

NextEra Energy Transmission New York, Inc.

2023 Formula Rate Annual Projection

Response to the New York Transmission Owners' Questions

Questions Provided On: 10/13/2022

Response Provided On: 11/3/2022

- 1) Question: *Please provide any errors identified or corrections made by NEET NY since its 2023 Projected Net Revenue Requirement was posted on or before September 30, 2022 or any errors identified in its most recent FERC Form 1. In addition, please provide this information on a continuing basis.*

Response (11/3/2022):

NEETNY has not identified any errors in the 2021 FERC Form 1 filed on April 18, 2022 nor in the 2023 Projected Net Revenue Requirements, posted on or before September 30, 2022.

- 2) Question: *Please provide a detailed breakdown on a line item basis, grouped by category, with a description of the cost, and FERC Account of project costs that NEET NY categorized as an "unforeseeable" cost resulting in \$80,521,741 of unforeseeable costs excluded from the project cost containment mechanism. As an example, a category could include all costs related to a certain body of work, like undergrounding New York Thruway crossing, control center, or environmental, visual, and sound mitigation. Please indicate how each explanation for unforeseeable classification was validated.*

Response (11/3/2022):

Refer to Table 1 below, which is based on the Projections for the breakdown of unforeseeable costs by category. The costs listed are based on the Projections. Although the assets are recently in-service, they are not yet unitized. Once the costs are unitized (typically occurs within one year post-COD) the costs will move into their respective FERC accounts within Transmission Plant, Intangible Plant, and General Plant.

Table 1:

	Description	Projected Cost (\$ Millions)	Explanation for Unforeseeable Classification
Governmental Authority Required	Thruway Horizontal Directional Drill (HDD)	18.1	The independent NYISO estimate assumed overhead crossing for the Thruway. NYSEG's existing overhead transmission lines cross the thruway overhead at the same location. NEETNY applied for a waiver with the New York State Thruway Authority (NYTA) to cross the Thruway that was denied.
	Agricultural Matting	8.2	NEETNY's Environmental Monitoring & Construction Plan (EM&CP) approved by Public Service Commission (PSC) included a requirement to use matting in agricultural areas. NEETNY had planned to remove and replace top soil in agricultural areas.
	Clearing Requirements	4.2	The PSC required extensive tree clearing requirements.
	Wetland Mitigation & Monitoring	7.4	Wetland mitigation required larger tree plantings and the mitigation be implemented during construction.
Governmental Authority Inaction	Delays / Acceleration / Schedule Compression	12.4	The duration and scope of the Article VII, Section 68, and Section 70 proceedings exceeded the project schedule. This required schedule compression to meet the in-service date.
	Dysinger Soils	3.1	The soil for Dysinger substation needed reinforcement to support substation construction. Project proposed to use excess soils from the E Stolle switchyard at Dysinger. However, the length of timing to get Section 70 approval precluded the ability to utilize the E Stolle soils.
	Vertical Market Power (VMP) Legal/Regulatory Support	0.9	Project costs increased due to the extensive scope and duration of the Section 68 approval.
Commercially Unknowable	Engineering & Construction Requirements	20.4	Increased engineering, construction and design requirements due to connecting transmission owner and governmental authority requirements.
	Commodity Pricing	3.9	Excessive inflation and global pandemic conditions increased material costs, shipping/freight costs and port delays to receive materials.
	Pipeline AC Mitigation	2.9	Extensive pipeline mitigation and meeting individual design requirements for each pipeline company.
	Mud Creek Bridge	1.4	The final Dysinger site required a bridge to provide access for transported equipment.
	AFUDC on Unforeseeable Items	3.1	
	Total Gross Unforeseeable	86.0	
	Unforeseeable Costs Adder	-5.5	
	Total Unforeseeable	80.5	Defined 2018 FERC Settlement, 3.3 (b)

- 3) Question: *For each category identified in question 2, please describe the changes that caused the project cost and therefore unforeseeable cost overruns and how the costs do not represent foreseeable obligations in the License application process. Please identify which cost overruns are due to modifications to the routing or scope of work, changes in laws and regulations or are the result of a court order or government action as described in the May 25, 2018 Settlement, including but not limited to Article 3.3(b).*

Response (11/3/2022):

Refer to Table 1.

- 4) Question: *Please illustrate the mathematical determination of the \$80,521,741 of unforeseeable costs excluded from the project cost containment mechanism that validates that unforeseeable costs in an amount of 5% of the project costs are part of the contingency and subject to the Cost Containment Mechanism described in Article III of the Settlement Agreement.*

Response (11/3/2022):

Per the Settlement Agreement¹, unforeseeable costs equivalent to 5% of the Project's cost cap are subject to the cost containment mechanism. The project cost cap is \$110.4M; 5% of the cost cap is \$5.5M. Refer to Table 2 below to find the illustration of the \$5.5M applied to the cost containment mechanism on row 13. Refer to Table 1 to see the buildup of unforeseeable costs with 5% of the cost cap removed.

Table 2:

Cost Contained	\$ Millions
Transmission Line - Engineering	1.1
Transmission Line - Materials	9.7
Transmission Line - Construction	27.9
Dysinger Switchyard - Engineering	0.7
Dysinger Switchyard - Materials	19.3
Dysinger Switchyard - Construction	14.1
East Stolle Switchyard - Engineering	0.6
East Stolle Switchyard - Materials	7.0
East Stolle Switchyard - Construction	6.8
Environmental, Permitting, Legal, Regulatory, Other	16.6
AFUDC on cost contained items	6.4
Cost Contained - Unforeseeable Cost Adder	5.5
Total Cost Contained	115.7
Cost Cap	110.4
Overage to Cost Cap	5.3

¹ Offer of Settlement, NextEra Energy Transmission New York, Inc., FERC Docket No. ER16-2719-000 (May 25, 2018).

