Appendix C

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

New York Independent System Operator, Inc.) Docket No. ER17-___-000

AFFIDAVIT OF JERRY J. ANCONA

I, Jerry J. Ancona, being duly sworn, depose and say:

1. My name is Jerry J. Ancona, and I am employed by the New York State Department of Public Service (NYDPS) as a Power Transmission Planner IV in the Office of Electricity, Gas and Water. My business address is 300 Erie Blvd West, Room A-114, Syracuse, New York 13202.

2. I have been employed by NYDPS since May 2008. My areas of responsibility for NYDPS include the review, analysis, evaluation of and recommendations for bulk electric system capital projects and budgets, power system planning and reliability studies, interpretations and applications of reliability criteria, electric rate case submittals, utility management audits, transmission siting applications under Article VII of the New York Public Service Law (PSL), generator siting applications under Article 10 of the PSL, generator repowerings and retirements, renewable resource development, resource capacity and energy deliverability, power quality issues, electric delivery system losses, wholesale electric market issues and operations, and cost allocation methodologies. Overall, I have experience in electric system planning and operations, demand response programs, reliability analyses, engineering economic evaluations, and wholesale electric market rule design and operations.

3. I hold a Bachelor of Science Degree in Electrical Engineering from Clarkson University, and a Master of Business Administration degree from Syracuse University. I also

completed the Power Technologies Inc. (now PTI, a division of Siemens) Power Systems Engineering Course. Additionally, I am a registered Professional Engineer in the State of New York, and a Life Senior Member of the Institute of Electrical and Electronic Engineers.

4. Prior to joining the NYDPS, I worked for Niagara Mohawk Power Corporation, d.b.a. National Grid, from 1969 until November 2007. During this time, I held various professional and managerial positions in Distribution Planning, Transmission Planning, Generation Planning and Economic Planning as well as System Power Control, ISO Market Design and Development, and Transmission Regulatory Affairs. I was also elected to serve as Vice-Chair and Chair of the New York Independent System Operator, Inc. (NYISO) Management Committee (MC) (i.e., the stakeholder group that shares governance with the NYISO Board of Directors). I also taught several sessions of Engineering Economics (in-house and as an adjunct instructor at the State University of New York, College of Environmental Science and Forestry).

Purpose and Summary of Affidavit

5. The purpose of my affidavit is to support the New York Public Service Commission's (NYPSC) filing for cost allocation and cost containment related to the AC transmission projects that address the Public Policy Transmission Needs identified by the NYPSC.

6. In my affidavit, I: (i) briefly describe the cost allocation methodology adopted by the NYPSC; (ii) provide a rationale for adoption of that methodology as just and reasonable; (iii) briefly describe the cost containment methodology adopted by the NYPSC; and (iv) provide a rationale for adoption of that methodology as just and reasonable.

NYPSC Orders on Cost Allocation

7. In its December 2014 Order,[1] the NYPSC adopted a cost allocation methodology for certain upgrades across the Central East and Upstate New York/Southeast New York portions of the AC transmission system (referred to as the AC Transmission Upgrades), as recommended by its Advisory Staff. In particular, the NYPSC indicated that it:

> supports a "beneficiaries pay" approach for allocating costs, whereby those that derive the benefits of a project should bear the costs. Although a precise calculation of the projected benefits has not been completed, the cost allocation proposed in the Advisory Staff Recommendations is roughly commensurate with the anticipated beneficiaries. The [NYPSC] therefore adopts an approach whereby 75% of project costs are allocated to the economic beneficiaries of reduced congestion, while the other 25% of the costs are allocated to all customers on a load-ratio share. This would result in approximately 90% of the project costs being allocated to customers in the downstate region, and about 10% to upstate customers. This allocation reflects that the primary benefit of the projects will be reduced congestion into downstate load areas, but also recognizes that some benefits accrue to upstate customers in the form of increased reliability and reduced operational costs.

