

Planning and Cost Allocation in the 21st Century: The Black Sheep or the Crown Jewel of the Electric Industry

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Craig Glazer
Vice President
Federal Government Policy
PJM Interconnection





“Regulation by Fad”

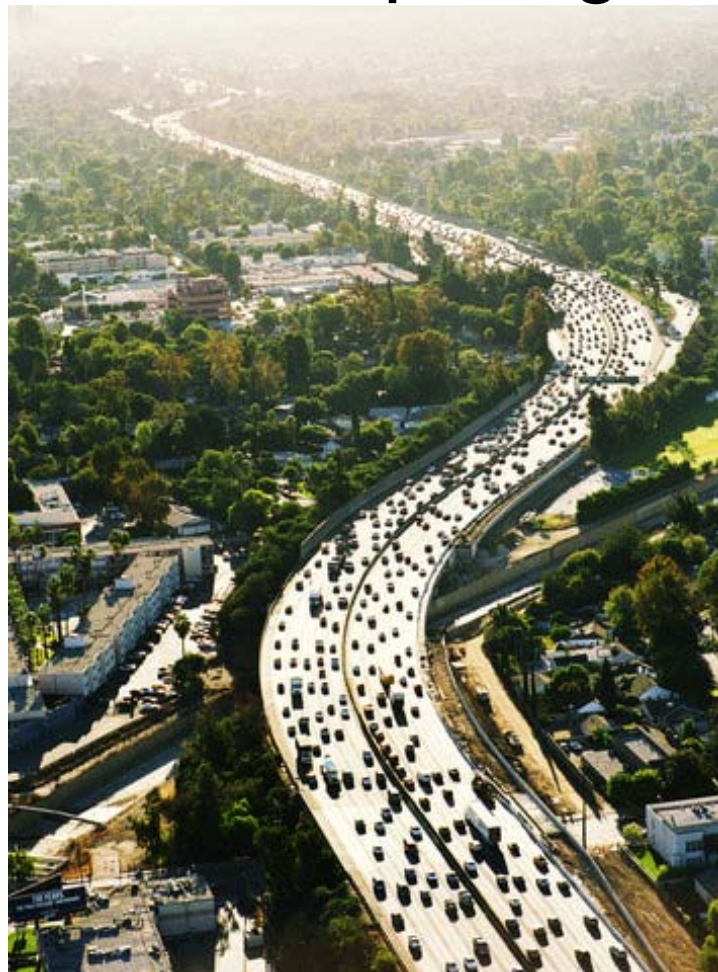


- **Utility-Only Planning**
 - The “Hands Off” Regulator
- **Integrated Resource Planning**
 - The “Group Grope” for Perfection
- **Competition in Generation**
 - Transmission Planning Focus on Interconnection and Price Signals
- **Transmission “Corridors”**

- *“Rate Base It!”* : Offsetting Credit for Transmission Revenues
- *“Make the Cost Causer Pay for It!”*
- *“Spread the Costs: It’s a highway, stupid!”*

