

**Operating Agreement Redline Changes
(as approved by the PJM Markets and
Reliability Committee on May 24, 2018)**

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**Request Approval by the PJM Members
Committee on June 21, 2018**

1.5.8 Development of Long-lead Projects, Short-term Projects, Immediate-need Reliability Projects, and Economic-based Enhancements or Expansions.

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. (c) Project Proposal Windows

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(c)(2) Proposals from all entities (both existing Transmission Owners and Nonincumbent Developers) that indicate the entity intends to be a Designated Entity, also must contain information to the extent not previously provided pursuant to Section 1.5.8(a) demonstrating: (i) technical and engineering qualifications of the entity, its affiliate, partner, or parent company relevant to construction, operation, and maintenance of the proposed project; (ii) experience of the entity, its affiliate, partner, or parent company in developing, constructing, maintaining, and operating the type of transmission facilities contained in the project proposal; (iii) the emergency response capability of the entity that will be operating and maintaining the proposed project; (iv) evidence of transmission facilities the entity, its affiliate, partner, or parent company previously constructed, maintained, or operated; (v) the ability of the entity or its affiliate, partner, or parent company to obtain adequate financing relative to the proposed project, which may include a letter of intent from a financial institution approved by the Office of the Interconnection or such other evidence of the financial resources available to finance the construction, operation, and maintenance of the proposed project; (vi) the managerial ability of the entity, its affiliate, partner, or parent company to contain costs and adhere to construction schedules for the proposed project, including a description of verifiable past achievement of these goals; (vii) a demonstration of other advantages the entity may have to construct, operate, and maintain the proposed project, including any binding cost commitment proposal-the entity may wish to submit; and (viii) any other information that may assist the Office of the Interconnection in evaluating the proposed project.

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(e) Criteria for Considering Inclusion of a Project in the Recommended Plan. In determining whether a Short-term Project or Long-lead Project proposed pursuant to Section 1.5.8(c), individually or in combination with other Short-term Projects or Long-lead Projects, is the more efficient or cost-effective solution and therefore should be included in the recommended plan, the Office of the Interconnection, taking into account sensitivity studies and scenario analyses considered pursuant to Section 1.5.3 of this Schedule 6, shall consider the following criteria, to the extent applicable: (i) the extent to which a Short-term Project or Long-lead Project would address and solve the posted violation, system condition, or economic constraint; (ii) the extent to which the relative benefits of the project meets a Benefit/Cost Ratio Threshold of at least 1.25:1 as calculated pursuant to Section 1.5.7(d) of this Schedule 6; (iii) the extent to which the Short-term Project or Long-lead Project would have secondary benefits, such as addressing additional or other system reliability, operational performance, economic efficiency issues or federal Public Policy Requirements or state Public Policy Requirements identified by the states in the PJM Region; (iv) the ability to timely complete the project, and project development feasibility; and (iv) other factors such as cost-effectiveness, including the quality and effectiveness of any voluntarily-submitted binding cost commitment proposal related to Transmission Facilities which caps project construction costs (either in whole or in part), project total return on equity (including incentive adders), or capital structure. the ability to timely complete the project, and project development feasibility. In scrutinizing the cost of project proposals, the Office of Interconnection shall determine for each project finalist's proposal, including any Transmission Owner Upgrades, the comparative risks to be borne by ratepayers as a result of the proposal's binding cost commitment or the use of non-binding cost estimates. Such comparative analysis shall detail, in a clear and transparent manner, the method by which the Office of Interconnection scrutinized the cost and overall cost-effectiveness of each finalist's proposal, including any binding cost commitments. Such comparative analysis shall be presented to the TEAC for review and comment. In evaluating any cost, ROE and/or capital structure proposal, PJM is not making a determination that the cost, ROE or capital structure results in just and reasonable rates, which shall be addressed in the required rate filing at FERC. Stakeholders seeking to dispute a particular ROE analysis utilized in the selection process may address such disputes with the Designated Entity in the applicable rate proceeding where the Designated Entity seeks approval of such rates from the Commission. Neither PJM, the Designated Entity nor any stakeholders are waiving any of their respective FPA Section 205 or 206 rights through this process. Challenges to the Designated Entity Agreements are subject to the just and reasonable standard.

(f) Entity-Specific Criteria Considered in Determining the Designated Entity for a Project. In determining whether the entity proposing a Short-term Project or a Long-lead Project recommended for inclusion in the plan shall be the Designated Entity, the Office of the Interconnection shall consider: (i) whether in its proposal, the entity indicated its intent to be the Designated Entity; (ii) whether the entity is pre-qualified to be a Designated Entity pursuant to

Section 1.5.8(a); (iii) information provided either in the proposing entity's submission pursuant to Section 1.5.8(a) or 1.5.8(c)(2) relative to the specific proposed project that demonstrates: (1) the technical and engineering experience of the entity or its affiliate, partner, or parent company, including its previous record regarding construction, maintenance, and operation of transmission facilities relative to the project proposed; (2) ability of the entity or its affiliate, partner, or parent company to construct, maintain, and operate transmission facilities, as proposed, (3) capability of the entity to adhere to standardized construction, maintenance, and operating practices, including the capability for emergency response and restoration of damaged equipment; (4) experience of the entity in acquiring rights of way; (5) evidence of the ability of the entity, its affiliate, partner, or parent company to secure a financial commitment from an approved financial institution(s) agreeing to finance the construction, operation, and maintenance of the project, if it is accepted into the recommended plan; and (iv) any other factors that may be relevant to the proposed project, including but not limited to whether the proposal includes the entity's previously designated project(s) included in the plan.