Cost Commitment Status and Next Steps
“Comparative Cost Framework”

Mark Sims
Manager, Infrastructure Coordination
Planning Committee
October 17, 2019
Background

- FERC Order 1000
- PJM Competitive Planning process in place since the 2014 timeframe
- “Proposal Windows”
  - ~ 15 proposal windows
  - ~ 850 proposals
  - ~ 150 had proposed cost commitment provisions
May 2018

- Stakeholder MRC motion initiated the “comparative cost framework” development effort
- Key requirements:
  - Develop by September 2019
  - Present to MRC by December 2019
  - Effective January 1, 2020
  - “advice and recommendation of the IMM”
PJM Staff & IMM Meetings

• 2018
  – June
  – July
  – September
  – November
    • Joint PJM / IMM / Independent Cost Consultant conference

• 2019
  – January
  – February
  – June
  – July
  – August
  – August 29, 2019
  – September 9, 2019
  – October
May 2018
- MRC motions initiating the cost containment effort approved (and Aug 2018 motion to delay schedule)

2Q and 3Q 2019
- Timeline and overall conceptual approach updates

January 2019
- Overview of major components and overall approach

February 2019
- Additional detail of overall approach

March 2019
- Additional detail and example data visualization

April 2019
- Examples of what output to expect from the cost containment process

May 2019
- High level example and discussion of process implementation

June 2019
- High level summary of process and next step

July and August 2019
- Schedule and next steps

August 29, 2019
- Special PC – Cost Containment Workshop
  - M14F Language Review & IMM Staff Discussion

September 9, 2019
- Special PC – Cost Containment Workshop
  - M14F Language Review & IMM Staff Discussion

September 17, 2019
- M14F Language Review & Overall Discussion

October 17, 2019 (Today)
- M14F Language Review – Official First Read
Framework presented to PJM PC at a special session on August 29th

Additional session to provide stakeholder access to the Market Monitor on September 9th

Additional documentation in Manual 14F – Competitive Transmission Planning

– New section 8.4 – Comparative Cost Framework
– Posted with today’s meeting materials
Stakeholder Feedback

- Following the review of the Comparative Cost Framework and initial drafts of the corresponding M14F language, PJM received feedback from a variety of sources

- Feedback from Stakeholders
  - “Containment vs. Commitment”
  - Project sponsor’s credit
  - Parameters considered
  - Exclusions
  - FERC recovery rates
  - Risk of estimated costs being exceeded for non-commitment projects
  - Overall quality and effectiveness of proposed containment parameters, value, likelihood of commitment being triggered
  - Defined Independent Market Monitor role beyond OATT – Attachment M
  - “enforceability”
  - Review of cost commitment election
Existing M14F Language (Reminder that the language below is already approved and throughout M14F):

- If PJM requests additional reports or information to evaluate the submitted proposal or determines any information submitted in a proposal is deficient, the proposing entity must provide the requested information within 10 business days of receipt of the notification from PJM.
- If a cost cap on project construction costs is proposed, a detailed explanation of the proposed cost cap mechanism, including a detailed explanation with illustrative examples of those components of the total cost of bringing the project into service that are intended to be covered by the cost cap and those cost components which are not covered by the cost cap.
- The proposal **submitting must include the proposed contractual cost commitment language** to be included in the Designated Entity Agreement detailing the terms of the cost commitment including language which allows parties to be able to identify the type of costs covered by the cost commitment and those excluded;
- Entities submitting a cost commitment must submit supporting **rationale for any exclusions**, including, but not limited to detailed information such as past experiences relevant to the construction of such projects, past experience with the events giving rise to the proposed exclusion and discussion of why the developer has chosen to exclude the particular risk from the cost commitment so that **PJM can assess the likelihood of the triggering of exclusions** relative to the overall cost commitment proposal.
- Cost or Cost Containment Mechanism - In analyzing any proposed cost commitment and exclusions to a cost cap, **PJM will assess the likelihood and consequence of project execution risk factors** listed below and impact of the cost commitment.
- **PJM will provide an end-of-RTEP cycle comparative summary table** (including performance, constructability, cost and cost commitment). Cost commitments included in project proposals will be noted by PJM in its presentation of the proposals to the TEAC.
- 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.
Next Steps

• M14F – New Section 8.4 – Comparative Cost Framework
  – https://pjm.com/-/media/committees-groups/committees/pc/20191017/20191017-item-10d-m14f-language-anticipated-m14f-clean.ashx

• First Read of M14F – section 8.4 language - Cost Comparative framework
  – October 17, 2019 PC
  – October 31, 2019 MRC

• Request for Endorsement of M14F – section 8.4 language - Cost Comparative framework
  – November 14, 2019 PC
  – December 5, 2019 MRC
Revision History

- 10/14/2019 – Original version posted to PJM.com
- 10/18/2019 – Updated next steps slide