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Via e-mail

August 24, 2021

Sharon K. Segner
Vice President
LSPower

Alexander C. Stern
Chair, PJM Transmission Owners Agreement
Administrative Committee

Dear Sharon Segner and Alex Stern,

Thank you for your letters concerning the Designated Entity Agreement (DEA) and PJM's use or non-use of the DEA under various circumstances.¹ As we expressed during recent Special Transmission Owner Agreement-Advisory Committee and Planning Committee meetings, and as further explained below, PJM desires to clarify the Operating Agreement language related to DEAs.

PJM understands the concerns regarding the potential misapplication of its Operating Agreement, with the concern being that PJM has not issued DEAs to Incumbent Transmission Owners for all RTEP baseline projects – with the principal areas of concern being those immediate need projects that do not go through a competitive solicitation process and those projects that are not regionally cost-allocated.² PJM has taken these concerns seriously, and has informed its Board of these concerns. In addition, PJM has conducted a review of the provisions of Schedule 6 of the Operating Agreement related to the DEA, as well as the related orders issued by the Federal Energy Regulatory Commission.

Upon review, PJM determined that the Operating Agreement language could be read in a way that is not fully aligned with PJM's practice for the last seven years or, in PJM's view, the rationale behind issuing a DEA in the first instance. That is, the DEA was developed to apply only to projects that are selected through PJM's Order No. 1000-compliant competitive window process and included in the Regional Transmission Expansion Plan (RTEP) for regional cost allocation purposes. As such, the practice has been not to issue DEAs to incumbent Transmission Owners for: (1) RTEP projects exempted from the competitive proposal process; and (2) RTEP projects selected through a competitive proposal window that are not regionally allocated (i.e., allocated to a single zone).

¹ See Transmission Owner Agreement-Administrative Committee Letter of July 14, 2021 (TOA-AC Letter) found at this URL: <https://www.pjm.com/-/media/about-pjm/who-we-are/public-disclosures/20210714-pjm-toa-ac-ltr-to-pjm-board-re-dea-implementation.ashx> and LS Power Letter of July 22, 2021 (LS Power Letter) found at this URL: <https://www.pjm.com/-/media/about-pjm/who-we-are/public-disclosures/20210726-ls-power-letter-regarding-designated-entity-agreements.ashx>

² We acknowledge that, as set forth in the LS Power Letter, there appears to be a broader concern regarding PJM not utilizing DEAs for all exempt projects.

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PJM recognizes the differing opinions around the Operating Agreement language. Based upon the rationale behind the development of the DEA and PJM's implementation practices since that time, on balance, PJM has determined that the best course of action is to clarify its Order 1000 compliance filing. PJM will be discussing its proposed course of action at the August 31 Planning Committee.

Sincerely,

/s/ Manu Asthana

Manu Asthana
President and CEO, PJM Interconnection