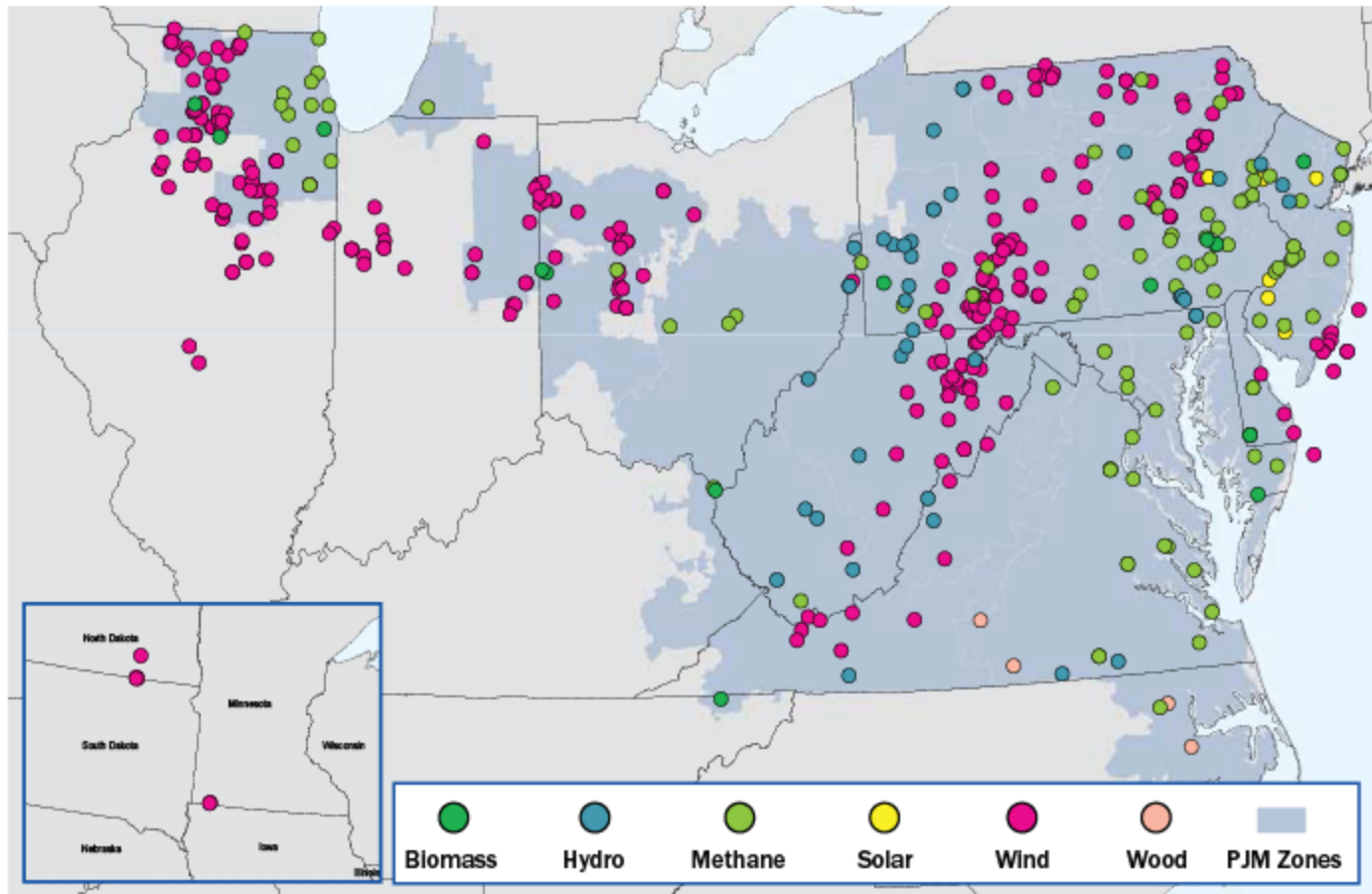
- *Make the Beneficiary Pay!*—7th Circuit/Corker Amendment
- “*Make the Beneficiary Pay...maybe...*”
FERC NOPR---Beneficiary Pays but only if
 - your neighbor consents,
 - there’s a tower in their area and
 - the wind is blowing your way...

