Attachment E

Exhibit No. NYP-200 – Prepared Direct Testimony of Scott Tetenman

Exhibit No. NYP-200

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

New York Power Authority

Docket No. ER22-\_\_\_-000

### PREPARED DIRECT TESTIMONY OF SCOTT TETENMAN ON BEHALF OF THE NEW YORK POWER AUTHORITY

February 10, 2022

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### PREPARED DIRECT TESTIMONY OF SCOTT TETENMAN ON BEHALF OF THE NEW YORK POWER AUTHORITY

### I. <u>INTRODUCTION</u>

- 1 Q. Please state your name and business address.
- A. My name is Scott Tetenman. My business address is 123 Main Street, White Plains, NY
  10601.

### 4 Q. By whom are you employed and in what capacity?

- 5 A. I am the Senior Vice President of Finance for the New York Power Authority ("NYPA"),
- 6 which is a corporate municipal instrumentality and political subdivision of the State of New
  7 York.

### 8 Q. Would you please summarize your educational and professional background?

- 9 A. I received a bachelor's degree in Business Administration from Northeastern University in
  10 1991 and attained a Master of Business Administration degree in Finance from the
  11 University of Miami in 1992.
- My professional experience includes 11 years in NYPA's finance department; three years as the Manager of Finance and Treasury for an anaerobic digestion company; five and one-half years as the Vice President of Finance for a coal mining entity; three and onehalf years as the Vice President of Structured Finance for a small commercial bank; and 11 years working in the securities industry and related fields.
- This is my fourth time submitting testimony before the Federal Energy Regulatory
  Commission ("FERC" or "Commission"). Most recently, I submitted direct testimony in
  2019 in Docket No. EL19-88-000 in support of transmission incentives for NYPA's
  investment in Segment A of the AC Transmission Public Policy Transmission Need project

("Segment A Project") (alternatively referred to as the "Central East Energy Connect
 Project").

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### II. <u>PURPOSE AND SCOPE OF TESTIMONY</u>

### 4 Q. What is the scope of your testimony in this proceeding?

5 A. The purpose of my testimony is to provide support for NYPA's request for authorization 6 of a 50-basis point return on equity ("ROE") adder ("ROE Risk Adder") to reflect the 7 significant risks and challenges associated with NYPA's investment in the Smart Path 8 Connect Project ("SPC Project" or "Project"). In my testimony, I will discuss the financial 9 risks and challenges that NYPA faces due to its investment in the Project. I will then 10 describe the ROE Risk Adder being requested by NYPA. Lastly, I will describe the cost 11 containment mechanism that NYPA proposes to apply to its investment in the Project.

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### III. OVERVIEW OF SMART PATH CONNECT PROJECT

### 13 Q. Please provide a brief overview of the SPC Project.

A. The SPC Project consists of rebuilding approximately 100 linear miles of existing 230 kV
transmission lines and converting approximately 90% to 345 kV, along with associated
substation construction and upgrades. The SPC Project, along with other projects under
construction by NYPA and other developers, will create a continuous 345 kV transmission
path across northern New York and to the central part of New York for delivery to load
centers. A detailed description of the Project can be found in the testimony of the NYPA
Transmission Development Panel ("NYPA Panel Testimony").<sup>1</sup>

### 21 Q. Please briefly summarize the project benefits.

22 A. The SPC Project is a product of the Climate Leadership and Community Protection Act

<sup>&</sup>lt;sup>1</sup> Ex. No. NYP-100, Prepared Direct Testimony of the NYPA Transmission Development Panel at 6-10 ("NYPA Panel Testimony").

1 ("CLCPA"), enacted by the New York legislature in 2019.<sup>2</sup> CLCPA sets clean energy 2 requirements that include statewide greenhouse gas emission reduction and statewide 3 renewable electric generation production goals. The Project was designed to expand 4 transmission infrastructure in northern New York to allow for new renewable energy 5 generation projects that meet the CLCPA requirements to be timely and cost-effectively 6 delivered to load. The SPC Project's benefits are further detailed in the NYPA Panel 7 Testimony.<sup>3</sup>

