

Attachment D

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

**LS POWER GRID NEW YORK)
CORPORATION I)**

Docket No. ER20-__-000

**DIRECT TESTIMONY AND EXHIBITS
OF
CAMERON TAJVAR**

**UNITED STATES OF AMERICA
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OF
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1 **I. INTRODUCTION AND EXPERIENCE**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Cameron Tajvar. My business address is 1700 Broadway, 35th Floor, New
4 York, New York 10019.

5 **Q. IN WHAT CAPACITY ARE YOU EMPLOYED?**

6 A. I am a Vice President in the investment team at LS Power Development, LLC (“LSP
7 Development”), the general partner and manager of LS Power Associates, L.P. (“LS
8 Power”), which is an indirect owner of LS Power Grid New York Corporation I (“LSPG-
9 NY” or “Company”).

10 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

11 A. I am testifying on behalf of LSPG-NY.

12 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND,**
13 **PROFESSIONAL QUALIFICATIONS, AND BUSINESS EXPERIENCE.**

14 A. I received a Bachelor of Science from Northwestern University in Evanston, IL. I joined
15 LS Power in 2010, and have approximately 12 years of experience in the power industry.
16 My primary focus has been on investments in the power and transmission space, with
17 experience in acquisitions, greenfield developments, project financing, and commercial
18 activities. In my current capacity, one of my responsibilities is raising capital to support
19 LS Power’s transmission-related development activity.

20 **Q. WHAT ARE YOUR PRINCIPAL AREAS OF RESPONSIBILITY?**

21 A. In my current role as Vice President, my duties include reviewing potential acquisitions,
22 executing acquisitions and divestitures, raising capital, commercial optimizations, and
23 financial planning. Since I joined the LS Power organization in 2010, I have been
24 involved in equity and debt capital raises of approximately \$10 billion dollars, related to

both acquisitions and new construction projects.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE A REGULATORY COMMISSION?

A. No.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony addresses LSPG-NY's initial and ongoing funding sources, along with its targeted credit profile, and supports LSPG-NY's cost of debt, cost of equity, and target capital structure. I will also discuss several financing risks and challenges faced by LSPG-NY.

Q. IN ADDITION TO YOUR TESTIMONY, ARE YOU SPONSORING ANY OTHER EXHIBITS?

A. Yes, Exhibit No. LSPG-NY-301 provides NYISO Transmission Owner Debt Costs.

III. LSPG-NY FINANCING PLAN

Q. HOW WILL LSPG-NY OBTAIN EQUITY FINANCING FOR THE PROJECT?

A. To fund its initial development of the Project, LSPG-NY plans to use paid-in-capital (*i.e.*, equity investments) from its owners. Once LSPG-NY is in service and receiving payment of its revenue requirement, it will use a combination of retained earnings and additional paid-in-capital from its owners to fund its ongoing investments and maintain the equity balance necessary to achieve its target equity ratio.

LSPG-NY does not plan to sell equity interests in the company at this time.

However, if it chooses to do so, LSPG-NY's status as a corporate entity separate from LS Power's other activities should simplify the process of bringing additional equity investors into this transmission-only line of business.

Q. HOW WILL LSPG-NY OBTAIN DEBT FINANCING FOR THE PROJECT?

A. LSPG-NY plans to raise debt shortly before significant construction activities are underway. As the Project nears commercial operation and permanent financing can be utilized, LSPG-NY plans to access long-term debt financing in either the institutional capital markets or via long-term commercial bank financing.

For a new utility such as LSPG-NY this approach results in significant volatility in the capital structure of the utility during the construction period, due to the month-to-month timing and variation of construction expenditures, and the corresponding draws on funding sources. A utility with a large existing rate base relative to a new investment can raise additional debt or equity with little impact to its capital structure. A start-up utility such as LSPG-NY is raising its entire initial capitalization as construction occurs and construction funding is raised.

Q. HOW DOES LSPG-NY EXPECT TO RAISE CAPITAL AT A REASONABLE COST?

A. In order for LSPG-NY to attract and secure financing at a reasonable cost, the company will need to attract and maintain a strong credit profile that allows investors to be confident in the financial health and integrity of the company. To achieve that, LSPG-NY is targeting a company credit profile that is within the guidelines set forth by nationally recognized rating agencies for “investment grade” credit ratings. Investment grade ratings are common among utility companies and LSPG-NY’s target credit profile should provide the company with the opportunity to attract capital at competitive costs.

