



## *Special Planning Committee Session:*

# PJM Review of Cost Cap Submittals Going Forward Principles

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## **Presentation Overview:**

- Proposed Principles for Discussion
- Next Steps

## **Proposed Principles**

The following are proposed principles addressing:

- Information to be submitted by any entity seeking consideration of a cost cap as part of their Order 1000 project submission;
- Criteria associated with PJM's review of proposed cost cap submittals; and
- Procedures governing inclusion of cost cap language in the Designated Entity Agreement and ongoing monitoring of project construction and cost incurrence.

## **Proposed Principles**

### **Overarching Principles**

- Cost cap commitment proposals are voluntary.
- Cost commitments submitted for evaluation by PJM should be limited to cap on project construction costs (e.g., total costs associated with bringing the project into service).
- A cost cap commitment is only one factor considered by PJM in its overall review and evaluation of project proposals for selection in the RTEP.

## **Proposed Principles (continued)**

### **Information to be Submitted as part of a Cost Cap Proposal**

- The specific cost cap commitment must be clearly articulated in the proposal at the time of proposal submittal with specific details regarding the components that are covered by the cost cap and any exclusions to the cost cap.
- The proposal submittal must include the proposed contractual language on covered and excluded items. Cost containment language shall ultimately be included in the Designated Entity Agreement as a non-standard term and filed with FERC.

## **Proposed Principles (continued)**

### **Confidentiality of Submitted Information**

- The terms and conditions relative to a cost cap commitment will be treated as public information and will be included with the proposal posted on PJM's website.
- Whether or not information regarding a cost cap commitment will be treated as confidential will depend upon the point in the process such information is considered (e.g., what may be considered at the proposal phase, may not be confidential at the construction phase). In order for information to be treated as confidential, it must be designated as such. The goal is to allow such information to be as transparent as possible. After consultation with the submitting entity, information that PJM considers inappropriately labeled as confidential will not be given consideration in the evaluation of the proposal cost cap commitment.

## **Proposed Principles (continued)**

- Exclusions – Entities must submit supporting rationale for any exclusions to the cost cap commitment, including, but not limited to detailed information such as past experiences relevant to construction of such projects, past experience with the events giving rise to the exclusion and discussion of why the developer has chosen to exclude the particular risk from the cost cap.
- Exclusions - PJM will consider in its evaluation the risk of excluded event(s) and the potential cost impact of exclusions

## **Proposed Principles (continued)**

- Reporting on project progress – PJM will require quarterly updates on the progress of the project, including general status of the engineering, siting and construction; percentage of project complete; timely completion of milestones, including projected in service date, and updates on project costs and any additional project information to provide transparency in reporting.

## **Proposed Principles (continued)**

### **Enforcement of Cost Caps**

- Enforcement of cost cap commitment shall be exclusively through FERC ratemaking process. The PJM Board reserves the right to reconsider projects that are not meeting agreement milestones or other agreement requirements.

## **Next Steps**

- Development of Language
- Review with MRC/MC
- Implementation for 2018 Planning Year

# APPENDIX

## **Objective**

Evaluate the need for and, if appropriate, develop guiding principles for PJM to consider in evaluation cost commitment provisions offered by proposing entities within the Order 1000 competitive solicitation process.



- Risks that may not be transferrable via cost commitment
  - Risk of abandonment when actual costs exceed threshold for TO/developer to continue with project under a cost commitment
  - Abandonment of project has a cost to re-evaluate and restart the project; security may not cover that cost fully
  - Risk of impact to quality of work as a result of cost cutting to meet the cost commitment
  - O&M Commitment can be a disincentive to perform appropriate maintenance

- Cost commitment by a proposer should be in the form of legally binding language.
- Some cost caps and cost commitments have been deemed stronger when considered in other ISO/RTO regions. Consider looking at what factors were part of that assessment.
- Concerns with how Stakeholders can participate in the process when PJM files the agreement and the developer/TO files the rate separately.
- Cost Commitment categories: What is the difference between an Adjustment and an Exclusion? Need to define more clearly. An Exclusion is an exclusion of certain and specific categories of costs from any cost commitment. An Adjustment is a predetermined cost adjustment factor or industry set index multiplier that would apply to predetermined specific category of cost(s).
- Endless permutations make comparison difficult, Can PJM consider standard terms and cost commitment form? There are examples of procurement models that can be helpful.
- Should PJM use fees to pay for analysis when necessary? For which proposals should PJM conduct such analysis
- Should PJM focus on capital costs or consider overall revenue requirement, which includes rate aspects

- Developers can only collect actual costs; lopsided scenario for developers, lopsided risk transfer because someone over performs on cost cap and does not get any benefit. If cost come in lower, consumers benefit and this is value of a cost commitment
- Should cost commitment be considered differently for reliability projects and market efficiency projects?
- Should there be categories of projects that should be excluded from cost commitment or specific provisions of cost commitment?