

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

PJM Interconnection, L.L.C. and Ohio) Docket Nos. ER18-459-000 and
Valley Electric Corporation) ER18-460-000

**PROTEST AND REQUEST FOR SUSPENSION AND HEARINGS
OF AMERICAN MUNICIPAL POWER, INC.**

On December 15, 2017, PJM Interconnection, L.L.C. (“PJM”) and Ohio Valley Electric Corporation (“OVEC”)¹ filed pursuant to Federal Power Act (“FPA”) section 205² certain proposed revisions to the PJM Open Access Transmission Tariff (“Tariff” or “OATT”), the Amended and Restated Operating Agreement of PJM Interconnection, L.L.C. (“Operating Agreement”), the Reliability Assurance Agreement Among Load Serving Entities (“RAA”), and the Consolidated Transmission Owners Agreement (“CTOA”), as well as an Integration Agreement between PJM and OVEC, for the purposes of transferring functional control of the OVEC transmission facilities to PJM, integrating the OVEC control area into the PJM interchange energy market and other PJM markets, and adding OVEC to PJM as a PJM Transmission Owner (hereinafter, the “OVEC Integration Filing”). PJM and OVEC requested an effective date of March 1, 2018 for this filing. The Commission established January 5, 2018 as the deadline for comments on and protests of PJM’s and OVEC’s filing.

¹ OVEC’s wholly-owned subsidiary, Indiana-Kentucky Electric Corporation (“IKEC”), also is included as a part of OVEC’s integration. OVEC and IKEC are collectively referred to as “OVEC”.

² 16 U.S.C. § 824d.

Pursuant to Rules 211, 212, and 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. §§ 385.211, 385.212, and 385.214, American Municipal Power, Inc. ("AMP"), on its behalf and that of its members, hereby protests certain aspects of the OVEC Integration Filing and requests that the Commission reject the filing, and set for hearing the OATT revisions addressed in AMP's Protest. In support of these requests, AMP states as follows.

I. BACKGROUND

OVEC was formed on October 1, 1952 for the purpose of providing electric power in support of the operation of uranium enrichment facilities near Portsmouth, Ohio, now operated by the Department of Energy ("DOE"). OVEC's transmission system comprises a network of over 700 circuit miles of 60-year-old 345 kV transmission lines that are mostly double-circuit. The entirety of OVEC's transmission is considered to be part of the bulk electric system, and it is highly interconnected. Interconnecting facilities consist of eight 345 kV lines, with high-side connections to four neighboring system 345/138 kV transformers, and three 138 kV lines. OVEC also owns two generators, Kyger Creek in Ohio and Clifty Creek in Indiana, which have nameplate generating capacities of approximately 1,086 MW and 1,303 MW, respectively. Similar to the transmission facilities, the generators are over 60 years old, have had over \$1 billion in infrastructure upgrades in recent years, have declining capacity factors and decreasing efficiency.

OVEC is jointly owned by the following utilities (or their subsidiaries or affiliates), referred to as "Sponsoring Companies": FirstEnergy Corporation ("FirstEnergy"), American Electric Power Company, Inc. ("AEP"),³ Buckeye Power, Inc., The Dayton

³ AEP plans the transmission system on behalf of OVEC.

Power and Light Company, Duke Energy Ohio, Inc., Kentucky Utilities Company, Louisville Gas and Electric Company (“LG&E”), Wolverine Power Supply Cooperative, Inc., and Vectren Corporation. These Sponsoring Companies (or their predecessors) entered into an Inter-Company Power Agreement (“ICPA”) on July 10, 1953 to support the Portsmouth enrichment operations. The ICPA defines the Sponsoring Companies’ power participation ratio shares and allocates excess available capacity, energy and transmission capacity and specifies the rates and charges paid by the Sponsoring Companies including the costs of owning, operating, maintaining or replacing transmission facilities in order to keep them in dependable and efficient operating condition. The ICPA also establishes transmission service arrangements, and provides for operation and maintenance of the generation and transmission facilities. Since the termination of the power sales contract between DOE (or its predecessor) in 2003, OVEC’s generating capacity has been fully available to the Sponsoring Companies under the terms of the ICPA. The current term of the ICPA extends through June 30, 2040.

Since its inception over sixty years ago, the OVEC system has been an independent Balancing Authority and control area, and has not operated within any ISO or RTO. The OVEC Integration Filing seeks to implement a number of OATT revisions necessary to effectuate OVEC’s integration into PJM, as well as to reflect OVEC’s migration to PJM in other PJM agreements. While the revisions sponsored by PJM are largely ministerial, the changes proposed by OVEC provide for the determination and recovery of OVEC’s transmission revenue requirements, establishment of replacement arrangements for continued transmission service, rate design and other matters related to the integration of OVEC as a new zone in PJM.

