

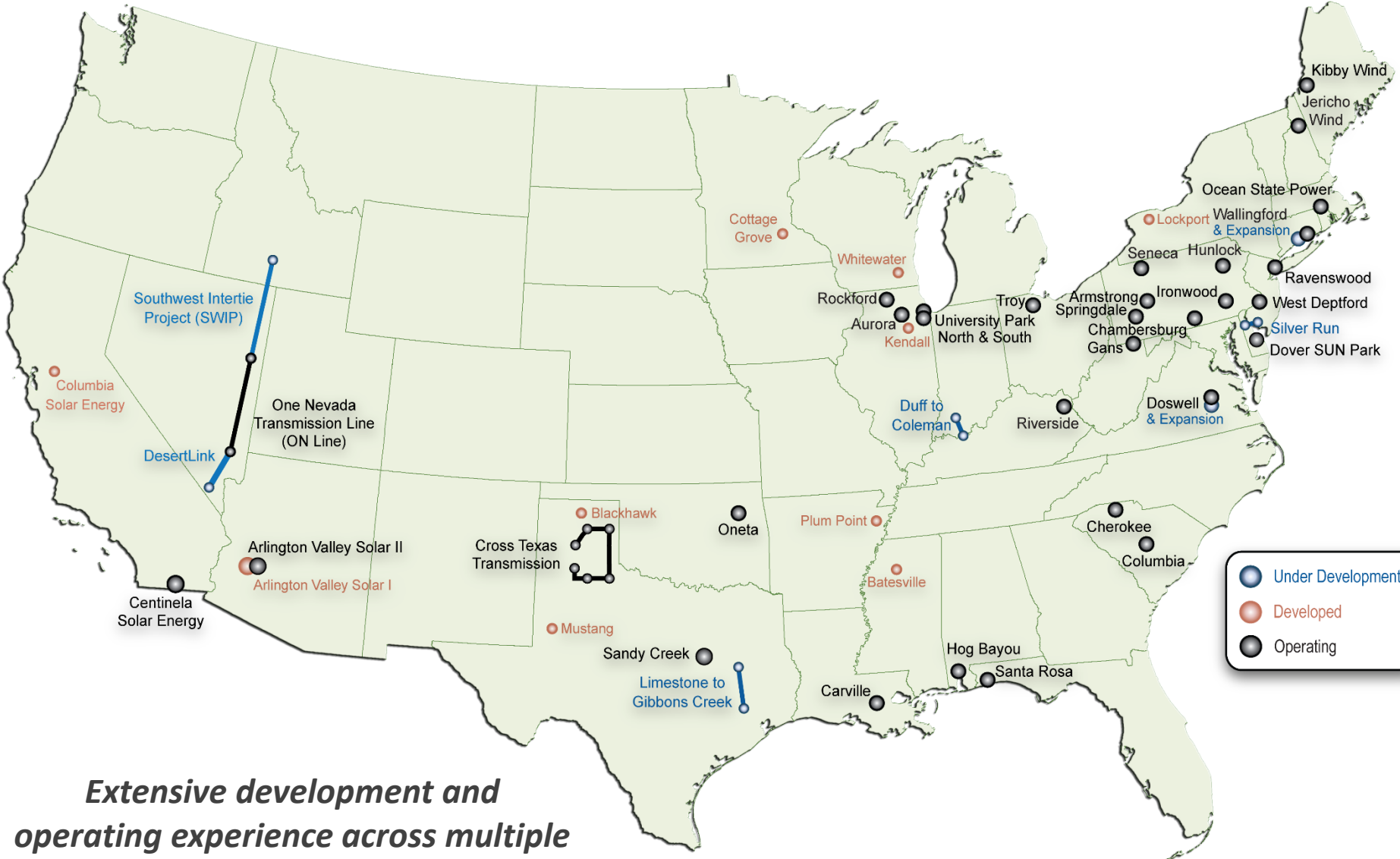
LS POWER

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November 2018

Project Portfolio



Extensive development and operating experience across multiple regions, markets and technologies

Brattle Group Study

on Results of Order No. 1000

- U.S. transmission investments have grown from \$2 billion per year in the 1990s to over \$20 billion per year in the last five years, 85% of which is located in ISO/RTO regions.
- Five years after FERC Order No. 1000 mandated competition in regional transmission planning, an estimated 98% of ISO/RTO transmission investments are still made outside competitive planning processes.
- ISO/RTO-planned transmission projects not subject to competition have experienced cost-escalations, with final project costs (including inflation) exceeding the projects' initial cost estimates by 34% on average.
- Winning bids of competitive transmission projects have been priced on average 40% below initial project cost estimates and have been accompanied with cost caps or other cost-control mechanisms.
- If the scope of competition could be expanded from 2% to 33% of total transmission investments, estimated **customer benefits would be approximately \$8 billion over just five years**

Competition Brings Commercial Innovation

- Overall shift of cost risk from ratepayers to developer occurring in Order No. 1000 bids
- Order No. 1000 Market moving to cost containment bids

10 of 11 Duff-Coleman Bids (summary table below)

