transmission owners have exclusive and unilateral rights regarding the cost allocation provisions of Schedule 12 of the PJM Open Access Transmission Tariff ("Tariff").[20] Accordingly, the ITOs plan to present their proposal to the TOA-AC for consideration under the provisions of the CTOA and the Tariff and, if approved by the CTOA, submit these changes to the Commission pursuant to section 205 of the Federal Power Act. The ITOs intend to commence this process in the very near future.

B. The Commission Should Hold the Complaint in Abeyance to Allow the ITOs to Finalize and File with the Commission a Targeted Modification to the Solution-Based DFAX Methodology.

PJM and the ITOs respectfully request that the Commission hold the Complaint in abeyance to allow the ITOs to finalize, and assuming approval under the provisions of the CTOA, file with the Commission the targeted solution-based DFAX modification summarized above. These revisions will improve and enhance the solution-based DFAX methodology, while preserving the core components of this methodology that the Commission has found to be a well-established, non-discriminatory, just and reasonable cost allocation methodology.[21] In particular, the ITOs believe that these revisions will address and resolve issues raised in the present proceeding with respect to the interaction of the de minimis threshold and the allocation

[20] June 25 Order at P 47. *See also, PPL Electric Utilities Corporation, et al.*, 177 FERC ¶ 61,123 at PP 34 and 36 (2021).

[21] *See, supra*, footnote 9.

of costs to host zones, in an appropriately targeted fashion. Therefore, it is appropriate that the Commission hold this proceeding in abeyance in order to provide sufficient time for the ITOs to complete the process under the CTOA necessary to obtain approval in order to file these changes, and assuming such approval is obtained, for the Commission to evaluate and rule on such filing.

C. The Commission Should Not Adopt Any of the Complainants' Proposed Modifications to the Solution-based DFAX Methodology.

In their initial response, the Complainants recommend certain modifications and cost allocation alternatives to the solution-based DFAX method, netting and the de minimis threshold. The Commission should not adopt any of these modifications and alternatives because they are unsupported by sufficient evidence, and thus would not be just and reasonable.

As noted above, the Complainants have provided data and analyses with respect to only a small portion of the hundreds of upgrades that PJM has approved for regional cost allocation in the RTEP pursuant to the solution-based DFAX methodology. In total, the Complainants offer data and analyses with respect to only forty-two (42) upgrade IDs. As they explain it, the Complainants: (i) offer further analysis of the nineteen (19) Upgrade IDs analyzed in the Complaint (referred to as the "Initial IDs"); (ii) evaluate historical data involving 2015 cost-allocation results for twelve (12) Upgrade IDs associated with the Bergen-Linden Corridor Project ("BLC Project") (referred to as the "BLC IDs")[22]; and (iii) analyze the 2021 cost allocation results for "several different" – i.e., eleven (11) Upgrade IDs covering different types of upgrades, undertaken in a range of PJM zones across the PJM footprint (referred to as the

[22] Mr. Wood used historical data from PJM involving the cost-allocation results in 2015 for Upgrade IDs associated with the BLC Project. For purposes of this historical analysis, he focused on Upgrade IDs: b2436.21, b2436.22, b2436.33, b2436.34, b2436.50, b2436.60, b2436.70, b2436.81, b2436.83, b2436.84, b2436.85, and b2436.90. Wood Affidavit at 4.

"Selected IDs").[23] These Upgrade IDs, however, represent only a small portion of the upgrades that PJM has approved for regional cost allocation in the RTEP pursuant to the solution-based DFAX methodology.

The Complainants' analyses of only forty-two (42) upgrade IDs is insufficient evidence to support modifying the cost allocation method applied to the hundreds of RTEP upgrades in PJM. It would be inappropriate for the Commission to require significant or wholesale revisions to the solution-based DFAX method based on such scant evidence. The Commission must recognize that the Complainants' data and analyses focus on only a small subset of selective upgrades, that address their interests or those of other merchant transmission facility owners[24] and that appear to support their positions. Although the Complainants' proposed fixes for this handful of upgrades may solve the Complainants' concerns, there is no evidence that the proposed solutions are just and reasonable as applied throughout the entire PJM footprint to the hundreds of other PJM RTEP upgrades, and thus should not be accepted.[25] Indeed, as discussed below, the Complainants' substitute de minimis approaches would result in dramatic cost shifts if applied across the PJM footprint. Thus, it appears that the Complainants' "fixes" will only result in anomalous and unjust cost allocations for other RTEP projects and other PJM customers, and perversely end up *creating* additional disputes before the Commission rather than reducing them.

