

LS POWER



December 2017

Commissioner LaFleur's Concurrence on FERC's Denial of PSE&G Complaint on Artificial Island (June 2015)

- “Order No. 1000’s competitive solicitation processes – and in some cases, the mere prospect of competitive solicitation processes – have already led to a host of innovative rate structures and cost containment proposals that, if properly designed, could provide significant benefits for customers. **I believe that these efforts should be encouraged, both by the Commission and in the regional transmission planning processes**, to foster a dynamic environment for new transmission development.”

Order No. 1000 Competition Has Brought Innovation

- Overall shift of cost risk from ratepayers to developer
 - ROE caps (including for life of project) and forgoing ROE incentives
 - Cap on amount of equity in capital structure
- Market moving to cost containment – 10 of 11 Duff-Coleman Bids

Summary of Cost Caps, Concessions, and Commitments											
Uncertainty	101	102	103	104	105	106	107	108	109	110	111
ROE		✓		✓ ⁱ			✓	✓ ⁱⁱ	✓ ⁱⁱⁱ	✓	
Capital Structure		✓		✓						✓	
Implementation Costs	✓ ^{iv}	✓ ^v	✓	✓ ^{iv}		✓	✓	✓	✓ ^{iv}	✓	✓ ^{iv}
Operations and Maintenance Costs				✓							
Inflation Rate			✓	✓		✓		✓		✓	
Rate Concessions						✓					✓

- i Limited duration ROE cap
- ii Cap on weighted average cost of capital (includes ROE), limited duration
- iii No ROE cap, but will forego ROE incentive adders in initial FERC filing
- iv AFUDC is not included in the cap
- v Only a portion of construction costs are capped

Table 2-2: Summary of Cost Caps, Concessions, and Commitments

Proposed Cost Containment Policy has Shortcomings and Is Incomplete

- Provides Limited Guidance on How PJM will actually develop and analyze the analytical and legal components of cost containment proposals
- Provides Limited Guidance on How PJM will actually consider Cost Cap Proposals versus Cost Estimates in the evaluation process, even if all other selection factors are equal
- Limits PJM's Evaluation of Cost Containment to Capital Cost Caps
 - A significant deviation every other RTO in Country
 - By limiting what can be reviewed, ratepayers are deprived of the understanding of the full range of competitive concessions available for a given project

This Manual Change is a Significant Deviation from Other FERC-Approved Tariffs and Policy

- Like PJM’s tariff today, California ISO has no Restriction in Tariff on Binding Cost Containment Commitments
 - All forms of “Binding Cost Containment Commitments” and “Binding Cost Control Measures” are considered in its evaluation process and selection reports (CAISO BPM 5.8.1), including binding capital cost caps, ROE and incentive proposals, and capital equity structures
- SPP considers caps on annual revenue requirements and incentive ROE in evaluation process
 - From SPP Tariff: “Criteria considered in this evaluation category shall include, but not be limited to: estimated total cost of project, financing costs, FERC incentives, revenue requirements, lifetime cost of project to customers, ROE,..., cost certainty guarantee.” (SPP, Attachment Y, Section III.2(f)(iii)(4))
- MISO requires annual revenue requirement and ROE to be part of evaluation process (MISO, Attachment FF, 35.0.0(E)(3))

PJM's Limitation on Capital Cost Caps is Particularly Troubling Related to Market Efficiency Projects

- The proposed manual changes apply to all types of transmission projects generally without regard to the particular market driver
 - The manual guidance is too blunt of an instrument in this regard
- Economic Congestion is the DRIVER of Market Efficiency Projects
 - Cost containment consideration is particularly relevant for market efficiency projects
- Unlike PJM, today CAISO will include all forms of “Binding Cost Control Measures” in CAISO’s benefit-cost ratio calculation of a project sponsor’s market efficiency project
 - Binding capital cost caps, ROE and incentive concessions, and proposed project sponsor capital structures

There is Time in 2018 to Get this Policy Right

- The next major PJM transmission window is November 2018. There is time to get this policy right prior to the next Long-Term Transmission Proposal Window Opening.
- The New FERC Commission is seated and all are awaiting action on the June 2016 FERC Technical Conference on Cost Cap Policy. Action is possible in 2018.