1 **Q. WHY IS IT IMPORTANT TO TARGET A CREDIT PROFILE THAT**
2 **SUPPORTS AN INVESTMENT GRADE RATING?**

3 A. A financially healthy utility with a strong credit profile is able to access capital at
4 reasonable costs and has the flexibility to manage through difficult times, either when
5 access to capital may be limited due to macroeconomic conditions that may affect capital
6 markets or when it must manage through the unforeseen cash flow volatility related to
7 building large, complex transmission projects. In developing a project that may span
8 several years, such as the Project, it is imperative to maintain access to capital throughout
9 all types of economic cycles. During credit-constrained periods, companies with strong
10 credit profiles generally are able to issue debt at reasonable rates while companies with
11 weaker credit profiles may need to issue securities at a significant interest rate premium,
12 if they are able to issue securities at all.

13 **Q. HOW DOES LSPG-NY EXPECT TO ACHIEVE ITS TARGETED CREDIT**
14 **PROFILE?**

15 A. LSPG-NY's recommended capital structure is an important element in establishing the
16 cash flows necessary to maintain an investment grade credit profile. The combination of
17 LSPG-NY's recommended capital structure, depreciation rates, return on equity
18 ("ROE"), and formula rate recovery should produce financial metrics that are within the
19 current guidelines provided by the rating agencies for companies facing similar business
20 risk (*i.e.*, Commission-regulated electric-transmission-only entities). As discussed below,
21 LSPG-NY is seeking a capital structure that is in alignment with other transmission
22 entities that have credit profiles that are within the investment grade guidelines.

23 An important consideration in establishing LSPG-NY's credit profile will be the
24 results of several sensitivity tests and scenarios. Scenarios may include an analysis of

LSPG-NY's ability to repay its loan under cases of higher interest rates, delay in achieving initial placed-in-service, higher future investment requirements, or changes in cost recovery in rates.

IV. FINANCIAL RISKS AND CHALLENGES

Q. DESCRIBE THE FINANCIAL RISKS AND CHALLENGES FACING THE PROJECT.

A. There are a variety of financial risks and challenges facing LSPG-NY in the development of the Project. As described by Mr. Carroll, the Project represents the largest single transmission investment in New York since the introduction of competitive markets. The Project is also the largest independent transmission investment that resulted from an Order No. 1000 competitive process.¹ LSPG-NY currently has no rate base and no revenue. Therefore, the initial investments in development and construction of the Project will represent negative cash flow for LSPG-NY and the Project will represent 100% of LSPG-NY's plant in service.

The Project faces competition for investment from other projects in its effort to obtain financial commitments from third party investors and lenders. This includes competition from other energy projects including generation, and also other non-energy investments. This competition can be greater for entities that have agreed to cost

¹ Order No. 1000 competitive projects to date by ISO/RTO, with estimated costs, are: CAISO – Imperial Valley Policy Element (\$25 million), Gates to Gregg (\$115-145 million), Miguel Project (\$30-40 million), Spring Substation (\$35-45 million), Wheeler Ridge (\$90-140 million), Suncrest Project (\$50-75 million), Estrella Project (\$35-45 million), Delaney to Colorado River (\$337 million), Harry Allen to Eldorado (\$159 million); ISONE - None; NYISO – Duff to Coleman (\$60 million), Harburg to Sabine (\$130 million); NYISO – Western New York (\$181 million); PJM does not identify specific projects but greenfield non-incumbent selections in PJM windows have been– (\$147 million), Thorofare Project (\$60 million), Transource Independence Project (\$320 million); SPP – Walkemeyer to North Liberal (\$17 million).

1 containment provisions for their projects, as LSPG-NY has, which inure to the benefit of
2 ratepayers but which place increased financial risk on such project developers,
3 particularly where other transmission projects are not subject to such limitations.

4 **V. SUPPORT FOR RECOMMENDED COST OF DEBT AND EQUITY AND**
5 **INCENTIVES**

6 **Q. WHAT COST OF DEBT IS LSPG-NY REQUESTING IN ITS FORMULA RATE?**

7 A. LSPG-NY proposes to use the actual cost of long-term debt in the Formula Rate. This
8 will be based on the actual total cost of long-term debt including interest and amortization
9 of all fees, divided by the total amount of long-term debt outstanding, on an average
10 basis.

