Cricket Valley Energy

To: New York Independent System Operator, Inc. ("NYISO")

From: Ron Paryl, Director, Markets and Risk Management

Date: August 24, 2020

Re: Comments on NYISO Staff DCR Recommendations

Cricket Valley Energy Center, LLC (CVEC) is one of the most recently financed gas fired generators in the NYISO and Advanced Power, as one of the owners of CVEC, has had in-depth experience in financing multiple gas fired assets in NYISO and PJM. Based on our experience in financing gas fired projects in NYISO and other projects in PJM we do not believe that the financing assumptions and capital cost assumptions that NYISO are recommending are credible or representative of the true cost of investing in generation in New York

1. **Hedging assumptions are needed in Financing Assumptions for DCR**

The NYISO financing and construction cost assumptions do not include any assumption of the type or cost of financial hedges required by lenders to provide the necessary contracted debt coverage which would support the aggressively low assumption of the cost of debt of 6.7% and leverage at a 55/45 debt to equity ratio. In the current lending market, a new construction generation project without energy hedges or contracted capacity revenue would not receive the assumed BB or B credit rating, but it would likely be unrated junk debt with an interest rate much higher than the 6.7% recommended assumption. Banks require a significant amount of contracted energy margins and capacity revenues for new generation construction projects to provide a high level of confidence of debt service post construction. Typical hedge contracts required for construction financing need to provide contracted margins to the new generator for the construction period plus 5 years. These contracts can be very costly to the new generator due to the long duration and lack of forward liquidity in NYISO energy and capacity markets.

The banks are also aware that the lack of a 3 year forward capacity market, as there is in PJM or ISO-NE creates additional risk for debt repayment for New York projects, so comparisons of debt costs and leverage of projects in markets other than NYISO are not useful or relevant.

NYISO needs to provide a transparent hedging assumption that the reference unit will use to achieve the debt terms that are recommended. The most recent newly financed new generation resources in NYISO, Cricket Valley Energy Center, and CPV Valley, relied on significant energy hedging to secure debt financing. We recommend that the NYISO benchmark the hedge costs of these two units as they have provided all the required information in the BSM analysis performed on both units.

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CVEC recommends that NYISO incorporate a transparent upfront cost assumption for an energy/capacity hedge similar to a five-year duration revenue put that has been used to secure the financing of Cricket Valley and CPV Valley. We recommend an additional upfront cost on the order of 3-5% of total project costs or $45-$70/kW added to upfront capex costs to cover the cost of required hedges to secure construction financing.

2. **The Analysis Group ROE assumption of 13% is too low**

Over the last 4 years, the risks to equity investors in gas fired generation in NYISO have increased substantially, which should increase the ROE from the last DCR. Issues that investors in gas fired generation are concerned with include (i) State of New York subsidized generation competing with unsubsizided privately funded gas fired generation which suppresses capacity and energy prices, (ii) The Climate Leadership and Community Protection Act inducing further state subsidized resources as well as prematurely terminating the useful life of gas fired assets, (iii) uncertainty over NY CO2 pricing policy, (iv) recent bankruptcies in the NYISO market of gas fired generation (Empire /Athens) and (v) construction of ratepayer funded transmission facilities that will suppress capacity and energy prices in NYISO markets.

Feedback that we received from equity advisors is that the few investors considering investing in NYISO gas fired generating assets without hedges are seeking an ROE in the 15-17% range to compensate for the significant risks associated with investing in a gas fired generating asset in NYISO.

3. **Development cost estimates are extremely low and do not reflect the experience of recent development projects in NYISO**

The project development cost estimates recommended by NYISO that range between $1.37M to $1.78M grossly underestimate the true cost of permitting and financing a generating unit in New York and are totally unrealistic. The costs of preparing the applications and proceeding through the New York Article X process can run into the millions. Preparing the permitting applications for Cricket Valley ran into the millions with over $5 million alone spent on environmental consultants and reports to support the permitting process. In addition there is the substantial uncapped time and costs for local and county permitting, NYISO interconnection SUF upgrade costs, PILOT negotiations and payments, gas pipeline connections, permitting and construction, State mortgage recording tax costs and numerous commercial issues in New York all of which substantially raise the cost of development of a privately funded generation plant in New York. In Cricket Valley's experience developing a project in New York, our development costs were well over $20 million dollars and it took over 10 years of development work to bring Cricket Valley to market.

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The capital costs of the reference unit also need to recognize that development dollars are spent at very great risk and uncertainty of success, especially in the difficult permitting environment for fossil fueled generators that is New York State. The developers of merchant plants in New York expect a very high return on investment to compensate for the significant permitting and development risks that an investor in an early stage development project accepts in New York. The common returns that we as developers have seen being recovered by the developer at a financial closing include all development costs and a development fee in the range of one to two times all development costs invested. These development fee costs are absent in the assumptions for capital costs of the reference unit.

Cricket Valley recommends that NYISO review the reference unit development cost assumptions by reviewing the development costs that were reviewed as part of the BSM reviews of Cricket Valley and CPV Valley. Cricket Valley also recommends that a development fee be added to the reference unit capital costs that reflects the appropriate development fees anticipated by a developer to compensate for the significant development capital risks. This fee should be in the range of 1 to 2 times total development costs.

Respectfully submitted