Competitive Planning Process: Consideration of Cost Containment

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Special PC Session
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• PJM has received project proposals with a number of cost commitment proposals over the past three years of proposal windows.

• Stakeholders have raised questions of how cost commitment is considered as part of the overall project evaluation in the course of PJM evaluations.

• In early 2017 in the course of development of Manual 14F, PJM indicated that separate discussions would follow to address cost commitment.

• In May 2017, PJM engaged stakeholder discussion in Special PC sessions to consider cost cap commitments in proposal evaluations.
Objective of the Special PC Sessions

Evaluate the need for and, if appropriate, develop guiding principles for PJM to consider cost containment provisions offered by proposing entities in the evaluation and selection of projects within the competitive planning process.
History – Cost Containment Special Sessions

- May 24, 2017 – Education session
- July 18, 2017 – Developed principles for evaluating cost commitments
- August 21, 2017 – Developed principles for evaluating cost commitments
- October 9, 2017 – Reviewed draft manual language
- November 4, 2017 – Reviewed draft manual language and OA language
- Dec. 14, 2017 - First Read at PC
- Dec. 21, 2017 - First Read at MRC
- Jan. 11, 2018 - Endorsed at PC
- Jan. 25, 2018 – MRC
1. Revisions to Manual 14F and the OA were presented by PJM as the main motion.

2. LS Power, DC OPC, DE DPA, MD OPC, WV PSC, PJM ICC, and AMP proposed an alternate motion for consideration of cost commitments that extend beyond construction cost and include evaluation of legal enforceability.

3. Following discussion the main motion failed in a sector-weighted vote with 1.71 in favor.

4. A motion to defer the vote on the alternate motion was deferred to no later than the May 2018 MRC to allow the PC to further vet the alternate motion and other potential solutions.
Draft OA and M14F Changes

- Operating Agreement
  - Section 1.5.8

- Manual 14F changes
  - Section 6 Proposal Requirements
  - Section 8 Project Evaluation
• Submittal requirements
• Redaction requirements
• Evaluation of cost commitments
  – Limit review to cap on project construction costs (e.g., total costs associated with bringing the project into service)
  – Risk analysis of exceptions/exclusions to caps
  – Review of legal terms of cost commitment
  – Cost commitments are voluntary
• Designated Entity Agreement non-standard terms
Alternate Motion Summary

• Revisions to the proposed OA and Manual language to extend proposal evaluation beyond construction costs and include evaluation of legal enforceability.

• Additionally, the Alternate Motion proposed considering additional procedures related to:
  – Evaluation of cost estimates vs. cost caps
  – Evaluation of project construction cost caps
  – Evaluation of revenue requirement

• Develop Details/proposals, if needed, related to:
  – Proposal fees related to cost cap evaluation
  – PJM staff analytical / legal capabilities to assess the quality and legal enforceability of cost commitment proposal
Potential Education Topics

- RTEP Schedule
- CAISO implementation
- Revenue Requirement Analysis
- Project Evaluation Process (M14F)
- Project Constructability/Cost Review (M14F)
- Project Status monitoring (M14C)