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

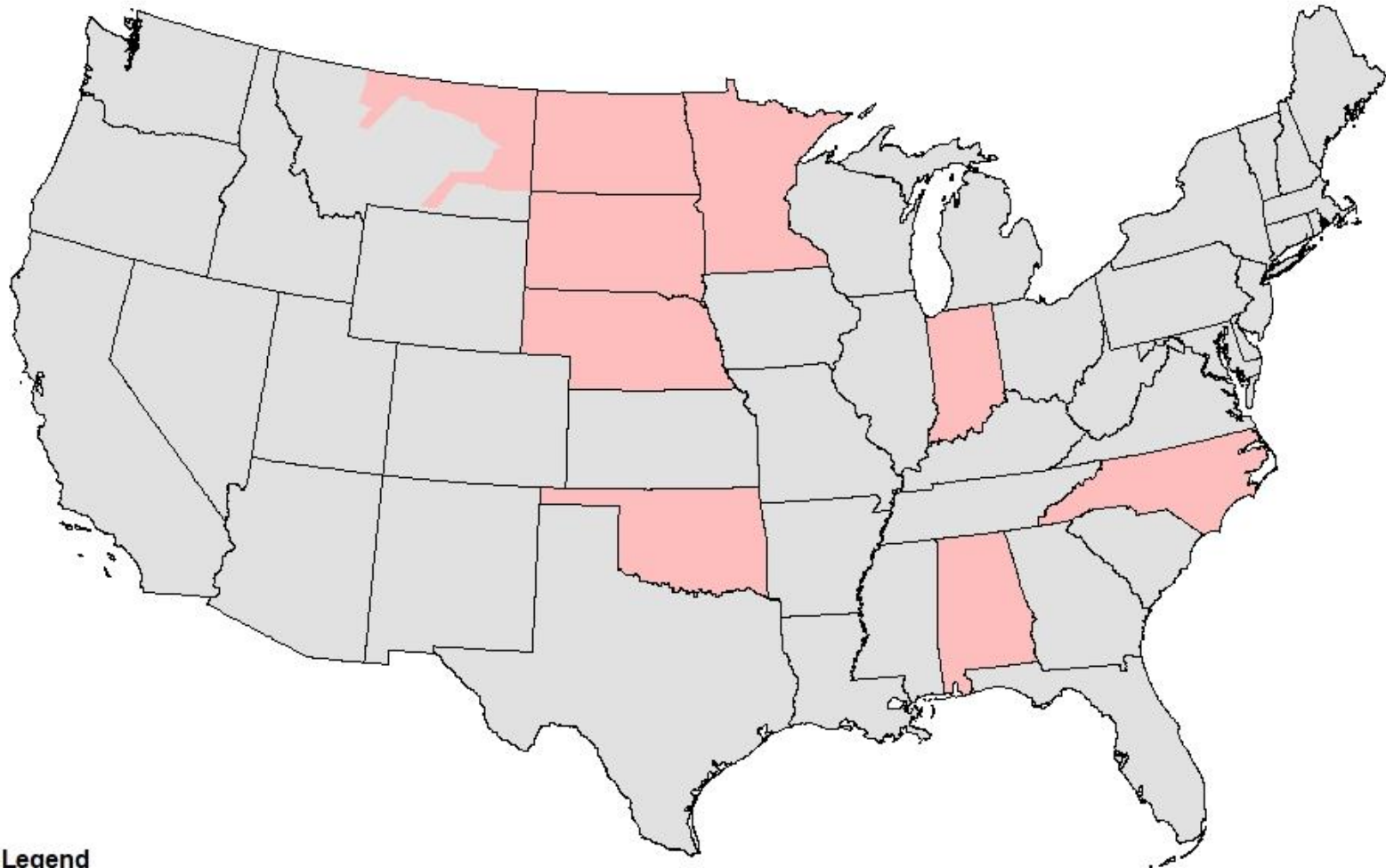
v Only a portion of construction costs are capped

Table 2-2: Summary of Cost Caps, Concessions, and Commitments

The Details of Legal and Policy Choices on How to Open Transmission to Competition Matter

Policy Choice	USA Model – FERC Order 1000	Recent UK Proposal on Onshore Transmission
Compete New Greenfield Projects		
Compete Regionally Planned and Regionally Cost Allocated Projects		
Accommodate and Recognize State Laws		
Compete All New Projects Above A Certain Cost Threshold		

State Laws Enacted To Thwart Order No. 1000



Legend

State Right of First Refusal Legislation Enacted Since Order No. 1000

The Path Ahead for Competitive Transmission in US

- Focus on Expanding Number of Competition Windows
- FERC Should Support Cost Containment and Its Strong Role in the Selection Process
 - Regions should continue to develop the capabilities to analyze cost cap proposals, as well as develop frameworks on how to compare cost estimates vs. caps in bids
 - *Pending PJM and NYISO Policy is Significant*
- FERC Should Support Reducing Order 1000 Carve-Outs
 - Near term needs
 - MISO and ISO-NE Opportunities Should be Expanded
 - Oppose changes in cost allocation that limit competition
 - Interaction between Regional Planning and Supplemental Projects Should be Addressed
 - Reduce or eliminate voltage restrictions on competition
- State ROFR laws are Unconstitutional – Minnesota litigation in the 8th Circuit