### 8IV.NYPA'S FINANCIAL RISK AND CHALLENGES ASSOCIATED WITH99THE SMART PATH CONNECT PROJECT

#### 10

### Q. Please describe NYPA's capital expenditure plan for the SPC Project.

11 NYPA estimates that the total capital cost of the Project will be approximately \$1.2 billion A. 12 (including Allowance for Funds Used During Construction ("AFUDC")). NYPA estimates 13 that its share of the total capital cost of the Project will be approximately \$641.3 million 14 while Niagara Mohawk Power Corporation d/b/a National Grid's ("National Grid") share 15 (NYPA's co-developer for this Project) will be \$534.5 million. Construction is anticipated 16 to begin in 2022 and the anticipated in-service date for the Project is December 2025.<sup>4</sup> 17 NYPA has expended approximately \$22.6 million for development of the Project 18 through December 31, 2021. These costs are associated with: (1) undertaking needed New 19 York Independent System Operator, Inc. ("NYISO") studies; (2) the New York Public

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Service Commission ("NYPSC") proceeding during which the NYPSC identified the

<sup>&</sup>lt;sup>2</sup> 2019 N.Y. Laws, ch. 106.

<sup>&</sup>lt;sup>3</sup> NYPA Panel Testimony at 19-21.

<sup>&</sup>lt;sup>4</sup> NYPA, Smart Path Connect Transmission Project, <u>https://www.nypa.gov/power/transmission/transmission-projects/smart-path-connect</u> (last visited Jan. 27, 2022).

Project as a Priority Project;<sup>5</sup> and (3) New York's siting certification process (in which
 NYPA and National Grid filed a joint Article VII application on June 15, 2021).<sup>6</sup> Capital
 expenditures have begun to ramp up, and I expect that they will continue until several
 months after the Project is placed in-service. I anticipate the bulk of the expenditures will
 occur during the 2022 through 2025 construction period.

### 6 Q. What is NYPA's projection of the annual cash flow of the SPC Project?

7 A. Figure 1 below shows the investment cash flow for the SPC Project.

### Figure 1 – SPC Project Annual Cash Flow



Annual Investment

### 9 Q. How will NYPA finance this significant cash outlay for the Project?

10 A. Beginning December 2021, NYPA's cash expenditures for this Project will span a 55-

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8

month period based on the capital spending projection described above. NYPA is not

<sup>&</sup>lt;sup>5</sup> See Proceeding on Motion of the Commission to Implement Transmission Planning Pursuant to the Accelerated Renewable Energy Growth and Community Benefit Act, NYPSC Case 20-E-0197, Order on Priority Transmission Projects (Oct. 15, 2020) (Attachment C to this request).

<sup>&</sup>lt;sup>6</sup> Application of New York Power Authority and Niagara Mohawk Power Corporation d/b/a National Grid for a Certificate of Environmental Compatibility and Public Need for the Rebuild of approximately 100 linear miles of existing 230 kV to either 230 kV or 345 kV along with associated substation upgrades along the existing NYPA Moses-Willis 1&2, Willis-Patnode, Willis-Ryan, and National Grid's Adirondack-Porter 11, 12 and 13 in Clinton Franklin, St. Lawrence, Lewis and Oneida Counties, New York, NYPSC Case 21-T-0340 (June 15, 2021).

1 requesting a Construction Work in Progress incentive ("CWIP Incentive") and therefore 2 will not receive revenues related to this Project through its transmission formula rate during 3 this period. NYPA will finance its investment through a combination of free cash flow, 4 existing cash reserves, and issuances of debt. NYPA will determine the best mix of 5 financing alternatives based upon its target capital structure and projected cash needs, 6 which include the funding of normal operating expenses and its capital investment plan 7 (which includes several transmission projects, upgrades and modernization efforts at NYPA's generation facilities, and general asset projects). NYPA projects that from 2021 8 9 through the SPC Project construction period ending 2025, it will invest over \$2.9 billion in 10 its transmission, generation and general plant and equipment, of which the SPC Project is 11 expected to comprise almost 20%, a sizable portion.

12 A *pro forma* decreased cash balance and increased debt outstanding, which will 13 result over the next five years, may result in downward pressure on NYPA's credit metrics 14 and potentially its bond rating. Further, depending on NYPA's ability to effectively 15 finance all of its capital needs, there may be a need to delay or reduce in scope some 16 planned capital investments.