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[23] Complainants' Initial Response at 2. The Selected Upgrades are Upgrade IDs: b0487, b0549, b1660, b1805, b2006.1.1, b2435, b2552.2, b3015.2, b2766.2, b2777 and b2831.1.

[24] Complainants' Initial Response at 42 ("The results of Mr. Wood's and Mr. Austria's analyses, both using the same methods, confirm that the 2015 cost allocations for the BLC Project to HTP and VFT suffered from the same problems caused by the netting provision and the 1% de minimis threshold that are shown for the Initial IDs in the PSEG_RECO Zone in the Complaint.").

[25] The Complainants request that the Commission apply any solution developed in this proceeding to the entire PJM footprint. Complainants' Initial Response at 47.

1. The Complainants’ Substitute De Minimis Approaches Will Result in Dramatic Cost Shifts and Unreasonable Cost Allocations If Applied Across the Entire PJM Footprint.

In their initial response to the paper hearing questions, the Complainants continue to challenge the use of the 1% de minimis threshold adjustment to the solution-based DFAX methodology, among other things. As part of this challenge, they suggest two options as substitutes for the 1% de minimis threshold. First, the Complainants continue to encourage the Commission to find that application of a 1% de minimis threshold within the solution-based DFAX methodology is unjust and unreasonable and should be eliminated, referred to herein as the “Eliminate De Minimis Approach.”[26] Second, the Complainants propose an alternative de minimis threshold, based on a uniform MW-level, referred to herein as the “Alternative De Minimis Approach.” Specifically, the Complainants suggest that if the Commission believes the de minimis threshold continues to have utility, it should establish a usage threshold of 0.1% times the largest zone’s peak load and apply that MW threshold to every PJM zone and merchant transmission facility. Because the AEP zone has the largest peak load at 23,212 MW, uniformly applying a de minimis threshold of 0.1% of that peak load would give every zone and merchant transmission facility a de minimis usage threshold of 23.2 MW.[27] The Complainants’ substitute de minimis approaches, however, will result in a dramatic shift in costs and cost allocations if either is applied across the entire PJM footprint, as the Complainants propose, demonstrating that the Complainants’ substitute de minimis approaches are not just and reasonable solutions to the issues presented in this proceeding.

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[26] *See, supra*, footnote 4.

[27] Complainants’ Initial Response at 15-16.

The ITOs performed an analysis to determine how RTEP cost allocations, based on 2021 data, would change if either of the Complainants' substitute de minimis approaches was applied across PJM. In particular, the study reviewed each of the approximately 250 RTEP projects with costs potentially allocated to multiple zones for 2021 utilizing PJM's DFAX allocation data. The study applied the Complainants' Alternative De Minimis Approach and the Eliminate De Minimis Approach to those projects and project costs, which total $5,921.87 million in capital costs.

The analysis includes a review of: (i) the PJM zones and merchant transmission facilities subject to RTEP cost allocations as of 2021; (ii) the current cost allocations for each of the zones and merchant transmission facilities; (iii) the revised cost allocations under the Complainants' Alternative De Minimis Approach; and (iv) the revised cost allocations under the Complainants' Eliminate De Minimis Approach. The allocations for the Complainants' approaches were determined by utilizing PJM's existing solution-based DFAX methodology, with the only difference being: (a) for the Eliminate De Minimis Approach, all zones were subject to cost allocation for an upgrade based on their DFAX, regardless of the DFAX amount; or (b) for the Alternative De Minimis Approach, zones were exempted from allocation for an upgrade if their calculated MW usage of an upgrade (DFAX multiplied by peak load) was below 23.2 MW. Table 1 below shows the results of this analysis.

Table 1, Column 1 lists the PJM zones and merchant transmission facilities subject to RTEP cost allocations as of 2021. Table 1, Column 2 lists the current cost allocations for each of the zones and merchant transmission facilities. Table 1, Column 2 lists the revised cost allocations under the Complainants' Alternative De Minimis Approach. Table 1, Column 3 lists the revised cost allocations under the Complainants' Eliminate De Minimis Approach.

