



VOLUME VII

Transmission Rates Cases in PJM

FEBRUARY 2024

**CONSUMER ADVOCATES OF THE PJM STATES'
TRANSMISSION HANDBOOK**



INTRODUCTION

The Consumer Advocates of the PJM States (CAPS) commissioned this guide to help consumers, their advocates, and others better understand how transmission is developed and paid for in the PJM region. Read the executive summary in Handbook Volume I to learn more about PJM and CAPS.

Handbook Volume VII explores:

- local, state, and federal approval processes for siting transmission projects, including instances when a state certificate of public convenience and necessity (CPCN) might be necessary and situations that might require a federal permit; and
- opportunities for state advocates to intervene in siting and permitting proceedings.

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General Information on Transmission Rates Cases

A. Who is responsible for approving transmission rates?

The Federal Energy Regulatory Commission is responsible for approving transmission rates based on the standards set out in the Federal Power Act (FPA). The Commission makes these decisions as part of a **rate case**.

B. What is a transmission rate and who is billed that rate?

Transmission service rates represent the amount that transmission owners (primarily incumbent utilities) may charge wholesale customers for transmission development, operation, and maintenance. **Wholesale consumers** are the distribution utilities and third-party power providers who use transmission lines to move power from points of generation to the distribution system. These entities receive their bills for transmission service from PJM. Wholesale customers will then resell power to residential and commercial consumers,¹ known as “retail customers.” (See Handbook Volume III for more on wholesale and retail energy bills).

¹ Certain large commercial customers, such as large industrial customers, may directly offtake power from a transmission line.

C. If the distribution utility and the third-party power providers are the transmission customers, why should consumer advocates get involved in transmission rate cases?

Both distribution utilities and third-party power providers are made whole for the fees they pay to use transmission service by flowing those charges to customers. As result, they may not have the same incentive as the end use customers to minimize the transmission rate.

Transmission rate cases are the main avenue for advocates to assess and review a transmission owner's investment and operating costs to make sure they are spending prudently—neither spending excessively nor insufficiently—and are only passing on costs that are appropriate for ratepayers to shoulder.

D. What costs are examined in a transmission rate case?

PJM transmission owners are authorized to charge rates that are based on each owners' "cost of service"—also referred to as the Annual Transmission Revenue Requirement (ATRR).² This rate is calculated based on what the utility needs to recover the costs spent providing transmission service plus a return on the utility's capital investments.³

The formula for a cost of service rate is:⁴

$$\text{ATRR} = \text{Return} + \text{Operating Expenses [Operations \& Maintenance + Depreciation and Amortization Expenses + Income Taxes + Other Expenses - Other Operating Revenue]}$$

The ATRR can be broken down into the following components:

Return (R) - the return on a transmission owner's investments in infrastructure that is needed to provide utility service. The return portion of the rate reflects: (1) the transmission owner's entitlement to recover the costs of their investment in transmission and related infrastructure when such investments benefit the public (Rate Base), and (2) the opportunity for transmission owners that are private companies (as opposed to governmental entities) to earn a return to compensate for the risk they incur in making such investments. In other words, $R=RB \times r$. As infrastructure can be expensive, these costs are integrated into the rates over time to keep customer rates more reasonable.

The **Rate Base (RB)** is calculated based on:

- the **plant in service** (infrastructure that is in use to provide transmission service to customers) *minus*
- **accumulated depreciation** *plus*
- any additional **authorized adjustments to the Rate Base**, such as accumulated deferred income taxes, cash working capital, and, if approved, costs related to Construction Work in Progress, Plant Held for Future Use, etc.

² The transmissions owners' ATRR's are attachments to PJM's Open Access Transmission Tariff.

³ For more on the theory behind cost of service regulation, refer to Professor James Bonbright's 1961 work, *Principles of Public Utility Rates*, the seminal text on the issue.

⁴ FERC requires its jurisdictional transmission utilities to maintain their books and records in accordance with FERC's Uniform System of Accounting (USofA). 18 CFR Section 101. Although the USofA provides some consistency among the utilities, there may still be variation between the accounts that utilities choose to record specific expenses in. FERC, "Formula Rates in Electric Transmission Proceedings: Key Concepts and How to Participate," 2022; NARUC, "Tariff Development I: The Basic Ratemaking Process"; London Economics International LLC, "Primer on Transmission Formula Rates," 2023.

