

I. COMMENTS

The current rules governing the benefit/cost analysis of competing transmission projects do not accurately measure the relative costs and benefits of transmission projects. The current rules explicitly ignore the increased zonal load costs that a project may create. Further, the current rules do not account for the fact that the project costs are nonbinding estimates and that the benefits of projects are uncertain and highly sensitive to the modeling assumptions used. These flaws have contributed to PJM approving market efficiency projects with forecasted, and realized, costs that are higher than the forecasted benefits.

The Transource Project (Project 9A) is an example of a PJM approved market efficiency project that passed PJM's 1.25 benefit/cost threshold test despite having benefits, if accurately calculated, that were less than forecasted costs. This project also illustrates the risks of ignoring potential cost increases given that the costs included in the benefit/cost calculation are nonbinding estimates. The Transource Project was proposed in PJM's 2014/2015 RTEP long term window. PJM's 2014/2015 RTEP long term window was the first market efficiency cycle under Order 1000. The 2014/2015 long term window was open from November 1, 2014, through February 28, 2015. This window accepted proposals to address historical congestion on 12 identified flowgates. The AP South Interface was one of the 12 identified flow gates listed in the 2014/15 RTEP Long Term Proposal Window Problem Statement.

A total of 41 market efficiency projects were proposed to address congestion on the AP South Transmission Interface. Transource Energy LLC, together with Dominion High Voltage, submitted a proposal referenced by PJM as Project 9A (or IEC or the Transource project) to address AP South related congestion.

Project 9A was considered a subregional project based on its voltage level, meaning that changes in forecasted system costs were not considered for purposes of estimating the

benefit/cost ratios. Instead, only reductions in zonal load costs were considered as a benefit of the project. Any increases in zonal load costs were ignored in the analysis.

The initial study had a benefit to cost ratio of 2.48, with a capital cost of \$340.6 million. The sum of the positive (energy cost reductions) effects was \$1,188.07 million. The sum of negative effects (energy cost increases) was \$851.67 million. The net actual benefit of the project in the study was therefore \$336.40 million, not the \$1,188.07 used in the study. Using the total benefits (positive and negative) to compare to the net present value of costs, the benefit to cost ratio was 0.70, not 2.48. The project should have been rejected on those grounds.

Subsequent studies of the 9A project have reduced its benefit/cost ratio as a result of increased costs, decreased congestion on the AP South Interface since 2014 and a reduction in peak load forecasts since 2015. The most recent study produced by PJM in 2019 using simulations for years 2017, 2021, 2024 and 2027 had a benefit cost ratio of 2.10 with a capital cost of \$383.63 million. The sum of the positive (energy cost reductions) effects was \$855.19 million, a reduction of \$322 million (28.0 percent) from the initial study. The sum of negative effects (energy cost increases) was \$827.34 million, a reduction of \$27.86 million (3.3 percent) from the results of the initial study. The net actual benefit of the project in the 2019 study was \$27.85 million, not the \$1,188.07 from the initial study. Using the total benefits (positive and negative) to compare to the net present value of costs in the 2019 analysis, the benefit to cost ratio was 0.07, not 2.10. The project should have been rejected on those grounds.

This example makes clear some of the flaws in the current review process, the level of costs included and the degree to which incorrect conclusions are drawn. The October 10th Filing is limited to clarification of the existing flawed rules. The market efficiency rules guide very costly decisions on infrastructure. The rules need fundamental reform. This proceeding creates an opportunity for the Commission to investigate the issues raised here and to direct needed reform.

II. CONCLUSION

The Market Monitor respectfully requests that the Commission afford due consideration to these comments as it resolves the issues raised in this proceeding.

Respectfully submitted,



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Dated: November 10, 2020

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Eagleville, Pennsylvania,
this 10th day of November, 2020.



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