

ALTERNATIVE MOTION on COST CONTAINMENT POLICY– ITEM __–

PJM MRC - MAY 2018

ALTERNATIVE MOTION:

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 BPM. Disclosure Templates will be posted 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 on proposal window finalists meeting the technical need (more than one), including Upgrades.
 - 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 the 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 proposals, the Office of Interconnection shall determine and include in the TEAC and PJM Board materials, for each proposal window finalist, regardless of whether the project relates to an Upgrade of existing facilities and/or greenfield project, a PJM-completed Comparative Framework demonstrating the comparative risks to be borne by ratepayers as a result of the proposal’s inclusion of a binding cost commitment proposal 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”.

- 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.
 - 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. 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 jointly work with the PJM Independent Market Monitor to develop and post, within 60 days, a jointly agreed-upon framework (the “Comparative Framework”) to evaluate the quality and legal enforceability 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 Comparative Framework shall, among other things, address (1) PJM’s assessment of the scope and quality of cost containment proposals, including review of legal language, (2) analysis of a ROE or capital structure commitment, and (3) application of a comparative risk adjustment factor to cost estimate proposals or uncapped portions of binding cost containment proposals (so that the risk of unanticipated cost overruns is properly taken into account). The Office of Interconnection, in consultation with the IMM, within 60 days, 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.