If a transmission owner's resources are used to serve more than one service territory or contribute to other functions (e.g., distribution function), then they will use an **allocation factor** to apportion the plant in service and depreciation costs between the territories or functions served.

The total Rate Base is multiplied by a **rate of return (r)**, which represents the company's investment costs and the risk it bears in financing its investments. The rate of return is calculated based on the ratio of debt and equity, the cost of debt, and authorized return on equity. Some transmission owners are also allowed to bump up their authorized return on equity because they have been granted incentive adders, pursuant to Federal Power Act Section 219.

*The **Operating Expenses** used to calculate a transmission rate include the following:*

Operation & Maintenance (O&M) Expenses are the costs of operating and maintaining transmission facilities. There are several categories of O&M expenses, including administrative and general expenses (e.g. wages and salaries, retirement benefits, regulatory expenses, etc.). Transmission owners must exclude certain costs from this category, such as lobbying expenses.⁵ Additionally, FERC may find other costs—such as advertising expenses, penalties, or fines—to be imprudent and require the utility to exclude them.

Depreciation and Amortization Expenses (DE) represent the costs to the customer of using the transmission infrastructure that the transmission owner may recover in rates. These amounts are spread out over time based on each asset's value and expected service life.

Income Taxes (IT) and Taxes other than Income Taxes (OT) are the cost of federal and state income taxes and other taxes incurred by the transmission owner.

Other Expense (OE) and Other Operating Revenue (OR) are the costs of service not accounted for in the other cost categories and any revenues a transmission owner receives from services other than transmission (for example, rent payments from telecommunications utilities for use of electric poles).

⁵ Expenses that a utility may include in determining its revenue requirement because they relate to the provision of transmission service are also referred to as "**above-the-line**" costs. In contrast, "**below-the-line**" costs are expenses that a utility has incurred but is not allowed to recover from customers.

E. What is the difference between plant in service and infrastructure that is still under construction?

Under traditional principles of utility regulation, a transmission owner may not recover the costs of transmission infrastructure while it is in the process of being constructed; rather, it has to wait until the infrastructure is physically ready to be **in service, or used and useful, before asking ratepayers to pay the costs associated with construction and operation.**⁶ The intention of the return on equity is to compensate utilities for making plant investments in advance and bearing the associated financial risks.

FERC has, however, authorized certain exceptions to the traditional “used and useful” principles by finding these circumstances to be “in the public interest.” For instance, under certain conditions, especially large capital investments, FERC’s current policies allow project proponents to recover a Construction Work in Progress (CWIP) incentive before the plant is placed in service.⁷ The CWIP incentive allows transmission owners to recover a return on construction costs, but not necessarily the depreciation costs associated with facilities.⁸ Recent FERC issuances and commissioner statements, however, call into question whether the agency will continue to authorize the CWIP incentive.⁹

⁶ See e.g. Lesser, J. A., “The Used and Useful Test: Implications for A Restructured Electric Industry”, *Energy Law Journal*, 23:349, 2002 (explaining that the principle was initially developed in 1898 through the fair value doctrine established in *Smyth v. Ames*, 171 U.S. 361).

⁷ See e.g. *Promoting Transmission Investment Through Pricing Reform*, 141 FERC ¶ 61,129, PP 11-12 (2012) (affirming continuance of CWIP policy); see also *Promoting Transmission Investment through Pricing Reform*, Order No. 679, 116 FERC ¶ 61,057, order on reh’g, Order No. 679-A, 117 FERC ¶ 61,345 (2006), order on reh’g 119 FERC ¶ 61,062 (2007); *Construction Work In Progress for Public Utilities; Inclusion of Costs in Rate Base*, Order No. 298, 48 Fed. Reg. 24,323 (June 1, 1983), FERC Stats. & Regs. ¶ 30,455, order on reh’g, Order No. 298-A, 48 Fed. Reg. 46,012 (October 11, 1983), FERC Stats. & Regs., P 30,500 (1983), order on reh’g, Order No. 298-B, 48 Fed. Reg. 55,281 (December 12, 1983), FERC Stats. & Regs. ¶ 30,524 (1983).