Although PJM and OVEC are treating OVEC's integration into PJM as any other transmission owner integration, this is far from a normal case because OVEC has very little load (DOE's 45 MW load) or none at all,⁴ compared to its significant and geriatric generation and transmission assets, making OVEC's integration distinct from any others thus far. Given the uniqueness of the situation as well as the limited amount of information that PJM and OVEC made available concerning the proposed integration, AMP submitted to PJM and OVEC a number of questions and comments regarding the integration. AMP also requested that PJM conduct additional studies of the impacts of the OVEC integration, and that PJM make necessary corrections to the methodology it used to conduct the limited studies it did perform. Notwithstanding AMP's questions and comments highlighting the deficiency of information, the OVEC Integration Filing remains lacking in crucial information, thereby rendering the filing noncompliant with the requirements for integrating transmission facilities into the PJM region.⁵ The information that is provided is impermissibly vague and fails to demonstrate that the arrangements that will replace the existing arrangements satisfy the requirements of Order Nos. 888 and 890,⁶ and are just and reasonable and not unduly discriminatory. Finally, there is no

⁴ At presentations made at PJM's Market and Reliability Committee meetings in October 26 and November 7 2017, PJM and OVEC asserted that the DOE load will be transferred to another existing PJM transmission owner, leaving the OVEC transmission zone with zero load. See Ohio Valley Electric Corporation and its wholly-owned subsidiary Indiana-Kentucky Electric Corporation Integration Proposal at 5, available at: <http://www.pjm.com/-/media/committees-groups/committees/mrc/20171026/20171026-item-13-ohio-valley-electric-corporation-integration-presentation.ashx>.

⁵ Although PJM states that Section 11.6 of the PJM OA and Section 3.1 of the CTOA contain the requirements for integrating transmission facilities into the PJM Region, Commission precedent dictates that more is required if transition costs are to be recovered. *PJM Interconnection, L.L.C.*, 135 FERC ¶ 61,198, at P 10- 17, 59-68 (2011) ("ATSI").

⁶ *Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities*, Order No. 888, FERC Stats. & Regs. ¶ 31,036 (1996), order on reh'g, Order No. 888-A, FERC Stats. & Regs. ¶ 31,048, order on reh'g, Order No. 888-B, 81 FERC ¶ 61,248 (1997), order on reh'g, Order No. 888-C, 82 FERC ¶

demonstration that the costs to wholesale transmission customers from OVEC's integration into PJM region are outweighed by the benefits. For the reasons stated herein and consistent with recent precedent,⁷ the Commission should (i) reject the OVEC Integration Filing rather than conditionally accepting it subject to modifications or supplementation with required information, (ii) direct PJM and OVEC to submit a complete proposal in a new filing under FPA section 205 that includes the requisite level of detail to demonstrate that the replacement arrangements are just, reasonable and not unduly discriminatory, and (iii) take such other action as is recommended herein.

A. AMP's Interest in this Proceeding

AMP is a nonprofit Ohio corporation organized in 1971. The members of AMP are all political subdivisions of their respective domicile states that own and operate municipal electric utility systems, some of which also operate electric generating facilities. AMP's primary purpose is to assist its member communities in meeting their electric and energy needs, and AMP is a full or partial requirements supplier for many of its members. This purpose is served in a number of ways, including ownership of electric generation, scheduling and dispatch of member-owned generation, and power supply and transmission arrangements that AMP makes with third parties at the request of and on behalf of its members.

61,046 (1998), *aff'd* in relevant part sub nom. *Transmission Access Policy Study Group v. FERC*, 225 F.3d 667 (D.C. Cir. 2000), *aff'd sub nom. New York v. FERC*, 535 U.S. 1 (2002). *Preventing Undue Discrimination and Preference in Transmission Service*, Order No. 890, FERC Stats. & Regs. ¶ 31,241, order on reh'g, Order No. 890-A, FERC Stats. & Regs. ¶ 31,261 (2007), order on reh'g, Order No. 890-B, 123 FERC ¶ 61,299 (2008), order on reh'g, Order No. 890-C, 126 FERC ¶ 61,228 (2009), order on reh'g, Order No. 890-D, 129 FERC ¶ 61,126 (2009).

⁷ *NRG Power Marketing, LLC v. FERC*, 862 F.3d 108, 109 (D.C. Cir. 2017).

AMP's members own and operate electric utility facilities (including generating stations and distribution facilities). Many of AMP's members are located in the States of Ohio and Kentucky and are connected to and receive service over transmission facilities owned and operated by OVEC. Many other AMP members are located within the current PJM footprint and (like AMP itself) purchase and receive transmission service from PJM under the PJM Tariff. As such, AMP and its members have direct and substantial interests in the outcome of this proceeding.

II. STANDARD OF REVIEW

PJM and OVEC state that Section 11.6 of the PJM OA and Section 3.1 of the CTOA contain the requirements for integrating transmission facilities into the PJM Region. Those are not the only requirements for integrating transmission facilities into a regional transmission organization like PJM, however, and, even if they were, the OVEC Integration Filing fails to meet even the limited requirements acknowledged by PJM and OVEC.

