

American Electric Power and Transource Energy, LLC

Comments on Development of Cost Cap/Containment Provisions for PJM Competitive Planning Process Submitted to PJM on September 29, 2017

American Electric Power (AEP) and Transource Energy, LLC (Transource) appreciate the opportunity to provide comments with respect to the development of cost cap/containment provisions for competitive proposals in the PJM competitive planning process. AEP is a transmission-owning utility in the PJM region, and a majority owner of Transource, which is a transmission-focused joint venture of AEP and Great Plains Energy formed to compete for and develop transmission projects identified in post-Order No. 1000 competitive regional planning processes. Transource currently has two active RTEP projects awarded through the PJM competitive solicitation process.

AEP and Transource support the posted alignment points of the Transmission-Owner subgroup, the “Going Forward Principles” proposed by PJM, and their collective incorporation into Manual 14F. AEP and Transource believe PJM has struck a reasonable balance for adequately and reasonably considering cost caps/containments as one factor in the Order No. Order 1000 competitive planning process, while equally providing for a transparent, repeatable, and effective means to ensure PJM selects the more efficient or cost-effective proposal that reflects the long-lived value of transmission investments and provides for a reliable, resilient and efficient transmission grid that meets customer and market needs.

AEP and Transource believe the following considerations should be noted in the development of the language that will be included in Manual 14F, so as to preserve the already effective PJM competitive planning construct while clarifying the role cost caps/containment will play in that competitive process:

1. **The sponsorship model provides the best means to identify the more efficient or cost-effective transmission solutions.** By encouraging developers to tap into their design experience and ingenuity to craft innovative solutions, the sponsorship model fosters a more creative competitive environment that is best suited to produce an efficient and cost-effective, modernized transmission grid. Having a range of potential solution options allows PJM to first determine the proposals that provide for the most reliable and efficient operation of the transmission system to support customers and the wholesale markets in PJM. Preservation of this model, and avoiding specific language that might impede its value, should be paramount.
2. **Presence of cost caps/containment should not be used as a means to exclude or “pre-filter” potential solutions prior to the technical evaluations being completed.** AEP and Transource agree that cost cap/containment provisions should be clear and transparent, and that cost caps/containment can be an effective way for PJM to differentiate between proposals. However, this cost cap/containment-based evaluation should only take place following proper technical evaluations that demonstrate the competing proposals are otherwise similar in terms of their technical performance, constructability, and overall estimated cost.
3. **PJM should be afforded the flexibility as an independent evaluator to weigh all aspects of project proposals, including cost caps/containment, in selecting the best overall projects.** AEP and Transource recommend that the specific language concerning cost caps/containment in Manual 14F be clear, transparent and concise, while avoiding being overly prescriptive so that it does not impede the flexibility and discretion needed to ensure that the more efficient or cost-effective projects that balance all technical, constructability and economic considerations, have been selected.

4. **In addition to legal language governing cost caps/containment, developers should be required to disclose proposed modifications to the pro forma DEA language, such as provisions of Force Majeure.** As noted by PJM, contractual language that governs exclusions, terms and conditions, etc., is to be provided by developers for inclusion in the DEA. To ensure transparency, any edits to existing language that might impact interpretations of cost caps/containment and/or the developer's obligations under the cost caps/containment, should be disclosed.
5. **Accepting risk through use of cost caps/containment is not always a prudent decision.** Building linear infrastructure inherently includes a multitude of controllable and uncontrollable risks that become apparent only as the project progresses. Transmission owners and developers are inherently cost-conscious and take steps to plan for and mitigate risk to ensure projects are successful. PJM validates cost estimates and constructability through the use of third-party consultants and this provides a high level of confidence that PJM is appropriately comparing different solutions and their respective costs. While cost caps can provide a maximum cost that customers may experience, they do not guarantee that the projects will be completed at a lower cost than a cost estimate nor completed on time or without risk. Shifting risk to the developers could in fact lead to an otherwise higher cost for customers as developers and their contractors and suppliers incorporate the increased risk into their prices, which may lead to unintended consequences that could ultimately result in less desirable outcomes for customers, landowners, and other stakeholders.

In closing, AEP and Transource believe PJM's effort to develop a balanced approach for including cost caps/containment provisions is commendable, and appreciate this opportunity to provide comments in the development of cost cap/containment provisions for Manual 14F.