Updates

The New Jersey Board of Public Utilities (BPU) formally requested on April 26, 2023, that PJM Interconnection, L.L.C. (PJM) incorporate New Jersey's increased offshore wind goals into the PJM transmission planning process via the "State Agreement Approach" (SAA). In 2020, New Jersey became the first state to use the SAA to plan the transmission infrastructure necessary to support its offshore wind (OSW) procurement goals. Since then, New Jersey has increased its OSW procurement goal to 11 gigawatts (GW) by 2040.[1] The BPU's order reflects the need for additional transmission infrastructure to accommodate that increase.

The BPU Order

The BPU intends to follow a similar competitive transmission solicitation process with PJM as it did previously. In "SAA 2.0," the BPU seeks to determine "whether an integrated suite of open access transmission facilities"—both onshore and possibly onshore—can provide an economically efficient and timely solution to delivering additional OSW to the grid. The order contemplates the need to accommodate injections of OSW energy between 2032 and 2040.[2] While the order does not commit to procuring any particular transmission solutions, BPU staff identified several possible options to be explored through a solicitation run by PJM, including onshore substations, offshore substations with connections to onshore substations, and offshore "backbone" transmission lines connecting multiple OSW projects. BPU's third solicitation for OSW projects also

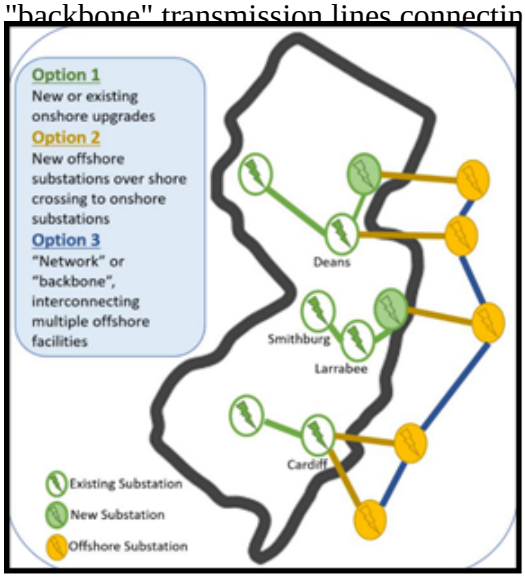

Figure 1.Options Identified in April 26 BPU Order

ansmission network and required proposals to be designed as "mesh-

The BPU order designates the Deans 500 kV substation as the preferred point of interconnection for 3.5 GW of OSW, noting that Deans is located near high load centers in New Jersey and is accessible to the OSW lease areas capable of serving New Jersey. PJM previously identified Deans as having the available capability to accommodate significant injections of OSW, the order notes. However, the BPU also invited proposals for alternative points of interconnection, and the options under consideration include those that might connect to the Larrabee substation, where the Larrabee Tri-Collector Solution (LTCS) selected in October 2022 as the first SAA process (SAA 1.0) invoked by New Jersey is located.

The order also recognizes that continuing to procure transmission solutions independently from OSW projects has led to growing concern over project-on-project risk and construction delays. For OSW developers, the risk is that selected transmission solutions will not be energized by the time their OSW project is ready to start testing; for ratepayers, the risk is that selected transmission solutions will be placed in service (and their costs included in transmission rates) well before OSW projects are commercially operable. Recognizing the "chicken-and-egg" problem, the order encourages bidders in SAA 2.0 to consider how cost caps and other binding obligations "may relate to the interconnection of qualified OSW" projects and seeks "innovative proposals" to address these commercial risks. The BPU said it would "heavily weigh" proposals that include protections addressing these risks.

Further, the order indicates an intent to work with other east coast states to gauge their interest in coordinating regional OSW transmission solutions. The BPU seeks to "accelerate discussions" with other states and federal stakeholders, provided that any partners agree to shoulder a pro rata share of any development and operating

costs. Recently, Maryland announced an increase in its OSW goals and also directed its utilities to use the PJM SAA to procure necessary transmission (read our update on Maryland's action here). Maryland alluded to its interest in partnering with other states on transmission and may be a prime candidate for collaboration with New Jersey, given its proximity and participation in PJM. Outside of PJM, New York may present opportunities due to proximity and the advanced state of its OSW procurement; however, such a collaboration might present additional challenges related to interregional development, operations, and cost recovery across PJM and the New York Independent System Operator (NYISO).

SAA Process Steps

The SAA 2.0 process will likely follow the multiyear path established by SAA 1.0. After setting SAA 1.0 in motion in 2020, the BPU signed an SAA Study Agreement with PJM that formalized the solicitation and study process, including key milestones. That SAA Study Agreement was filed with the Federal Energy Regulatory Commission (FERC) and accepted by FERC on February 16, 2021, effective November 18, 2020.[3] After the solicitation for transmission proposals was completed in 2021, the BPU signed an SAA Agreement with PJM that established processes for the review and selection of specific transmission projects and committed New Jersey ratepayers to pay the cost of any transmission projects that the BPU elected to sponsor. FERC accepted the SAA Agreement on April 14, 2022, effective April 15, 2022.[4]

As noted above, in late October 2022, the BPU selected the LTCS, along with a few smaller onshore projects, as the best option to meet New Jersey's stated SAA goals of reducing community disruption, environmental impacts, and customer costs while minimizing risk. Finally, on December 2, 2022, FERC accepted Schedule 12 - Appendix C to the PJM open access transmission tariff that establishes cost responsibility among ratepayers for each transmission project selected through an SAA process, including the LTCS.[5] Each tariff sheet under Schedule 12 - Appendix C reflects cost allocation for a particular SAA project, thus allowing cost allocation methodologies to differ by project (for example, in the event that costs are to be shared with another state's ratepayers where a joint regional proposal is pursued). For the LTCS selected under SAA 1.0, cost responsibility is to be assigned annually on a load-ratio-share basis among network transmission customers in New Jersey as well as point-to-point transmission customers with points of delivery in New Jersey.

Next Steps

As a next step, the BPU directed its staff to prepare an SAA 2.0 solicitation guidance document for public comment with details regarding solicitation components and the proposal evaluation process. The BPU did not direct a timeline by which the guidance document should be prepared. Given the December date for the awards for the third offshore wind solicitation, some overlap can be anticipated.

Endnotes

[1] New Jersey issued a third solicitation for OSW, which it expects to award in December 2023. See our Update on the third solicitation.

[2] The SAA 2.0 approach will not affect awarded projects intended to meet the original 7500 MW goal (including those to be awarded in the third solicitation). Instead, "incorporation of any OSW coordinated transmission solution as a result of the SAA 2.0 process will be exclusively for projects injecting the additional 3,500 MW needed to achieve the state's current OSW goal of 11,000 MW."

[3] *PJM Interconnection, L.L.C.*, 174 FERC ¶ 61,090 (2021).

[4] *PJM Interconnection, L.L.C.*, 179 FERC ¶ 61,024 (2022). See our prior Update on FERC's acceptance of the approach.

[5] *PJM Interconnection, L.L.C.*, 181 FERC ¶ 61,178 (2022).

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