A. Section 11.6 of the PJM OA and Section 3.1 of the CTOA

Section 11.6 of the PJM OA lists five requirements for membership including: (i) being a transmission owner, generation owner, other supplier, electric distributor or an end-use customer that accepts the obligations in the OA; (ii) if the applicant is a load-serving entity, becoming a party to the RAA; (iii) applying in writing to the PJM President, specifying the request, qualifications for membership, an agreement to supply data and to pay all costs and expenses in accordance with OA Schedule 3; (iv) executing a supplement to the OA in the form prescribed in OA Schedule 4; and (v) for entities whose applications contemplate expansion or rearrangement of the PJM Region, integration

“shall occur only after completion of all required installations and modifications of metering, communications, computer programming, and other necessary and appropriate facilities and procedures, as determined by the Office of the Interconnection.”⁸ While most of the membership requirements set forth in this section are ministerial in nature, the obligation for entities whose applications contemplate expansion or rearrangement of the PJM Region (which OVEC’s application unquestionably does) to complete all required installations and modifications of necessary and appropriate facilities and procedures is substantive. In order for this obligation to be met, PJM must conduct studies to identify any necessary installations or modifications to transmission facilities and procedures. As discussed below, however, PJM has not conducted studies sufficient to make that determination. Without such studies, it is not possible to determine whether there are installations or modifications that OVEC (or another PJM TO) must complete in order to satisfy the preconditions to membership set forth in OA Section 11.6.

PJM also references Section 3.1 of the CTOA. The CTOA is an agreement by and between the PJM transmission owners and PJM for the purpose of facilitating the coordination of planning and operation of their respective transmission facilities, transferring certain planning and operating responsibilities to PJM, and delineating rights and obligations that apply to the transmission owners and PJM.⁹ Section 3.1 of the CTOA specifies that transmission owners must have in place “all equipment and facilities necessary for safe and reliable operation of such Transmission Facilities as part of the PJM Region[.]” Additionally, before the CTOA can become effective as to a new

⁸ OA Section 11.6.

⁹ CTOA Article 2.

transmission owner, the PJM OA must be executed by and in full force and effect as to the entity and all regulatory approvals must have been obtained.

B. Section 205 standards

In addition to satisfying the membership obligations set forth in the PJM organizational agreements, an application to integrate into PJM must satisfy the standards set forth in Federal Power Act (“FPA”) section 205. Specifically, in relation to any proposed integration, the Commission must ensure that “[a]ll rates and charges made, demanded, or received by any public utility for or in connection with the [jurisdictional] transmission or sale of electric energy ... shall be just and reasonable,” and that “[n]o public utility shall, with respect to any [jurisdictional] transmission or sale... subject any person to any undue prejudice or disadvantage” or “maintain any unreasonable difference in rates, charges, service, facilities, or in any other respect, either as between localities or as between classes of service.” FPA § 205(a)-(b), 16 U.S.C. § 824d(a)-(b); FPA § 206(a), 16 U.S.C. § 824e(a).

Additionally, although it has been identified as a requirement for withdrawing from an RTO,¹⁰ OVEC and PJM assert that the replacement arrangements maintain the status quo with respect to transmission rates and service for transmission customers in the OVEC Zone, with limited exceptions that are just, reasonable, and not unduly discriminatory. OVEC Integration Filing, Transmittal Letter at 10. Accordingly, the Commission should review whether PJM and OVEC have demonstrated that the replacement arrangements comply with Orders 888 and 890 and the standard of review

¹⁰ *Duke Energy Ohio, Inc., et al.*, 133 FERC ¶ 61,058 (2010).

applicable to proposed tariff provisions that differ from the *pro forma* OATT, in addition to being just, reasonable and not unduly discriminatory.

Finally, to the extent a transmission owner seeks to recover through rates any portion of the costs it incurs as a result of the RTO realignment, it must satisfy the showing required in *American Transmission Systems, Inc.*, 135 FERC ¶ 61,198 (2011) (hereinafter, “*ATS*”). Specifically, RTO realignment costs may not be passed through to customers absent a showing that those costs are outweighed by the benefits transmission customers at large will enjoy as a result of the realignment.

III. PROTEST

A. **PJM and OVEC have not demonstrated that the required installations and modifications of necessary and appropriate facilities have been completed.**

As noted above, pursuant to the PJM organizational agreements, an entity whose application contemplates expansion or rearrangement of the PJM Region must complete all required installations and modifications of necessary and appropriate facilities prior to integration. OA Section 11.6. The OVEC Integration Filing states that PJM has completed the necessary studies for integrating the OVEC facilities as a new zone within PJM:

To evaluate the integration of OVEC as a PJM zone, PJM performed a baseline RTEP integration report, a PJM Generator Deliverability test, a Winter Deliverability analysis, a Light Load Deliverability analysis, and a baseline thermal and voltage analysis (including N-1-1) for the OVEC system. The PJM integration studies identified the potential for a single deliverability violation, requiring OVEC to perform a further study and verify that the conservative limit set by OVEC on one of its lines can be increased slightly to eliminate this technical deliverability violation. All costs of this study and any remedial action required for compliance will be borne by OVEC. PJM did not find any other reliability or deliverability issues on the OVEC system.

OVEC Integration Filing, Transmittal Letter at 4.

