

For Stakeholder Discussion:

Excerpts from Selection Report in CAISO on O&M Caps:

From the Delaney Colorado River Selection Report:

<http://www.caiso.com/Documents/DelaneyColoradoRiverTransmissionLineProject-ProjectSponsorSelectionReport.pdf>

Four of the five project sponsors provided binding capital cost containment proposals with provisions for escalation of costs. The ISO retained a well-respected expert consulting firm to assist, *inter alia*, in evaluating sponsors' cost containment proposals and conducting cost of service and revenue requirement studies. The studies and analyses conducted by the consulting firm were extensive, including sensitivity analyses. In addition to evaluating the proposals with respect to binding cost containment measures, the ISO evaluated each project sponsor's proposal with respect to the following factors relating to cost containment:

- O&M cost containment
- Project risks and mitigation of risks
- Project management capabilities
- Cost containment performance for past projects

NextEra was the only bidder that offered an O&M cost containment measure for DCR:

NEET West also proposed to forego cost recovery for all O&M and A&G expenses in their entirety (i.e., the project revenue requirement would incorporate zero dollars for O&M and A&G) for a specified number of years. NEET West indicated that it would request FERC approval to recover O&M and A&G following the end of the waiver period and on an annual basis going forward. (P-12)

From the Harry Allen –Eldorado Selection Report:

<http://www.caiso.com/Documents/HarryAllentoEldoradoTransmissionLine-ProjectSponsorSelectionReport.pdf>

O&M Cost Containment

The three project sponsors provided a range of cost estimates for their expected annual average O&M expenses for the project. The O&M cost estimates range widely. The estimate of average annual O&M costs provided by NEET West/SCE is lower than the O&M cost estimates of the other two project sponsors, and DesertLink's O&M cost estimate is lower than ETC's O&M cost estimate. Although ETC proposed to cap its O&M and administrative and general costs for a limited period, the cap levels are significantly higher than estimates provided by the other two project sponsors. Both DesertLink and NEET West/SCE have contracted with public utilities with a strong local presence to provide O&M services, NV Energy and SCE, respectively, and have provided more detailed O&M cost information than the information included in ETC's proposal. ETC identified NV Energy and two potential alternative suppliers to provide O&M services but has not provided an executed agreement with any potential O&M service provider. None of the project sponsors proposed a cap on O&M costs at a specific dollar amount for the life of the project. **Because the ISO cannot predict with a reasonable degree of certainty what the actual O&M cost differences between the project sponsors ultimately will be or what O&M costs FERC would ultimately approve (or disapprove) for each project sponsor, the ISO has concluded that O&M costs are too uncertain under the specific circumstances presented here to ascribe significant weight or a specific quantitative value to them, in part because the project sponsors are outsourcing their O&M services.** In any event, even after taking the O&M cost estimates and binding cost containment

commitments into consideration, cost analyses performed by the ISO and its expert consultant showed that DesertLink’s proposal still results in the overall lowest projected revenue requirements.

Other CAISO Substation Order No. 1000 Projects

NextEra Energy Transmission West, LLC which were awarded the Suncrest and Estrella projects in CAISO, capped O&M Costs for 5 years as part of their winning proposal.

Excerpts from Duff-Coleman Selection Report in MISO on O&M Caps:

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

SPP on O&M Caps:

- No known evidence from SPP Selection Report on Walkemeyer project that O&M Caps were proposed by marketplace in bids.

https://www.spp.org/documents/37708/iep%20recommendation%20report%20with%20process%20and%20appendix%20public%20redacted%20041216_redacted.pdf