The Transmission Superhighway

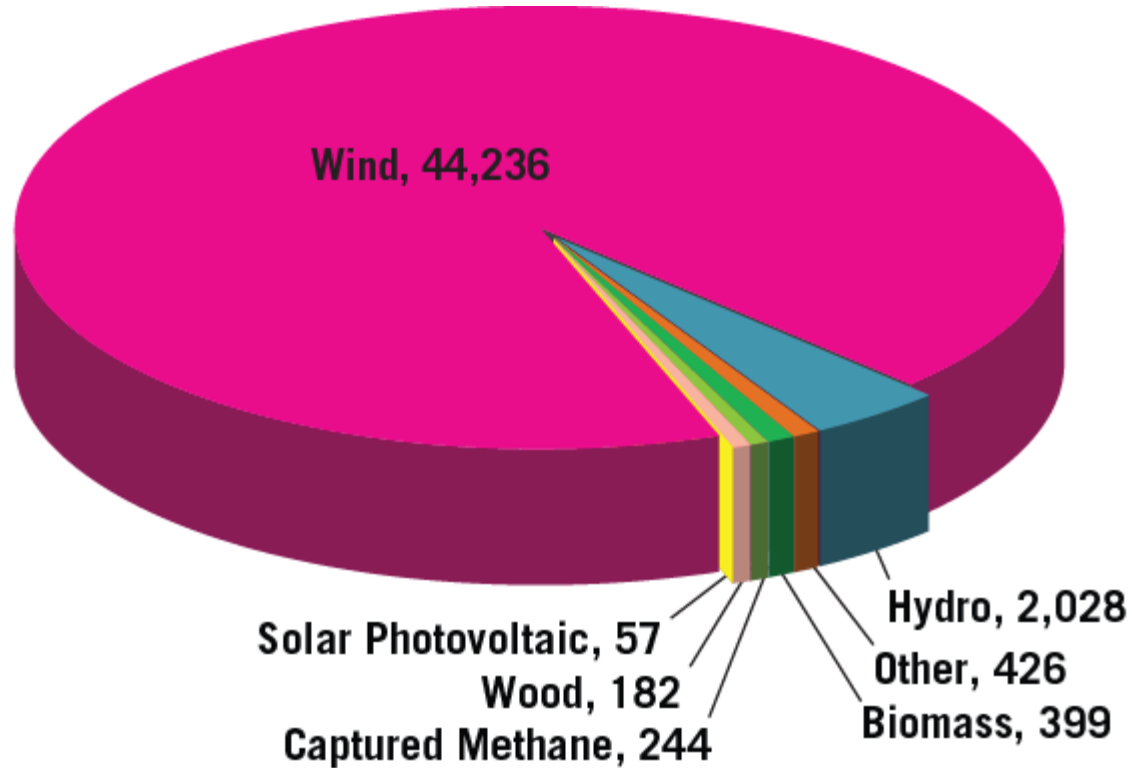


The elegant solution or....a ship too heavy to leave the dock...