The studies that were completed by PJM contained multiple glaring errors and missing assessments. For example, AMP discovered that PJM's analysis was missing contingencies. Specifically, the 2017 Regional Transmission Expansion Plan ("RTEP") "Year 2022" analysis missed approximately 40 breaker failure conditions. Similarly, the 2016 OVEC integration analysis "Year 2021" also missed multiple breaker failures. Additionally, AMP identified that PJM's analysis ignored significant topology changes submitted between the beginning of the 2016 RTEP cycle and the end of the 2017 RTEP cycle, that impacted the analysis. For example, PJM's 2016 analysis "Year 2021" failed to include the Tanners Creek – Miami Fort 345kV Rebuild/Reconductor; the Clifty Creek – Miami Fort 5% Series Reactor; the Kyger Creek – Sporn 345kV reconductor/six wire project, Peirce Transformer modifications and the retirements of Killen Unit 2 & CT (618 MW) and the Stuart Units 1-4 (2,314 MW) and Diesels 1-4 (9.2 MW). Finally, PJM's analysis inconsistently mixed 2016 "Year 2021" and 2017 "Year 2022" base case topologies and generation dispatches. After AMP raised these concerns, PJM attempted to address the deficiencies in its analysis by updating the summer model to a 2018 "Year 2023" topology and generation dispatch, and determined there was no change to the study results. Nonetheless, AMP continues to review PJM's results and has raised with PJM additional questions on its technical analysis. AMP is concerned that, due to the lack of time for independent review coupled with evidence of serious errors already identified, additional modeling errors are simply yet to be uncovered.

PJM's analysis is also incomplete.¹¹ As noted in the OVEC Integration Filing, OVEC will be added to the transmission zones for the Western Region of PJM because it is more electrically contiguous with those zones than any other zones or collection of zones in the PJM region. OVEC Integration Filing, Transmittal Letter at 7-8. Although PJM conducted a baseline RTEP integration report and a generator deliverability test, PJM's analysis fell short of its standard as its efforts were abbreviated at best. Specifically, for reasons unbeknownst to AMP, PJM excluded cases between representing system conditions in years 2019-2020 altogether. Additionally, PJM did not conduct a full Load Deliverability Test. The purpose of a Load Deliverability Test is to ensure within accepted probabilities that emergency power can be delivered to each PJM Locational Deliverability Area ("LDA") from the aggregate of capacity resources available to PJM.¹² In other words, the Load Deliverability Test is to determine the reliability of transmission capability, where the Capacity Emergency Transfer Objective ("CETO") is the MW import objective for an area, and the Capacity Emergency Transfer Limit ("CETL") is the MW import capability for the area. In order to determine the impact of incorporating the OVEC transmission and generation into PJM, PJM would typically use a computer model of the electric network and power flow modeling software to calculate distribution factors, represented as decimal values or percentages, that express the portions of a transfer of energy from a defined source to a defined sink that will flow across a particular transmission facility or group of transmission facilities. See PJM Tariff at Section 6,

¹¹ In addition to the studies that are required, AMP has requested that PJM study the economic impact of OVEC's integration as well as the impacts of OVEC's generators retiring.

¹² PJM Manual 14B: PJM Region Transmission Planning Process, effective September 28, 2017, at p. 61, available at <http://www.pjm.com/~media/documents/manuals/m14b.ashx>.

Administration and Study of New Service Requests, Schedule 12. As noted in PJM's Manual 14B, failure of the deliverability tests for new capacity resources "will result in denial of full capacity rights for the generator until such generator deliverability deficiencies are corrected. Failure of load deliverability tests will result in the initiation of appropriate mitigation actions including securing additional capacity resources, reduction of peak load and/or an enhancement to the Transmission System to increase the load area's ability to import power." *Id.* at 63.

PJM did not conduct its standard RTEP load deliverability analysis including updating OVEC's impacts on the Western LDAs' CETO and CETL values. Had PJM conducted such an analysis, the results could affect the nature or scope of necessary transmission projects identified in PJM's 2017 RTEP base case and how the costs of those projects would be allocated. The failure to conduct this analysis also renders the results from the 2017 RTEP economic analysis questionable at best and could impact the results of the Base Residual Auctions held by PJM to acquire capacity.

In addition to not conducting a Load Deliverability Test, the generation deliverability analysis PJM conducted failed to account for generation from outside of the PJM footprint in its 80/20 or 50/50 cumulative ramping dispatch procedure as outlined in Manual 14B. In other words, PJM did not coordinate its integration evaluation with LG&E. The OVEC integration will subject the Clifty Creek – Trimble 345kV line, which is a known weak spot on the grid, to PJM monitoring prior to completion of the significant upgrades needed to maintain its reliability. Conversely, the integration could require the OVEC generating units to be dispatched out of merit order to relieve loading on this seam, effectively preventing other generation imports that could be more economic. By failing to coordinate

its analysis with LG&E and excluding units from outside the PJM footprint, however, PJM calculated generation deliverability loadings that are understated. Additionally, failure to include units from neighboring systems in the generation deliverability analysis (cumulative 80/20 or 50/50 dispatches) may hinder units currently pseudo-tied into PJM from being dispatched during real time operations, thus giving unfair market advantage not only to the OVEC generating units but also to the other units residing within the PJM footprint. Such a result is discriminatory and contrary to the MISO-PJM Joint Operating Agreement.¹³