8. In its December 2015 Order,[2] the NYPSC found that the need for the AC Transmission Upgrades were being driven by a Public Policy Requirement, as defined under the NYISO OATT, and provided two clarifications regarding its position on cost allocation. First, to address the Long Island Power Authority's concerns that the cost allocation methodology did not take into account that benefits within downstate New York could vary within that region, the NYPSC agreed that:

> [a] more granular analysis would be beneficial and perhaps more equitable. Therefore, the NYISO will be asked to incorporate such an analysis into the cost

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[1] Case 12-T-0502, et al., AC Transmission Proceedings, Order Establishing Modified Procedures for Comparative Evaluation (issued December 16, 2014) pp. 41-42 (December 2014 Order).

[2] Case 12-T-0502, et al., AC Transmission Proceedings, Order Establishing Modified Procedures for Comparative Evaluation (issued December 17, 2015) pp. 52-53 (December 2015 Order).

> allocation methodology. The NYISO should apply its expertise in designing the more granular analysis to be performed.

Second, with respect to avoided transmission refurbishment costs that accrue from a Public Policy AC Transmission Project, it indicated that:

> [t]he benefits of avoided refurbishment costs accrue to all the beneficiaries of the facility, regardless of who owns the lines. Therefore, no adjustment in cost allocation is to be made to the prescribed cost allocation and recovery methodology adopted herein on the basis that the current owner will avoid future refurbishment costs.

9. In its January 2017 Order, the NYPSC adopted the NYISO's analysis of the recommended cost allocation methodology utilizing, to a large extent, the same methodology the NYISO uses to allocate costs under its economic planning process, known as the Congestion Analysis and Resource Integration Study (CARIS). This methodology has been vetted through the NYISO's stakeholders and approved by FERC as just and reasonable for the allocation of costs for projects resulting in lower system congestion costs. This approach allocates costs to New York Control Area load zones based on the relative reduction in energy payments resulting from the addition of the proposed project to a production cost analysis model. The results of the NYISO's illustrative analysis determined that, overall, 89.5% of the costs would be allocated to downstate zones (G-K) and 10.5% to upstate zones (A-F). The NYPSC found this approach was consistent with a 'beneficiaries pay' approach and reflects the expectation that the primary benefits of the upgrades will be reduced congestion into downstate load areas, while also recognizing that some benefits would accrue to upstate customers in the form of increased reliability and reduced operational costs.[3]

[3] Case 12-T-0502, et al., AC Transmission Proceedings, Order Addressing Public Policy Transmission Need for AC Transmission Upgrades (issued January 24, 2017) pp. 9-10, 20-21 (January 2017 Order).

Rationale for NYPSC Cost Allocation Methodology

10. As stipulated by FERC - that a cost allocation methodology needs to be roughly commensurate with benefits received - the NYPSC asserts that its methodology meets this test and better aligns with anticipated beneficiaries than a pure statewide load ratio share computation, while also remaining transparent and unambiguous. In this regard, benefits from reduced congestion into downstate areas are relatively straightforward to quantify. Clearly, however, other benefits from AC transmission projects will accrue to some portions or all of the State, such as: 1) enhanced system reliability, flexibility, and efficiency; 2) reduced environmental and health impacts; 3) increased diversity in supply; 4) promotion of job growth and the development of new efficient generation resources upstate; and, 5) mitigation of reliability problems that may arise with expected generator retirements.[4] These benefits are generally expected to be less significant compared to congestion relief savings, and simultaneously more difficult to quantify and more qualitative in nature. Nevertheless, they are anticipated to materialize. Consequently, the 25%/75% breakdown between overall statewide benefits and more targeted congestion savings, respectively - resulting in approximately 10% of benefits accruing upstate and 90% accruing downstate - provides a just and reasonable approximation to assign costs commensurate with all anticipated benefits. Furthermore, an attempt to develop a methodology deemed "more accurate" would likely be more contentious, complex, and time consuming with no assurance that it would result in fairer or more robust outcomes.

NYPSC Order Regarding Cost Containment

[4] Case 12-T-0502, Order Instituting Proceeding (issued November 30, 2012), pp. 1-2.

11. In its December 2014 Order,[5] the NYPSC adopted a cost containment methodology with respect to the AC Transmission Upgrades, which would require: (i) detailed and thorough cost estimates submitted as binding bids; and (ii) a risk sharing mechanism for cost overruns or underruns.