⁸ See *American Electric Power Service Corporation*, 116 FERC ¶ 61,059 (2006), order on reh’g., *American Electric Power Service Corp.*, 118 FERC ¶ 61,041, PP 26-28 (2007).

⁹ Transmission Planning and Cost Allocation NOPR, 179 FERC ¶ 61,028, at P 333 & n.530 (proposing to eliminate the CWIP incentive); see also *Midcontinent Independent System Operator, Inc.*, 184 FERC ¶ 61,136 (2023), *C. Christie concurring*:

As this Commission considers other potential reforms related to regional transmission planning and development, it is imperative that incentives like the CWIP Incentive, Abandoned Plant Incentive, and RTO participation adder are all revisited to ensure that all the costs and risks associated with transmission construction are not unfairly inflicted on consumers while transmission developers and owners stand to gain all the financial reward.



Rate Cases at FERC

A. What standards does FERC use to authorize transmission rates?

Under Federal Power Act **Section 205**,¹⁰ electric utilities operating under FERC jurisdiction may file an application for a transmission rate change with FERC. The utility making the filing has the burden to show that the new rate is just and reasonable, but it is not required to prove that the existing rate is unjust and unreasonable.

Under Federal Power Act **Section 206**,¹¹ another party may make a complaint that a rate is unjust and unreasonable. FERC may also initiate an investigation on its own motion, which is a three-step process. First, FERC will hold a hearing to determine if the existing rate is proper. If FERC finds that the rate is improper, it can proceed to steps two and three to determine and set a new rate that it deems to be just and reasonable. Under Section 206, the party initiating the investigation (i.e., the complainant or FERC) bears the burden of proving that the existing rate is unjust and unreasonable.

B. How does the Federal Power Act Section 205 rate process work?

Utilities file an application at FERC using one of two rate-setting methodologies: **Stated Rates or Transmission Formula Rates**.¹² The rate recovery mechanisms in this section are primarily used by incumbent utilities. Under the current regulatory regime, merchant developers tend to use a subscription or anchor tenant model for cost recovery.

¹⁰ 16 USC § 824d; see also PJM, “Federal Law Guides Changes in PJM Governing Documents,” 2023.

¹¹ 16 USC § 824d; see also PJM, “Federal Law Guides Changes in PJM Governing Documents,” 2023.

¹² There are alternative ways to set rates such as multiyear rate plans. However, because FERC has not yet authorized any PJM transmission owners to use these methods, this handbook does not cover them.

The **Stated Rate approach** was the traditional method used to set utility rates, although now only a handful of PJM transmission owners use it. The transmission owners propose a new revenue requirement, which they justify using calculations for a test year. The test year is based on the transmission owner’s cost data, which can be either historical data, projected data, or a hybrid of both. The test year revenue requirement also includes a proposed rate for the return on equity (ROE). The application for a new revenue requirement may also include a proposed allocation of costs among the different classes of wholesale customers.

Parties impacted by the rate change, or their representatives, may file to intervene in the case and probe the accuracy and reasonableness of the data. The parties may negotiate or litigate to set the rates at a just and reasonable amount.

If FERC finds that the transmission owner’s proposed rates are “just and reasonable,” the rate is numerically fixed (or “stated”) until the utility files its next rate application.¹³ If FERC finds that the rates are not just and reasonable, it may not set a new rate on its own accord.¹⁴ Rather, it must institute an FPA Section 206 process and find that the existing rate is unjust and unreasonable before setting a new one. Once set, the new rates will remain in effect until the utility files its next rate case application and has that rate approved by FERC.¹⁵

The **Formula Rate Approach is an alternative rate-setting methodology first introduced in the 1970s.**¹⁶ Formula rates have now become the primary choice among transmission utilities.¹⁷ When using this approach, the transmission owner’s FPA Section 205 filing consists of:

- (1) *the proposed **formula rate***—a spreadsheet that sets out the proposed formula the company will use to annually calculate its cost of service, including a proposed rate for the return on equity; and
- (2) *the proposed **formula rate protocols***—the processes, procedures, and timelines the company will provide in its annual update that stakeholders may use to review and address the annual filings.

