As requested by PJM, please allow this email to provide PSE&G’s preliminary feedback on the LS Power Analytical Framework Templates. Please feel free to post for all participants. Although PSE&G appreciates LS Power’s desire to advance templates in furtherance of its desired cost cap design components, PSE&G has significant concerns with the proposed templates as well as the overall concept of introducing ratemaking into the transmission planning and selection process through the promotion of caps on ROE, revenue requirement and capital structure. Please accept the following preliminary PSE&G concerns for consideration:

- **Complexity** -- Although it is relatively easy and attractive to suggest cost capping ROE, revenue requirement and capital structure, as the education sessions to this point have demonstrated, it is far more difficult to actually implement a process that anyone can follow, that PJM can meaningfully evaluate and, most significantly, that stakeholders can enforce. Absent enforceability, so-called cost caps are meaningless. Moreover, because cost cap proposals as LS Power has suggested can vary significantly -- with varying cap levels, the number of items being capped, and the number and scope of the “outs” being proposed -- hardwiring simplistic rules or requirements into a complex landscape likely will result in adverse results for ratepayers in some circumstances.

- **Enforcement** - The templates -- seeking to set up parameters for (1) assessing the quality and legal enforceability of cost cap proposals; (2) reviewing revenue requirement determinants; and (3) reviewing Cost Estimates vs. Cost Cap Proposals -- are so complex that not only is it unlikely that PJM will be able to timely and efficiently complete a review, assessment and evaluation of projects, but PSE&G is concerned that there is absolutely no ability to confidently ensure enforcement. PJM, MISO and CAISO have all asserted the belief that the RTOs primary role should be limited to assisting regulators by monitoring the project and facilitating information exchange between developers, ratepayers and regulators, with primary enforcement authority reserved to regulators. Actual enforcement of the cost cap would be up to load and/or load interests primarily, with limited involvement of other TOs affected by the Order 1000 project and the Developer itself. Properly assuring whatever is represented in these templates actually comes to fruition over a 40 plus year life of a project is highly unlikely.

- **Timing** – PJM has already indicated that there is more work required to facilitate complex cost cap evaluation through these templates than can fit into the current RTEP/RPM Schedule. PJM has further indicated that there is really no time to expand the RTEP process to facilitate longer complex cost cap evaluations without impacting the interconnection queue process for merchant transmission, new generation and basically all new services. At a minimum, before templates of this kind are implemented, PSE&G agrees with PJM that any change to the overall schedule requires an overall analysis of impacts to other elements of the PJM process, including interregional planning with neighboring RTOs as well as implications to NERC standards, RTEP, RPM and the interconnection queue process.

- **Distorting the Value of Cost Caps** - it is not appropriate to automatically favor proposals with some cost capped elements over those without cost caps, or to look at project cost in a vacuum as the proposed templates purport to do. That approach ignores other important selection criteria and potentially will result in problematic and inappropriate project sponsor selections. As PJM has noted throughout the education sessions, a cost capped project may on its face look to be the least expensive option, but if it requires significant other work to be
performed and costs to be incurred by ratepayers outside the cost capped project in order to facilitate the cost capped project, the project may not overall be the correct option.

- By way of example, LS Power included in its materials for the March 16, 2018 Special PC meeting a selection of projects that did not have cost caps that experienced cost escalations. The PSE&G project included on the list was PSE&G’s portion of the Artificial Island project. However, this project does not illustrate the point that in the absence of cost caps, major cost increases occur. In fact, it illustrates the opposite — a cost capped project may itself look attractive, but it could require major upgrade costs outside the cost cap in order to facilitate the project. Significantly, the cost estimates for the work at Salem never increased. The original costs referenced in the excel sheet were based on the scope of work before PJM suspended the AI project and revamped the project. Post-suspension, the project actually changed so that it no longer ended at Salem but instead ended at Hope Creek. When PJM put out estimates for the incumbent upgrade work at Salem, it never consulted with PSE&G and had to admit publicly on more than one occasion that it significantly under-estimated the cost of the incumbent TO work at Salem. Subsequently, and in any event, the project scope later changed after suspension, with the project ultimately ending at Hope Creek and the Salem estimate therefore being rendered irrelevant. As PJM has noted in the Special PC discussions, it must not only evaluate the cost capped project, but the overall costs (including incumbent TO work) associated with facilitating a cost capped project. These templates do not properly allow for that. It should also be noted that the PJM selected cost capped project to be built by LS Power and for which PSE&G must perform the appropriate incumbent TO work to facilitate, continues to have environmental and permitting challenges and to be opposed by Maryland and Delaware. The fact that the project is cost capped is not helping to alleviate any of the project development problems and the ongoing issues illustrate further the dangers of over-reliance on cost caps when, often times, there are other more significant issues at play.

- Jurisdiction – The proposed templates further blur the lines between the planning function performed by PJM as one of its core responsibilities and the setting of rates— one of FERC’s core responsibilities. PSE&G remains concerned and opposes bringing the PJM transmission planning process closer to jurisdictional challenges that are problematic at best and legally impermissible at worst. By introducing complex ratemaking issues into the planning process, the proposed templates threaten to laden the planning of a reliable grid with additional processes and requirements that appear to severely limit the exercise of PJM’s discretion and judgment, which is so important to the planning process. PSE&G fully supports the need for transparency in planning, which is a central tenet of Order 1000. However, we believe that one unintended consequence of the level of specificity that is being sought in the templates as well as the general desire to insert PJM into a rate regulator/evaluator role could be another extended period of legal battles. Additionally, the proposed templates have the real potential to turn the PJM planning processes into a “litigation mill,” if not a compliance trap, for PJM planners.

In closing, PSE&G welcomes the opportunity for continued discussion in hopes of reaching a consensus based resolution. We remain hopeful that all sides are participating in the CBIR process in good faith and share PSE&G’s desire to reach an amicable compromise if possible.