Finally, PJM's generation deliverability analysis also failed to accurately model OVEC's grandfathered commitments to supply 222 MWs to LG&E and Vectren. As noted in the OVEC Integration Filing, OVEC has reservations to export power and energy under the ICPA to the LG&E/KU control area boundary equal to 9.63% of output from the Kyger Creek and Clifty Creek generating facilities, representing the share held under the ICPA by Sponsoring Companies that do not currently participate in the PJM market as members (namely, LG&E/KU and Vectren). Transmittal Letter at 5. PJM proposes to maintain the deliveries as "Grandfathered Arrangements" that predate Order No. 888 service. *Id.* While the grandfathering of the LG&E/KU agreements that permit LG&E/KU to continue to receive their share of the transmission capacity without any obligation to contribute

¹³ Recently the Market Monitor in the Midcontinent ISO ("MISO") identified the same violation of the MISO-PJM JOA by PJM not conducting the tests for defining Market to Market constraints mandated in the JOA. As the MISO IMM stated, "This test identifies constraints affected by neighbor's generators based on the real-time system topology – hence, constraints affected by transmission outages were not properly evaluated." Available at: <https://www.misoenergy.org/Library/Repository/Meeting%20Material/Stakeholder/Workshops%20and%20Special%20Meetings/2017/MISO%20PJM%20JCM/20171129/20171129%20MISO-PJM%20JCM%20Item%2006%20Stoplight%20Report%20Presentation.pdf>.

towards necessary transmission projects is in and of itself unjust and unreasonable, PJM's modeling of this commitment as a long-term firm transaction is also improper and unjust and unreasonable. This is because the long-term firm transaction is being supplied by a number of areas within PJM and not solely by the generating facilities noted in the amended ICPA agreement.¹⁴

In the distribution factor or "DFAX" analysis, when PJM models a transfer from generation to all load within an individual Zone, PJM is required to model the transfer to the Zone as a whole (not on a bus-by-bus basis) and to model generation both external and internal to individual Responsible Zones (those that would be required to pay for any transmission upgrades required for reliability) to reflect (a) the boundaries of LDAs, and (b) limitations with respect to the reliability objective for moving generation capacity across the transmission system. *Id.* Moreover, PJM's Manual 14B indicates that PJM "will include available information from neighboring TOs / Regional Transmission Operators, gained in the course of interregional planning activities, related to plans in other regions which may impact the PJM RTEP." Manual 14B at 61.

PJM's modeling and treatment of this proposed grandfathered transaction unduly burdens other PJM transmission owners' systems. PJM's members should not be

¹⁴ The Areas that may supply the long-term transaction beyond the OVEC generators (as listed in the PJM-provided subsystem file) include: ATSI, Duke Ohio and Duke Kentucky, Pennsylvania Electric Company, Metropolitan Edison Company, Jersey Central Power & Light, PECO Energy Company, Public Service Enterprise Group, The Potomac Electric Power Company, Atlantic City Electric, Baltimore Gas and Electric Company, Allegheny Energy, Delmarva Power, Dayton Power & Light, UGI Utilities, Rockland Electric Company, Dominion Energy, AEP, Commonwealth Edison, East Kentucky Power Cooperative, and Duquesne Light.

responsible for the costs of ensuring that OVEC's prior grandfathered commitments are met under all currently unforeseen circumstances.

The exclusion from PJM's generator deliverability analysis of neighboring area generators, as well as the inaccurate modeling of OVEC's grandfathered commitment, render PJM's evaluation of the OVEC integration incomplete at best. The Commission should direct PJM to perform additional studies to determine if there are additional market constraints in future analyses associated with OVEC's integration. OVEC should not be authorized to integrate until such studies are conducted and any mitigation is completed.

Importantly, PJM acknowledged that its studies identified at least one deliverability violation, requiring OVEC to perform a further study to determine whether the violation can be remedied by adjusting the limits set on the 345 kV Dearborn – Clifty transmission line. While PJM tries to downplay the significance of this violation, the fact is that the Dearborn – Clifty 345 kV line is thermally overloaded. A Light Imaging, Detection, and Ranging (“Lidar”) study has been proposed to address this violation and the result may or may not identify required upgrades. If upgrades are required, pursuant to the terms of the PJM OA, OVEC may not integrate prior to completion of the installation of required facilities. It is worth noting additionally that in the most recent market window PJM has identified a market efficiency project, Dearborn to Tanners Creek, to address a major source of congestion.¹⁵ As the Dearborn – Clifty #1 345 kV line is a major through flow

¹⁵ See *PJM Market Efficiency Update*, Transmission Expansion Advisory Committee (September 14, 2017), available at: <https://www.pjm.com/-/media/committees-groups/committees/teac/20170914/20170914-market-efficiency-update.ashx>, and *Transmission Expansion Advisory Committee (TEAC) Recommendations to the PJM Board, PJM Staff Whitepaper* (December 2017), available at: <http://www.pjm.com/-/media/committees-groups/committees/teac/20171214/20171214-teac-board-whitepaper-december-2017.ashx>.

corridor contributing to the Dearborn to Tanners Creek 345kV line loading, it is highly likely the Dearborn – Clifty #1 line will also be a major source of congestion.

