

Considering Competitive Transmission Solicitation Options

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Order No. 1000 competitive transmission solicitation continues to be a much debated topic. Recent discussion has focused on Artificial Island, which is PJM Interconnection LLC's first attempt at conducting a competitive transmission selection process.

Unlike other regional transmission organizations and independent system operators that identify the transmission project to be built and then solicit bids for who will construct it, PJM identifies issues with the transmission system and solicits proposals to resolve them. This solutions-based model likely yields more creative ideas for improving the transmission system, but at the cost of a more complex competitive solicitation model. Although concerns with the Artificial Island process drive current discussion of the PJM model, PJM has pushed ahead with additional competitive solicitations. The recent Pratts Area solicitation process demonstrates that the PJM model works, and that PJM already has incorporated lessons learned from Artificial Island into its solicitation process.



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Artificial Island Competitive Solicitation Process

Numerous commentators have written about PJM's Artificial Island competitive solicitation process. Indeed, one active participant in the solicitation process, Public Service Electric & Gas Company ("PSE&G"), filed a complaint in Docket No. EL15-40 with the Federal Energy Regulatory Commission identifying its concerns with the procedure used by PJM. Artificial Island is discussed here only to highlight the primary concerns participants have had with PJM's process. These concerns are explained in greater detail in PSE&G's complaint and in various participants' letters that were submitted to the PJM board of directors.

PJM received 26 proposals from seven companies during the initial Artificial Island solicitation process. Rather than assessing the proposals to eliminate those that did not satisfy the stated solicitation requirements, PJM staff modified proposals so that each submission would satisfy the relevant criteria. PJM staff also changed proposals to eliminate transmission components that they did not believe were necessary and to add transmission components it considered necessary. Moreover, PJM staff adjusted the cost estimates for several proposals, significantly increasing or decreasing the estimated costs in some instances. After revising the submissions, PJM staff then compared each proposal to determine

the best overall solution. Although PJM staff initially recommended a PSE&G proposal at the July 22, 2014, PJM board of directors meeting, the PJM board did not approve the recommendation and reopened the solicitation process. The reopened process continues today.

Pratts Area Competitive Solicitation Process

PJM has conducted additional competitive transmission solicitations since the Artificial Island process commenced. A recent example is the Pratts Area solicitation. Pratts Area refers to an area of western Virginia that is north of Charlottesville and is located in Dominion Virginia Power's service territory. PJM conducted the Pratts Area solicitation process to identify transmission solutions that would resolve potential reliability concerns identified through the PJM planning process. In PJM's regional transmission expansion planning process, reliability violations may be identified based on PJM, North American Electric Reliability Corporation, SERC Reliability Corporation, ReliabilityFirst or local transmission owner criteria. The Pratts Area solicitation required participants to: (1) develop solutions to the identified potential reliability violations, (2) ensure that proposed solutions did not cause any additional reliability violations and (3) adhere to all other relevant criteria. The Pratts Area solicitation process opened on Oct. 17, 2014, and closed on Feb. 3, 2015.

PJM received 16 transmission proposals from four project sponsors to resolve the Pratts Area issue. The participating companies were ITC Mid-Atlantic Development LLC, Northeast Transmission Development LLC, Ameren Transmission Company of Illinois Inc., and a joint submission by Dominion Virginia Power and FirstEnergy Corp. ITC Mid-Atlantic submitted one proposal, Northeast Transmission submitted eight proposals, Dominion/FirstEnergy submitted four proposals and Ameren submitted three proposals. Of the 16 proposals, two proposed transmission owner upgrades, which ranged in estimated cost from approximately \$92 million to \$104 million. The other 14 proposals involved the construction of new transmission lines and ranged in estimated cost from \$61 million to \$202 million.

PJM Staff's Analysis of the Pratts Area Proposals

At the Feb. 12, 2015, Transmission Expansion Advisory Committee meeting, PJM staff presented their conclusions regarding the Pratts Area solicitation process. PJM staff observed that the submissions contained a wide range of estimated costs, several cost estimates did not include the costs for additional transmission upgrades that would be required by the incumbent transmission owner and several proposals did not fully resolve the identified reliability concerns. According to PJM staff, only six of the 16 proposals satisfied the criteria established for the solicitation process. Two proposals were eliminated because they were substantially more costly. Eight proposals were eliminated because they did not resolve all identified reliability violations. Thus, after the initial assessment, three Northeast Transmission proposals, two Dominion/First Energy proposals and one Ameren proposal remained. The estimated cost of the six remaining proposals ranged from \$78 million to \$140 million.

For the six remaining submissions, PJM staff conducted side-by-side comparisons to highlight the individual components of each proposal. For example, where new transmission lines were proposed, PJM staff noted the amount of new right of way that would be required. Land acquisition costs are one of the principal drivers of cost overruns and are difficult to estimate accurately. Evaluating the amount of new right of way is helpful in understanding the feasibility of a particular proposal and the likely accuracy of a cost estimate. The six remaining proposals would each require at least 33 miles of additional right of way. The most new right of way would be required by one of Northeast Transmission's proposals — 52 miles.

