

PJM Interconnection has posted a paper examining transmission cost allocation methodologies and issues at the following link: <http://www.pjm.com/documents/~media/documents/reports/20100310-transmission-allocation-cost-web.ashx>.

Titled, “A Survey of Transmission Cost Allocation Issues, Methods and Practices,” the informational paper surveys a variety of broad categories and actual implementations of methods for determining who pays for transmission expansion. This survey is part of PJM’s ongoing effort to be an impartial information provider in line with its responsibility as a Regional Transmission Organization and as requested by its members and other stakeholders. The intent of the survey is to advance the discussion of cost allocation and to facilitate a shared, if not a common understanding of the issues.

The paper does not recommend a preferred cost allocation method.

#### Synopsis:

The debate on who should pay for transmission additions has centered on a choice between “beneficiary pays” and “socialization.” Generally, proponents of “beneficiary pays” argue that those parties benefiting from transmission should pay the costs for building it, with the implicit assumption that all benefits can be assigned to individual parties. Proponents of “socialization” argue the most important benefits – such as reliability – cannot be easily assigned because all parties enjoy these benefits, and, therefore, costs should be spread over all users connected to the transmission system.

In practice, there is no broad consensus on precise definitions for “beneficiary pays” and “socialization” as evidenced by stakeholder disagreement over who should be considered beneficiaries or what constitutes socialization. Moreover, there may be other considerations such as ease of administration and understanding, the stability of rates resulting from the allocation over time, reinforcing incentives present in wholesale power markets, or recognition of public good and positive externality benefits.

Transmission costs can be allocated:

- between load and generation,
- by amount of usage or generation,
- by peak consumption or generation,
- by impact on power flows, or
- by identifying parties with financial gains.

Key conclusions:

- Parties will need to consider priorities when determining cost allocation.
- Cost allocation is a societal and regulatory policy decision.
- A combination of methods is common practice worldwide, reflecting the diversity of priorities and perspectives.