PJM comments on proposed LS Power templates for evaluation of competitive proposals

1. General comments
   a. PJM confirms that while providing commentary on the proposed cost cap evaluation templates by LS Power, project cost is just one factor in the overall evaluation by PJM of projects as part of the competitive process.
   b. PJM acknowledges the importance of transparency in project submittals and evaluation process and supports the efforts to increase the transparency in the process.
   c. PJM has conducted 16 competitive windows and evaluated almost 800 proposals over the course of the past 4 years. In this time, PJM effectively selected many projects based on evaluation of performance, project constructability and project cost factors. PJM affirms its position that detailed cost commitment analysis should be at its discretion based on the specific projects under consideration.
   d. PJM believes that any analysis that considers capping costs would need to be evaluated for different scenarios, which would be tailored to the specific risks and constructability factors for the projects under consideration. Use of a pre-determined single scenario template does recognize the range of variability of future inputs.
   e. PJM currently has standard submittal templates which proposers use to submit project data and additional template requirements that must be followed for greenfield projects. PJM acknowledges that the greater uniformity could be achieved through more improved templates for the project submittals for all projects. PJM commits to update the project submittal templates as appropriate to incorporate the new information and/or formatting changes as determined to be necessary for PJM’s evaluation and consideration of cost containment or for added transparency in the evaluation process.
The following are questions or comments specific to the proposed templates or aspects of the templates.

2. Evaluation templates - ROE and Equity percentage caps
   a. What is the data source that was used for calculating the average PJM ROE?
   b. Does the calculation method take into consideration the non-standard ROEs that are not a fixed number, but dependent on other financial values or maybe time dependent?
   c. Does the average PJM ROE calculation for the PJM system take into consideration the fact that there are stated rates in the PJM footprint where the ROE is unknown?
   d. What was the method used to calculate the average PJM ROE in the proposed evaluation template?
   e. Does the value presented as the average PJM ROE include 50 basis points for RTO membership?
   f. Does the value presented as the capped ROE include 50 basis points for RTO membership?
   g. Would PJM have to provide the resources to maintain ROE data for developing the average PJM ROE?
   h. How would the template account for cases where a proposer offers a non-standard ROE construct?
   i. How would PJM assess the uncertainty of the ROE value? The future system-wide ROE is uncertain and the risks up or down and may not be symmetric.
   j. What is the data source that was used to calculate for average equity percentage?
   k. What is the method that was used to calculate the average equity percentage?
   l. How does proposed template account for the uncertainty of the future average equity percentage changing in the future?
   m. How does the template account for the cases where the equity percentage is a hypothetical value, such as until project is placed in service, and may never apply to actual costs recovered?
   n. Does the average equity percentage calculation for the PJM system take into consideration the fact that there are stated rates where the equity percentage is unknown?
   o. How does the template account for the interdependency of ROEs and capital structure by using the average for each calculated separately? As rates are the result of extensive negotiations of many aspects of the templates, the ROE and equity percentage are among many attributes that are negotiated as part of an overall rate structure.
3. Revenue requirement determinants evaluation
   a. How does the template account for uncertainty of other aspects in a formula rate that might result in higher costs not captured in the template and therefore negate the benefit of the capped ROE/equity percentage?
   b. How is debt rate determined?
   c. Why is the debt rate used to discount the project revenues?
   d. How would PJM determine the average debt rate going forward?
   e. How would PJM assess the uncertainty of the debt rates?
   f. How would PJM assess potential debt variability among proposing entities?
   g. Why was 20 years used for the NPV analysis? The future system-wide rate aspects are uncertain and the risks up or down may not be symmetric.
   h. How does the proposed evaluation template allow for the diversity of cost commitment constructs that proposers might offer that go beyond capping ROE and equity percentage?

4. Infeasibility of cost commitment in evaluation templates
   a. How does risk of cost cap infeasibility or risk of default get factored in when cost caps appear to be unrealistic based on PJM independent cost estimate review?
   b. How does the proposed evaluation template take into consideration the legal language review of the cost commitment constructs that proposers might offer?

5. Construction cost estimate evaluation templates
   a. LS proposal uses the higher of the PJM estimate or the developer’s estimate for each cost category which would not make sense given the interrelated nature of the cost elements. Why are the higher of the independent cost components used?
   b. What is the purpose for segregating the costs for TO upgrades real estate?
   c. Why are all the cells for TO interconnecting facility costs and TO system upgrade costs for cost containment proposals blocked out? All projects have interconnecting facility costs and may have upgrade costs.

6. Construction cost cap and quantifying the risk of uncapped proposals
   a. LS Power suggests that cost estimates, which have already been reviewed independently by PJM and already evaluated/adjusted for project specific risks, be adjusted with penalty factor for project comparison purposes. LS Power proposes to adjust quantitatively the cost estimate based on a qualitative strong/medium/weak designation of the legal language of the cost cap and LS Power proposes the adjustment applies equally to all elements, regardless of differing risks of elements. There are several concerns with this adjustment. It does not consider that individual cost
elements are more specific to individual risk factors. It does not consider that risks vary by project. The proposed approach to the risk factors does not recognize that they are already considered as part of the independent cost review, thus creating a double counting of risk.

b. Proposers may focus only on pre-defined risks, while other risks that may be impactful but not anticipated with the predefined risks.

c. LS Power proposal suggests that each of the cost containment risks should be equally weighted. Equally weighting of cost containment risks without project specifics is arbitrary and does not take into consideration the relevance of such cost containment to the specific project(s). Based on project specifics of the projects proposed, it would be appropriate for PJM to identify relevant factors and adapt the assessment.

d. How is the risk of infeasibility of the construction cost cap considered? Even with a “strong” legal binding commitment, a project may be deemed infeasible at the proposed cost commitment.

7. General comments

a. LS Power proposes an arbitrary identification of 4 finalists for consideration of cost caps. Establishing a set number of projects for “finalists” for consideration is arbitrary. As stated above, such analysis should be at PJM’s discretion based on the specific projects under consideration and the findings at that time. Otherwise, a fixed number may drive PJM to perform unnecessary analysis in some cases and exclude competitive projects from consideration in other cases.