

Order 1000 Compliance Strawman

RPPTF
March 26, 2012

- 3/16/12 Conference Call on ROFR Pre-
Qualification Issues
- 3/23/12 Conference Call on ROFR Options One
and Two and Possible Hybrid Approach

Points of Discussion/ “Rough Consensus”/Recognized Order 1000 Requirement

- ROFR Right Reserved for incumbent Transmission Owners per Order 1000
 - Upgrades to existing facilities
 - Facilities in existing transmission owner ROW
 - Facilities whose costs are assigned to a single zone
 - Facilities that are not included in a TP’s regional transmission plan for purposes of cost allocation

Points of Discussion/ “Rough Consensus”

- A pre-qualification process is appropriate
- Timing and extent of pre-qualification depends on whether PJM role is centered on Option One (PJM plans projects and assigns construction for eligible projects) or Option Two (PJM chooses among projects submitted)
- Any pre-qualification process should be flexible to allow for entities seeking only qualification to build smaller projects (e.g. SVCs)
- Any process needs to ensure timely updating.

Points of Discussion/Rough “Consensus”

- Tariff should list criteria on which PJM should judge submitted proposals
- Parties recognize need for PJM discretion in applying criteria to entities to build (Option One) or specific projects (Option Two)
- Issue whether cost should be primary criteria
- Issue whether the tariff should assign weightings to criteria

- Option 1
 - PJM identifies needs through planning process
 - PJM identifies most effective solution
 - Pre-qualified entities offer to build project
 - PJM selects builder based on defined process (TBD)

- Option 2
 - PJM identifies needs through planning process
 - Pre-qualified entities submit proposals
 - PJM identifies most effective solution among proposals
 - PJM assigns project to proposer

Common Procedures to Options One and Two

- Planning process is open for input under either option
- PJM continues to identify needs and work with stakeholders on solutions under either option

Key Differences are:

- Role of PJM in initially proposing project solutions vs. judging solutions submitted
- Whether “sponsorship rights” attach to a proposal submitted to PJM or whether the decision of “who builds” is separate from “who submitted” a given project proposal

Continuation of Discussion of Option One and Two And Potential Hybrid...

Goal: Retain PJM discretion to propose projects if suitable alternatives not identified.

Proposal: PJM “Backstop” Concept---

- PJM not constrained by submitted proposals (as in Option Two) but can devise a solution and solicit entities to build that solution (as per Option One).
- If submitted proposals **are** identified as appropriate under Option Two approach, then entity submitting the proposal has right to go forward (subject to qualification)

Goal: Retain concept of pre-qualification but provide flexibility in its application.

Proposal: Flexibility in Application of Pre- Qualification Process

- Pre-qualified list established to avoid flood of proposals from entities not legally or financially able to build *but* flexibility provided for entities to get quickly pre-qualified to respond to specific identified proposals and specialized projects (SVCs et al.)

Proposal for Flexibility in Application of Pre- Qualification Process (cont'd)

- Notwithstanding early pre-qualification process, the process of identifying needs and potential solutions is open to all participants---i.e. pre-qualification does not become block to submission of ideas and proposals

Goal: Encourage collaboration and jointly sponsored proposals.

Proposal: Time allowed for collaboration prior to final designation

- Ensure time set aside for entities to combine/collaborate on joint projects both at submission stage and prior to final designation.

Additional areas for choosing best of options one and two?

Discussion: Need for More Detail on What Constitutes a “Proposal” Submitted to PJM:

- Proposals must be fully developed (“not just lines on a map”) to facilitate PJM review process
- More detailed processes established for meeting needs with longer time horizons so as to maintain flexibility for timely action on near term/smaller projects
- Other issues for establishment of hybrid?

Continued Discussion of Option One and Two Issues from Friday Call

“Drill Down” Issues re: Option One

- How do you distinguish between degrees of financial viability or technical capability?
- What certainty should be established around how functions such as maintenance and control room operation will be performed?
- Should a price estimate be a determinant?
 - Should project price bids be fixed costs? If so, what process would be used to justify overruns?
 - If prices are only estimates, what justification should be provided for why one party can do the job cheaper than another?
 - Should construction caps be considered by PJM or left to the regulatory process at the state and federal level?

“Drill Down” Issues re: Option One

- Assuming two entities are legally able to obtain a CPCN (in states where applicable), what weight should PJM give to the relative difficulties of each entity and proposal to obtain siting approval?
 - If yes, what level of specificity vs. language affording discretion for PJM to weigh identified factors be stated in the tariff?
 - If no, how does PJM assure that its obligations to ensure a reliable grid be maintained?
 - Order 1000 provides a “back-stop” process for incumbents to come in and propose solutions if merchant projects are not meeting their timeline (para.342). How should the proposed tariff address this right?

Overarching Issues re: Option Two

- Is it appropriate to define PJM's role as analyzing specific submitted proposals?
- What if no proposal resolves need?
 - Put out more information and open another proposal window?
 - Select proposal that is closest to resolving need and work with proposer to make necessary modifications?
 - PJM no longer constrained by submitted proposals, identifies its own solution and solicits entities to build as per Option 1?
 - In this instance, is it then appropriate to simply designate the incumbent T.O. due to the lack of acceptable proposals from qualified merchants and the need to timely move forward?

Option Two “Drill Down” Issues

What if some other solution resolves a wider range of needs?

- Put out more information and open another proposal window?
- Select proposal that is closest to optimal solution and work with proposer to make necessary modifications?
- PJM no longer constrained by submitted proposals identifies its own solution and solicits interested builders as per Option 1?
- PJM identifies solution and due to the lack of an accepted submitted proposal and the need to timely move forward, simply designates incumbent TO?

Option Two “Drill Down” Issues

What changes need to be made to planning cycle?

- Does 24-month cycle allow for sufficient time to evaluate proposals?
- Can 12-month cycle accommodate a proposal window and still resolve issues in a timely manner?
- How does either cycle accommodate time for collaboration among multiple proposers if a more optimal solution is desired?
- How does either cycle accommodate time for an Option 1 resolution if no acceptable solution is identified?

Option Two “Drill Down” Issues

- How do we deal with flood of proposals as experienced by Cal ISO?
 - Require that proposer identify need addressed by proposal and support with analysis?
 - What analysis should be required to support a proposal?
 - What other information should be included in proposal?
 - Maintain public posting of proposals (no confidential proposals)
 - Impose a deposit (non-refundable vs. refundable?) to submit a proposal?

- Do the proposals contain binding cost estimates? If not, how should PJM take that into account in weighing options?

Option Two “Drill Down” Issues

- Proposal details
 - Required information
 - ??
 - ??
 - Required analysis
 - ??
 - ??
 - Other
 - ??
 - ??