

8.4 Comparative Cost Framework

8.4.1 Applicability

PJM will initiate the comparative cost framework to evaluate the costs of project proposals that are submitted through PJM's competitive proposal window process, with the final comparative cost framework being performed once project proposals are found to pass the engineering screen. The comparative cost framework is a multi-step process that calculates project costs and permits the comparison of costs among projects addressing the same violation(s) or constraint(s) (competing projects) submitted through the proposal window. The result of the final comparative cost framework for competing projects is a key input to PJM's decision making process about which projects PJM should recommend for inclusion in the regional transmission expansion plan (RTEP).

If there is only one project proposal submitted to address violation(s) or constraint(s), the comparative cost framework analysis set forth here is not necessary. Instead, PJM will review the reasonableness of the project proposal's costs for that one project proposal.

8.4.2 Assessment of Project Proposals With Cost Commitment Provisions

If a project proposal includes a cost commitment provision, PJM will assess the details of the proposed cost commitment provision and corresponding cost estimate. Such assessment may include, for example, a review of proposed project-specific risks, scope of the proposed project, reasonableness of the estimated construction costs, risks of proposed costs increasing relative to the cost commitment provision, risks of proposed costs exceeding the cost commitment provision, and the risk of the sponsor's inability to complete the proposed project including sponsor's credit.

A cost commitment provision submitted as part of a project proposal may include, for example: limits on initial capital costs (total costs associated with bringing the project into service); limits on the annual revenue requirement; a cap on the rate of return on equity (ROE); a cap on the debt cost; the capital structure (debt to equity ratio); a cap on the total capital cost; a limit on operations and maintenance (O&M) expense; a limit on allowance for funds used during construction (AFUDC); a limit on construction work in progress (CWIP); a limit on abandonment costs and schedule guarantees. A cost commitment proposal may also exclude defined cost elements from the cost commitment provision.

8.4.3 Assessment of Project Proposals Without Cost Commitment Provisions

If a project proposal does not include a cost commitment provision, PJM will assess project specific risks (for example, the risk of a proposed project's estimated costs being exceeded), scope of the project, magnitude of the proposed cost, ~~and~~ the reasonableness of the estimated construction costs, review of project specific risk, and reasonableness of each component of costs including the initial capacity costs, the annual revenue requirements and the cost of capital.

8.4.4 Financial Analysis Used In the Comparative Cost Framework

In order to perform a comparative cost framework analysis, PJM will first identify the competing projects to be compared. Then, for each set of identified competing projects, PJM will perform a financial analysis using the following non-exhaustive list of defined inputs: feedback from the detailed feasibility review; data and information from the project proposals submitted to PJM; and financial input assumptions and cost commitment exclusions. The financial input assumptions may include, for example: ROE, capital structure, debt cost, O&M costs, administrative and general costs (A&G), ongoing capital expenditure (CapEx), service life, federal tax rate, state tax rate, property tax rate, AFUDC, CWIP, and any schedule guarantees.

Financial analysis scenarios will then be used to evaluate the sensitivity of the project proposals' estimated costs relative to variations in the magnitude of, and combinations of, certain input levels.

The estimated costs of project proposals will be compared using the net present value of the annual revenue requirements over the life of each project proposal. PJM will also consider any separate or additional upgrade costs required to accommodate the proposed project on the system.

The MMU will perform an independent financial analysis of projects that are competing to address defined needs for transmission projects in accordance with PJM's proposal review schedule, including projects with and without cost commitments. The MMU's financial analysis will employ financial and economic principles generally consistent with the approach to financial analysis outlined in section 8.4.4. The MMU will coordinate with PJM during the period in which the MMU and PJM are developing financial analysis of competing projects. As part of this coordination, PJM and the MMU will: (1) identify the key inputs to the financial analysis; and (2) identify any sensitivities each will perform.

Prior to sharing the results of their financial analyses with stakeholders, PJM and the MMU will share their results with each other and discuss potential issues, including any differences in the financial analysis method, and any differences in the results. PJM and the MMU will determine if additional time is needed for PJM and the MMU to engage in further financial analysis prior to sharing results with the stakeholders. Upon completion of the final cost comparative framework, PJM will present to stakeholders the results of PJM's financial analysis. The MMU will present to stakeholders the results of the MMU's financial analysis. If the MMU does not agree with the conclusions of PJM's analysis, the MMU has the option to make appropriate filings

Prior to PJM running its financial analyses for the project proposals in each set of competing projects, PJM will advise the Transmission Expansion Advisory Committee of: (1) the key inputs to the financial analyses that PJM plans to use; (2) other key inputs PJM will use in its financial analyses; and (3) any additional sensitivities it will perform.

Upon completion of the final cost comparative framework, PJM will present to stakeholders the results of the financial analysis.

8.4.5 Review Cost Commitment Election

~~The quality and effectiveness of the cost commitment selected by the project proposer, including any exceptions, exclusions or limitations to the elected level of cost commitment, will also be evaluated by PJM.~~ As part of the financial analysis, PJM and the MMU will evaluate the level of cost commitment selected by the project proposer, including any exceptions, exclusions or limitations to the elected level of cost commitment, and the impacts on the results of the financial analysis.

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