TABLE 1

Zone	Current Zonal Allocation (Millions)	Alternative De Minimis (Millions)	Eliminate De Minimis (Millions)
AEC	330.64	211.14	184.47
AEP	506.18	610.20	411.89
APS	426.81	480.97	527.06
ATSI	97.51	147.98	322.30
BGE	24.37	92.57	143.81
COMED	28.72	94.43	135.49
DAYTON	34.04	18.83	125.96
DEOK	49.54	64.34	152.19
DL	41.47	34.57	51.98
DPL	14.65	19.12	67.14
DVP	1,317.72	1,166.49	1,050.68
EKPC	178.50	11.52	42.16
JCPL	312.99	454.47	510.13
METED	17.15	10.31	37.76
NEPTUNE	274.25	17.17	85.47
OVEC	0.27	-	2.05
PECO	78.41	251.78	172.88
PENELEC	221.49	132.82	102.76
PEPCO_SMECO	87.99	137.19	154.07
PPL	133.66	143.54	146.37
PSEG_RECO	1,745.54	1,822.41	1,495.24
TOTAL	**5,921.87**	**5,921.87**	**5,921.87**

Keeping in mind that the solution-based DFAX methodology is intended to allocate cost responsibility based on local usage, Table 1 demonstrates, using 2021 DFAX allocation data, that for 2021 cost allocations there would have been significant and unreasonable cost shifts among numerous zones if either of the two substitute de minimis approaches that the Complainants propose had been applied across the PJM footprint. For example, if the Complainants' Alterative De Minimis Approach had been utilized:

- Customers in the BGE zone would have incurred a 280% increase in their allocation of costs.

- Customers in the ComEd zone would have incurred a 229% increase in their allocation of costs.
- Customers in the PECO zone would have incurred 221% increase in their allocation of costs.

The resulting costs shifts total $307.29 million, representing 5.2% of the total costs of the analyzed upgrades. The median impact of this approach across PJM would result in a positive or negative cost shift of 40%.The analysis also demonstrates that the application of the Complainants' Eliminate De Minimis Approach across the PJM footprint would have resulted in even more significant cost shifts. For example:

- Customers in the ATSI zone would have incurred a 231% increase in their allocation of costs.
- Customers in the BGE zone would have incurred a 490% increase in their allocation of costs.
- Customers in the COMED zone would have incurred a 372% increase in their allocation of costs.
- Customers in the DAYTON zone would have incurred a 270% increase in their allocation of costs.
- Customers in the DEOK zone would have incurred a 207% increase in their allocation of costs.
- Customers in the DPL zone would have incurred a 358% increase in their allocation of costs.

These resulting cost shifts alone total $698.7 million, representing 11.79% of the total costs of the analyzed upgrades. The median impact of this approach across PJM would result in a positive or negative cost shift of 75%.

These shift in costs associated with the application of the Complainants' substitute de minimis approaches are dramatic. Commission policy and precedent disfavors the sort of dramatic shift in costs associated with the Complainants' substitute de minimis approaches.[28] Indeed, the Commission has found that cost shifts of approximately 70% are significant enough to reject modifications to an existing rate design.[29] In short, the analysis above, which identifies costs increases between 221% and 490%, demonstrates that the Complainants' substitute de minimis approaches are not just and reasonable solutions to the issues presented in this proceeding. It also risks that the application of either approach will lead to greater strife at the Commission and State levels, including additional and numerous disputes over cost allocations and unending litigation. In short, applying either of the Complainants' substitute de minimis solutions would signal a new beginning, not the end of cost allocation problems in PJM.

2. The Commission Should Not Adopt the Complainants' Alternative "Nodal" DFAX Proposal.

The Complainants also advocate the use of a nodal or bus-by-bus DFAX analysis, arguing that it is "the most effective means of measuring a zone's overall usage of an upgrade

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[28] *PJM Interconnection, L.L.C.*, Opinion No. 494, 119 FERC ¶ 61,063 at P 59 (2007) (rejecting changes to license plate rates for PJM's existing transmission facilities because "significant cost shifts would occur under any of the [alternative] proposals, with some zones experiencing increases to their transmission cost responsibility in excess of 70%....").

[29] *Id.* Under one rate proposal, Virginia Electric Power Company would have experienced a cost increase of more than $113 million, a 73.2% increase, leading the Commission to conclude that "cost shifts of this magnitude, and the range of parties that would be affected by the shifts" supported the Commission's rejection of changes to PJM's license plate rate design for existing transmission facilities. *Id.*

in both directions."[30] In their Initial Responses to the paper hearing questions, PJM and the ITOs pointed out that the internal mechanics of the software employed by PJM to run the solution-based DFAX analysis produces a zonal DFAX that is equivalent to a netted bus-by-bus calculation. And indeed, the Complainants' expert acknowledges that the existing PJM methodology and their own preferred method both calculate DFAXs based on modeling a transfer from all generation within the PJM region to each load bus in a zone.[31] Thus, the Complainants' arguments that the PJM methodology fails to provide a "complete accounting" of a zone's usage of a transmission facility in both directions, or is somehow less transparent, is incorrect. As PJM and the ITOs have explained, and the Complainants themselves acknowledged, PJM accounts for all flows to each bus within a zone.