## 17 Q. How does NYPA's investment in the Project compare to investment in other NYPA 18 transmission projects?

A. The Project will be the single, largest spend in NYPA's 2021-2025 capital plan,
representing almost 20% of NYPA's total capital investments. Comparatively, the
Segment A Project, another significant transmission project being constructed by NYPA,
in partnership with LS Power Grid New York Corporation ("LSPG-NY"), is expected to
comprise \$208 million (FERC-authorized cost cap plus third-party costs) of NYPA's

1 capital investment during the 2021-2025 period, less than half of NYPA's expected 2 investment in the SPC Project. Likewise, NYPA's investment in the Moses to Marcy 3 rebuild (also referred to as the "Smart Path Project" or "MA1 and MA2"), a significant 4 upgrade project that began construction in 2020, will comprise \$300 million of capital 5 investment during this 2021-2025 period, also less than half of NYPA's expected investment in the SPC project.<sup>7</sup> Another of NYPA's larger projects, reconductoring of the 6 7 Y-49 transmission line in downstate New York, is estimated to comprise \$70 million of capital investment during the 2021-2025 period.<sup>8</sup> Further, NYPA is currently engaged in 8 9 a multi-year life extension and modernization plan for its existing transmission system. 10 This multi-year life extension and modernization plan includes, but is not limited to, 11 upgrades or replacements of transformers, conductors, relays and cables. This substantial 12 program is comprised of over 34 different projects that averages just under \$15 million per project with total capital investments over the 2021-2025 period estimated to be \$256 13 14 million. As has been clearly demonstrated, NYPA's investment in the SPC Project greatly 15 exceeds any other transmission project planned for the 2021-2025 period.

### 16 Q. Please describe the capital investment NYPA has made in the five years prior to 2021.

17 A. During the 2016-2020 period, NYPA made capital investments in its electric utility

18 business amounting to \$1.6 billion, broken down as follows: transmission – \$673 million;

- 19 generation \$554 million; and general plant and equipment \$326 million. For the 2021-
- 20

<sup>2025</sup> period, NYPA plans to invest \$2.9 billion, almost double NYPA's investments during

<sup>&</sup>lt;sup>7</sup> The Smart Path Project and the Smart Path Connect Project are different and distinct projects. *See, e.g.*, Smart Path Connect Transmission Project, *supra* note 4; NYPA, Moses-Adirondack Smart Path Reliability Project, <u>https://www.nypa.gov/power/transmission/transmission-projects/smartpath</u> (last visited Jan. 27, 2022).

<sup>&</sup>lt;sup>8</sup> NYPA, NYPA to Invest \$70 Million to Modernize Long Island Sound Cable, <u>https://www.nypa.gov/news/press-releases/2022/20220125-licable</u> (last visited Feb. 2, 2022).

1 the 2016-2020 period, and the \$2.9 billion is broken down as follows: transmission – 2 \$1,738 million; generation – \$695 million; and general plant and equipment – \$489 million. 3 During the 2021-2025 period, NYPA will construct and put into service four significant 4 transmission projects: the Segment A Project, the Smart Path Project, the Y-49 5 transmission line rebuild and the SPC Project, with the SPC Project being by far the largest 6 capital investment. During the 2016-2020 period, NYPA's largest transmission project 7 consisted of a portion of the Smart Path Project, resulting in total capital costs of \$183 million. The scope and scale of the SPC Project far exceeds any transmission project 8 9 undertaken by NYPA in the past five years, is the largest project NYPA will undertake in 10 the 2021-2025 period and will require significant capital resources. By any standard, the 11 Project is a significant undertaking by NYPA.

### 13

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Q.

