



## Problem Statement / Issue Charge

### ***PJM's Market Efficiency Analysis as applied in the Regional Transmission Expansion Plan (RTEP) should be reviewed***

#### ***Problem Statement:***

The MMU has identified issues with PJM's benefit/cost analysis that should be addressed prior to approval of additional projects.

The current benefit/cost analysis for a regional project explicitly and incorrectly ignores the increased congestion in zones that results from an RTEP project when calculating the energy market benefits. All costs should be included in all zones and LDAs.

The benefit/cost analysis does not account for the fact that the transmission project costs are not subject to cost caps and may exceed the estimated costs by a wide margin. When actual costs exceed estimated costs, the cost benefit analysis is effectively meaningless and low estimated costs may result in inappropriately favoring transmission projects over market generation projects or over the option of no project at all. The risk of cost increases for transmission projects should be incorporated in the cost benefit analysis.

The current rules governing the benefit/cost analysis evaluate competing projects with different in service dates on an asymmetric basis. Under the current rules, projects are evaluated on a present value, benefit/cost basis over a 15 year service horizon, starting with RTEP year zero. This approach disadvantages projects with a start date later than RTEP +1 that have an increasing ratio of benefits to costs relative to projects with a start date later than RTEP +1 with a decreasing ratio of benefits to costs.<sup>1</sup>

#### ***Issue Source:***

MMU review of PJM's Benefit/Cost Analysis

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<sup>1</sup> See "Comments of the Independent Market Monitor for PJM," (January 11, 2019) <[http://www.monitoringanalytics.com/Filings/2019/IMM\\_Comments\\_Docket\\_No\\_ER19-80\\_20190111.pdf](http://www.monitoringanalytics.com/Filings/2019/IMM_Comments_Docket_No_ER19-80_20190111.pdf)>.

## **Stakeholder Group Assignment:**

Planning Committee.

## **Key Work Activities:**

1. Review PJM's Benefit/Cost Analysis.
2. Determine whether the Benefit/Cost Analysis can be improved and develop solutions, as needed, to improve the analysis.
3. Review the determination of benefits in PJM's Benefit/Cost Analysis.
4. Determine whether the determination of benefits in PJM's Benefit/Cost Analysis can be improved and develop solutions, as needed, to improve the analysis.
5. Review the period analyzed in PJM's Benefit/Cost Analysis.
6. Determine whether the period used in PJM's Benefit/Cost Analysis is adequate for non-discriminatory evaluation of projects with different in service dates and develop solutions, as needed, to improve the analysis.
7. Review the determination of costs in PJM's Benefit/Cost Analysis.
8. Determine whether cost guarantees and/or an incorporation of the risk of cost overruns should be included in PJM's Benefit/Cost Analysis. Develop solutions, as needed, to improve the analysis.

## **Expected Deliverables**

Revised RTEP Benefit/Costs Analysis

## **Expected Overall Duration of Work**

The MMU expects that this work effort can be completed within six months.