Similar to the stated rate methodology, parties impacted by a rate change, or their representatives, may file to intervene in the case and probe the accuracy and reasonableness of the formula and the rate protocols. The parties may negotiate, or litigate, to set the formula inputs at a just and reasonable amount.

If FERC finds that the formula and associated protocols are just and reasonable, it will issue an order approving them. Transmission owners with approved formula rates will file an annual informational update that is posted on PJM’s website. The annual informational update includes:

- (1) the revised inputs to the formula that will determine the rate for the upcoming year, and
- (2) a true-up for actual costs to the inputs initially contained in the formula.

If a utility uses a backwards-looking formula to calculate its rate—i.e. formula inputs are based on actual costs and revenues that the company has already incurred or received—then the annual true-up will be based on the difference between those historical data and the costs/revenue actually incurred in the rate year. If a utility

¹³ London Economics International LLC, “[Primer on Transmission Formula Rates](#),” prepared for WIRES. at 8, 2023 (WIRES Formula Rate Primer).

¹⁴ See, *NRG Power Marketing, LLC, and GenOn Energy Management, LLC v. FERC*, 862 F.3d 108, 114-15 (D.C. Cir. 2017) (petitions for panel rehearing denied) (internal citations omitted) finding that:

Section 205 puts FERC in a “passive and reactive role.” Under Section 205, FERC reviews the proposed rate scheme filed by a utility or Regional Transmission Organization and determines whether the proposal is just and reasonable. FERC may accept or reject the proposal. But . . . Section 205 does not allow FERC to suggest modifications that result in an “entirely different rate design” than the utility’s original proposal or the utility’s prior rate scheme.

¹⁵ London Economics International LLC, “[Primer on Transmission Formula Rates](#),” prepared for WIRES. at 8, 2023 (WIRES Formula Rate Primer).

¹⁶ WIRES Formula Rate Primer at 8.

¹⁷ *Public Utility Transmission Rate Changes to Address Accumulated Deferred Income Taxes*, Order No. 864, 84 Fed. Reg. 65,281 at 65,283, November 27, 2019.

uses projected data for the formula—i.e. formula inputs are based on the costs and revenues the utility expects to incur—then the annual true-up will be based on the difference between the projected costs/revenue and the actual costs/revenue in the rate year.

Quick Recap of Stated Versus Formula Rates:

- ▶ **Stated Rates:** The Transmission Owner must file a new rate application with FERC every time it wants to change its rates.
- ▶ **Formula Rates:** The Transmission Owner will determine new rates annually by inputting data into the FERC approved spreadsheet; the transmission owner will post informational updates and supporting documentation for the new rate, and interested stakeholders may review, verify, and challenge the inputs used in the formula to set said rates using the processes laid out in the protocols. The transmission owner only needs to file a new Section 205 rate case if it wants to change the categories or calculations in its formula, or if it is required to refile after a certain number of years (e.g. by FERC order, a protocol commitment, or by settlement agreement).

C. What is included in the formula rate templates?

Formula rate templates set out the cost and revenue categories that will be used to calculate the annual transmission revenue requirement. Some cost inputs, such as the cost of debt and income taxes, may be fixed in the formula. Other cost inputs, such as plant in service and administrative and general costs, may change annually. The application may also include a proposed allocation of costs among its customer classes.

Figure 1 provides an example of a transmission formula rate workbook:

FIGURE 1. Example of a Transmission Formula Rate Workbook from Jersey Central Power & Light's 2022 Formula Rate

