Draft Request for Proposal Template and Cost Review Process

Order 1000 Competitive Transmission Solicitation and Other Enhancements

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Purpose

- To introduce the various elements of the draft Request for Proposal (RFP) template being provided for stakeholder review

Background

- FERC Order 1000 was intended to accomplish two main objectives
  - Introduce competition into the development of regulated transmission solutions while allowing for more creative solutions
  - Create a mechanism for transmission development to address Public Policies that drive transmission

Background, continued

- Based on the results of the Boston 2028 Needs Assessment (which were presented to the Planning Advisory Committee (PAC) in April) the ISO plans to issue its first Request for Proposal (RFP) for a competitively developed transmission solution in December 2019
- Discussions are ongoing at the NEPOOL Transmission Committee (TC) regarding:
  - Modifications to Attachment K of the Tariff
  - Addition of a Selected Qualified Transmission Sponsor Agreement (SQTPSA) to the Tariff
  - Modifications to Section I of the Tariff
- Discussions are ongoing at the NEPOOL Reliability Committee (RC) regarding:
  - Modifications to Section III.12.6 of the Tariff
  - Modifications to Section I of the Tariff
  - Modifications to Planning Procedure 4 (PP4)
- In preparation for the upcoming RFP, the ISO is providing a draft version of the RFP documents for stakeholder review and comment
  - The Qualified Transmission Project Sponsor (QTPS) respondents will utilize RFP360, a web based application the ISO uses to communicate with the QTPS respondents and to collect RFP responses

Overview of Request for Proposal Files

- The RFP template is comprised of a number of elements which will be discussed on the following slides:
  - Part 1 RFP Overview
  - Part 2 RFP Instructions
  - Pro Forma Financial Statements Workbook
  - Attestations and Affidavit
  - Index of Attachments
  - Modeling Data Workbook
  - Installed Cost Estimate Workbook
  - Lifecycle Cost Workbook
- The materials provided focus on an RFP for a Reliability Transmission Upgrade (RTU) or a Market Efficiency Transmission Upgrade (METU)
  - Similar documentation was drafted for an RFP for a Public Policy Transmission Upgrade (PPTU). Because the documents will be almost identical, any necessary changes resulting from review of the RTU/METU template will be applied to the draft PPTU RFP template

Overview of Request for Proposal Files Cont'd

- **Part 1 RFP Overview**
  - Provides detailed information for the RFP
    - Describes that all responses will be provided through RFP360, a web based application for administering RFPs
    - Identification of system needs that are to be solved
    - Schedule
    - Discussion of evaluation factors
    - General instructions on completing and submitting an RFP response
- **Part 2 RFP Instructions**
  - Provides instructions and examples regarding the responses and information a Qualified Transmission Project Sponsor will need to complete in order to submit a completed RFP response
  - Questions 1 – 9 are applicable to Phase One of the competitive process
  - Questions 10 – 18 are applicable to Phase Two of the competitive process
- **Pro Forma Financial Statements Workbook**
  - Part 2, question 13.5 requires the provision of a completed Pro Forma Financial Statements Workbook
  - Includes a worksheet for each of the pro forma financial statements
    - balance sheet
    - income statement
    - cash flow statement
- **Attestations and Affidavit**
  - Part 2, question 1.5 requires an officer of the QTPS Respondent to provide a signed document certifying that the QTPS will be bound by the Tariff and the RFP and that the provided responses are accurate

Overview of Request for Proposal Files Cont'd

- **Index of Attachments**
  - Table itemizing any attachments included as part of the QTPS's responses to questions in RFP360
- **Modeling Data Workbook**
  - In the event that the QTPS is unable to provide modeling information through PSSE and Aspen files in response to the questions in Part 2, section 5, the QTPS will need to complete and submit the Modeling Data Workbook
- **Installed Cost Estimate Workbook**
  - To be provided in response to questions in Part 2, section 6
  - Provides the ISO with high level information regarding the installed cost for the proposed solution and cost estimate accuracy
- **Lifecycle Cost Workbook**
  - Detailed cost information to determine the lifecycle cost of the proposal
  - While the lifecycle cost is provided in Phase One, the detailed workbook is not required until Phase Two, Part 2, question 10-4d
  - Was developed to be able to accept information for up to a 60 year life but expectation is developers will complete for expected life of each project element

