

Cost Commitment Status and Next Steps “Comparative Cost Framework”

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- FERC Order 1000
- PJM Competitive Planning process in place since the 2014 timeframe
- “Proposal Windows”
- Cost commitment provisions



The screenshot shows the PJM website's 'Competitive Planning Process' page. The page title is 'Competitive Planning Process'. The main content area contains the following text:

The PJM competitive planning process implements FERC Order 1000. The process affords non-incumbent transmission developers an opportunity to participate in the regional planning and expansion of the PJM bulk electric system. By publishing a set of criteria violations and soliciting solutions from competing transmission developers, PJM and the FERC hope to encourage innovative, cost-effective and

PJM will announce identified planning month planning

Planning

Long-Term - conditions and

Short-Term -

Immed

The map shows the PJM region with several orange circles indicating project clusters. A callout box labeled 'EXAMPLE Project Cluster' shows three sub-clusters labeled A, B, and C.

- 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”

- 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
 - M14F Language Review – Official First Read
- November 14, 2019
 - M14F Language – Endorsed by the PC

- Framework presented to PJM PC in August
- Manual 14F – Competitive Transmission Planning
 - New section 8.4 – Comparative Cost Framework
 - Posted with today’s meeting materials

DRAFT FOR PJM PC Review
8/29/2019

8.4 Comparative Cost Framework

8.4.1 Applicability

PJM will initiate the comparative cost framework to evaluate the costs of project proposals that are submitted through PJM’s competitive proposal window process, with the final comparative cost framework being performed once project proposals are found to pass an engineering screen. The comparative cost framework is a multi-step process that calculates project costs and permits the comparison of costs among projects addressing the same violation(s) or constraint(s) (competing projects) submitted through the proposal window. The result of the final comparative cost framework for competing projects is a key input to PJM’s decision making process about which projects PJM should recommend for inclusion in the regional transmission expansion plan (RTEP).

If there is only one project proposal submitted to address violation(s) or constraint(s), the comparative cost framework analysis set forth here is not necessary. Instead, PJM will review the reasonableness of the project proposal’s costs for that one project proposal.

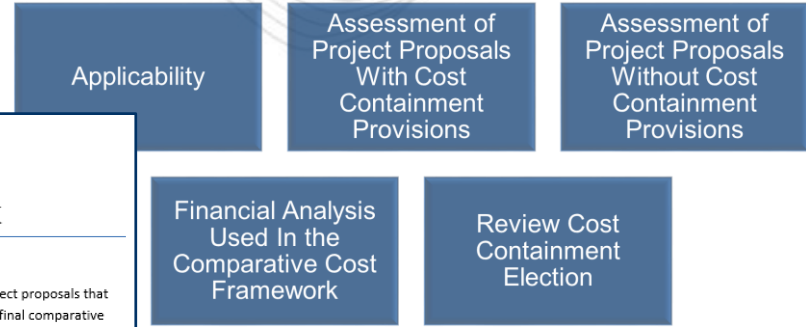
8.4.2 Assessment of Project Proposals With Cost Containment Provisions

If a project proposal includes a cost containment provision, PJM will assess the details of the proposed cost containment provision and corresponding cost estimate. Such assessment may include, for example, a review of proposed project-specific risks, scope of the proposed project, reasonableness of the estimated construction costs, risks of proposed costs increasing relative to the cost containment provision, risks of proposed costs exceeding the cost containment provision, and the risk of the sponsor’s inability to complete the proposed project.

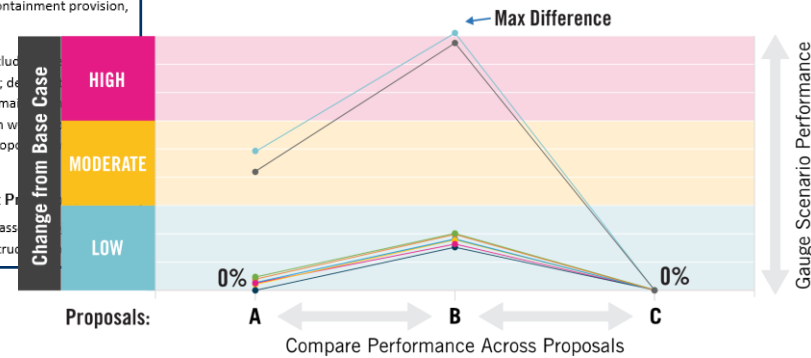
A cost containment provision submitted as part of a project proposal may include limits on the annual revenue requirement; the rate of return on equity (ROE); the capital structure (debt to equity ratio); the total capital cost; operations and maintenance expense; allowance for funds used during construction (AFUDC); construction work-in-progress (CWIP); abandonment costs and schedule guarantees. A cost containment provision may exclude defined cost elements from the cost containment provision.

8.4.3 Assessment of Project Proposals Without Cost Containment Provisions

If a project proposal does not include a cost containment provision, PJM will assess the project-specific risks, scope of the project and reasonableness of the estimated construction costs.



Project Name	Proposal - A	Proposal - B	Proposal - C
Project Sponsor Proposed Cost Estimate	\$	\$\$	\$
Independent Consultant Cost Estimate	\$	\$\$	\$
Cost Containment	N	Y	Y
PJM Cost Estimate with Cost Containment	\$	\$\$	\$



- M14F – New Section 8.4 – Comparative Cost Framework draft posted with today’s materials
- First Read of M14F – section 8.4 language - Cost Comparative framework
 - October 17, 2019 PC
 - October 31, 2019 & December 5, 2019 MRC
- Request for Endorsement of M14F – section 8.4 language - Cost Comparative framework
 - November 14, 2019 PC
 - Vote - 108 Yes; 33 No; 11 Abstain = PASS (77%)
 - December 19, 2019 MRC