As PJM has explained, positive and negative contributions based on flows to load buses at different locations within a zone will offset each other.[32] This offsetting is accounted for by netting those flows in the DFAX calculation process. Moreover, this precise issue has been litigated and decided in the context of a previous complaint against PJM's solution-based DFAX methodology, where the Commission agreed that netting is the appropriate measure of a zone's use of a new transmission facility, finding that "netting appropriately accounts for actual flow contribution from a zone using PJM generation to serve its own load, which is consistent with the zonal nature of cost allocation."[33]

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[30] Complainants' Initial Response at 22-23 (citing Initial Wood Aff. at Q.47, 36:4 – Q.48, 37:5; Ex. B, Initial Austria Aff. at Q.18, 11:12 – Q.22, 13:8; and Austria Paper Hearing Aff. at Q.7, 5:3 – Q.11, 9:14).

[31] Austria Paper Hearing Affidavit at 7.

[32] *See, e.g.*, Complaint, Exhibit F, Prepared Direct Testimony of Steven R. Herling, Docket No. ER06-456-006, et al. at 21.

[33] *Linden VFT, LLC v. PJM Interconnection, L.L.C.*, 155 FERC ¶ 61,089, at P 63 (2016).

Accordingly, the Complainants' proposed nodal approach is unsupported, as there is no evidence to suggest that the nodal approach is a just and reasonable cost allocation method for the hundreds of PJM upgrades ultimately at issue in this proceeding. Nonetheless, even if the Complainants had sufficiently supported their proposal to eliminate netting across the entire PJM footprint, there would be no need for the Commission to adopt such a fundamental change to the existing solution-based DFAX methodology.

At the end of the day, one of the Complainants' primary quarrels with netting, and the existing solution-based DFAX methodology generally, appears to be centered around the fact that in certain instances host zones are being exempted from cost allocation, which results in increased allocations to others with DFAX values above 1%, such as the Neptune line. As discussed above, however, the ITOs' planned solution to exclude host zones from application of the de minimis threshold will ensure that those zones bear a reasonable portion of the costs of upgrades constructed within their territories. Moreover, this solution will result in a significant reduction in the allocation of costs to the Neptune line. Therefore, there is no need or justification for the Commission to revisit the justness and reasonableness of netting as applied generally across the PJM footprint.

D. The Commission Should Not Combine this Complaint Proceeding with a Generic Rulemaking Process.

The IMM and NJBPU suggest that the Commission address the issues presented in this proceeding in the ANOPR process or a new generic rulemaking proceeding.[34] PJM and the ITOs strongly disagree with this suggestion. The Commission should not address this matter in the ANOPR or any other new rulemaking.

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34 IMM Brief at 2; NJBPU Comments at 5-6.

It is clear from the issues presented and the record in this proceeding that this case presents issues that are truly specific to PJM. The solution-based DFAX method, along with its netting and 1% de minimis adjustments, is a cost allocation methodology designed by PJM and the PJM transmission owners, which has been in use in only PJM since February 1, 2013. Moreover, the only projects and costs at issue in this proceeding are located in the PJM footprint.

Although the outcome of the ANOPR could affect PJM cost allocation rules in longer term, that is not grounds for joining the PJM-specific issues presented in this proceeding with any general rulemaking effort that would inevitably apply across the nation. The ANOPR or a new generic rulemaking will take years to resolve, while, as noted above, the ITOs are nearly finished developing a reasonable solution that will address the issues presented in this case and the Commission's paper hearing questions. With this solution nearly complete there is no good reason to impede and interrupt those efforts by consolidating this proceeding with the ANOPR docket or some other generic rulemaking. Such an action would only result in years of uncertainty and delayed relief for the parties at interest in this proceeding.[35]

III. CONCLUSION

PJM and the ITOs respectfully submit these Reply Comments and request that the Commission hold the Complaint in abeyance to allow the ITOs to finalize, and assuming approval under the provisions of the CTOA, file with the Commission the targeted solution-based DFAX modification summarized above.

[35] Likewise, the Commission should disregard the IMM's request for "comprehensive" cost allocation reforms, as the PJM-specific issues presented in this case can be addressed with a surgical and targeted modification to the solution-based DFAX method.

Respectfully submitted,

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On behalf of the Indicated
Transmission Owners

Dated: November 22, 2021

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing document on the persons listed on the official service list maintained by the Secretary for this proceeding.

Dated in Washington, D.C. this 22nd day of November 2021.

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