

To: ESPWG

From: Marc D Montalvo

Date: May 9, 2018

Subject: Cost containment proposals

The following comments have been prepared by Daymark Energy Advisors and are submitted on behalf of the New York Utility Intervention Unit (NYUIU).

First, we are pleased that the NYISO has decided to address the development of cost containment provisions for application to the evaluation and selection process for public policy transmission projects. We realize that this is a challenging subject with which all the RTOs have to some extent struggled or continue to struggle. To that end, we are under no illusion that the process of developing a process that meets the design criteria that ISO identified in its April 30 presentation will be easy. Yet the NYISO can learn from the other regions and from recently filed cost recovery proposals to develop a process that minimizes its concerns regarding the time to administer this process.

The most challenging aspect of including cost containment would be from developers providing inconsistent information in an inconsistent format. Therefore, UIU suggests that all developers provide a cost containment estimate in a format prescribed by the NYISO.¹ NYISO's PPTPP improvement proposal includes a second submission from 120 days after solicitation for projects that includes cost estimates among other things. In addition to the second submission, UIU suggests that there be a third submission required for the best and final cost containment estimate. This third submission should occur sufficiently after the notice and before the final decision. This structure provides an opportunity for the NYISO to proceed with its assessment of projects and for the developers to finalize its estimates and financing terms closer to when the project is to be constructed.

¹ UIU recommends the NYISO develop a spreadsheet template that is to be submitted by the developer for each project.

Substantively, we believe that the cost containment provisions should meet the following criteria:

- The cost containment provisions should be used to evaluate and select transmission projects
- When evaluating a project with a binding cost containment proposal, the NYISO should treat project costs as fixed in any assessment of cost-overrun risk as compared to projects without a binding cost containment proposal
- Projects be required to provide binding cost estimate whereby they would not seek to recover costs above the estimate, with limited and pre-determined exclusions.
- Exclusions should be limited to only those items truly out of the control of the proposing party which is commonly referred to as “Unforeseeable Costs.” The criteria of these costs should be developed by reviewing other filed rate plans and with stakeholder input.
- Cost containment should not be limited to construction costs but should be comprehensive and include the total project costs and all its elements, including: target ROE, cost of debt, capital structure, and recovery period (see below)

In particular, the binding cost containment proposal should require the proposing party to submit the following:

- Specify the recovery period (depreciation period)
- State the cap on construction costs
- State the cap on ROE, inclusive of all adders
- State the target capital structure, with stated limit on equity component
- Agree that the formula rate or its protocols will specify the cost containment commitments
- Agree to make no voluntary rate filing with the FERC to modify any of the above

The PPTPP process is intended to be competitive so that selected the project meets the public policy transmission need at the lowest cost. Excluding cost containment and financing terms would not achieve this goal. As an analogy, an individual purchasing a house must evaluate both the initial costs and its financing terms to select the house most suited for them. It may be cheaper to purchase a more expensive house with lower financing terms than a cheaper house with higher financing terms. We encourage the ISO and our fellow stakeholders to work diligently to incorporate the recommendations above to ensure the resulting process is workable and meets objectives.

We appreciate the opportunity to submit our comments regarding the proposal.