For these reasons, the Commission should require additional time for completion and review of the studies that are necessary to determine whether facilities must be installed prior to approval of the OVEC integration. In the absence of such further analysis, PJM and OVEC cannot be judged to have satisfied the requirements for integration set forth in Section 11.6 of the PJM OA and Section 3.1 of the CTOA.

B. The OVEC Integration Filing’s failure to delineate whether the ICPA or the PJM Tariff control is unjust and unreasonable.

As discussed above, the ICPA is the long-standing agreement between OVEC and its Sponsoring Companies that fully addresses cost and benefit allocations by and between the Sponsoring Companies and OVEC pursuant to which OVEC has operated for its full existence and which remains unless terminated through June 2040. OVEC Integration Filing, Transmittal Letter at 12. If OVEC does not integrate into PJM, the ICPA governs the cost recovery for required transmission projects, among other things. The ICPA provides that each Sponsoring Company shall pay a monthly demand charge in accordance with their respective Power Participation Ratio that is based upon, in part, the total costs incurred for such month by OVEC resulting from its ownership, operation, maintenance, replacement and decommissioning of the Project Transmission Facilities including, but not limited to, the fixed charges, operating expenses, taxes, and employee benefits. OVEC Integration Filing Exhibit A, ICPA, at 10-11.

As part of OVEC’s integration, OVEC and PJM entered into an agreement (“OVEC Integration Agreement”) that the OVEC Integration Filing claims “grandfathers” the “terms and conditions of the ICPA to maintain the relationship, cost recovery mechanisms and

operational authority that exist between OVEC and its Sponsoring Companies.” OVEC Integration Filing, Transmittal Letter at 12. PJM and OVEC state that grandfathering the ICPA is a “critical means of maintaining OVEC’s operations, as well as the allocation of costs and power entitlements to the OVEC generation.” *Id.*

However, the OVEC Integration Agreement merely states that it is a key assumption of OVEC that the ICPA will not require amendment as a result of integration. Further, in the OVEC Integration Agreement, PJM only commits, subject to Commission approval, to “fully implement and honor all existing rights to the receipt of firm transmission service under the ICPA.” *Id.* It is not clear that the commensurate obligations as set forth in the ICPA, including cost responsibility for transmission upgrades, also are grandfathered. Without this important information, it appears that the PJM Tariff supersedes the ICPA and governs the processes and cost allocation for any required transmission upgrades or replacements in the OVEC zone. Importantly, though, neither PJM’s current transmission cost allocation methodology nor any information provided as part of the OVEC Integration Filing address how costs should be allocated to zones with little or no load.¹⁶

Under PJM’s Tariff, PJM files cost responsibility assignments for Required Transmission Enhancements that the PJM Board approves as part of PJM’s RTEP, in accordance with Schedule 12 of the Tariff and Schedule 6 of the PJM OA.¹⁷ The RTEP

¹⁶ See Ohio Valley Electric Corporation and its wholly-owned subsidiary Indiana-Kentucky Electric Corporation Integration Proposal at 5, available at: <http://www.pjm.com/-/media/committees-groups/committees/mrc/20171026/20171026-item-13-ohio-valley-electric-corporation-integration-presentation.ashx>. This is further complicated by the lack of sufficient study to identify potential baseline or supplemental transmission upgrades that could result from generation retirements or reliability concerns.

¹⁷ The PJM Tariff defines Required Transmission Enhancements as “[e]nhancements and expansions of the Transmission System that (1) a Regional Transmission Expansion Plan developed pursuant to Schedule 6 of the Operating Agreement or (2) any joint planning or coordination agreement between PJM and another region or transmission planning authority set forth in Schedule 12-Appendix B (Appendix B

provides for the construction of expansions and upgrades to PJM's transmission system in order to comply with reliability criteria and to maintain and enhance the economic and operational efficiency of PJM's wholesale electricity markets. Types of reliability projects selected in the RTEP for purposes of cost allocation include Regional Facilities,¹⁸ which as a general matter are AC facilities that are single-circuit 500 kV or double-circuit 345 kV and above, Necessary Lower Voltage Facilities,¹⁹ and Lower Voltage Facilities.²⁰

The cost allocation method for transmission projects selected in the RTEP for purposes of cost allocation is set forth in Schedule 12 of the PJM Tariff. For Regional Facilities and Necessary Lower Voltage Facilities, 50 percent of the facility's costs is allocated on a region-wide, postage stamp basis and the other 50 percent is allocated pursuant to the DFAX method described in Schedule 12(b)(iii) of the Tariff. For Lower

Agreement) designates one or more of the Transmission Owner(s) to construct and own or finance. Required Transmission Enhancements shall also include enhancements and expansions of facilities in another region or planning authority that meet the definition of transmission facilities pursuant to FERC's Uniform System of Accounts or have been classified as transmission facilities in a ruling by FERC addressing such facilities constructed pursuant to an Appendix B Agreement cost responsibility for which has been assigned at least in part to PJM pursuant to such Appendix B Agreement." See PJM, Intra-PJM Tariffs, OATT, § 1.38C (R - S, OATT Definitions – R - S, 6.0.0)

¹⁸ Regional Facilities are defined as Required Transmission Enhancements included in the RTEP that are transmission facilities that (a) are AC facilities that operate at or above 500 kV; (b) are double-circuit AC facilities that operate at or above 345 kV; (c) are AC or DC shunt reactive resources connected to a facility from (a) or (b); or (d) are DC facilities that meet the necessary criteria as described in section (b)(i)(D). PJM, Intra-PJM Tariffs, OATT, Schedule 12, § (b)(i) (Regional Facilities and Necessary Lower Voltage Facilities) (6.1.0).

