

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 an 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 Containment Provisions

If a project proposal includes a cost containment provision, PJM will assess the details of the proposed cost containment 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 containment provision, risks of proposed costs exceeding the cost containment provision, and the risk of the sponsor's inability to complete the proposed project.

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

8.4.3 Assessment of Project Proposals Without Cost Containment Provisions

If a project proposal does not include a cost containment provision, PJM will assess project specific risks, scope of the project and reasonableness of the estimated construction costs.

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. 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.

The Market Monitoring Unit (MMU) will use the same financial analysis defined in section 8.4.4 of this Manual to replicate PJM's comparative cost framework in accordance with PJM's proposal review schedule. Prior to PJM or the MMU running each of their respective financial analyses for the project proposals in each set of competing projects, PJM and the MMU will: (1) identify the key inputs to the financial analysis that PJM and the MMU agree to use; (2) identify other key inputs each will use in each of their respective financial analyses; and (3) state what, if any, additional 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 with the execution of the financial analysis methodology, and any differences in the results. PJM and the MMU will discuss 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 has the discretion to present to the stakeholders the results of the MMU's financial analysis.

8.4.5 Review Cost Containment Election

The level of cost commitment selected by the project proposer, including any exceptions, exclusions or limitations to the elected level of cost commitment, will also be evaluated.