Line No.	Description	Formula/Reference	Value	Allocation	Allocated Amount
1	GROSS REVENUE REQUIREMENT [page 3, line 18, col 5]				\$ 206,932,288
2	REVENUE CREDITS	(Note M)	Total	Allocator	
3	TEC Revenue	Attachment 11, Page 2, Line 3, Col. 12	24,589,983	DA 1.00000	24,589,983
4	TOTAL REVENUE CREDITS (sum lines 2-3)		26,996,321	DA 1.00000	26,996,321
5	True-up Adjustment with Interest	Enter Negative of Attachment 13, Line 50			-
6	NET REVENUE REQUIREMENT	(Line 1 - Line 4 + Line 5)			\$ 179,935,967
7	DIVISOR				Total
8	1 Coincident Peak (CP) (MW)			(Note A)	6,169.1
9	Average 12 CPs (MW)			(Note S)	4,151.4
10	Annual Rate (\$/MW/Yr)	(line 6 / line 8)	29,167.30		
11	Point-to-Point Rate (\$/MW/Year)	(line 6 / line 9)	43,343.44		43,343.44
12	Point-to-Point Rate (\$/MW/Month)	(line 11/12)	3,611.95		3,611.95
13	Point-to-Point Rate (\$/MW/Week)	(line 11/52)	833.53		833.53
14	Point-to-Point Rate (\$/MW/Day)	(line 13/5; line 13/7)	166.71		119.08
15	Point-to-Point Rate (\$/MWh)	(line 11/4,160; line 11/8,760)	10.42		4.95

(Credit: "Jersey Central Power & Light Company 2022 ATRR," June 12, 2022).

D. What is included in the formula rate protocols?

Transmission owners using formula rates must share information with their customers about how they calculated their annual rates and must provide opportunities for public input. The transmission rate protocols set out the procedures and timelines for how transmission owners will fulfill these obligations, and should include, at minimum:

- the timing of transmission owner’s Annual Update filing which sets the annual transmission revenue requirement for the upcoming rate year based on the transmission owner inputting relevant cost inputs and other data into the approved formula;
- the timing for the annual true-up adjustment which provides a true-up from the actual costs and revenue during the rate year to the values used to project the annual revenue requirement for that rate year. This filing may coincide with the Annual Update filing or may be provided on a different date;
- the process by which the utility will notify interested parties of the dates and locations of meetings on the rate inputs. Some utilities allow interested parties to participate in meetings remotely via teleconference or webinar.¹⁸

The Protocols will also include processes and timelines for customers and other interested parties to file and document information requests with the utility to review and confirm the accuracy of the annual update and true-up filings. To the extent consumer advocates or other interested parties do not agree with the utility’s calculations, they can initiate a challenge through the processes laid out in the protocols. Typically, this would include an initial informal challenge process with the utility directly and can escalate to a formal FERC challenge. Absent a challenge, the utility’s cost formula inputs are deemed reasonable.¹⁹

FIGURE 2. Annual Stakeholder Engagement Process for Reviewing Formula Rate Updates



(Credit: London Economics International LLC, “One Pager for Primer on Transmission Formula Rates,” WIRES, 2023).

E. Utilities with formula rates get to update their rates annually, but where is the benefit for ratepayers?

Both the costs to the utility to file and defend their application, and the costs for consumer advocates to review and litigate the application, are ultimately borne by utility customers in their rates. A properly derived formula with strong protocols can save all parties time and money.

The second potential benefit is that when using a stated rate approach, if a utility earns higher than its authorized rate of return, it is allowed to keep the extra revenue. Conversely, if it is earning lower than its authorized rate of return, it cannot recover those funds. Instead, it must file a new rate case to increase the authorized revenue requirement. Utilities that are overearning tend not to come in with new rate cases; whereas those that perceive they are underearning may file a new rate case as soon as the last one is decided or even while the last one is pending, also known as **pancaked rate cases**. FERC-authorized annual revenue requirements

¹⁸ PJM, “Open Access Transmission Tariff,” at Attachment H9-B: Pepco, Section 2, Annual Updates, Subsection f., last accessed December 7, 2023.

¹⁹ FERC, “Formula Rates in Electric Transmission Proceedings: Key Concepts and How to Participate,” last accessed December 7, 2023.

provide utilities with an opportunity to earn a return on their investment, but they **do not guarantee** any particular return. Formula rates may help keep utility earnings closer to the authorized rates of return, helping to protect customers from utilities gross overearnings.