11 During the time prior to the issuance of construction debt, LSPG-NY proposes to
12 use an estimated interest cost (the "Proxy Debt Rate") based on the 1-year London
13 Interbank Offered Rate ("LIBOR") or its successor plus 175 basis points, the same as the
14 rate approved by the Commission for LSPG-NY's affiliate Republic Transmission, LLC.
15 As of 11/29/2019 the 1-year LIBOR rate was 1.952%, and the Proxy Debt Rate to be
16 used in the Formula Rate is 3.702%. Exhibit No. LSPG-NY 301 is a compilation of the
17 Cost of Long Term Debt from recent postings for NYISO transmission owners with
18 transmission formula rates. The average NYISO transmission owner Cost of Long Term
19 Debt is 3.78%, slightly higher than the proposed Proxy Debt Rate. LSPG-NY will update
20 the Proxy Debt Rate monthly, based on the value of the 1-Year LIBOR, or its successor,
21 effective for the last business day of the month, plus 175 basis points. The Proxy Debt
22 Rate will be used in the Formula Rate until actual long-term debt is placed, at which
23 point the actual cost of the debt financing will be reflected in the Formula Rate.

1 **Q. WHAT COST OF EQUITY IS LSPG-NY REQUESTING IN ITS FORMULA**
2 **RATES?**

3 A. In addition to the base rate of return on equity discussed by Mr. Hevert, LSPG-NY is also
4 requesting, along with other incentives, two incentive ROE adders. One is a 50 basis
5 point adder to its ROE based on its participation in a regional transmission operator as an
6 independent transmission company. The other is a 50 basis point adder to its ROE based
7 on the many risks and challenges facing the Project.

8 **Q. WHY IS LSPG-NY SEEKING A RISK ADDER TO THE ROE?**

9 A. LSPG-NY will face financial, regulatory, site control and other risks and challenges that
10 will not be accounted for in its base ROE or addressed through risk-reducing incentives.
11 As identified above, the Project is unique in many ways. It is the largest transmission
12 project within New York State since the advent of organized markets, and the first that
13 directly addresses long-standing congestion across the key Central East interface. It is
14 the culmination of five distinct submittal processes that, in the face of significant public
15 opposition, refined the Project definition. Despite the long planning process that pre-
16 dates this filing, the Project still requires significant state and local approvals prior to
17 beginning construction. It is one of the first projects implemented in New York State
18 under NYISO's Order No. 1000 competitive process, and the largest project in terms of
19 financial investment of any Order No. 1000 project selection in any market. It requires
20 removing existing transmission facilities owned by another utility in an existing right-of-
21 way and replacement with new, higher-voltage transmission circuits, while maintaining
22 local area service. This will require significant coordination and significant project
23 management capability. Even though the Project is within existing rights-of-way, the

1 Project will require significant study and mitigation of impacts to agricultural, cultural,
2 and environmental resources.

3 **Q. DOES LSPG-NY COMMIT TO LIMITING THE APPLICATION OF THE**
4 **INCENTIVE ROES TO A COST ESTIMATE?**

5 A. Yes, LSPG-NY commits that application of any incentive ROE will be limited to the
6 Project's Cost Cap. In fact, as discussed in the testimony of Mr. Willick, LSPG-NY is
7 going beyond just limiting incentives to the cost estimate and is proposing additional rate
8 concessions in the implementation of the 80/20 Cost Containment, consistent with past
9 precedent.

10 **Q. HAS THE COMMISSION GRANTED A SIMILAR RISK BASED ROE ADDER**
11 **FOR SIMILAR PROJECTS IN NEW YORK?**

12 A. Yes. Although each project is different, the Commission granted the same incentive
13 ROE adders for two other developers of competing AC Transmission project proposals.
14 In its order addressing the New York Transco's request for incentive rate treatment for its
15 alternative Eric to Pleasant Valley proposal, the Commission held that "[t]he Edic-to-
16 Pleasant Valley 345 kV Line is an investment of more than \$1 billion in capital, which
17 itself is a major financial risk, and will be constructed to relieve chronic and severe grid
18 congestion that has had demonstrated cost impacts to consumers."² The Commission
19 went on to find that "the Edic-to-Pleasant Valley 345 kV line possesses the characteristics
20 of the types of projects that the Commission found may warrant an incentive ROE based

2 *New York Independent System Operator, Inc., et al*, 151 FERC ¶ 61,004 (2015) at P 96.

