



**LSP Transmission Holdings, LLC**  
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May 29, 2012

Gil C. Quiniones  
Co-Chair, Energy Highway Task Force  
President and Chief Executive Officer  
New York Power Authority  
123 Main Street, 16th Floor  
White Plains, N.Y. 10601-3170

**Re: New York Energy Highway Request for Information**

Dear Mr. Quiniones:

LSP Transmission Holdings, LLC ("LSPT") is pleased to provide this response to the New York Energy Highway Request for Information. LSPT has several suggestions on specific actions for the Energy Highway Task Force to consider in developing the Action Plan. While the deadline for such recommendations is not until July 16, 2012, LSPT is submitting the attached suggestions concurrent with RFI submittals.

We appreciate the opportunity to participate in this initiative. Please let me know if you have questions or would like additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Lawrence Willick", with a stylized flourish at the end.

Lawrence Willick  
Senior Vice President

**LSP Transmission Holdings, LLC submission in response to the New York Energy  
Highway Request for Information**  
May 29, 2012

**Introduction**

LSP Transmission Holdings, LLC (“LSPT”) is a member of the LS Power group, a group of power generation and transmission companies with a strong track record of success. LS Power is an experienced developer of large-scale energy projects, including several transmission projects. LS Power is well regarded in the financial community and has executed several complex projects. Since 2005 alone, LS Power has raised over \$16 billion of debt and equity for investment into its projects and portfolio of subsidiary companies, including over \$750 million for the construction of two large-scale overhead transmission line projects scheduled for completion in 2013. The One Nevada Transmission Line represents approximately 235 miles of single-circuit 500 kV overhead transmission that is currently under construction jointly with NV Energy. Cross Texas Transmission, LLC is constructing a system consisting of approximately 240 miles of double circuit 345 kV transmission line located in the Texas Panhandle as part of the Competitive Renewable Energy Zone Transmission Plan.

LSPT attended the April 4 Energy Highway Summit (“RFI Summit”) and the April 19 Conference of RFI Respondents and Interested Parties (“RFI Conference”), and has attempted to develop a response to the RFI consistent with the guidance provided. LSPT has been working for some time on identifying transmission projects that will be beneficial to the state and fit with the objectives of the New York Energy Highway initiative and would be interested in participating in any subsequent Energy Highway Initiative Request For Proposals (“RFP”). LSPT has several suggestions on specific actions for the Energy Highway Task Force to consider in developing the Action Plan.

Successful transmission development requires completion of three elements – Planning, Permitting, and Cost Recovery/Allocation. LSPT has identified actions which can be taken by New York State to facilitate each of these areas:

- **Planning**: New York State should conduct a competitive Request for Proposals to select qualified entities to develop, finance, construct, own and operate transmission infrastructure identified in the New York State Energy Plan. The developers selected under the RFP would be eligible for cost recovery and would be subject to Article 7 siting requirements.
- **Permitting**: New York State should make public lands and rights-of-way available where possible for siting, construction, and operation of new transmission infrastructure when in the public interest.
- **Cost Allocation**: New York State should provide a mechanism for New York State to approve a CARIS project which is economic, but does not receive beneficiary approval.

These measures can help reduce barriers to development of transmission, which, in turn, will remove system bottlenecks, increase dispatch of in-state generation, facilitate new renewable generation, and create employment opportunities in New York. At the same time, these measures fall within the existing market rules and procedures

### **Planning: Competitive Request for Proposals for Transmission Development**

At the Energy Highway Summit, Federal Energy Regulatory Commission Chairman Wellinghoff and others referred to the transmission construction underway in Texas. From 2010 to 2013, in the area operated by the Electric Reliability Council of Texas (“ERCOT”), over 5,000 circuit miles of new 345 kV transmission lines are projected to be placed in service. This was achieved in part due to a multi-step process commonly referred to as the Competitive Renewable Energy Zone (“CREZ”) Process. First, ERCOT, in a stakeholder process, developed several alternative transmission plans, with the final plan selected and approved by the Public Utility Commission. Next, the Public Utility Commission administered a competitive process to select entities to develop, finance, construct, own and operate the transmission elements contained in the plan, with the objective being to implement the plan in the most beneficial, cost effective manner. LSPT recommends that New York State adopt a competitive process to select the entities to implement the New York State Energy Plan.

The New York State Energy Plan is currently in development. At the RFI Summit and RFI Conference it was clearly stated that the currently planning processes will inform the Action Plan. Given the challenges that face the state in terms of announced generation retirements, potential generation retirements, bottlenecks of existing resources, and potential renewable development, the New York State Energy Plan could identify a significant amount of transmission construction required in the state. Completion and approval of this plan will begin the process of meeting the objectives of the Energy Highway Initiative. Such a plan should identify a comprehensive set of transmission upgrades that:

- ensure reliability under a variety of scenarios;
- allow cost effective generators to operate more frequently;
- allow for new in-state renewable generation, and the associated environmental and economic impact benefits; and
- allow for new in-state transmission investment and the associated economic impact benefits.

Once the New York State Energy Plan is complete, the best way to execute the plan would be to have a Competitive Request for Proposal for Transmission Development (“RFP”). Similar to the CREZ Process, this will ensure completion of the plan in the most beneficial, cost-effective manner. A competitive RFP can provide several benefits to ratepayers in New York State including providing cost savings and expanding the pool of available capital.