¹⁹ Necessary Lower Voltage Facilities are defined as Required Transmission Enhancements included in the RTEP that are lower voltage facilities that must be constructed or reinforced to support new Regional Facilities. PJM, Intra-PJM Tariffs, OATT, Schedule 12, § (b)(i) (Regional Facilities and Necessary Lower Voltage Facilities) (6.1.0).

²⁰ Lower Voltage Facilities are defined as Required Transmission Enhancements that (a) are not Regional Facilities and (b) are not "Necessary Lower Voltage Facilities." PJM, Intra-PJM Tariffs, OATT, Schedule 12, § (b)(ii) (Lower Voltage Facilities) (6.1.0).

Voltage Facilities, 100 percent of the facility's costs is allocated pursuant to the solution-based DFAX cost allocation method.²¹

The OVEC zone will have over 700 miles of 60-year-old, 345 kV, mostly double-circuit transmission lines. A reasonable estimate of the cost to rebuild double-circuit 345 kV transmission ranges between \$3M per mile and \$5M per mile. Accordingly, replacing only a quarter of existing aging infrastructure could cost between \$525M and \$875M. However, if OVEC has one or no transmission customers and related load, it is not clear who will pay for these transmission upgrade projects. Similarly, it is not clear whether any of those costs are or will be assigned to the OVEC owners pursuant to the ICPA and then recovered through the OVEC Sponsoring Companies' respective transmission rates, a result that would be unjust and unreasonable. The failure to address how cost allocation for RTEP and supplemental transmission upgrades will be recovered from a transmission zone with little to no load is a significant deficiency in the OVEC Integration Filing. Moreover, the failure to address cost allocation issues also runs afoul of Commission precedent.

In *ATSI*, the Commission held that RTO realignment costs may not be passed through to customers absent a showing that those costs are outweighed by the benefits transmission customers will enjoy from the realignment. Although the OVEC Integration Filing asserts that OVEC does not have any applicable legacy costs or transition costs, OVEC and PJM have not demonstrated that there will not be significant transmission

²¹ 100 percent of the costs for transmission projects that are included in the RTEP solely to address transmission owner local planning criteria are allocated to the zones of the individual transmission owners whose local planning criteria underlie each project. See *PJM Interconnection, L.L.C.*, 154 FERC ¶ 61,096 (2016).

costs borne by customers as a result of the OVEC integration that would otherwise be borne by the Sponsoring Companies.²²

The reasons that have been offered to explain the OVEC integration do not support a finding of offsetting benefits. The explanation consists of a statement at the PJM MRC meetings that “OVEC had been thinking about [integration] for a while and decided to join,” and a statement to the press that OVEC would “like to avail ourselves of the benefits of reliability coordination and similar services provided to transmission owners and operators that are members of the RTO. OVEC expects this to result in cost savings for itself and its customers.” These scant indications of expected benefits pale before much stronger indications that customers in PJM’s existing footprint could be saddled with significant costs as a result of OVEC’s integration. In these circumstances, the Commission cannot find that the *ATSI* standard is satisfied.

The purpose of the *ATSI* standard is to protect customers from unjustified RTO realignment costs *i.e.*, costs that a utility incurs to jump from one RTO to another that do not provide offsetting benefits to customers. The need for such protection is especially acute when, as in this case, a company decides to integrate into an RTO either for no reason at all or solely for its own commercial reasons. There has been no business case presented and (more importantly) no cost-benefit analysis provided which demonstrates that the replacement arrangements comply with Orders 888 and 890, that the integration is just and reasonable or that the benefits to customers outweigh the costs. It is therefore especially important in such instances that the cost-benefit showing *ATSI* demands as a

²² While OVEC has provided no rationale for its desire to integrate into PJM and PJM has stated that “joining members do not need to explain their motivations” as PJM is an “open party, there is no cover charge,” it appears without more information that the existing PJM load will actually foot the bill for OVEC’s shindig. See, “*PJM Stakeholders skeptical over OVEC integration*” Platts, November 8, 2017.

precondition to cost recovery not become an empty formality.²³ The Commission can take a step toward preventing that outcome by requiring that, in order for OVEC to satisfy the *ATSI* burden, it must submit an analysis demonstrating that costs may not be passed through to customers absent a showing that those costs are outweighed by the benefits transmission customers at large will enjoy from the realignment. Alternatively, OVEC and PJM could clarify that any and all costs resulting from the integration, including the costs of required transmission projects, will be the sole responsibility of the OVEC Sponsoring Companies pursuant to the ICPA.