COMPARATIVE ANALYSIS OF COSTS

Evaluation of Costs

- A number of stakeholders have asked about the comparison of costs for proposals with and without cost caps and/or cost containment
- The following slides provide information on a conceptual basis for how comparisons would be performed
- The ISO is also following developments in PJM regarding this issue

Approach to Comparative Analysis

A normalized base case view will be developed along with a risk analysis that considers both market and project-level risks

Developer Submissions

Process for evaluating competitive bids

Data Validation & Normalization	Base Case NPVRR	Scenarios NPVRR	Tradeoff Analysis
Inputs that do not represent actual differences between developers are normalized (e.g., property tax rates)	A "Base Case" Net Present Value Revenue Requirement (NPVRR) is developed from the normalized and bidder-specific values	Market level and bidder-specific scenarios are developed. All caps and cost containment are maintained.	Proposals are compared across scenarios and tradeoffs described.

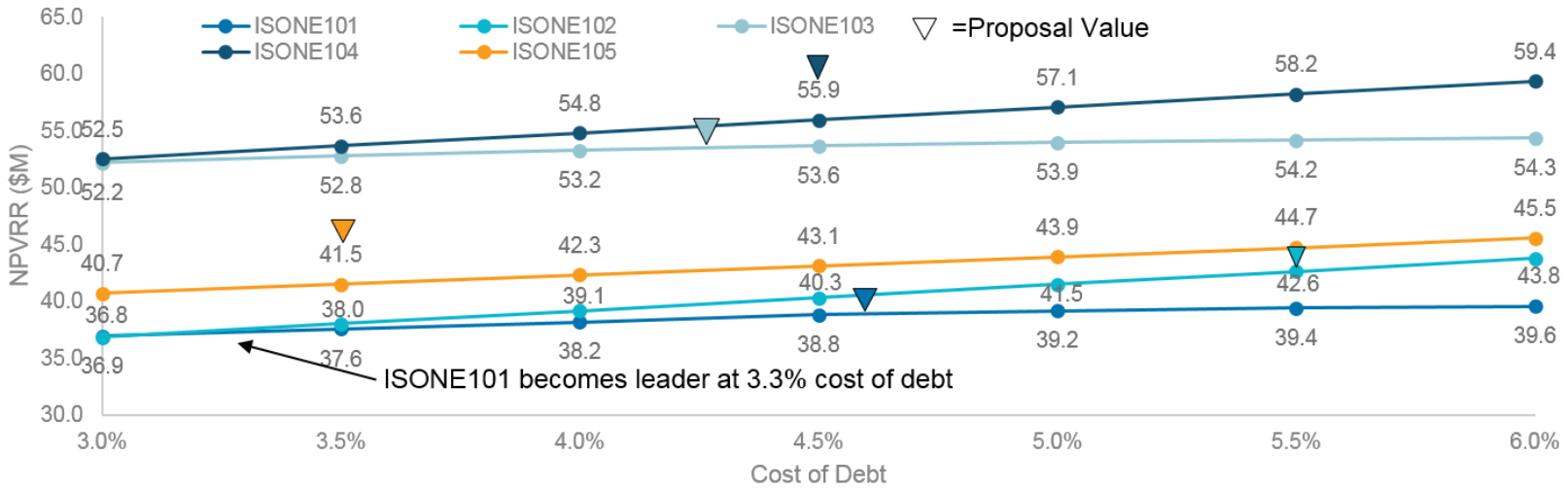
Normalized Base Case - Example

A normalized base case analysis can illustrate how proposals stack up on an apples-to-apples basis

	Proposal Number				
NPVRR	**ISONE101**	**ISONE102**	**ISONE103**	**ISONE104**	**ISONE105**
Pre- Adj. NPVRR	**41.8**	**41.3**	**57.4**	**61.0**	**45.2**
Contingency Removal	-1.8	-0.6	-2.4	-3.1	-2.2
Property Tax Norm	+0.1	+2.7	+0.1	-0.1	-0.0
Income Tax Depr Norm	+0.0	+0.0	+0.0	+0.0	+0.0
Book Life Norm	-1.3	-1.1	-1.9	-2.0	-1.5
Misc*	+0.0	+0.2	+0.1	+0.1	+0.1
Post-Adj. NPVRR	**38.8**	**42.6**	**53.4**	**55.9**	**41.5**