F. How many transmission owners in PJM use a formula rate?

Nationally, transmission formula rates are much more common than stated rates.²⁰ As of 2019, approximately 106 public utilities under FERC jurisdiction were using formula rates, compared to only 31 utilities using stated rates.²¹ This dynamic holds true in PJM territory, where all but five **transmission owners have formula rates on file (Figure 3).**²²



²⁰ FERC, “[Formula Rates in Electric Transmission Proceedings: Key Concepts and How to Participate](#),” July 5, 2022.

²¹ *Public Utility Transmission Rate Changes to Address Accumulated Deferred Income Taxes*, Order No. 864, 84 Fed. Reg. 65,281 at 65,296 (November 27, 2019). These numbers reflect only entities that are under FERC jurisdiction and do not include non-jurisdictional entities, such as many cooperatives and municipal power providers.

²² Among 35 transmission owners in PJM, only five employ stated rates: Allegheny Electric Cooperative, Inc., Essential Power Rock Springs, LLC, Ohio Valley Electric Corporation, Rockland Electric Company, and Southern Maryland Electric Cooperative, Inc. PJM, “[2022 Informational Filing](#),” Docket No. ER19- 2105-000 and -001, December 8, 2021.

FIGURE 3. Formula Rate Filing Information as of 7/11/2023

Transmission Owner		PJM OATT NITS Rate Attachme	Rate Filing Type	CURRENT RATE YEAR Rate Year Begins	FUTURE RATE YEAR Rate Year Begins
AEC	Atlantic City Electric Company	H-1	Formula	6/1/23	6/1/28
AE Coop	Allegheny Electric Cooperative, Inc.	H-8	Stated	1/1/23	1/1/28
AEP	AEP East Operating Companies & AEP East Transmis	H-14 and H-20	Formula	1/1/23	1/1/28
	Appalachian Power Company	H-14 and H-20	Formula	1/1/23	1/1/28
	Indiana Michigan Power Company	H-14 and H-20	Formula	1/1/23	1/1/28
	Kentucky Power Company	H-14 and H-20	Formula	1/1/23	1/1/28
	Kingsport Power Company	H-14 and H-20	Formula	1/1/23	1/1/28
	Ohio Power Company	H-14 and H-20	Formula	1/1/23	1/1/28
	Wheeling Power Company	H-14 and H-20	Formula	1/1/23	1/1/28
	AEP Appalachian Transmission Company	H-14 and H-20	Formula	1/1/23	1/1/28
	AEP Indiana Michigan Transmission Company	H-14 and H-20	Formula	1/1/23	1/1/28
	AEP Kentucky Transmission Company	H-14 and H-20	Formula	1/1/23	1/1/28
	AEP Ohio Transmission Company	H-14 and H-20	Formula	1/1/23	1/1/28
	AEP West Virginia Transmission Company	H-14 and H-20	Formula	1/1/23	1/1/28
AMPT	AMP Transmission LLC	H-32	Formula	1/1/23	1/1/28
	AMP Transmission, LLC (ATSI)	H-32	Formula	1/1/23	1/1/28
	AMP Transmission, LLC (AEP)	H-32	Formula	1/1/23	1/1/28
	AMP Transmission, LLC (Dayton)	H-32	Formula	1/1/23	1/1/28
APS	South First Energy Operating Companies (Allegheny F	H-11	Formula	1/1/23	1/1/28
	Monongahela Power Company	H-11	Formula	1/1/23	1/1/28
	Potomac Edison Company	H-11	Formula	1/1/23	1/1/28
	West Penn Power Company	H-11	Formula	1/1/23	1/1/28
ATSI	American Transmission Systems, Inc.	H-21	Formula	1/1/23	1/1/28
BGE	Baltimore Gas and Electric Company	H-2	Formula	6/1/23	6/1/28
ComEd	Commonwealth Edison Company	H-13	Formula	6/1/23	6/1/28
Dayton	The Dayton Power and Light Company	H-15	Formula	1/1/23	1/1/28
DEOK	Duke Energy Ohio and Duke Energy Kentucky	H-22	Formula	6/1/23	6/1/28
DL	Duquesne Light Company	H-17	Formula	6/1/23	6/1/28
Dominion	Virginia Electric and Power Company	H-16	Formula	1/1/23	1/1/28
DPL	Delmarva Power & Light Company	H-3	Formula	6/1/23	6/1/28
EKPC	East Kentucky Power Cooperative	H-24	Formula	6/1/23	6/1/28
JCPL	Jersey Central Power & Light Company	H-4	Formula	1/1/23	1/1/28
MAIT	Mid-Atlantic Interstate Transmission, LLC	H-28	Formula	1/1/23	1/1/28
ME	Metropolitan Edison Company	H-28	Formula	1/1/23	1/1/28
PENELEC	Pennsylvania Electric Company	H-23	Formula	1/1/23	1/1/28
MISO	Midcontinent Independent System Operator, Inc.	N/A	N/A	1/1/23	1/1/28
NAEA	Essential Power Rock Springs, LLC	H-23	Stated	1/1/23	1/1/28
NEET	NextEra Energy Transmission MidAtlantic Indiana, Inc.	H-33	Formula	6/1/23	6/1/28
NIPSCO	Northern Indiana Public Service Company	N/A	N/A	1/1/23	1/1/28
ODEC	Old Dominion Electric Cooperative	H-3	Formula	6/1/23	6/1/28
OVEC	Ohio Valley Electric Corporation	H-31	Stated	1/1/23	1/1/28
PECO	PECO Energy Company	H-7	Formula	6/1/23	6/1/28
PEPCO	Potomac Electric Power Company	H-9	Formula	6/1/23	6/1/28
PPL	PPL Electric Utilities Corporation	H-8	Formula	1/1/23	1/1/28
PSEG	Public Service Electric and Gas Company	H-10	Formula	1/1/23	1/1/28
RE	Rockland Electric Company	H-12	Stated	1/1/23	1/1/28
SMECO	Southern Maryland Electric Cooperative, Inc.	H-9C	Stated	1/1/23	1/1/28
SRE	Silver Run Electric, LLC	H-27	Formula	1/1/23	1/1/28
TrAILCo	Trans-Allegheny Interstate Line Company	H-18	Formula	6/1/23	6/1/28
Transource	Transource, LLC	H-26, H-29, H-30	Formula	1/1/23	1/1/28
	Transource Maryland, LLC	H-30	Formula	1/1/23	1/1/28
	Transource Pennsylvania, LLC	H-29	Formula	1/1/23	1/1/28
	Transource West Virginia, LLC	H-26	Formula	1/1/23	1/1/28
UGI	UGI Utilities, Inc	H-8	Formula	6/1/23	6/1/28
Average					