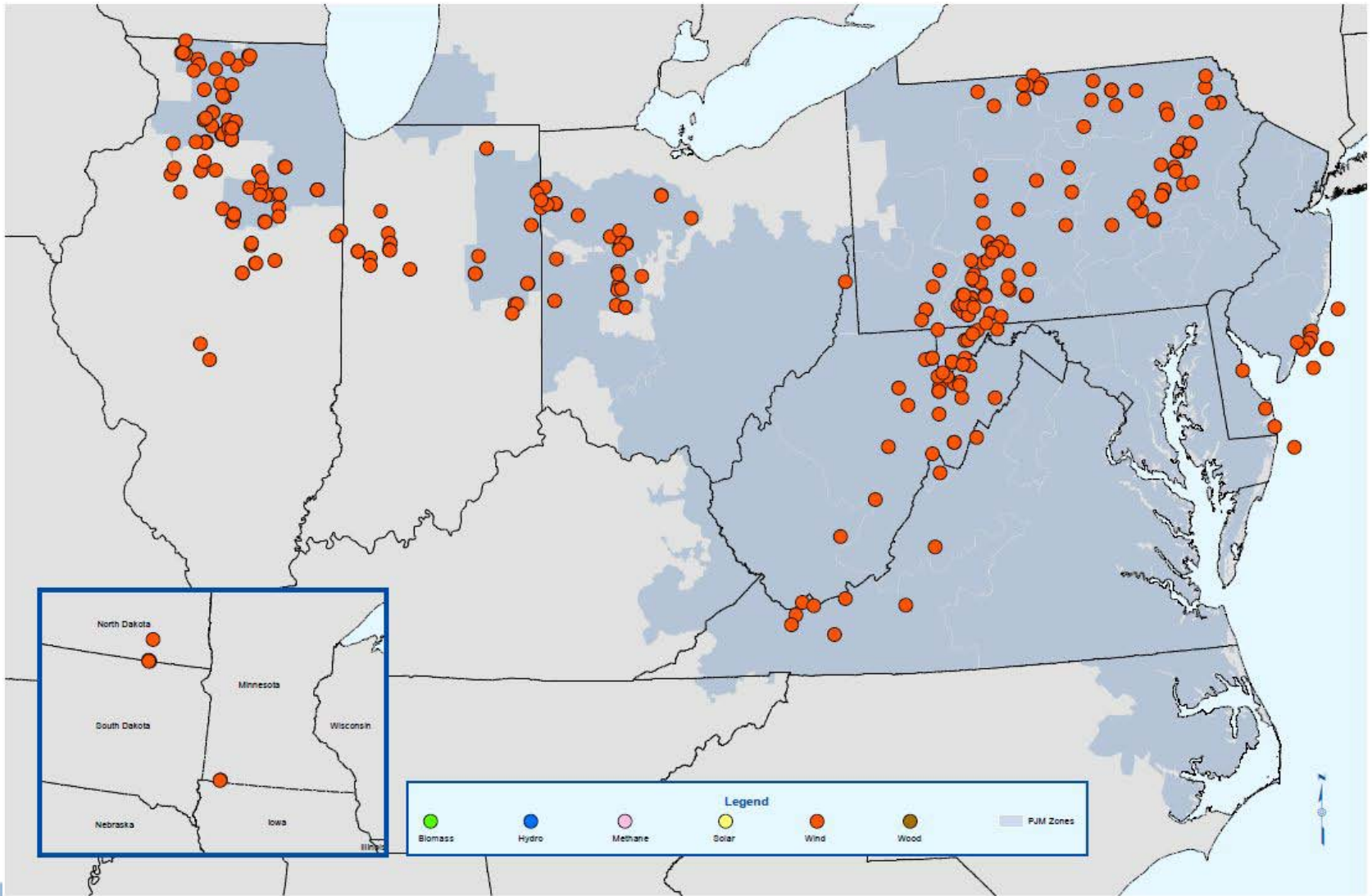


This map shows where renewable generation projects are proposed, including generation outside of PJM's footprint, which will trade in PJM's market.