12. With respect to bid cost estimates, the NYPSC Order specifies:

> … In particular, each developer should provide credible capital cost estimates for its proposed project, with itemized supporting work sheets that identify all material and labor cost assumptions. The work sheets should include an estimated quantification of cost variance, providing an assumed plus/minus range around the capital cost estimate. Each developer should itemize: material and labor cost by equipment, engineering and design work, permitting, site acquisition, procurement and construction work, and commissioning needed for the proposed solution, all in accordance with Good Utility Practice.
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> For each of the above cost categories, the developer should specify the nature and estimated cost of all major project components, and estimate the cost of the work to be done at each substation and/or on each feeder to physically and electrically connect each facility to the existing system. The work sheets should itemize, to the extent applicable, all equipment for: (i) the proposed project, (ii) interconnection facilities (including Attachment Facilities and Direct Assignment Facilities), and (iii) System Upgrade Facilities, System Deliverability Upgrades, Network Upgrades, and Distribution Upgrades.[6]

13. With respect to risk sharing, the NYPSC adopted an 80%/20% assignment to ratepayers and the developer, respectively, to help balance the interests of both. More specifically, the NYPSC's December 2014 Order indicates:

> The Commission believes a transmission developer who intends to seek regulated rates should be incented to produce accurate cost estimates in the Article VII process, and then to meet them, particularly since cost is one of the criteria by which projects will be selected or rejected. The developer should be entitled to a reasonable base rate-of-return up to the amount of its estimates, but should not receive compensation at the same level for the actual costs that exceed those estimates. The Advisory Staff recommendation, which recognizes this principle,

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[5] Case 12-T-0502, et al., AC Transmission Proceedings, Order Establishing Modified Procedures for Comparative Evaluation (issued December 16, 2014).

[6] Id. pp 42-43.

> is a reasonable approach for risk-sharing and is therefore adopted. Accordingly, if actual costs come in above a bid, the developer should bear 20% of the cost overruns, while ratepayers should bear 80% of those costs. If actual costs come in below a bid, then the developer should retain 20% of the savings. Furthermore, if the developer seeks incentives from FERC above the base return-on-equity otherwise approved by FERC, then the developer should not receive any incentives above the base return-on-equity on any cost overruns over the bid price. The bid price would therefore cap the costs that may be proposed to FERC for incentives. The Commission believes this approach to be consistent with FERC policies and reflects FERC‟s underlying objectives of balancing customer and utility interests, and FERC's policies encouraging innovative risk and reward sharing arrangements.[7]

Also:

> The Commission also acknowledges that a developer may incur additional, identifiable, and verifiable costs necessary to comply with Commission-imposed modifications and mandates that could not have been reasonably anticipated in formulating the initial bid price. These additional qualifying costs would need to exceed a materiality threshold of 5% above the initial bid price to be recoverable. To encourage further creativity, developers will be allowed to propose alternative risk-sharing proposals if they are submitted in addition to the developer's bid prepared on the above-described partial pass-through model. Developers are also free to propose methods to index their bid prices to changes in the cost of key elements so long as the indexes chosen are governmental in origin and not subject to influence or manipulation by developers.[8]

14. The NYPSC’s December 2015 and January 2017 Orders establishing the AC Transmission Upgrades as a Public Policy Requirement, the NYPSC adopted the same cost containment/risk-sharing approach identified in the December 2014 Order.

15. To adhere to the NYPSC’s preferred cost containment “80%/20%” mechanism to the extent practical - while also adhering to FERC’s policy of allowing full recovery of prudently incurred costs – the affidavit of MaryAnn Sorrentino, attached as Appendix D to this filing, recommends a sliding scale allowed return on equity to effectuate an 80%/20%

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[7] Id. pp 43-44.

[8] Id. p 45.

ratepayer/developer risk sharing, with an override mechanism available to ensure that the overall return on equity remains with the FERC-determined zone of reasonableness. Further discussion below refers to this definition of the 80%/20% risk sharing mechanism.

