

**Members Committee Background Materials:**

**May 24, 2018 PJM Markets and Reliability  
Committee**

**Approval of Alternative Motion (as attached)**

## ALTERNATIVE MOTION on COST CONTAINMENT POLICY– ITEM \_\_–

PJM MRC – MAY 24, 2018

### ALTERNATIVE MOTION – with Friendly Amendment Included Below:

**A) ALTERNATIVE MOTION CONTAINS OA TARIFF LANGUAGE CHANGE – A REDLINE TO PJM’S PROPOSAL IS ATTACHED. ALT MOTION TO APPROVE OA TARIFF LANGUAGE CHANGE. (OA TARIFF LANGUAGE TO BE FILED AT FERC CONSISTENT WITH NORMAL PJM PROCEDURE).**

**B) ALTERNATIVE MOTION TO APPROVE AND MODIFY PJM’S PROPOSED JAN 2018 BUSINESS PRACTICE MANUAL WITH THE FOLLOWING CHANGES BELOW.**

- **Delete** the following sentence from Section 6.2.3 of Business Practice Manual
  - “Cost cap proposals submitted for consideration by PJM as part of a competitive solicitation for any proposal window are to be limited to only those costs associated with bringing the project into service (e.g. construction costs, siting costs and other permitting and testing costs).”
- **Delete** the following bullet point from Section 8.1.3 of Business Practice Manual
  - “PJM’s analysis of cost cap commitment proposals will be limited to an analysis of proposals seeking to cap the costs of bringing the proposed project into service including construction costs, siting costs, and testing costs.”
- **Add** bullet points to Section 8.1.3 of Business Practice Manual to reflect the OA Change
  - [5/3/18 proposed] PJM Enhanced Disclosure Templates are approved and included in the BPM. PJM will post Disclosure Templates on the PJM website as soon as practicable after the close of each proposal window. PJM will post all PJM project submittal templates.
  - A constructability, independent cost and comparative analysis will generally only be performed and posted for proposal window project finalists meeting the technical need (more than one), including Transmission Owner Upgrades. The comparative analysis may be omitted when there is a single clear and obvious, more efficient or cost-effective project proposal.
    - Details of such analysis, including assumptions related to preparation of independent cost estimates and allocation of the total estimated cost across categories of costs similar to those outlined on item 10.b.iii of the [5/3/18 proposed] PJM Template labeled “Cost Containment Commitment”, will be posted for stakeholder feedback.
    - When evaluating finalist proposals involving Upgrades (in part or in whole), PJM shall use an independent cost estimate of Upgrades when comparing the costs to other competing projects.
    - PJM shall determine the reasonableness of developer cost estimates and shall, for project comparison purposes, use a cost PJM determines to be appropriate based on project risks, feasibility, and the terms of any binding cost containment proposal.
  - In scrutinizing the cost of project proposals, the Office of Interconnection shall complete for each project finalist’s proposal, including Transmission Owner Upgrades, a PJM-completed Comparative Framework demonstrating the comparative risks to be borne by ratepayers as a result of the proposed binding cost commitment or the use of non-binding cost estimates,

including, but not limited to, a comparative analysis of item 10.b.iii of the [5/3/18 proposed] PJM Template labeled “Cost Containment Commitment”. Such comparative analysis shall be presented to the TEAC for review and comment.