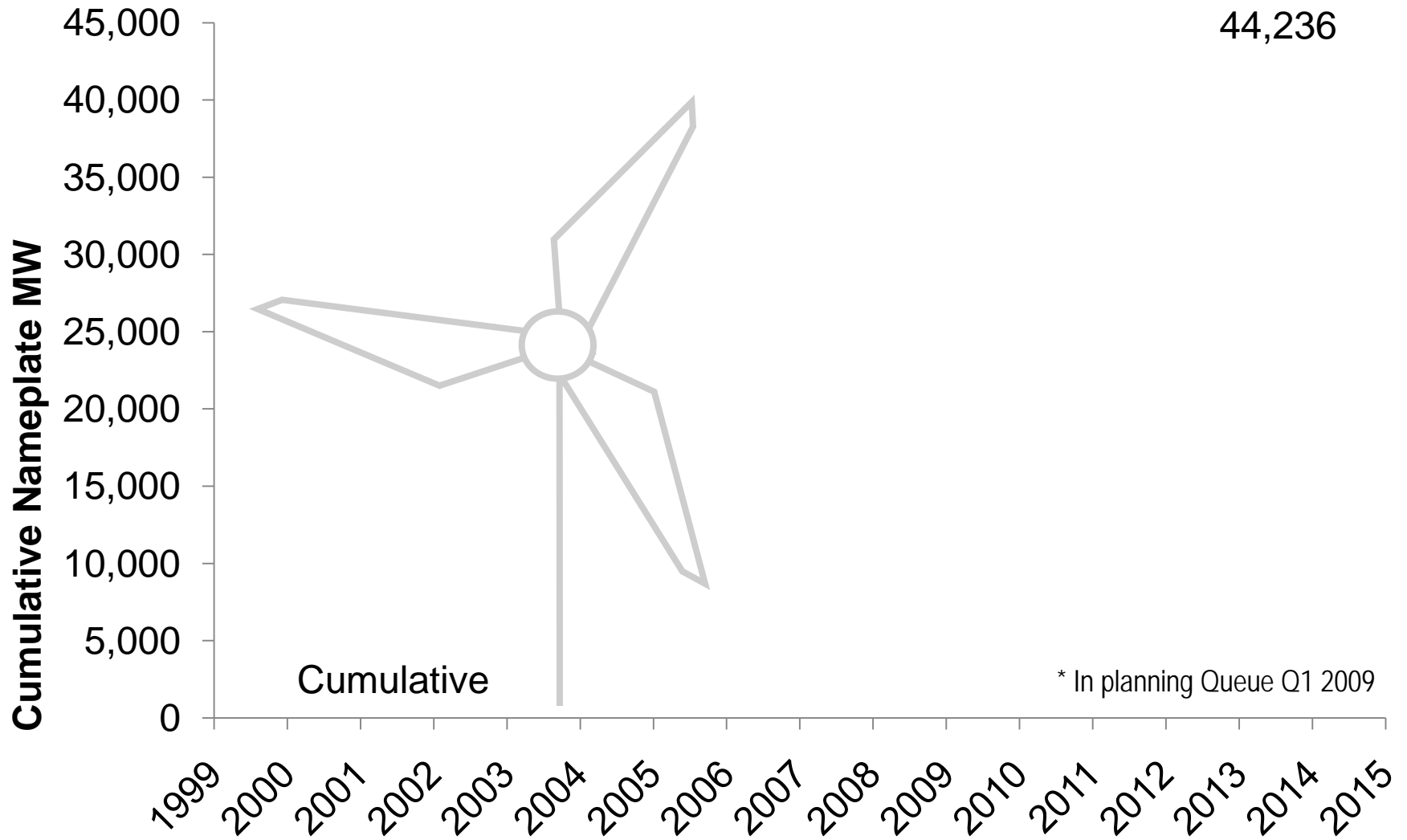


“Other” renewable is a combination of several different unrelated sources considered renewable. This category includes the one-megawatt ion battery array project at PJM.

As of Q1 2009



Wind Generation in PJM - Operational and Proposed



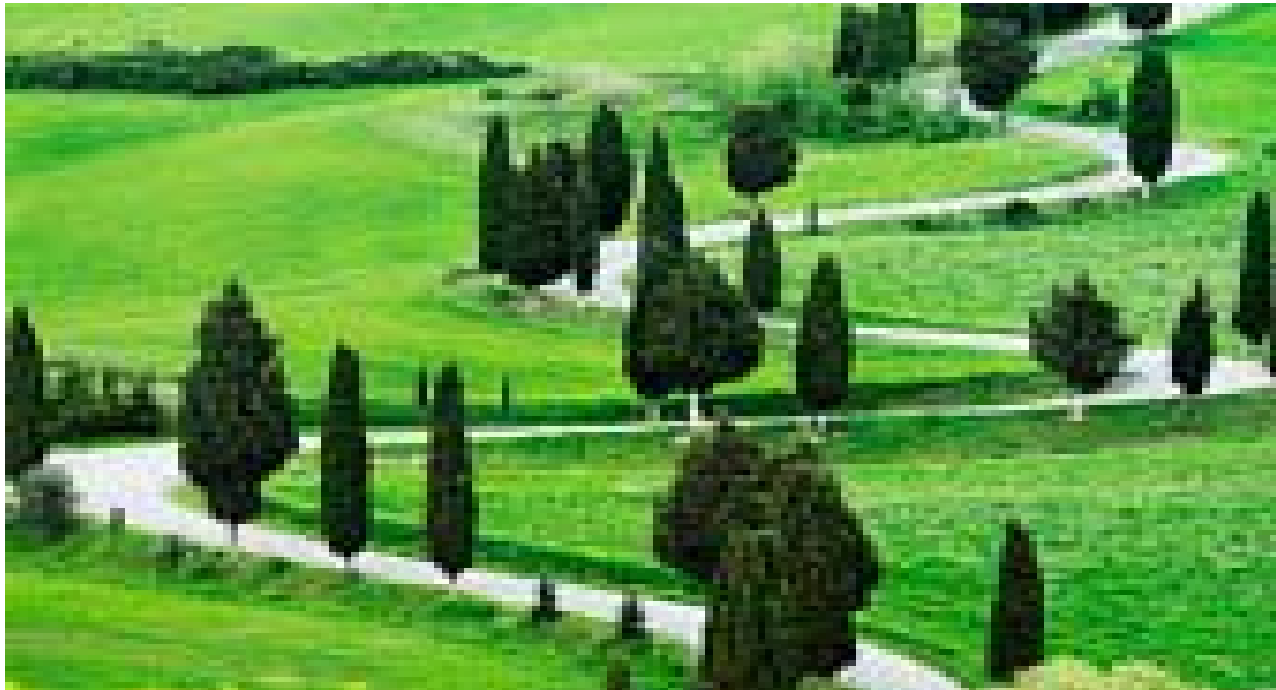


- Wind is coming, but not on the peak hours (13% available at the time of peak)
- Energy Storage is needed to ensure renewables achieve their potential