Rationale for NYPSC Cost Containment Methodology

16. In its approach to adopting a cost containment methodology for AC Transmission Upgrades Public Policy Requirement, the NYPSC balanced the interests of both developers and ratepayers. In this regard, the NYPSC is concerned with two cost aspects: (i) the accuracy of initial cost estimates used in developer and project bid selections; and (ii) once selected and approved, the proficiency in which a specific project is completed and cost controlled.

17. Accurate and thorough initial project cost estimates submitted as binding bids – that properly allow for cost variances and the impacts of potential contingencies – are important because they will help to: (i) encourage that project scope definitions are sufficiently defined and finalized early in the process to reduce future uncertainties; (ii) ensure confidence in the validity of benefit-cost ratios of proposed projects; (iii) assure that the appropriate developer will be selected from among competing developers in a bidding process for a given project; and, (iv) provide better guidance for project management and cost control as the project proceeds. These attributes of higher quality cost estimate bids will serve to protect ratepayers from sub-optimal decisions with respect to project or developer selections, as well as reduce the overall risk of cost overruns. This, in turn, will encourage ratepayers or their representatives to take a more involved interest in the details and validity of project scope definitions and cost estimates. Simultaneously, higher quality cost estimates will help reduce the risk to all bidding developers, resulting from inaccurate or incomplete bids, as well as assisting winning bidders in subsequently avoiding cost overruns.

18. Effectively and efficiently managed projects in which actual project completion costs are reasonably aligned with their original cost estimates – given that actual project procurements, construction, and conditions will often present problems – provide a benefit to both ratepayers and the project's developer. In this instance, ratepayers are more likely to realize a cost-effective outcome originally envisioned in which benefits exceed costs. Correspondingly, the developer: (i) is more likely to be shielded from the financial impact of cost overruns; (ii) may in fact obtain the benefit associated with cost underruns; and, (iii) is more likely to have its reputation enhanced.

19. The requirement for an accurate and thorough binding cost estimate bid coupled with an 80%/20% (ratepayer/developer) risk sharing mechanism (as defined in the affidavit of MaryAnn Sorrentino, and attached as Appendix D to this filing) is intended to provide a balanced incentive among competing interests for meeting the dual objectives of (i) reliable initial cost estimates, and (ii) well managed and cost-controlled project completions. It provides a reasonable combination of a "carrot" and a "stick."

20. A 100% assignment of cost overruns to a developer would be problematic. It would essentially result in two detrimental impacts. First, it would have a chilling effect on some bidders because they would not be willing or able to bear that level of perceived risk. Therefore, they could be precluded from submitting bids, thereby reducing overall competition among qualified bidders. Second, a smaller pool of interested bidders – sensing the reduced competition – could submit bids with inflated risk premium adders. Both effects would have the impact of increasing costs of the available bids received. Admittedly, a corresponding assignment of 100% of cost underruns to developers would be somewhat enticing, but would not likely offset the potential detrimental impact of the higher project costs brought about by higher

perceived risk and reduced competition. Additionally, 100% of cost overruns assigned to developers would place intense pressure on developers for project management proficiency; but in extreme circumstances, it could tempt developers to "cut corners" resulting in reduced quality and/or performance of completed projects.

21. Alternately, a 100% assignment of cost overruns to ratepayers would be problematic as well. Developers would have a reduced incentive to submit accurate and thorough cost estimates in their bids. In fact, a tendency would exist for developers to submit unrealistically low cost bids which would essentially be non-binding. This could potentially result in two deleterious effects: (i) computations of project benefit-cost ratios and economic viability could be flawed such that uneconomic projects may be selected; and/or (ii) comparisons between competing developers could be inconsistent and erroneous such that a less suitable candidate could be chosen to proceed with a given project.

22. Also, under a 100% assignment of project cost overruns (and underruns) to ratepayers – except for a desire by a developer to maintain or enhance its reputation – little incentive would exist for the developer to abide by its bid cost. Consequently, a developer would be less likely to: (i) implement a highly disciplined, effective and efficient project management and cost control process; (ii) actively seek creative innovations and improvements in its approach; and, (iii) provide incentives to its employees for better performance and diligent cost control. Under these circumstances – although 100% of cost underruns would be designated to ratepayers – actual cost underruns would be exceedingly unlikely to occur. Additionally, although only prudently incurred cost overruns would be compensated for by ratepayers under 100%/0% ratepayer/developer risk sharing, as discussed further in Paragraph 22 below, the prudency review process would likely be complex and costly.