on the project's risks and challenges that are not already accounted for in the applicant's base ROE."³

Q. IS LSPG-NY REQUESTING A HYPOTHETICAL CAPITAL STRUCTURE?

A. Yes. LSPG-NY is seeking Commission authorization to use a hypothetical capital structure of 53% equity and 47% debt until the entire Project is placed in-service. As described by Mr. Carroll, the Project will involve replacing facilities that are currently in use and will require it to be built in phases to maintain system reliability. As such LSPG-NY requests that it be permitted to use the Hypothetical Capital Structure Incentive until all portions of the Project are placed in service. LSPG-NY will use its actual capital structure after the Project is placed into service.

Q. WHY IS A HYPOTHETICAL CAPITAL STRUCTURE REASONABLE FOR LSPG-NY AND THE PROJECT?

A. During the project's development and construction phase, LSPG-NY's actual capital structure likely will fluctuate based on the amount, timing, and frequency of capital infusions (borrowings and equity infusions) that are needed to fund the construction cycle of a large transmission project like the Project. These fluctuations may drive significant volatility in the company's early-stage debt and equity ratios given that LSPG-NY is a single-project entity and will have no other assets to smooth out these changes. By adopting a hypothetical capital structure during the construction period, LSPG-NY will be able to raise capital at more reasonable costs, to remain competitive in the new competitive transmission solicitation environment, and to reduce the costs reflected in rates ultimately charged to transmission customers. At the time the Project goes into

3 *Id.* at P 97.

1 service, the Hypothetical Capital Structure Incentive will end, and LSPG-NY will start
2 using its actual capital structure in its Formula Rate.

3 **Q. WHY IS A HYPOTHETICAL CAPITAL STRUCTURE OF 53% EQUITY AND**
4 **47% DEBT REASONABLE FOR LSPG-NY?**

5 A. A 53% equity capital structure is one of the major components to achieving an
6 investment grade credit profile. As discussed above, it is critical that a utility maintain its
7 credit quality in order to maintain access to capital and avoid the increased costs of
8 financing that would be incurred with a weaker credit profile. Given its risks as a non-
9 incumbent transmission-only entity developing its first transmission asset, it will be
10 important for LSPG-NY to have a capital structure that is at least as robust as other
11 transmission owning utilities. The capital structure being requested should help alleviate
12 some of these risks since it is consistent with capital structure guidelines for an
13 investment grade rating. This is also consistent with the Hypothetical Capital Structure
14 approved for NEETNY.

15 As I previously explained, LSPG-NY will initially fund the Project with a
16 combination of equity contributions and debt, which will cause LSPG-NY's capital
17 structure to fluctuate significantly. A hypothetical capital structure will benefit LSPG-
18 NY by providing a measure of the financial stability enjoyed by incumbent transmission
19 owners. Adopting a hypothetical capital structure during the construction period will
20 help LSPG-NY raise capital at more reasonable costs, remain competitive with its cost of
21 capital in the new competitive transmission solicitation environment, and will likely lead
22 to lower rates for transmission customers. A fixed, hypothetical capital structure that
23 remains in place for the development and construction phase of the project also provides
24 necessary formula inputs needed to determine LSPG-NY's Allowance for Funds Used

1 During Construction (“AFUDC”), which will be used in connection with the Regulatory

2 Asset Incentive discussed in greater detail in Mr. Myers’ direct testimony.

3 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

4 **A. Yes.**

Exhibit No. LSPG-NY-301
NYISO Transmission Owner Debt Cost

Entity	Long Term Debt Rate	Source
New York Transco, LLC	3.15%	2020 Annual Projection
New York Transco, LLC	2.97%	2019 Annual Update Filing for the Year ending 12/31/2018
New York Power Authority	5.05%	2019 Annual Update Filing for the Year ending 12/31/2018
Niagara Mohawk Power Corporation d/b/a National Grid	3.95%	2019 Annual Update Filing for the Year ending 12/31/2018
Average	3.78%	


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AFFIDAVIT

CAMERON TAJVAR, being duly sworn, deposes and states: that the foregoing Direct Testimony of CAMERON TAJVAR was prepared by me or under my direct supervision, and that the statements contained therein are true and correct to the best of my knowledge and belief.



Cameron Tajvar

Subscribed and sworn before me this 16th day of December 2019.



Katherine Llubes

Notary Public

My commission expires: 11/17/2022

