May 7, 2024

Via Email

To: Analysis Group
From: Alpha Generation, LLC
Re: **After-Tax Weighted Average Cost of Capital ("ATWACC") Assumptions Presented at the April 17 Installed Capacity Working Group (ICAPWG") Meeting**

Alpha Generation, LLC ("AlphaGen") is the owner, operator, and manager of more than 5,000 megawatts of power generation located in New York State through Astoria Generating Company, LLC ("AGC") and Generation Bride Northeast, LLC ("GenBridge"). The portfolios are investments of ArcLight Capital Partners Fund VI and Fund VII ("ArcLight"), respectively, and consist of the Astoria Generating Station, Gowanus and Narrows Generating Stations, Arthur Kill Generating Station, Bethlehem Energy Center, and Oswego Harbor Power Station. Alpha Gen provides these comments in response to the ATWACC parameters presented by Analysis Group ("AG") at the April 17 meeting of the ICAPWG.

<u>Financial Parameters</u>

The Cost of Debt ("COD") and Cost of Equity ("COE") presented by AG at the April 17 meeting are woefully insufficient to attract private capital to the New York market. The publicly traded independent power producer ("IPP") investor samples presented as the basis for the financial parameters are skewed towards BB and higher rated entities with diverse portfolios and do not adequately represent owners and developers in New York State. COD is determined on an investment-to-investment basis and is representative of the cash flow profile of individual projects. In this case, the COD must feature in the New York-specific investment landscape, which includes extraordinarily high investment risk given the regulatory risk presented by and the legal requirements of the Climate Leadership and Community Protection Act, among the many driving factors that make development and construction extremely costly in New York. That's why the financial terms for companies with New York specific merchant portfolios are the only reasonable metric for estimating the cost of financing a peaking unit in the New York State wholesale market.

Our analysis of publicly available data from Bloomberg suggests that several IPPs may be rated lower than AG's sample of publicly traded IPPs (Table 1). AG's position that lack of publicly available information on COE for privately held entities somehow neuters substantiated information on COD or invalidates its consideration in the ATWACC assumptions is unsupported. It is too convenient to dismiss known data on private COD in favor of a nonrepresentative sample size of financial data solely from public companies with diverse, multi-state investment portfolios.

Table 1

BBG ID	Issuer	Index	Spread (Bps)	Moody's	S&P	Maturity	NYMWs Owned
BL4266559	Talen	TSFR1M	450.0	B3	BB	May-30	1,323
BL3284884	Eastern Generation	TSFR1M	386.5	B2	B	Oct-25	1,559
BL4603496	Generation Bridge NE	TSFR1M	350.0	Ba2	BB	Aug-29	3,393
BL4304756	Ravenswood Generation	TSFR1M	475.0	Ba3	BB-	Jul-27	2,200
BL3485549	Astoria Energy	TSFR1M	361.5	Ba3	B+	Dec-27	625
BL3761725	East Coast Power	TSFR1M	350.0	B1	B+	Feb-29	772
	Average	532.00	395.5				
	Cost of Hedging TSFR						
	Average Cost-of-Debt (%)		9.27%				
							2024 Capability MW
Total Supply*							24,521
Sample MW							9,873
% Supply represented							40%

*Excluded Supply
1) Notes indicate codes E - Behind-the-Meter: Net Generation Resource , I - ICAP Ineligible Generator or R - Retired Generator
2) Unit Type - NB and NP - Nuclear Power resources
3) Owner is a state entity - New York Power Authority and Long Island Power Authority

The six companies listed above represent 40% of the merchant supply (non-state-owned or contracted, i.e., Zero Emissions Credit-ed),[1] with an average COD of 9.27%. At a minimum, and without needing public information on COE, AG should take the Risk-Adjusted Equity Premium between its presented 6.45% COD and 14% COE and apply that premium to the known average COD in New York, which, based on the Table 1 sample, is 9.37%. The methodology is simple and reasonable; if the COD is demonstrably higher for portfolios in New York as compared to more diversified portfolios, that means investment risk is higher and that the risk adjusted COE will be higher. In Table 2, we apply that resulting 2.17 premium to the average COD of the six portfolios listed in Table 1 to come up with a projected COE of 22%.