- Intra-PJM: Remand of 7th Circuit
Proceeding: DFAX vs. highway/byway
- Inter-RTO:
 - MISO/PJM: MVP inconsistent with JOA requirements
 - NY/PJM: No cost allocation methodology/different planning philosophies
 - Carolinas/PJM: No cost allocation tariff in place...bound up with loop flow issues

POLICY CHOICES...

The Long and Winding Road...



- Transmission: Built to support major generation projects
- Connect distant generation to load; Distribution: One way delivery of power to the home
- Grid Costs: Rate-based to the home utility's customers
- ROI: Little focus on transmission as a stand alone business element

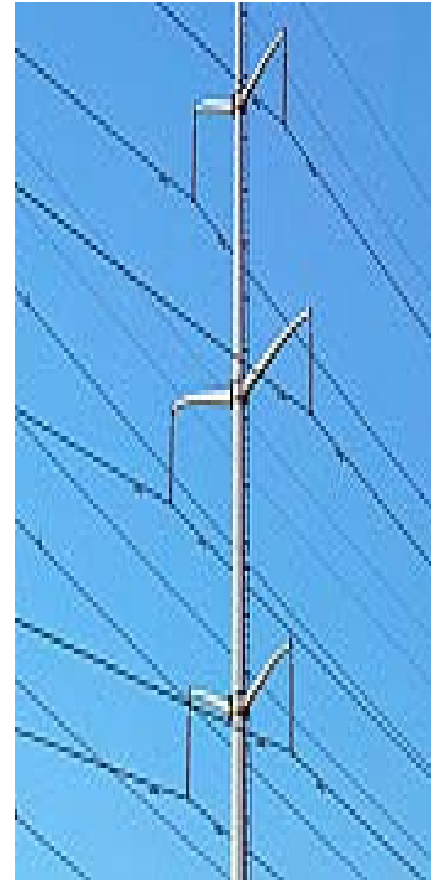


Policy Choice #1

Is the grid an enabler or a competitor?

Grid as an Enabler?

- Accept the grid as a natural monopoly
- Drive solutions through regulation
- Provide incentives for innovation



Policy Choice #1 (cont'd)

Grid as a Competitor?

- Grid development must compete with generation or demand side
- Grid entrepreneurs take risk: no guaranteed ROI
- Grid pricing reflects competitive outcomes: Bid solutions into the marketplace (RPM)

Policy Choice #2: A Strong or Weak Grid?

Characteristics of the “Strong” Grid:

- Generation distance from load
- Meet the needs for future transmission expansion
- Costs socialized to reflect interconnected nature of the grid
- Broad regional approach



Policy Choice #2-The Alternative:

The localized grid...

- Generation closer to load
- Centralized focus on development of DSR, energy efficiency and renewables
- Transmission/distribution grid as an enabler of alternative generation
- Transmission focused on meeting state/local needs



Policy Choice #2: Decision Points

- Siting: Regional vs. Local Needs
- Cost Allocation: Socialization vs. Direct Assignment
- IRP/RPS vs. Competitive Procurement
- Short term procurement vs. long term



Policy Choice #3: Determine the Planning Philosophy

- Transmission decisions driven by generation investment or generation investment influenced by the planned transmission grid?
- Role of the Planning Authority



An Added Complication:

Who Decides?



- States:
 - State Energy Policies: Governors/legislators
 - State PUCs
- FERC
 - FERC Review of Planning
 - Who chooses projects?
- Environmental Agencies
 - Non-attainment areas
 - RGGI et al.



“Hanging in mid-air”: a dangerous place





LET'S TALK...



Craig Glazer
Vice President-Federal Government
Policy
PJM Interconnection
202-393-7756
GLAZEC@PJM.COM