- 5) Question: *Please provide a detailed breakdown of Foreseeable Costs by line item, with a description of each cost, date cost was incurred and FERC Account number.*

Response (11/3/2022):

Refer to Table 2. The costs listed are based on the Projections. Although the assets are recently now in-service, they are not yet unitized. Once the costs are unitized (typically occurs within one year post-COD) the costs will move into their respective FERC accounts within Transmission Plant, Intangible Plant, and General Plant.

- 6) Question: *Please describe the procurement and cost control methodologies utilized and to what extent they mitigated the unforeseeable costs and project cost overruns.*

Response (11/3/2022):

The procurement processes utilized on the Empire State Line project (ESL) are the same processes NextEra has successfully utilized to support its corporate-wide capital investment plan – one of the top five capital deployments of any company across the nation. A tenet of the procurement process is competition. Major material and service procurements are competitively solicited to bring the best value to the company. Due to the scale of the organization’s procurements NextEra can leverage better pricing and favorable delivery times.

The procurement process is administered by NextEra’s Integrated Supply Chain (“ISC”) management. On the ESL project, required goods and services were identified by subject matter experts and specifications or scopes of work (“SOW”) were prepared. The SOW was issued to approved vendors soliciting pricing and delivery terms (“RFP”). Review of the technical responses to the RFP were led by the SMEs and review of the commercial terms were led by ISC. The successful vendor was selected based upon price, demonstration of understanding the scope of work, delivery capability, quality, safety, and other factors.

Post-contract award, the SMEs are responsible for ensuring the products are delivered to the SOW. During the manufacturing process this includes review and approval of manufacturing drawings, periodic meetings with the vendors, and factory inspections of select materials. Vendors are responsible for the delivery of the materials to the project site.

Cost control methodologies begin with the establishment of the project accounting to capture and monitor all project expenditures. The project management (“PM”) team is responsible for managing the project execution to best manage project costs. The project management team consists of project managers, project cost specialists, and project schedulers. The PM team continually monitors the project performance to assess the project’s performance against the project schedule and cost estimate. The monitoring is performed through regularly scheduled project team meetings including weekly senior management and monthly executive management reviews, discussions with suppliers and project team members, site visits, invoice review and project financial report review. The PM team also prepares and manages a risk register. The risk register lists potential impacts on the project’s schedule and budget. The PM team is supported by a shared services organization that can be leveraged to support project execution. This includes the legal services team and the regulatory relations team. As external risks (i.e., regulatory risks) are identified, these teams can be leveraged to mitigate them.

The majority of the unforeseeable costs were driven by changes to the scope of work or inaction by governmental agencies. The cost control methodologies utilized on the ESL project

had an impact to minimize the total unforeseeable costs while maintaining the ability to deliver the project to the required schedule. The regulatory and legal teams engaged the regulators to advance regulatory approvals faster than they were otherwise tracking. Similarly, once work scope changes were identified, NextEra leveraged the cost control processes and methodologies to minimize the cost impacts.

- 7) Question: *Please provide a detailed breakdown of the overheads (both corporate and project) that have been applied to the project along with a description of the accounting methodology that supports the allocation of overheads.*

Response (11/3/2022):

NEETNY utilizes a direct charging methodology for project costs, including internal payroll. The project does not receive corporate/project overheads.

- 8) Question: *Please illustrate the calculation of Allowance for Funds Used During Construction (AFUDC) illustrating the equity and interest proportions and rates applied to capital expenditure balances used to determine the amounts capitalized into the Gross Plant in Service balance of \$264,012,169 in the 2023 annual projection.*

Response (11/3/2022):

AFUDC is calculated in accordance with FERC CFR Electric Plant Instructions, Instruction #3 (Components of Construction Cost), part 17 (Allowance for funds used during construction.) The capital structure, along with debt and equity rates reflected in NEET New York’s forecasted plant balances are shown in the Projection, tab “Appendix A”, row 92 and 94. Equity rates to calculate AFUDC are in accordance with the 2018 FERC Settlement, Section 3.2.

- 9) Question: *Please illustrate the calculation resulting in the Tax adjustment AFUDC Equity and Meals and Entertainment of \$160,104 in the 2023 annual projection.*

Response (11/3/2022):

Title	Amount	Purpose
Tax Adjustment for AFUDC Equity	\$149,052	Adding back book depreciation related to AFUDC Equity as AFUDC Equity is not recognized for tax purposes.
Tax Adjustment for Meals & Entertainment	\$11,052	For tax purposes only allowed to deduct 50% of business meals. Adding back 50% of business meals.
Total	\$160,104	

10) Question: *Explain what measures have been applied to the formula rate to mitigate the rate impact of the \$85,772,541 project cost overrun.*

Response (11/3/2022):

Project costs are recovered through NEET New York's formula rate template and implementation protocols effective and on file with FERC and pursuant to the terms of the Settlement Agreement.

11) Question: *Please describe what, if any, expenditures for NextEra Energy Transmission New York, Inc. have been excluded from recovery in the formula rate filing.*

Response (11/3/2022):

Costs considered below-the-line for regulatory ratemaking purposes, in accordance with FERC's accounting and ratemaking requirements, are not included for recovery through NEET New York's formula rate.