- Caps on O&M Costs will not be part of the PJM evaluation process for binding cost commitment proposals. Binding cost containment proposals related to construction cost caps, project total return on equity (including incentive adders), and/or capital structure will be part of the PJM evaluation process for binding cost commitment proposals.
  - For binding cost containment proposals related to construction cost caps, project total return on equity (including incentive adders), and/or capital structure, the Developer shall be required to agree to language for inclusion as a non-conforming Term and Condition in the Designated Entity Agreement regarding its project to ensure that the appropriate submissions to the Federal Energy Regulatory Commission with respect to the Developer’s recovery of its revenue requirement for the project provide certainty of compliance with the binding cost commitments.
  - The materials provided to the TEAC shall describe in a clear and transparent manner, the method by which the Office of Interconnection scrutinized the cost aspects of each finalist proposal, including any binding cost commitments.
  - PJM shall retain the ability to select the project based on all relevant factors, with cost and binding cost containment being one component. PJM’s rationale with respect to the evaluation process and the resulting decision will be explained and reviewed at TEAC and stakeholders will be given the opportunity to provide feedback related to each proposal window. Additionally, PJM will provide an end-of-RTEP cycle comparative summary table (including performance, constructability, cost and cost commitment).
- **Replace** the words “cost cap on project construction costs” listed on page 28 and page 29 with “cost commitment proposal”

**C) ALTERNATIVE MOTION REGARDING COMPARATIVE FRAMEWORK –**

To ensure transparent, timely, and consistent PJM comparative analysis of the costs of submitted proposals, the Office of Interconnection (including legal and finance) shall, after seeking the advice and recommendation of the PJM Independent Market Monitor, develop by September 1, 2018 a framework (the “Comparative Framework”) to evaluate the quality and effectiveness of binding cost containment proposals versus non-binding cost estimate proposals, including, but not limited to, a comparative analysis of item 10.b.iii of the [5/3/18 proposed] PJM Template labelled “Cost Containment Commitment”.

Such initial Comparative Framework shall, among other things, address PJM’s (1) assessment of the scope and quality of cost containment proposals related to construction caps, including review of commitment language, and (2) consideration of the comparative risks associated with cost estimate proposals or uncapped portions of binding cost containment proposals related to construction caps (so that the risk of unanticipated cost overruns is properly taken into account). The initial Comparative Framework, along with the advice and recommendation of the PJM Independent Market Monitor, shall be presented to the Planning Committee for review and comment. In any event, the initial Comparative Framework shall be presented by December 6, 2018 to the MRC, along with the advice and recommendation of the PJM Independent Market Monitor, for a vote and to be effective for the 2018 Long-lead Project Proposal Window.

An additional ROE Comparative Framework, including analysis of an ROE or capital structure commitment, along with any appropriate proposal for planning process time-line changes, shall be added to the Comparative Framework in 2019. Such additional ROE Comparative Framework shall also be developed, including consideration of any advice and recommendation of the PJM Independent Market Monitor. The additional ROE Comparative Framework, along with the advice and recommendation of the PJM Independent Market Monitor, shall be presented to the Planning Committee for review and comment. In any event, the additional ROE Comparative Framework shall be presented by May 1, 2019 to the MRC, along with the advice and recommendation of the PJM Independent Market Monitor, for a vote to be effective for the 2019 windows to be held after May 1, 2019.

The Office of Interconnection, in consideration of any advice and recommendation of the PJM Independent Market Monitor, shall also further update and post PJM Enhanced Disclosure Templates to include ROE and capital structure commitment proposals, as well as to include clear information about cost estimates and cost containment.

# A) OA Language Change

## (c) Project Proposal Windows

(c)(2) Proposals from all entities (both existing Transmission Owners and Nonincumbent Developers) that indicate the entity intends to be a Designated Entity, also must contain information to the extent not previously provided pursuant to Section 1.5.8(a) demonstrating: (i) technical and engineering qualifications of the entity, its affiliate, partner, or parent company relevant to construction, operation, and maintenance of the proposed project; (ii) experience of the entity, its affiliate, partner, or parent company in developing, constructing, maintaining, and operating the type of transmission facilities contained in the project proposal; (iii) the emergency response capability of the entity that will be operating and maintaining the proposed project; (iv) evidence of transmission facilities the entity, its affiliate, partner, or parent company previously constructed, maintained, or operated; (v) the ability of the entity or its affiliate, partner, or parent company to obtain adequate financing relative to the proposed project, which may include a letter of intent from a financial institution approved by the Office of the Interconnection or such other evidence of the financial resources available to finance the construction, operation, and maintenance of the proposed project; (vi) the managerial ability of the entity, its affiliate, partner, or parent company to contain costs and adhere to construction schedules for the proposed project, including a description of verifiable past achievement of these goals; (vii) a demonstration of other advantages the entity may have to construct, operate, and maintain the proposed project, including any binding cost commitment proposal to cap project construction costs the entity may wish to submit; and (viii) any other information that may assist the Office of the Interconnection in evaluating the proposed project. To the extent that an entity submits a cost containment proposal the entity shall submit sufficient information for the Office of Interconnection to determine the binding nature of the proposal with respect to critical elements of project development.