### investment in the SPC Project.

Please describe the financial risks and challenges that NYPA will face because of its

A. 14 As with all capital-intensive organizations, NYPA continually evaluates its available 15 financial resources when undertaking projects to modernize existing assets or to construct 16 new facilities. NYPA owns and maintains over 1,400 circuit miles of high voltage 17 transmission lines, which represents just under one-third of the State's bulk power transmission system. NYPA is in the beginning stages of financing the construction of the 18 19 Segment A Project, a \$208 million capital investment that is expected to go into service in 20 2023. NYPA is also completing the Smart Path Project. NYPA is continuing its life 21 extension and modernization effort of its transmission system. Through this program, 22 NYPA is addressing impending end-of-life, obsolescence of crucial grid assets as a 23 substantial portion of NYPA's transmission assets are more than 50 years old. Examples

of specific, high-profile projects include: (1) the switchyards at the Niagara Power Project
where NYPA is replacing breakers, manual disconnects, autotransformers, and potheads
installed in the early 1960s; (2) breaker, relay, and bus replacements at the St. LawrenceFranklin D. Roosevelt Power Project switchyard; and (3) the PV20 cable replacement of
the single circuit 115 kV transmission line running from Plattsburgh substation to
Cumberland Head substation, a portion of which is submerged. And NYPA will undertake
the rebuilding of the Y-49 transmission line in downstate New York.

As part of its financial planning, when considering new transmission construction 8 9 or modernization projects, NYPA considers planned capital and operation and 10 management ("O&M") spending over a reasonable forecast period, funds that must be maintained for unforeseen needs, and the general level of cash required to fund all 11 12 operations and required reserves. With the significant capital needs forecasted through 2025, NYPA will regularly evaluate its ability to continue with all other planned capital 13 14 and O&M projects. It is possible that transmission modernization upgrades and some new 15 capital-intensive initiatives may have to be delayed or reduced in scope in order to proceed 16 with the SPC Project as proposed.

### 17 Q. What are NYPA's current bond ratings?

A. In April 2020, Fitch Ratings and Standard and Poor's Rating Services affirmed NYPA's senior debt rating of AA while in October 2020, Moody's Investor Service downgraded
 NYPA's senior debt rating to Aa2, from Aa1, citing the softening of power prices which
 negatively affect NYPA's margins, along with declines in the credit quality of New York
 State and New York City, both of whom together are significant customers of NYPA.

1	Q.	Do you anticipate downward pressure on these ratings due to NYPA's significant
2		capital investment plan for the period 2021 to 2025?
3	A.	Yes, I do. NYPA will be going to the financial market to raise capital to fund a portion of
4		these significant capital investments, and resultantly NYPA's credit metrics may see
5		downward pressure during this period.
6	Q.	You mentioned above that NYPA is not requesting the CWIP Incentive for this
7		Project. Please explain.
8	A.	NYPA is not requesting the CWIP Incentive because it will recover the revenue
9		requirement of the SPC Project through its NYPA Transmission Adjustment Charge
10		("NTAC"), and, consistent with all other NYPA investments recovered through the NTAC
11		formula, NYPA accrues AFUDC to reflect the costs of financing the Project.
12	Q.	Did NYPA approach the New York Transmission Owners who pay the NTAC charge
13		about the SPC Project?
14	A.	Yes, it did. In accordance with the procedures set forth in NYPA's Formula Rate Protocols,
15		NTAC recovery for the SPC Project was authorized by stakeholders in September 2021.
16		Because NYPA will recover its investment in the SPC Project through the NTAC, it will
17		minimize the near-term impacts on the NTAC rate from this Project by not seeking to
18		recover CWIP.
19	Q.	Are there other risks and challenges faced by NYPA related to the SPC Project?
20	A.	Yes, there are. There are substantial project development risks and challenges associated
21		with the SPC Project. These are covered in detail in the accompanying NYPA Panel
22		Testimony. <sup>9</sup> The Panel also addresses NYPA's project management efforts focused on

<sup>&</sup>lt;sup>9</sup> NYPA Panel Testimony at 21-31.

1 mitigating development risks.<sup>10</sup>

2	Q.	Does having National Grid as a co-participant in the development and construction
3		of the SPC Project reduce NYPA's risk?

- A. Yes, it does. NYPA selected National Grid as a co-participant for the Project, due to,
  among other reasons, National Grid's extensive experience with transmission projects and
  National Grid's ownership of and familiarity with property and transmission facilities in
  New York that can be used to support the expeditious development of the Project. In
  addition, by partnering with National Grid for this Project, NYPA will reduce its capital
  investment outlays from \$1.2 billion for the entire Project to slightly under \$650 million
- 10 (NYPA's share of the Project costs).
- 11 12

### V. <u>50-BASIS POINT ADDER FOR RISK AND CHALLENGES OF THE</u> <u>SMART PATH CONNECT PROJECT</u>

13 Q. What transmission rate incentive is NYPA requesting in this proceeding?

A. NYPA is requesting a 50-basis point ROE Risk Adder for the SPC Project to recognize the
 risk and challenges of this project.

