

8.4 Comparative Cost Framework

8.4.1 Applicability

PJM will use the cost comparative evaluation framework detailed herein to evaluate costs estimates included with project proposals that are submitted through PJM's competitive proposal window process. The comparative cost framework is a multi-step process that considers many aspects of a project, including the cost of each project relative to its competitive peers. For the purpose of efficient evaluation, it is useful to put individual project costs in context. The output of the cost evaluation process is a main input to the overall decision and project recommendation.

Due to deficiencies, obvious performance issues, large imbalances in relative costs, or other observable project aspects, not every submitted project is anticipated to require an independent constructability evaluation, cost evaluation or other detailed analysis.

The overall approach generally follows the comparative framework process as outlined below with PJM staff discretion to adjust as needed when needed to most efficiently perform each cost analysis.

8.4.2 Project Sponsor Proposed Cost Containment Summary and Comparison

A cost containment provision submitted as part of a project proposal may include, by way of example, limits to return on equity (RoE) and incentives, capital structure (e.g. debt to equity ratio), capital expense, operations and maintenance (O&M), allowance for funds used during construction (AFUDC), capital work in progress (CWIP), debt cost and schedule guarantees.

8.4.3 Project Proposals Without Cost Containment or Contained Construction Cost Only

If a project does not include a cost containment provision, PJM may perform a financial analysis, the degree to which may vary based on the overall complexity of the project, project specific risks, any other competitive projects, size of the project, reasonableness of the construction costs at face value, etc.

8.4.4 Development of Financial Base Case and Assumptions

In order to perform a comparative framework, PJM will select those projects addressing the same violation(s) or constraints (project cluster). For each project cluster, PJM will develop a financial base case. Key inputs to the financial base case may include: feedback from the independent constructability review, the project proposal templates and a series of financial assumptions.

Typical financial assumptions are expected to include, but are not limited to, RoE and incentives, capital structure, debt cost, O&M, administrative and general (A&G), ongoing capital expenditure (CapEx), component and/or service life, federal tax rate, state tax rate, property tax rate, AFUDC, CWIP, adjustments to base rate and any schedule guarantees.

During the development of the assumptions and base case, the PJM Market Monitoring Unit (MMU) may perform a parallel review of the financial assumptions. The MMU may provide feedback to PJM based on its parallel review within the timeframe requested by PJM.

8.4.5 Development of Financial Analysis Scenarios

Financial analysis scenarios are used to evaluate the sensitivity of the base case to variables. Example scenarios include but are not limited to adjusting assumptions for base RoE, cost of debt, common equity ratio, project cost, O&M additions and any combination of these variables.

Actual scenario assumptions will depend upon the project proposals under evaluation. Scenario assumptions will be finalized after the close of the proposal window.

8.4.6 Calculation of Base Net Present Value Revenue Requirement (NPVRR)

A base NPVRR calculation may be used by PJM in comparing the proposed cost containment relative to other project proposals in the project cluster.

The base NPVRR will be calculated using the project sponsor provided data from the project submission templates and inputs to the financial base case.

If PJM determines that a base NPVRR will be used, PJM may also perform scenario NPVRR analysis. Under each single-variable and multi-variable scenario, an NPVRR may be calculated for each project in the project cluster.

8.4.7 Side-by-Side Comparison

For each project cluster, PJM will develop and present to the TEAC a side-by-side comparison of each project's cost, base NPVRR analysis (if performed) and scenario-NPVRR analysis (if performed)-

8.4.8 Cost Containment Language Review

In addition, PJM will evaluate, as part of its analysis, any exceptions, exclusions or limitations to the proposed cost containment.