

ALTERNATIVE MOTION on COST CONTAINMENT POLICY– ITEM __–

PJM MRC – MAY 24, 2018

ALTERNATIVE MOTION – with Friendly Amendment Included Below:

A) *ALTERNATIVE MOTION CONTAINS OA TARIFF LANGUAGE CHANGE – A REDLINE TO PJM’S PROPOSAL IS ATTACHED. ALT MOTION TO APPROVE OA TARIFF LANGUAGE CHANGE. (OA TARIFF LANGUAGE TO BE FILED AT FERC CONSISTENT WITH NORMAL PJM PROCEDURE).*

B) *ALTERNATIVE MOTION TO APPROVE AND MODIFY PJM’S PROPOSED JAN 2018 BUSINESS PRACTICE MANUAL WITH THE FOLLOWING CHANGES BELOW.*

- **Delete** the following sentence from Section 6.2.3 of Business Practice Manual
 - “Cost cap proposals submitted for consideration by PJM as part of a competitive solicitation for any proposal window are to be limited to only those costs associated with bringing the project into service (e.g. construction costs, siting costs and other permitting and testing costs).”
- **Delete** the following bullet point from Section 8.1.3 of Business Practice Manual
 - “PJM’s analysis of cost cap commitment proposals will be limited to an analysis of proposals seeking to cap the costs of bringing the proposed project into service including construction costs, siting costs, and testing costs.”
- **Add** bullet points to Section 8.1.3 of Business Practice Manual to reflect the OA Change
 - [5/3/18 proposed] PJM Enhanced Disclosure Templates are approved and included in the BPM. PJM will post Disclosure Templates on the PJM website as soon as practicable after the close of each proposal window. PJM will post all PJM project submittal templates.
 - A constructability, independent cost and comparative analysis will generally only be performed and posted for proposal window project finalists meeting the technical need (more than one), including Transmission Owner Upgrades. The comparative analysis may be omitted when there is a single clear and obvious, more efficient or cost-effective project proposal.
 - Details of such analysis, including assumptions related to preparation of independent cost estimates and allocation of the total estimated cost across categories of costs similar to those outlined on item 10.b.iii of the [5/3/18 proposed] PJM Template labeled “Cost Containment Commitment”, will be posted for stakeholder feedback.
 - When evaluating finalist proposals involving Upgrades (in part or in whole), PJM shall use an independent cost estimate of Upgrades when comparing the costs to other competing projects.
 - PJM shall determine the reasonableness of developer cost estimates and shall, for project comparison purposes, use a cost PJM determines to be appropriate based on project risks, feasibility, and the terms of any binding cost containment proposal.
 - In scrutinizing the cost of project proposals, the Office of Interconnection shall complete for each project finalist’s proposal, including Transmission Owner Upgrades, a PJM-completed Comparative Framework demonstrating the comparative risks to be borne by ratepayers as a result of the proposed binding cost commitment or the use of non-binding cost estimates,

including, but not limited to, a comparative analysis of item 10.b.iii of the [5/3/18 proposed] PJM Template labeled “Cost Containment Commitment”. Such comparative analysis shall be presented to the TEAC for review and comment.

- Caps on O&M Costs will not be part of the PJM evaluation process for binding cost commitment proposals. Binding cost containment proposals related to construction cost caps, project total return on equity (including incentive adders), and/or capital structure will be part of the PJM evaluation process for binding cost commitment proposals.
 - For binding cost containment proposals related to construction cost caps, project total return on equity (including incentive adders), and/or capital structure, the Developer shall be required to agree to language for inclusion as a non-conforming Term and Condition in the Designated Entity Agreement regarding its project to ensure that the appropriate submissions to the Federal Energy Regulatory Commission with respect to the Developer’s recovery of its revenue requirement for the project provide certainty of compliance with the binding cost commitments.
 - The materials provided to the TEAC shall describe in a clear and transparent manner, the method by which the Office of Interconnection scrutinized the cost aspects of each finalist proposal, including any binding cost commitments.
 - PJM shall retain the ability to select the project based on all relevant factors, with cost and binding cost containment being one component. PJM’s rationale with respect to the evaluation process and the resulting decision will be explained and reviewed at TEAC and stakeholders will be given the opportunity to provide feedback related to each proposal window. Additionally, PJM will provide an end-of-RTEP cycle comparative summary table (including performance, constructability, cost and cost commitment).
- **Replace** the words “cost cap on project construction costs” listed on page 28 and page 29 with “cost commitment proposal”

C) *ALTERNATIVE MOTION REGARDING COMPARATIVE FRAMEWORK –*

To ensure transparent, timely, and consistent PJM comparative analysis of the costs of submitted proposals, the Office of Interconnection (including legal and finance) shall, after seeking the advice and recommendation of the PJM Independent Market Monitor, develop by September 1, 2018 a framework (the “Comparative Framework”) to evaluate the quality and effectiveness of binding cost containment proposals versus non-binding cost estimate proposals, including, but not limited to, a comparative analysis of item 10.b.iii of the [5/3/18 proposed] PJM Template labelled “Cost Containment Commitment”.

Such initial Comparative Framework shall, among other things, address PJM’s (1) assessment of the scope and quality of cost containment proposals related to construction caps, including review of commitment language, and (2) consideration of the comparative risks associated with cost estimate proposals or uncapped portions of binding cost containment proposals related to construction caps (so that the risk of unanticipated cost overruns is properly taken into account). The initial Comparative Framework, along with the advice and recommendation of the PJM Independent Market Monitor, shall be presented to the Planning Committee for review and comment. In any event, the initial Comparative Framework shall be presented by December 6, 2018 to the MRC, along with the advice and recommendation of the PJM Independent Market Monitor, for a vote and to be effective for the 2018 Long-lead Project Proposal Window.

An additional ROE Comparative Framework, including analysis of an ROE or capital structure commitment, along with any appropriate proposal for planning process time-line changes, shall be added to the Comparative Framework in 2019. Such additional ROE Comparative Framework shall also be developed, including consideration of any advice and recommendation of the PJM Independent Market Monitor. The additional ROE Comparative Framework, along with the advice and recommendation of the PJM Independent Market Monitor, shall be presented to the Planning Committee for review and comment. In any event, the additional ROE Comparative Framework shall be presented by May 1, 2019 to the MRC, along with the advice and recommendation of the PJM Independent Market Monitor, for a vote to be effective for the 2019 windows to be held after May 1, 2019.

The Office of Interconnection, in consideration of any advice and recommendation of the PJM Independent Market Monitor, shall also further update and post PJM Enhanced Disclosure Templates to include ROE and capital structure commitment proposals, as well as to include clear information about cost estimates and cost containment.