# Q. What will NYPA's total ROE be for the SPC Project if the Commission grants this incentive?

- A. NYPA's base ROE is 8.95%. NYPA receives a 50-basis points adder in ROE for
   participation in the NYISO ("RTO Participation Adder") on all investments included in the
   NTAC. The RTO Participation Adder was established at the start of NYPA's transmission
   formula rate in 2016.<sup>11</sup> The total ROE would be 9.95% if the Commission grants NYPA's
- 22 requested ROE Risk Adder. This is the total ROE for NYPA's investment in the Segment

<sup>&</sup>lt;sup>10</sup> *Id.* at 29-31.

<sup>&</sup>lt;sup>11</sup> *N.Y. Indep. Sys. Operator, Inc.*, 158 FERC ¶ 61,043 (2017) (order approving settlement of NYPA's transmission formula rate).

A Project, for which the Commission granted a 50-basis point ROE Risk Adder in Docket
 No. EL19-88-000.

### 3 Q. What steps have NYPA taken to mitigate the risks of the Project?

A. In order to mitigate the risks of the Project, NYPA requested, in a separate docket (Docket
No. EL22-15-000), authorization for an Abandoned Plant Incentive. In addition, NYPA
chose to develop the Project jointly, ultimately selecting National Grid as its co-developer.
Lastly, to further mitigate risk, NYPA and National Grid will utilize best-in-class project
management practices, as further described in the NYPA Panel Testimony.<sup>12</sup>

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### Q. Do these measures mitigate all of NYPA's risk?

10 A. No. The Abandonment Incentive, selection of National Grid as a co-participant, and
 11 utilization of best-in-class project management practices are not sufficient to mitigate
 12 NYPA's risk and challenges associated with the SPC Project.

The Abandonment Incentive only protects NYPA against Project cancellation for 13 14 reasons beyond the control of NYPA; it does not mitigate the risks and challenges of the 15 Project that continue to exist if the Project is not abandoned.<sup>13</sup> Further, while selection of 16 National Grid as a co-participant and utilization of best-in-class project management 17 practices certainly help mitigate risks, they are not adequate to fully mitigate against 18 unexpected costs, adverse outcomes, regulatory uncertainty and financing challenges with 19 regard to the permitting and certification processes, as well as construction, given the 20 complexity and the scope of the Project.

<sup>&</sup>lt;sup>12</sup> NYPA Panel Testimony at 31.

<sup>&</sup>lt;sup>13</sup> Though the Abandonment Incentive, if granted by the Commission, is beneficial in reducing risks associated with cancellation of the SPC Project, it is not guaranteed recovery of costs incurred as it is limited to costs incurred after the effective date of the Commission granting the incentive and subject to a Section 205 process with full participation of stakeholders.

1		NYPA will experience a significant cash drain during the construction period due
2		to the Project's unprecedented magnitude. This will limit the cash NYPA has available for
3		other, necessary capital projects and will directly affect NYPA's financial metrics used by
4		the rating agencies to determine NYPA's bond rating. Resultantly, NYPA's ability to
5		access the capital markets at favorable financing terms may be inhibited. To address these
6		financial risks, as well as the substantial project development risks described in the NYPA
7		Panel Testimony, NYPA requests a 50-basis point ROE Risk Adder. <sup>14</sup> Approval of the
8		ROE Risk Adder would be viewed favorably by the financial community and would help
9		offset the substantial risks and challenges that NYPA faces in developing this SPC Project.
10	Q.	Is NYPA proposing to limit the applicability of the ROE Risk Adder to a specific cost
11		estimate for the Project?
12	А.	Yes. As explained below, NYPA is proposing to limit the applicability of the requested
13		ROE Risk Adder by utilizing a risk-sharing mechanism that will limit the application of
14		the incentive to costs up to the Cost Cap for the Project.
15	Q.	Have other transmission projects in New York received an ROE Risk Adder for risk
16		and challenges?
17	А.	Yes. In fact, NYPA received a 50-basis point ROE Adder for risk and challenges for its
18		investment in the Segment A Project, a \$208 million investment. <sup>15</sup> LSPG-NY, NYPA's
19		co-participant in the Segment A Project, also received a 50-basis point ROE Adder for risk
20		and challenges for its investment in the Segment A Project, a \$350 million investment. <sup>16</sup>

<sup>&</sup>lt;sup>14</sup> NYPA Panel Testimony at 4-5, 21-31.