23. Compared to 100% of cost overruns assigned to either ratepayers or developers, an 80%/20% (ratepayer/develop) risk sharing mechanism reduces the likelihood of expensive and prolonged litigated disputes involving project costs. Cost overruns can result from developer mismanagement, subsequent project scope changes made at the behest of ratepayers, changes imposed by outside forces, and random events; or by a combination of some or all of these factors. In actuality, root causes of cost overruns may be complex and difficult to identify. Thus, if a prudency review were to be invoked, the determination of prudently versus imprudently incurred costs associated with cost overruns would be challenging. In this context, an *a priori* 80%/20% (ratepayer/developer) risk sharing mechanism will help serve to both reduce cost overruns, and reduce the need and expense of litigation associated with cost overruns.

24. With respect to the 80%/20% split in risk sharing between ratepayers and the developers respectively, it is reasonable to assign the higher proportion of risk to ratepayers because: (i) presuming a project's anticipated benefit-cost ratio is reasonably above 1.0 – thereby providing a relatively secure margin of safety – ratepayers would stand to realize benefits that are still comfortably above costs, provided actual cost overruns are not excessive; and, (ii) a developer's profit margins may be limited or truncated in the case of cost overruns. In the extreme, assigning a higher percentage of risk to developers could lead to a situation where cost overruns might entirely eliminate a developer's profits, in which case the developer might be tempted to abandon the project; this would jeopardize the ratepayer benefits anticipated to materialize from the completion of the project. The 80%/20% ratepayer/developer risk sharing split provides an appropriate balance between competing and conflicting interests. A 90%/10% ratepayer/developer risk sharing would drive closer to the disadvantages inherent with a

100%/0% split. Alternately, a 60%/40% or 50%/50% ratepayer/developer split would drive closer to the disadvantages inherent with a 0%/100% split.

25. With respect to applying a bandwidth to project cost risk sharing, such as plus and minus 10% of a cost estimated bid – so that a developer would receive full payment for a cost overrun up to 10% above the bid price, and would capture 100% of savings from a cost underrun down to 90% of the bid price – this would be tantamount to making the bid price actually 110% of the "original bid." Thus, in this example, a cost overrun would be defined as a final project cost 10% above the bid price; a cost underrun would be defined as a final project cost 10% under the bid price. While admittedly, this approach would provide a certain level of incentives for a developer to control costs, it would put ratepayers at risk of incurring a 10% cost overrun with no recourse. Furthermore, ratepayers would receive no benefit from cost underruns unless final project costs were 10% below the bid cost.

26. Providing a different return on equity for all cost overruns and underruns (i.e., a lower return on equity for an overrun portion, and a higher return on equity for an underrun portion) has been proposed by some as a project cost risk sharing mechanism. This approach would provide a return on equity with adders for a project's bid price, a lower return on equity for the portion of a final project cost above the bid price, or a higher return on equity for the portion of a final project cost below the bid price. In comparison to an 80%/20% (ratepayer/developer) project cost risk sharing (as recommended in the affidavit MaryAnn Sorrentino, attached as Appendix D), that proposal would: (i) burden ratepayers with greater project cost risks; (ii) shield developers more from project cost risk; and, (iii) weaken the incentive for a developer to impose discipline and innovation on project management and cost control.

27. This concludes my affidavit.

ATTESTATION

I am the witness identified in the foregoing affidavit. I have read the affidavit and am familiar with its contents. The facts set forth herein are true to the best of my knowledge, information, and belief.

Jerry J. Ancona, PE
Dated: March 27, 2017

Subscribed and sworn to before me this 27th day of March, 2017

Notary Public

KAREN M. DODGE
Notary Public, State of New York
No. 01DO6067882
Qualified in Onondaga County
Commission Expires Dec. 17, 2017

My Commission expires: