Vote at MRC

- Alternative Motion is Scheduled for a Vote on or before the May MRC

- Robust Stakeholder Discussion on Alternative Motion is Ahead
  - Let’s Talk Substance on the Alternative Motion
  - This is Not A Start Over
  - Let’s Talk About Making the Alternative Motion Even Better
  - Collaboration & Consensus is Desired

- The results of the previous MRC Vote can be interpreted to mean that stakeholders want to see as much cost management and transparency as possible in PJM’s transmission evaluation process.
Order No. 1000 Competition Has Brought Commercial Innovation

- Overall shift of cost risk from ratepayers to developer is occurring in Order No. 1000 competitive processes
- Market moving to cost containment – 10 of 11 Duff-Coleman Bids

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i Limited duration ROE cap  
ii Cap on weighted average cost of capital (includes ROE), limited duration  
iii No ROE cap, but will forego ROE incentive adders in initial FERC filing  
iv AFUDC is not included in the cap  
v Only a portion of construction costs are capped

Table 2-2: Summary of Cost Caps, Concessions, and Commitments
No Restrictions on Binding Cost Caps is Consistent with Other FERC-Approved Tariffs and Policy

- **California ISO has no Restriction on Binding Cost Containment**
  - All forms of “Binding Cost Containment Commitments” and “Binding Cost Control Measures” are considered in its evaluation process and selection reports (CAISO BPM 5.8.1), including binding capital cost caps, ROE and incentive proposals, and capital equity structures

- **SPP considers caps on annual revenue requirements and incentive ROE in evaluation process**
  - From SPP Tariff: “Criteria considered in this evaluation category shall include, but not be limited to: estimated total cost of project, financing costs, FERC incentives, revenue requirements, lifetime cost of project to customers, ROE,..., cost certainty guarantee.” (SPP, Attachment Y, Section III.2(f)(iii)(4))

- **MISO requires annual revenue requirement and ROE to be part of evaluation process** (MISO, Attachment FF, 35.0.0(E)(3))
Alternative Motion Directs Planning Committee

To Consider further addressing, in PJM’s Proposed Business Practice Manual, the following issues:

• Additional procedures related to the evaluation of cost estimates vs. cost caps
• Additional procedures related to evaluation of project construction cost caps
• Additional procedures related to evaluation of revenue requirement

To Develop Details/Proposals, if Needed, related to:

• Any needed proposal fees related to cost cap evaluation, if needed
• Any needed proposals related to PJM staff continuing to develop the analytical / legal capabilities to assess the quality and legal enforceability of any voluntarily-submitted cost commitment proposal
Our Goals in the Upcoming Process

1. Ensuring that the Evaluation Process:
   • Is Efficient
   • Does not Arbitrarily Limit Consumers’ Benefits of a Competitive Process
   • Does not Limit Marketplace Innovation

2. Serious Discussion on
   • Evaluation Framework related to Cost Estimates vs. Cost Caps
   • Evaluation Framework related to Cost Caps

3. Provide to PJM and Stakeholders “Analytical Framework Templates” to Constructively Help PJM to Develop the Analytical Framework Templates for Evaluation of Cost Containment Proposals

4. Tariff and Business Practice Manual changes that reflect thought leadership on Cost Containment Policy

5. Collaboration & Consensus
Practical Approaches and Templates to Analyzing Cost Containment Proposals Should be Developed

• Cost Containment Analysis should be an Important Part of the Overall Selection Process. The selection process should properly value all types of cost containment.

• The Cost Containment Analysis should be run in parallel to the PJM Technical Analysis, not sequentially
  • This improvement will help ensure that the Cost Containment Analysis does not add time to the overall evaluation process.

• Cost Containment Proposals should not be standardized, but rather, the templates that PJM uses to evaluate Cost Containment Proposals should be standardized

• Stakeholder process should develop the Analytical Framework Templates for the Cost Containment Analysis
Four “Analytical Framework Templates” Should Be Developed

- **Analytical Framework Template #1:**
  - An Evaluation Template for Assessing the Quality and Legal Enforceability of the Cost Containment Proposal

- **Analytical Framework Template #2:**
  - An Evaluation Template for Reviewing A Construction Cost Cap Proposal

- **Analytical Framework Template #3:**
  - An Evaluation Template for Reviewing A Revenue Requirement Cap

- **Analytical Framework Template #4:**
  - An Evaluation Template for the Comparison of Cost Caps vs. Cost Estimates
    - *A serious discussion should occur on whether Cost Estimates Should be Risk-Adjusted in their Comparison Against Cost Caps*
Next Steps

- LS Power to propose Four Analytical Framework Templates
  - As discussed and consistent with previous slide

- LS Power would like to propose, discuss, and review each Analytical Framework Template (4 total) at the upcoming stakeholder meetings

- Input from other stakeholders on Analytical Framework Templates is welcome and encouraged