<sup>&</sup>lt;sup>15</sup> NYISO Open Access Transmission Tariff, Att. H, § 14.2.3.2.9(B).

<sup>&</sup>lt;sup>16</sup> See Offer of Settlement, ¶ 3.3, Docket No. ER20-716-001 (filed Apr. 1, 2021). This was approved by the Commission by order dated June 17, 2021. *N.Y. Indep. Sys. Operator, Inc., LS Power Grid N.Y. Corp. I*, 175 FERC ¶ 61,210 (2021).

1 New York Transco, LLC ("NY Transco") also received a 50-basis point ROE Adder for 2 risk and challenges for its investment in the New York Energy Solution (Segment B of the AC Project), an estimated \$592 million investment.<sup>17</sup> Finally, the Commission also 3 awarded an ROE Risk Adder to NextEra Energy Transmission New York, Inc.'s ("NEET 4 5 NY") Empire State Line Project which spanned 20 miles and NEET NY estimated its investment to be \$181 million.<sup>18</sup> The New York transmission projects that have been 6 7 awarded an ROE Risk Adder for risks and challenges by the Commission, other than the 8 NY Transco project which investment approaches \$600 million, have been smaller and 9 substantially less risky than the SPC Project. 10 Q. How does the cost containment mechanism proposed by NYPA for the SPC Project 11 and described below impact NYPA's financial risks?

A. The SPC Project cost containment mechanism adds financial risks to NYPA as NYPA
would earn no return on equity (not even the base ROE) on 20% of the Project Costs above
the Cost Cap and only would earn the base ROE on the other 80% of the costs over the
Cost Cap. For a transmission project without cost containment, customers are at risk for
higher-than-expected project costs. This further adds support for NYPA's requested 50basis point ROE Risk Adder.

## 18 Q. Please comment on the need for NYPA to have an opportunity to earn 9.95% ROE 19 on the SPC Project.

A. NYPA consistently has analyzed the financial implications of the SPC Project using an
overall ROE of 9.95%. Though NYPA considers this Project eligible for a ROE Risk

<sup>&</sup>lt;sup>17</sup> See Substation Engineering Co., AC Transmission New York Public Policy Transmission Need Technical Review Report at 8, 30 (2018), *located at* <u>https://www.nyiso.com/documents/20142/5990681/AC-Transmission-Appendices-2019-04-08.pdf</u> (pages 64 and 86 of 1035) (last visited Feb. 3, 2022).

<sup>&</sup>lt;sup>8</sup> See NextEra Energy Transmission N.Y., Inc., 162 FERC ¶ 61,196, at PP 36-42, 6 n.8 (2018).

Adder of greater than 50-basis points, as its scope, scale and costs are significant, NYPA is requesting a 50-basis point ROE Risk Adder for risk and challenges and relying upon the RTO Participation Adder of 50-basis points, currently applicable to all NTAC projects, to achieve the nearly 10% overall ROE.<sup>19</sup> In the event that the Commission changes the criteria for the RTO Participation Adder such that NYPA no longer qualifies for it,<sup>20</sup> NYPA would seek here or in a subsequent filing an ROE Risk Adder of a total of 100 basis points in order to maintain its desired 9.95% ROE for the Project.

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### VI. <u>COST CONTAINMENT</u>

### 9 Q. Please briefly describe the proposed cost containment mechanism.

A. Under the proposed cost containment mechanism, where Project Costs exceed the Cost
Cap, NYPA will earn no ROE on 20% of the equity portion of the costs that are in excess
of the Cost Cap. For 80% of the equity portion of the costs that are in excess of the Cost
Cap, NYPA will earn only its base ROE (not the 50-basis point ROE Risk Adder nor the
RTO Participation Adder). If Project Costs fall below the Adjusted Cost Cap, NYPA
would earn an incentive ROE on the Project, according to the following Table 1.

