

NJBPU Comments on Brattle Group Draft

CSTF May 8, 2014 Triennial Review of RPM

1) Reference Slides 3, 9, 40 & 46: Load Forecasts & System VRR Shift Rightward

- A) Explain why load forecasting is not under review. NJBPU believes that Brattle should investigate what appears to be consistent over-procurements of capacity in the BRA due to over-estimates of the Reliability Requirement.
- B) The draft VRR curve recommendations are premised in part on the assertion that the VRR curve is not meeting the 1-in-10 LOLE reliability criterion and that there exists consequent “significant reliability target shortfalls.” The assertion is premised on an assumption of “accurate load forecasts.” The load forecast premise must be certified through a review of their historical accuracy, with the error rate quantified and corrections identified.
- C) Further investigate the basis for the specific proposed shift of the VRR curve by 1 to 2 percent.

2) Reference Slide 4 and 13: Sargent & Lundy

- A) Explain the selection process used to select Sargent & Lundy for CT and CC capital and fixed O&M costs in the Gross CONE cost buildup.
- B) What firms other than Sargent & Lundy were considered and why were they rejected?
- C) Would Brattle/PJM accept a second firm to complement the S&L cost estimates with the selection of this second firm drawn from a list supplied by PJM loads and state regulatory commissions?

3) Reference Slide 11, Appendix: VRR Curve in the LDAs

- A) Provide evidence to support the need for the higher VRR curve cap (1.7X).
- B) In what LDAs have reliability targets not been achieved historically?
- C) Explore the “realistic shocks to supply, demand and CETL” on an LDA-specific basis as contained in the Appendix at Slides 66-73.
- D) Support the asserted nexus between the existing cap on the VRR curve and the cited reliability shortfalls and how raising it to 1.7X would address the failures.

4) Reference Slide 14: Labor Costs in Gross CONE

RSMeans Labor Rates for the Construction Industry identifies current wage rates for 46 construction trades. Will the Gross CONE buildup differentiate construction costs by trade by hours required, or is the reference to “using electrician as proxy” intended to mean that the electrician trade hourly rate will be used exclusively for all trades?

5) Reference Slides 16-17: Dual Fuel Capability – CONE Area CT Units

- A) Provide the rationale for including dual fuel capability for the CT CONE Area reference units in other than the Rest of RTO.
- B) What is the number of existing CTs that have dual fuel capability? What percentage of new CTs (number of units and MW) over the past three years has entered service with dual fuel capability.

- C) During the recent extreme winter weather events how many CT units and MW remained in service due to their switching to oil fuel and how many units and MW were out of service due to the lack of gas?

6) Reference Slides 16-17: Dual Fuel Capability – CONE Area CC Units

- A) Provide the rationale for including dual fuel capability for the CC CONE Area reference units in other than the Rest of RTO.
- B) What is the number of existing CCs that have dual fuel capability? What percentage of new CCs (number of units and MW) over the past three years have entered service with dual fuel capability.
- C) During the recent extreme winter weather events how many CC units and MW remained in service due to their switching to oil fuel and how many units and MW were out of service due to the lack of gas?

7) Reference Slide 18: Capital Cost Contingency Rates

Provide support for the increased contingency rates for other EPC and other owners' costs relative to rates assumed in the 2011 CONE Study.

8) Reference Slide 18: Project Development Rate

Provide support for the increased project development rate to 5 percent of total EPC plus OFE costs from the 2 percent rate used in the 2011 CONE Study.

9) Reference Slide 19: Property Tax

Provide the referenced "broader survey of state and county tax regulations" concluding the legitimacy of including tax on personal property in SWMAAC, Rest of RTO and Dominion.

10) Reference Slides 20-21: ATWAAC

- A) Provide the complete proxy group if other than depicted on Slide 21, indicating the entities that have built new CT and CC units in PJM, where those units are located and when they entered or are scheduled to enter commercial operation. Were other entities considered for inclusion and rejected? Please explain.
- B) Provide the basis for the 13.8% ROE.
- C) Provide the basis for the 7 percent cost of debt.
- D) Provide the basis for the 40/60 capital structure.
- E) Provide each of the "additional data points" from previous estimates, divestitures and analyst estimates and how these elements factored into the ultimate computations of ATWAAC. What specific analyst estimates were employed and why? What analyst estimates were considered and reject, and why?
- F) Provide the basis and computations underlying the 2013 adjustments to the 2011 and 2012 data points.
- G) How does the Brattle ATWAAC estimate and cost of capital component elements compare to actual units that have recently cleared and/or entered commercial service?

11) Reference Slide 31: Forward-Looking E&AS

Provide the rationale for not incorporating some estimable level of scarcity pricing effects in the forward E&AS revenue forecasts if scarcity conditions are likely to occur and garner real additional revenue to generators higher than “normal” revenue levels absent scarcity.

12) Reference Slides 34-35: Parent LDA Net CONE

Please elaborate on the present problem and how setting the subordinate LDA Net CONE to the parent LDA resolves the problem(s). For example, explain the statement at 34, “If true Net CONE is as low, entry could be possible, but setting the low Net CONE offsets the incentive provided by the LDA’s higher LMPs.”

13) Reference Slide 35, 79-82: MAAC Net CONE & Gross CONE Mapping

Further investigate the proposal to “[c]onsider eliminating current approach of setting MAAC Net CONE equal to the minimum of sub-LDAs” and related revisions to CONE Area mapping.