Competition in transmission is a relatively new concept, as transmission is often considered to be a natural monopoly. The experience in Texas and elsewhere around the U.S. proves that this is not the case. Even in New York there have been several independent transmission

projects proposed. Ratepayers have benefitted from this experience to date, as potentially beneficial projects have been advanced without any ratepayer expense. Even after planning is complete and a specific transmission project has been identified to be approved for construction, there is still a tremendous potential for cost savings through competitive pressure. For a transmission project from Point A to Point B, there are numerous variables that will determine the final capital and operating cost, which would be different depending on the project sponsor. For example, routing determines cost not only because of the obvious impact that a longer line costs more to construct, but also because angle and dead-end structures are much more expensive than tangent structures. Therefore even the cost of two lines of the same length could be materially different. Many design decisions have significant impact on costs, including the selection of the conductor, tower selection (lattice, monopole, H-frame, etc.), foundation design, etc. Commercial arrangements can also have a material impact on costs, for example whether to use a turnkey Engineer/Procure/Construct contract or a different approach. While these variables are often dismissed for transmission projects, they can each have an impact of 10% or more of the final project cost. The table below illustrates this, showing the current estimates for the installed cost per mile of the CREZ transmission lines. While some of the difference may be attributed to differences in real estate costs and other factors beyond the control of the developer, it can be seen that there is a significant range for construction costs even for the same technology (double circuit 345 kV overhead transmission) in the same area (all within Texas) at the same time (all to be placed in service during 2012 and 2013). The highest per mile rate is approximately 55% more than the lowest. If the total transmission build under the Energy Highway Initiative has a capital cost of \$2 billion, the potential savings from conducting a competitive process could be hundreds of millions of dollars.

<b>Transmission Service Provider</b>	<i>Estimated Capital Cost Per Mile, Double Circuit 345 kV (\$/Mile)</i>
<i>Cross Texas Transmission</i>	1,570,000
<i>Oncor</i>	1,660,000
<i>Sharyland</i>	1,820,000
<i>Wind Energy Transmission Texas</i>	1,900,000
<i>Electric Transmission Texas</i>	1,990,000
<i>Lone Star</i>	2,040,000
<i>Lower Colorado River Authority</i>	2,440,000

Based on values reported in CREZ Progress Report No. 5 (January 2012 Update)  
 Prepared by RS&H for the Public Utility Commission of Texas

In addition to the significant cost savings from competitive pressure, a competitive transmission RFP could serve to expand the pool of available capital. Allowing for new entrants in transmission in order to attract new capital has been identified as a sound policy objective in several jurisdictions.

**Permitting: State Rights-of-Way**

LSPT has identified another policy that the State of New York can adopt to help facilitate transmission development. Existing state lands and rights-of-way could be impacted by new transmission development. This could include property owned by the Department of Transportation and Power Authority. Making state lands and rights-of-way available to site new transmission infrastructure may be in the public interest, provided the construction and operation of such transmission infrastructure does not interfere with the primary use of the property. In fact, such a policy could result in a significant increase in revenue to the state in the form of easement payments. An affirmative policy of making state lands available where feasible and in the public interest, subject to a case-by-case evaluation, could facilitate transmission development by lessening the impact on private land owners, making more efficient use of existing rights-of-way and reducing environmental impacts.

**Cost Allocation: Negative Beneficiary Vote of Economic Project**

The New York Independent System Operator (“NYISO”) Open Access Transmission Tariff (“Tariff”) includes an economic planning process known as Congestion Assessment and Resource Integration Study (“CARIS”). Under this process, a congestion study is performed, and project sponsors may propose a specific project to reduce the identified congestion. If a project submittal is found to be economic, the final step in the process is a vote by the beneficiaries of the project. This beneficiary vote is unique to the NYISO Tariff, with no other similar provisions included in the tariffs of other transmission providers in the U.S. The beneficiary vote only comes after a CARIS study has found a project to be economic. The economic analysis is very stringent, and applies only production cost savings without recognition of load savings, and does not account for other benefits of a project. A negative beneficiary vote would represent a barrier to economic transmission development, as a negative vote could deny ratepayers the benefits of a project which has been shown to be economic. A negative beneficiary vote would be directly contrary to the objectives of the Energy Highway Initiative, as it would allow for a bottleneck to persist even after a solution has been identified. A negative beneficiary vote would not be in the public interest.

LSPT is not suggesting that the Task Force should eliminate the beneficiary vote. LSPT recognizes that eliminating the beneficiary vote is not within the authority of the task force members. However, LSPT believes the Task Force can take action to help beneficial projects overcome this potential barrier. LSPT suggests that New York State should provide a mechanism for the State to approve a CARIS project which is found to be economic, but that does not receive beneficiary approval. There are many alternatives to remedy this problem: a subdivision of the state could enter into a contract for the capacity from the project sponsor; a project could be approved under the NYISO Tariff with its revenue requirement recovered from a proxy payment based on the congestion that would have otherwise existed in the system; or economic projects in this situation could be included for approval in the New York State Energy Plan. LSPT suggests that the Task Force should include in the Action Plan a provision to facilitate cost recovery for an economic project that has received a negative beneficiary vote.

## **Conclusion**

LSPT shares the enthusiasm of the Energy Highway Task Force in the potential for job creation, cost savings, emission reductions, and other benefits which can be realized by additional investment in the infrastructure in New York State. LSPT recommends that the Energy Highway Task Force consider the actions identified above in developing its Action Plan.