<sup>&</sup>lt;sup>19</sup> Note that a 10% ROE for NYPA would result in a revenue requirement impact for ROE of 10%, as NYPA is exempt from federal and state income taxes. A tax paying transmission owner in New York that has a 10% ROE would need to charge customers in its revenue requirement an additional 3.6% to cover income taxes, resulting in a pretax ROE of 13.6%.

<sup>&</sup>lt;sup>20</sup> In Docket No. RM20-10-000, Supplemental Notice of Proposed Rulemaking, the Commission put forth a proposal for the RTO Incentive to be in effect for a transmission owner for three years after joining an RTO, and then the incentive would be eliminated.

Project Costs Below Adjusted Cost Cap	ROE Risk Adder on Total Investment
$0\%$ to $\le 5\%$	0.05%
$> 5\%$ to $\le 10\%$	0.17%
$> 10\%$ to $\le 15\%$	0.30%
$> 15\%$ to $\le 20\%$	0.45%
$> 20\%$ to $\le 25\%$	0.62%
>25%	0.71%

# Table 1ROE Incentive for Project Costs Under the Adjusted Cost CapAdditional ROE on SPC Project

### 4 Q. Has the Commission approved similar cost containment mechanisms?

5	A.	Yes. The cost containment mechanism NYPA is proposing for the SPC Project is closely
6		aligned with that approved by the Commission for both NYPA <sup>21</sup> and LSPG-NY <sup>22</sup> for the
7		Segment A Project.

#### 8 Q. Provide the proposed Cost Cap and Adjusted Cost Cap for the SPC Project.

A. The Cost Cap equals the Project cost estimate, prepared in mid-2021 for purposes of the
State Article VII permitting process before the NYPSC, less AFUDC and less estimated
interconnection and network upgrades resulting from the NYISO evaluation process, or
\$568,041,000. The Adjusted Cost Cap is the Cost Cap less 50% of the Project cost
contingency included in the Cost Cap. The Adjusted Cost Cap for NYPA's portion of the
Project is \$535,548,000.

# 15Q.Are the Cost Cap and Adjusted Cost Cap amounts determined consistent with the16cost containment mechanism used for the Segment A Project?

<sup>&</sup>lt;sup>21</sup> N.Y. Indep. Sys. Operator, Inc., N.Y. Power Auth., 176 FERC ¶ 61,211 (2021).

<sup>&</sup>lt;sup>22</sup> N.Y. Indep. Sys. Operator, Inc., LS Power Grid N.Y. Corp. I, 175 FERC ¶ 61,210 (2021).

1 A. Unlike with the cost containment mechanism used for the Segment A Project, NYPA is 2 proposing to include Project Development Costs and real estate costs in its Cost Cap. The 3 Segment A Project Cost Cap did not include Project Development Costs or real estate costs 4 because they were not part of the Segment A Project's cost bid. In addition, real estate 5 costs specifically were not included in the Segment A Project cost bid because real estate 6 acquisition was projected to be significant, and the costs could not be predicted. It is 7 appropriate to include real estate costs in the Cost Cap for the SPC Project because the real estate costs are much less significant given the Project primarily will use existing rights-8 9 of-way.

## 10 Q. Has NYPA made changes to the definition of Third-Party Costs for the SPC Project 11 cost containment?

12 A. Due to the changes just mentioned, NYPA has made several changes to the definition of Third-Party Costs as it relates to the proposed cost containment mechanism for the SPC 13 14 Project. NYPA has eliminated payments to third parties for real estate acquisition or lease, 15 as well as property and sales taxes from the definition of Third-Party Costs and has 16 alternatively proposed to include these costs as part of the SPC Project's Cost Cap. As 17 noted above, for the Segment A Project, LSPG-NY and NYPA excluded real estate costs and property and sales taxes from its Cost Cap and instead included them as Third-Party 18 19 Costs because at the time of the Segment A Project's cost bid, real estate costs were 20 uncertain and real estate acquisition was to be significant while property and sales taxes 21 were either not included in LSPG-NY's cost bid or there was uncertainty around the costs, subjecting these costs to significant risk. In the instant case, real estate cost will not subject 22 23 to the significant risks that applied to the Segment A Project and are therefore included in

