Cost Containment:
A Consumer Perspective

Special PC - Consideration of Cost Commitment for Evaluation of Competitive Transmission Proposals

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PJM's Mission & Vision

Vision
To be the electric industry leader - today and tomorrow - in reliable operations, efficient wholesale markets, and infrastructure planning.

Mission
- As the primary task, to ensure the safety, reliability and security of the bulk electric power system.
- Create and operate robust, competitive and non-discriminatory electric power markets.
- Understand customer needs and deliver valued service to meet those needs in a cost-efficient manner.
- Achieve productivity through the efficient union of superior knowledge workers and technology advances.
Consumers and Transmission Costs

➢ Transmission costs are the fastest growing segment of ratepayers’ wholesale energy costs
  ✓ PJM IMM reports that transmission costs represented 18.1% of the total price per megawatt from January – September 2017, up from 15.1% for the same period a year before

➢ Through RTEP PJM approved nearly $2 billion in transmission expansion and upgrades projects in 2017 alone

➢ Construction costs represent only 22.5% of total project costs
  ✓ Operating expense, for example, represented 38.1% of total project costs
Consumer Benefits of Competitive Cost Containment

- Consumers will have a better upfront understanding of the costs of a particular project.
- The risk for unexpected costs, overruns, and future expenses is shifted to transmission owners who are in a better position to understand, evaluate, and manage these risks/costs.
- Competition among cost containment proposals will result in provisions with more coverage, fewer exemptions, at lower costs.
What Consumers Need From PJM

- PJM has the expertise to evaluate the technical components of a transmission proposal.
- PJM is in the best position to develop expertise to evaluate cost containment proposals.
- PJM, with stakeholders, must ensure transparency in reviewing any cost containment proposals while protecting commercially-sensitive information.
- PJM can differentiate between cost estimates and cost containment proposals and their effectiveness.
Concern #1: PJM Should be the Ratemaker

- PJM is **NOT** the ratemaker; however PJM can provide a balanced review of cost containment proposals including revenue requirements:
  - What is covered under any cost containment proposal
  - What exclusions or carveouts exist
  - How one cost containment proposal compares to another proposal
Concern #2: You Can’t Have Creativity and Cost Containment

- PJM’s sponsorship model encourages technical creativity to solve transmission problems
- PJM should also encourage creativity in cost containment proposals
- Consumers, in every industry, routinely consider a product’s uniqueness AND cost implications when making purchasing decisions – why should transmission be different?