Tradeoff Analysis - Example

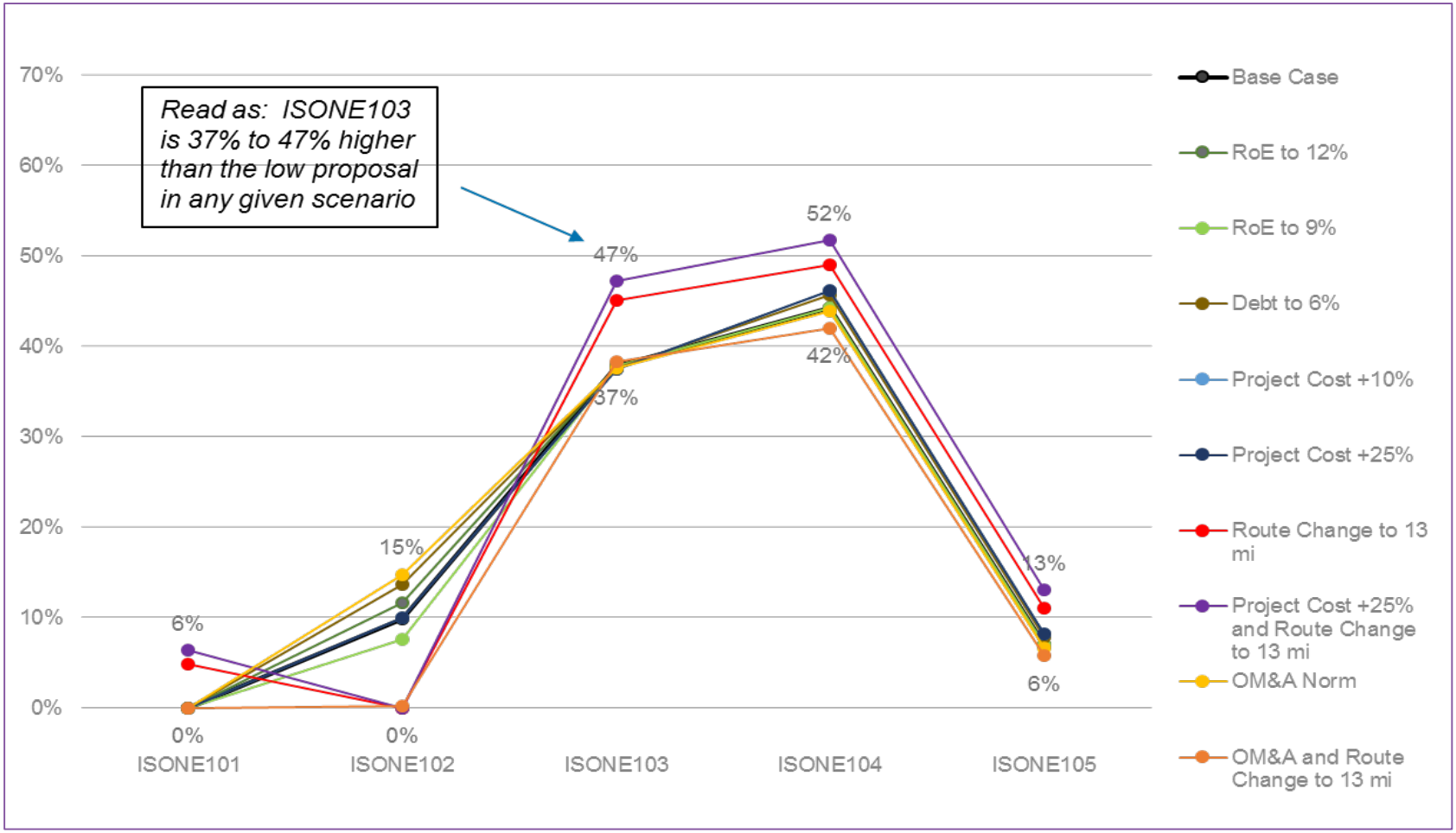
Breakpoints can be identified for key variables to help assess proposal risk



NPVRR ($M)	Cost of Debt						
Proposal Number	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%
ISONE101	36.9	37.6	38.2	38.8	39.2	39.4	39.6
ISONE102	36.8	38.0	39.1	40.3	41.5	42.6	43.8
ISONE103	52.2	52.8	53.2	53.6	53.9	54.2	54.3
ISONE104	52.5	53.6	54.8	55.9	57.1	58.2	59.4
ISONE105	40.7	41.5	42.3	43.1	43.9	44.7	45.5