Note 1: The future Rate Year is based on the future billing date which the user may define in the tab entitled "Cost Summary By Customer."
 Note 2: If a single useful life for all transmission facilities is not provided in the formula rate filing then for those TOs with Formula Rates it is estimated to be the total transmission plant in service divided by the total annual depreciation.

(Credit: PJM, "Project Status & Cost Allocation" at Transmission Cost Information Center, Tab 6 - Formula Rate Filing Information, Version 14.0, July 11, 2023).

G. Are the formula rate templates and protocols the same for all PJM transmission owners?

No, each transmission owner within PJM has its own formula rate template and protocols. The layout of the templates may be similar in terms of the major categories of expenses and the attached explanatory sheets, but they differ in terms of specific details. Similarly, each set of formula rate protocols is bespoke to the utility. For

H. What is the standard rate year for utilities operating under a formula rate in PJM?

Most PJM transmission owners use a calendar year basis (January 1 – December 31) for their rate year. The **AEP East Transmission Companies (AEPTCo)** provide an example of how the calendar year-rate year may work. AEPTCo protocols state that the utility will provide their true-up calculations for the prior rate year on or before May 25 of each year and the projections for the next rate year by October 31 of each year.²³

AEPTCo's protocols for the 2023 Rate Year require that:

- On or before October 31, 2022, AEPTCo posted its 2023 Annual Projection based on its forecasted 2023 Net Revenue Requirement.
- On or before May 25th, 2024, AEPTCo will post its 2023 Annual Update which includes the actual Net Revenue Requirement and the True-Up Adjustment for 2023.
- On or before October 31, 2024, AEPTCo will post its 2025 Annual Projection based on its forecasted 2025 Net Revenue Requirement. The forecasted net revenue requirement incorporates the 2023 True-Up Adjustment.