1		the Cost Cap for the SPC Project. Similarly, there is no uncertainty surrounding the
2		property and sales taxes for the SPC Project, so they are also included in the Project's Cost
3		Cap. Finally, NYPA has removed the reference to an "incumbent" utility from the
4		description of increased costs from rescheduling outages and relocating facilities because
5		the SPC Project will be built within NYPA and National Grid rights-of-way, thus any
6		facility relocations are already known and are included in the Cost Cap applicable to the
7		Project.
8	Q.	Has NYPA made changes to the definition of Unforeseeable Costs for the SPC Project
9		cost containment?
10	A.	Yes. First, NYPA proposes to reduce the threshold for Unforeseeable Costs to be excluded
11		from Project Costs to 2.5%, from the 5% threshold used for the Segment A Project. This
12		change results in a slightly higher Unforeseeable Costs exclusion for the SPC Project
13		(\$14.2 million as compared to \$9.5 million for the Segment A Project), thus exposing
14		NYPA to additional risks but not the substantial risks to which a 5% exclusion ( <i>i.e.</i> \$28.4
15		million) from recovery would. Additionally, NYPA included global pandemics in the force
16		majeure provision of Unforeseeable Costs for the SPC Project in recognition of this current
17		phenomenon.
18	Q.	Does NYPA propose any other changes to Unforeseeable Costs?

A. Yes. NYPA proposes to add two provisions that recognize the current and expected
economic climate during the equipment purchase and construction phase of the Project.
First, steel costs have risen significantly since NYPA developed the Project cost estimate
in mid-2021. That steel costs would drastically rise was unforeseeable at that time.
Resultantly, NYPA includes steel cost escalation, as measured by the Handy Whitman

Construction Cost Index, in excess of that included in the SPC Project's Cost Cap as an
 Unforeseeable Cost.

Second, NYPA expects to see inflationary pressures on non-steel costs, such as on labor costs. This higher than anticipated inflationary pressure was likewise unforeseeable at the time NYPA developed the Project cost estimate. To the degree that the escalation of actual costs other than steel costs, as measured by the Handy Whitman Construction Cost Index, exceeds 150% of the escalation included in the Cost Cap applicable to the SPC Project, NYPA proposes this amount to be an Unforeseeable Cost.

9 Q. What other costs does NYPA propose to exclude from Project Cost?

10 A. NYPA also proposes to exclude AFUDC from Project Cost, as it is also excluded from the
11 SPC Project's Cost Cap.

12 Q. Please summarize NYPA's proposed cost containment approach for the SPC Project.

NYPA's proposed cost containment approach for the SPC Project is very similar to that 13 A. 14 used by LSPG-NY and NYPA for the Segment A Project. Project Costs that exceed the 15 Cost Cap are subject to an 80%/20% risk sharing mechanism. Under the mechanism 16 NYPA would only earn an incentive ROE adder (of any sort) on its SPC Project investment 17 where Project Costs are less than the Adjusted Cost Cap. Certain costs, called Third-Party Costs, are excluded from Project Costs and recovered under NYPA's transmission formula 18 19 rate. Finally, Unforeseeable Costs, if they exceed 2.5% of the Cost Cap, are excluded from 20 Project Costs and recovered under NYPA's transmission formula rate.

21 Q. Does this conclude your direct testimony?

A. Yes, it does.

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

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New York Power Authority

Docket No. ER22-\_\_\_-000

### **AFFIDAVIT OF SCOTT TETENMAN**

State of New York)County of Westchester)

I, Scott Tetenman, affirm that the statements contained in the Prepared Direct Testimony of Scott Tetenman served on behalf of the New York Power Authority in these proceedings are true and correct to the best of my knowledge, information and belief, and I hereby adopt said testimony as if given by me in formal hearing, under oath.

Scott Tetenman Dated: February (2022)

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LORNA JOHNSON NOTARY PUBLIC, STATE OF NEW YORK Registration No. 01JO4961652 Qualified in Queens County Commission Expires March 6, 20 26