

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.

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 potential risks, if any, associated with the estimated costs submitted for that 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, 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.

A cost commitment provision submitted as part of a project proposal may include, but is not limited to, the capital structure (debt to equity ratio) and caps on: initial capital costs (total costs associated with bringing the project into service); the annual revenue requirement; the rate of return on equity (ROE); the debt cost; the total capital cost; allowance for funds used during construction (AFUDC); construction work in progress (CWIP); 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 factors that may include, but are not limited to, 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, the estimated construction costs, 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, 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.

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 the key inputs to the financial analyses that PJM plans to use, and 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.