Table 2

Equity Risk Premium:

Current AG Proposal	
Cost of Debt	6.45%
Cost Equity	14%
Risk-Adjusted Equity Premium	2.17x

Proposed Equity Risk Premium:

Current AG Proposal	
Cost of Debt	10.00%
Cost Equity	22%
Risk-Adjusted Equity Premium	2.17x

[1] Based on average of Summer and Winter Capability MW from 2024 Gold Book

If AG were to expand the Table 1 sample size to include entities with New York investments but lower COD, the resulting risk-adjusted COE is likely to still be significantly higher than the 14% that AG has presented.

If AG does not support the use of the aforementioned methodology for estimating ROE, it can and should directly solicit information on targeted returns from IPPs with New York investments, and then present to NYISO stakeholders its findings in aggregate and without direct attribution to individual companies. To encourage that process, AlphaGen is providing alongside this letter confidential materials excerpted from an ArcLight Capital Partners, LLC Fund VII investor presentation, a very recent investment in 3,500 MW of New York generation assets, on targeted Internal Rate of Return and Return on Investment.[2]

Furthermore, the Average Yield to Maturity for the peer group that owns generation in NY and with financings secured under various Term Loan structures appears to be understated. The data indicates that the Average Yield to Maturity should be higher than the 5.69% included in the analysis. We recommend further adjustments for company- and project-level risks, market conditions, hedging costs, volatility, and the general economy, as is done in the current model.

Corporate Tax Rate Assumptions

AG's April 17 presentation indicated on slide 37 that the preliminary recommended value for state corporate tax rate is 6.50%. This value does not represent the current corporate tax rate. The current corporate state tax under Article 9-A is 6.5% if business income is *less than* $5M and 7.25% if income *exceeds* $5M.[3] Therefore, the appropriate state corporate tax rate assumption for the proxy unit should be 7.25%.

Taxpayer	Tax rate
Qualified New York manufacturers	0.00
Qualified emerging technology companies	0.04875
General business taxpayers with a business income base of more than $5,000,000	0.0725
All other general business taxpayers	0.065

[2] The accompanying PowerPoint presentation is provided with the express consent of ArcLight and contains Trade Secret Information; Confidential Commercial Information, Submitted Pursuant to, and Subject to the Protections of, NYISO OATT, Attachment F, Code of Conduct. The presentation is intended solely for Analysis Group's consideration and is not to be shared publicly with NYISO stakeholders.
[3] https://www.tax.ny.gov/bus/ct/def_art9a.htm#eni

Property Tax Exemptions

New York Real Property Tax Law Section 489-BBBBBB(3)(b-1), also known as the Industrial and Commercial Abatement Program ("ICAP Program") for peaking units, which currently provides a 15-year tax abatement in New York City to the peaking plant underlying the New York City Demand Curve, is set to expire April 1, 2025.[4] Analysis Group has appropriately proposed to model Zone J results without the abatement. However, until such time that legislation is introduced, adopted by both houses of the legislature *and* signed into law by the Governor, it must be assumed for purposes of this Demand Curve Reset process that the abatement will expire and be unavailable to the proxy unit underlying the 2025-2029 demand curves, thereby subjecting the proxy unit to the property tax rate of 4.77 percent, which is equal to the product of (1) the Class 4 Property rate (10.592 percent) and (2) the 45 percent assessment ratio, as described on slide 41 of Analysis Group's April 17 presentation to the Installed Capacity Working Group ("ICAPWG"). Should legislation be signed into law prior to filing of the 2025-2029 demand curves with FERC, only then would it be appropriate to reflect the abatement in the ATWACC parameters.

Sincerely,

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[4] https://www.nyc.gov/site/finance/property/benefits-industrial-and-commercial-abatement-program-icap.page