PJM staff was skeptical of the estimated costs and cost commitments (i.e., cost caps) provided by Northeast Transmission. Northeast Transmission's estimated costs for each proposal were substantially lower than other participants' estimated costs. For example, the Northeast Transmission proposal that would require 52 miles of additional right of way was estimated to cost \$107 million, whereas the Dominion/FirstEnergy proposal that would require 33 miles of additional right of way was estimated to cost \$149 million.

PJM staff also noted that its own estimated costs for the Northeast Transmission proposals exceeded Northeast Transmission's cost caps. Given these differences, PJM staff assumed that the estimated cost of each Northeast Transmission proposal was the cost cap rather than Northeast Transmission's cost estimate. Northeast Transmission's proposal also would have required certain upgrades by the local transmission owner. PJM staff concluded that Northeast Transmission did not include the costs associated with required transmission owner upgrades in its cost estimates. As a result, PJM staff added the estimated costs of the transmission owner upgrades to the Northeast Transmission cost cap. PJM staff then used this revised estimated cost to evaluate the proposals.

PJM staff concluded that it would recommend the selection of a Dominion/FirstEnergy proposal to the PJM board of directors. The proposed recommendation was based in part on the fact that Dominion had already completed work related to one of the proposals and would be ready to file the necessary construction permit application with the Virginia State Corporation Commission early in 2015. Moreover, PJM staff determined that the Dominion/FirstEnergy proposal involved the least risk because significant portions of the necessary right of way had already been acquired. Lastly, PJM staff considered the Dominion/FirstEnergy proposal to be the least costly after the Northeast Transmission proposals were adjusted to reflect their costs more accurately.

Applying the Lessons Learned from Artificial Island

PJM staff's handling of the Pratts Area solicitation process highlights the procedural improvements that have been implemented since the beginning of the Artificial Island solicitation process. Most criticisms of the Artificial Island solicitation process focused on the PJM staff's unilateral modification of participant proposals. During the Pratts Area solicitation, PJM staff did not modify the technical aspects of any proposal. Instead, PJM staff simply eliminated from consideration any proposal that failed to resolve all identified criteria. This simple, but fundamental change shows that PJM staff already has learned one of the key lessons from the Artificial Island solicitation process.

With respect to cost commitments, PJM staff altered its approach in a more incremental way. Rather than using its independent cost estimates, PJM staff predominately relied on the cost estimates and cost commitments provided by the participants. PJM staff modified one participant's cost commitments, however, to add the cost of what PJM staff considered to be "required transmission owner upgrades" that would result from selection of the relevant proposal. Adding these upgrade costs eliminated a difference in the scope of the proposals that would have left some proposals estimated costs artificially low. PJM staff thus has responded to criticisms by relying more heavily on the project sponsors' cost estimates and cost caps. Still, PJM staff remains willing to adjust cost estimates for evaluative purposes where available information shows that the participant's cost estimate does not fully reflect the actual costs that will be incurred if the proposal is selected.

Challenges to the Pratts Area Solicitation Analysis

Although PJM staff made their decision about the Pratts Area solicitation public in February 2015, the

recommendation has not yet been submitted to the PJM board of directors. In the interim, ITC Mid-Atlantic and Northeast Transmission submitted comments to PJM staff challenging the Pratts Area solicitation process and asking PJM staff to reconsider its recommendation. In its April 7, 2015, comments, ITC Mid-Atlantic asked PJM staff to reevaluate its proposal alongside the Dominion/First Energy proposal that was selected. ITC Mid-Atlantic's proposal was eliminated because it did not address one of the identified reliability violations. In its comments, ITC Mid-Atlantic argued that the incumbent transmission owner had a distinct advantage in mitigating that particular reliability violation and that the most cost-effective remedy would be an incumbent transmission owner upgrade. ITC Mid-Atlantic also challenged the requirement that proposals resolve all identified reliability issues as opposed to a subset of those issues. ITC Mid-Atlantic requested that, in future solicitation processes, PJM staff consider proposals that address any combination of issues listed in the solicitation.

Northeast Transmission's comments submitted on March 24, 2015, raise different issues with respect to the Pratts Area solicitation process. Northeast Transmission claimed that PJM staff improperly increased the estimated costs of its proposals, and that PJM staff did not fully appreciate the cost commitment mechanism. According to Northeast Transmission, its cost cap provides certainty through a contractual obligation, whereas other participants' cost estimates provide no certainty. As part of its comments, Northeast Transmission effectively proffered two new proposals. These proposals combined elements of Northeast Transmission's proposals and Dominion/First Energy's proposals. Northeast Transmission argued that PJM staff should consider and select one of its new proposals, both of which would result in cost savings compared to the Dominion/First Energy proposal that PJM Staff intends to recommend.

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