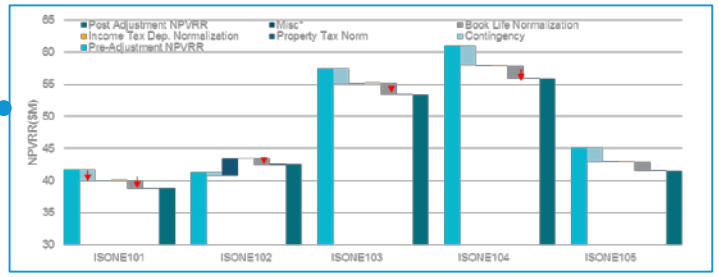
Scenario Analysis - Example

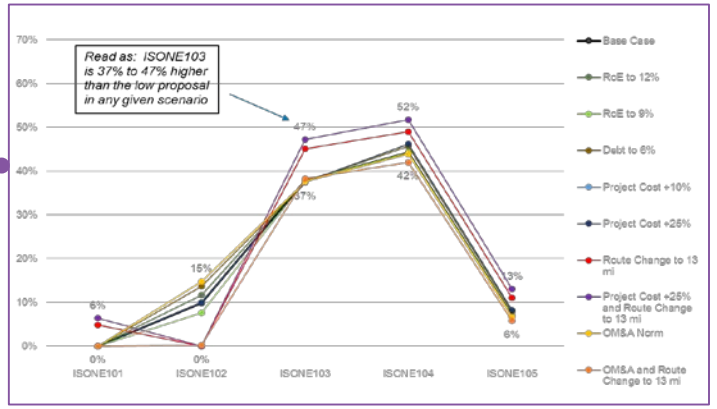
Scenario analysis can reveal how an individual bidder's proposal compares to the lowest value in each scenario.



Example of Comparative Analysis

	ISONE101	ISONE102	ISONE103	ISONE104	ISONE105
NPVRR					
As-filed NPVRR	$ 41,762,187.59	$ 41,334,457.84	$ 57,445,192.06	$ 61,018,108.08	$ 45,172,107.50
Normalized NPVRR	$ 38,779,074.94	$ 42,600,271.98	$ 53,432,913.11	$ 55,922,856.82	$ 41,496,776.37
Project					
Project Cost	$ 33,216,132.66	$ 30,076,001.13	$ 49,974,105.00	$ 49,927,169.74	$ 37,377,069.03
Project Cost Cap	$ 34,245,120.59	$ 30,862,689.53	$ 51,377,465.95	NONE	$ 38,163,234.60
Cost of Capital					
%Equity	45.0%	40.0%	60.0%	50.0%	40.0%
%Pref Equity	0.0%	0.0%	0.0%	0.0%	15.0%
%Debt	55.0%	60.0%	40.0%	50.0%	45.0%
Return on Equity	9.5%	10.2%	10.5%	9.5%	11.3%
Return on PE	0.0%	0.0%	0.0%	0.0%	9.0%
Cost of Debt	4.0%	5.0%	3.5%	4.7%	4.3%
WACC	6.5%	7.1%	7.7%	7.1%	7.8%
OM&A					
Average annual OM&A	$ 597,243.43	$ 346,991.50	$ 847,527.78	$ 592,249.69	$ 573,605.44
Scenario NPVRRs					
RoE->12%	$ 38,779,074.94	$ 43,297,295.05	$ 53,432,913.11	$ 55,922,856.82	$ 41,496,776.37
RoE-> 9%	$ 37,752,881.81	$ 40,629,297.97	$ 52,014,132.53	$ 54,436,361.65	$ 40,390,862.95
Debt -> 6%	$ 39,797,822.77	$ 45,222,406.20	$ 54,733,185.47	$ 57,970,872.24	$ 42,930,140.52
Debt -> 4%	$ 38,407,507.51	$ 41,739,006.20	$ 52,919,196.31	$ 55,384,621.70	$ 41,096,343.55
Project Cost +10%	$ 39,902,258.57	$ 43,866,455.97	$ 54,849,937.07	$ 58,322,546.69	$ 43,166,259.92
Project Cost +25%	$ 39,902,258.57	$ 43,866,455.97	$ 54,849,937.07	$ 58,322,546.69	$ 43,166,259.92





Next Steps

- Comments on the draft RFP materials should be submitted to pacmatters@iso-ne.com by July 10, 2019

Questions