Thirteen utilities within PJM operate on a “June 1– May 31” rate year. The **Atlantic City Electric Company**, for example, follows this rate period and submits their projected annual revenue requirements as part of an Annual Update on or before May 15 of each year.²⁴

I. Where can stakeholders find information about a transmission owner's FERC-approved annual revenue requirement?

Each transmission owner's ATRR is incorporated in Attachment H of the PJM Open Access Transmission Tariff, the principle governing document for PJM. If the transmission owner uses stated rates, its Attachment H will provide the effective rate value. If they use a formula rate, its Attachment H may consist of a formula that is missing inputs and the formula rate protocols. To find the current effective rate, stakeholders should refer to the Annual Updates which PJM posts on its website.²⁵

²³ PJM, “Open Access Transmission Tariff,” at [Administration and Study of New Service Requests, Attachment H-14 – AEP East, Section 3 – Annual Update](#), last accessed December 19, 2023.

²⁴ PJM, Open Access Transmission Tariff, “[Administration and Study of New Service Requests, Attachment H-1B – Atlantic City Electric Company, Section 2 – Annual Update](#),” last accessed December 19, 2023.

²⁵ PJM, “[Formula Rates](#),” last accessed December 19, 2023.



Advocacy Opportunities

Stakeholders can and should engage in the PJM rate cases and formula rate reviews. The stakeholder review process for formula rate protocols varies amongst transmission operators (located in Attachment H of the PJM OATT), with different timelines for submission of discovery and both formal and informal challenge processes.²⁶ An overview of the timelines is provided in Figure 4.

FIGURE 4. Overview of Annual Stakeholder Advocacy Timeline

(Credit: CAPS White Paper at 20).

Review Period



- PJM Protocols range from 120 - 180 calendar days of discovery.
- PJM Tariffs range from 15 business days - 30 calendar days (i.e. approximately 142 - 210 days into the Review Period) for a utility to respond to its last set of information requests.

Preliminary Challenge



- PJM Protocols range from 150 to 240 calendar days to submit informal challenges (typically this is the last day of the "Review Period"). This only allows Interested Parties approximately 8 - 30 calendar days to review all responses and submit informal challenges.

Formal Challenge



- PJM Protocols range from 60 to 75 calendar days after the Review Period ends to submit formal challenges. This timeframe is reduced as the utility has 15 - 20 business days to respond to the informal challenge

Advocates should pay attention to the timelines for their respective utilities, especially utilities with shortened discovery periods because the truncated timing may make it difficult to obtain enough information to engage in informal discussions or file a formal challenge.²⁷ Because formula rate cases and annual updates are detailed technical filings, advocates with sufficient resources should consider hiring their own, or working with other

²⁶ GDS Associates Inc., and McNeese Wallace and Nurick LLC, "White Paper on Formula Rates and PJM Supplemental Projects," at 20, CAPS, 2021 (CAPS White Paper).

²⁷ CAPS White Paper at 20.

ABOUT CAPS

Established in 2013, Consumer Advocates of the PJM States, Inc. (CAPS) is a non-profit organization whose members represent over 65 million consumers in the 13 PJM States and the District of Columbia. Regulatory rules vary greatly across jurisdictions, but in each the electricity costs paid by consumers is at least partly determined by the tariff and rules under which PJM operates. PJM and its stakeholders set those rules and CAPS' engagement is necessary to ensure that consumers' voices are heard. CAPS' mission is to actively engage in the PJM stakeholder process and at the Federal Energy Regulatory Commission to ensure that the prices consumers pay for reliable, wholesale electric service are reasonable.

ABOUT DGA

David Gardiner and Associates (DGA) was founded in 2001 to serve as a strategic advisor to organizations and businesses seeking a sustainable future. Our firm combines expertise developing research and analysis with deep understanding of clean energy markets and policy. DGA has worked for foundations, businesses, and non-profit advocacy groups to develop strategies to identify and promote policies that will advance clean energy and a low-carbon economy.

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