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(e) Criteria for Considering Inclusion of a Project in the Recommended Plan. In determining whether a Short-term Project or Long-lead Project proposed pursuant to Section 1.5.8(c), individually or in combination with other Short-term Projects or Long-lead Projects, is the more efficient or cost-effective solution and therefore should be included in the recommended plan, the Office of the Interconnection, taking into account sensitivity studies and scenario analyses considered pursuant to Section 1.5.3 of this Schedule 6, shall consider the following criteria, to the extent applicable: (i) the extent to which a Short-term Project or Long-lead Project would address and solve the posted violation, system condition, or economic constraint; (ii) the extent to which the relative benefits of the project meets a Benefit/Cost Ratio Threshold of at least 1.25:1 as calculated pursuant to Section 1.5.7(d) of this Schedule 6; (iii) the extent to which the Short-term Project or Long-lead Project would have secondary benefits, such as addressing additional or other system reliability, operational performance, economic efficiency issues or federal Public Policy Requirements or state Public Policy Requirements identified by the states in the PJM Region; (iv) the ability to timely complete the project and project development feasibility; and (v) other factors such as cost-effectiveness, including the quality and effectiveness of any voluntarily-submitted, binding cost commitment proposal related to

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Transmission Facilities which caps project construction costs (either in whole or in part), project total return on equity (including incentive adders), or capital structure, revenue requirements, either in whole or in part, the ability to timely complete the project, and project development feasibility. In scrutinizing the cost of project proposals, the Office of Interconnection shall determine, for each project finalist's proposal, including any Transmission Owner Upgrades, the comparative risks to be borne by ratepayers as a result of the proposal's binding cost commitment or the use of non-binding cost estimates. Such comparative analysis shall detail, in a clear and transparent manner, the method by which the Office of Interconnection scrutinized the cost and overall cost-effectiveness of each finalist's proposal, including any binding cost commitments. Such comparative analysis shall be presented to the TEAC for review and comment. In evaluating any ROE or capital structure proposal, PJM is not making a determination that the ROE or capital structure results in just and reasonable rates, which shall be addressed in the required rate filing with the FERC. Stakeholders seeking to dispute a particular ROE analysis utilized in the selection process shall address such disputes with the Designated Entity in the applicable rate proceeding where the Designated Entity seeks approval of such rates from the Commission.

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## Item 3 - AMP Friendly Amendment

- In evaluating any cost, ROE and/or capital structure proposal, PJM is not making a determination that the cost, ROE or capital structure results in just and reasonable rates, which shall be addressed in the required rate filing with the FERC. ~~The Designated Entity Agreement, whether conforming or non-conforming, shall be filed at FERO by PJM.~~ Stakeholders seeking to dispute a particular ROE analysis utilized in the selection process may shall address such disputes with the Designated Entity in the applicable rate proceeding where the Designated Entity seeks approval of such rates from the Commission. Neither PJM, the Designated Entity nor any stakeholders are waiving any of their respective FPA section 205 or 206 rights through this process. Challenges to the Designated Entity Agreements are subject to the just and reasonable standard.

→ Sentence struck at  
May 24 MRC Mtg