C. The Commission should set OVEC’s zonal transmission rate for hearing.

OVEC proposes to transfer its current stated transmission rates under the OVEC OATT into the PJM Tariff. OVEC’s proposed rates have been accepted by the Commission under OVEC’s existing OVEC OATT.²⁴ The OVEC Integration Filing asserts that OVEC’s transmission rates are based upon its zonal revenue requirement which, as included in proposed PJM Tariff Attachment H-31, is \$11,461,660.

AMP is cognizant that, in other RTO realignment orders, the Commission’s view has been that carryover rate elements constitute part of the “existing rate,” such that customers seeking to challenge those components must proceed under FPA section 206. See *ATSI* at P66. However, as part of Duke Ohio’s and Duke Kentucky’s integration into

²³ The Commission has articulated that the purpose of the cost benefit study is to examine whether the customers would benefit from the transition between RTOs and that such a study needs to include the full range of costs and benefits to which these customers will be exposed. Furthermore, the Commission noted that any such demonstration of net benefits needs to include a consideration of costs and benefits beyond expected transmission expansion costs, including, but not limited to, RTO administrative costs, energy, capacity, and ancillary service costs resulting from the move from one RTO to another. *Duke* at P 78.

²⁴ *Ohio Valley Electric Corp.*, Docket No. ER10-2582-000 (Jan. 6, 2011) (delegated letter order) (order accepting baseline eTariff OVEC OATT filing).

PJM, the Duke companies similarly proposed continuing the then-current return on equity, and the Commission found that there was a material issue with respect to the justness and reasonableness of continuing the ROE as the integration changed the context in which the transmission rates apply.²⁵ The Commission noted that the new circumstances “present neither the same company nor organizational structure for which the current ROE was established.” Given the changed circumstances, the Commission’s preliminary analysis indicated that the Duke Companies’ ROE may be unjust, unreasonable, unduly discriminatory or preferential, or otherwise unlawful. Accordingly, pursuant to FPA section 206, the Commission established hearing and settlement judge procedures to investigate the Duke Companies’ ROE.

OVEC’s existing revenue requirement was approved by the Commission on January 6, 2011 for a September 10, 2010 effective date and was the same value approved in OVEC’s prior filings for some lengthy historical period. While the revenue requirement itself has not changed as a result of integration, the context in which the existing transmission rates apply will change considerably. It is not at all clear whether the existing revenue requirement would remain just and reasonable in the new post-integration context. Additionally, although the OVEC OATT is being incorporated into PJM’s structure, it is not clear upon integration who will pay the OVEC revenue requirement. As far as we can tell from readily available information on the FERC website, OVEC’s proposed revenue requirement is at least nine, if not more years old and there is no readily available information to support that calculation, whenever it was

²⁵ *PJM Interconnection, L.L.C, Duke Energy Ohio, Inc., and Duke Energy Kentucky, Inc.*, Order on Proposed Tariff Revisions and Establishing Hearing and Settlement Judge Procedures, at P87, Docket Nos. ER 12-91-000 et al., (April 24, 2012) (“*Duke*”).

in fact made. As such, AMP recommends that the Commission set the zonal rate issue for hearing so that a full record concerning all relevant factors may be developed.

D. The Commission should direct OVEC and PJM to make a FPA Section 205 Tariff Schedule 1A Modification.

According to the OVEC Integration Filing, PJM and OVEC assert that they are modifying Part B of Schedule 1A of the PJM Tariff. See Transmittal Letter at 25. Part B, according to OVEC and PJM, “allocates the revenues from Scheduling Service provided to Non-Zone Load among the PJM Transmission Owners.” *Id.* OVEC only can receive a portion of this credit, however, if they review the distribution with other PJM Transmission Owners through a stakeholder process. This process will determine the share of the credit that OVEC will receive. OVEC and PJM note that they will engage in such a process at a future time, and, in the interim, “Part B is being modified to indicate that OVEC’s share of the credit is currently 0.00%.” *Id.* Consistent with the Commission’s determination in *Duke*,²⁶ the Commission should clarify that any modifications made to Schedule 1A, Part B, must be as a tariff filing under section 205 of the FPA.

IV. CONCLUSION

WHEREFORE, for the foregoing reasons, AMP respectfully requests that the Commission reject the OVEC Integration Filing and direct PJM and OVEC to submit a complete proposal in a new filing under FPA section 205 that includes the requisite level of detail to demonstrate that the replacement arrangements are just, reasonable and not unduly discriminatory. If the OVEC Integration Filing is not rejected, the Commission should (i) set for hearing all issues pertaining to the justness and reasonableness of the

²⁶ *Duke* at P 60.

proposed tariff and other PJM organizational agreement changes proposed in the filing,
and (ii) grant such further relief as the Commission may deem appropriate.

Respectfully submitted,

/s/ Lisa G. McAlister

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Dated: January 5, 2018

CERTIFICATE OF SERVICE

I hereby certify that I have on this date caused a copy of the foregoing document to be served on each person included on the official service list maintained for this proceeding by the Commission's Secretary, by electronic mail or such other means as a party may have requested, in accordance with Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.2010.

Dated this 5th day of January, 2018.

By: /s/ Lisa G. McAlister