



# NESCOE Competition and Cost Containment Forum

Presentation by Jack Honor, Senior Director - Competitive Transmission Development

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# Agenda

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## **NextEra Energy Transmission**

The leading transmission developer in the U.S.

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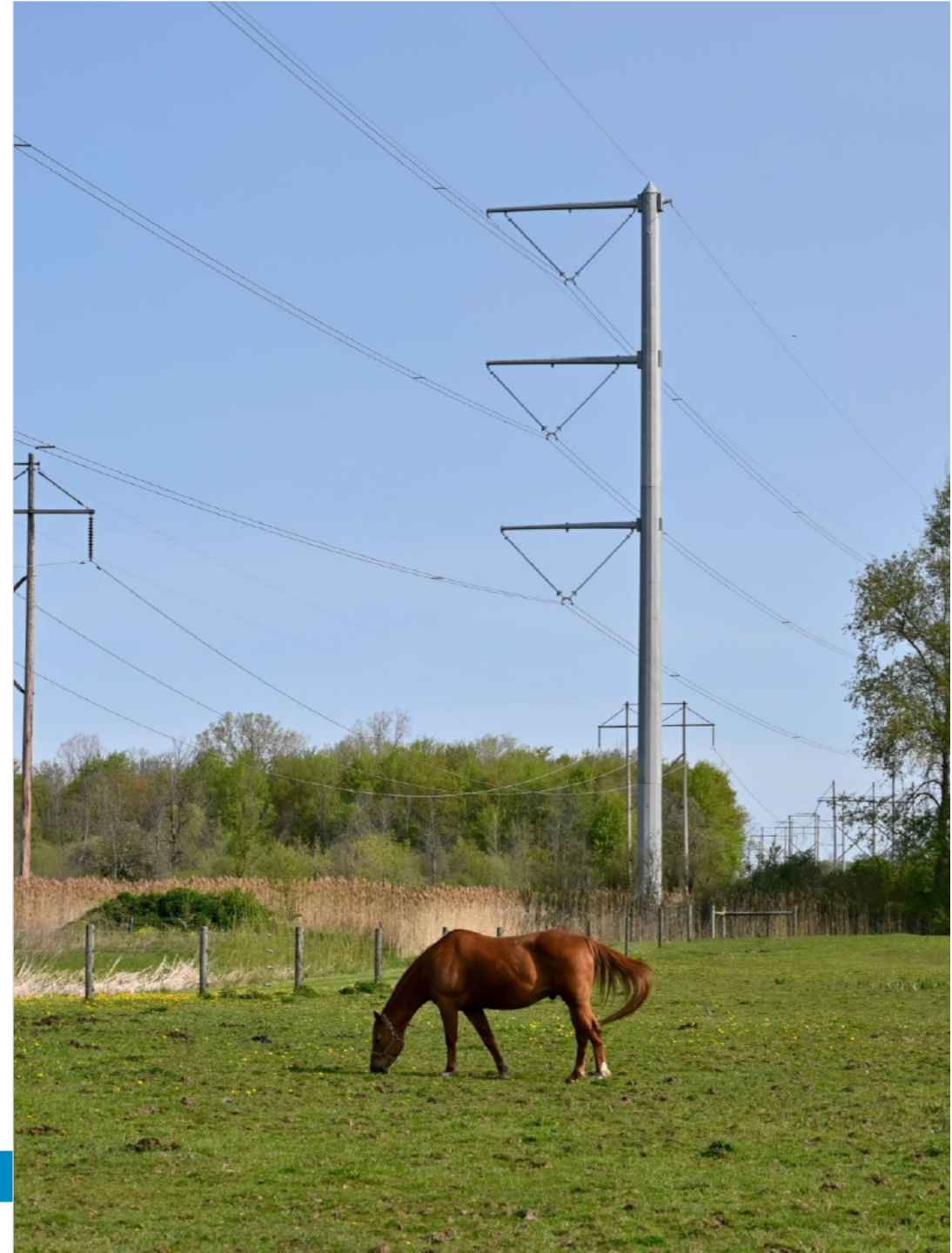
## **Benefits of Competitive Transmission**

Innovative cost containment approaches can create value/protections for ratepayers

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## **Cost Containment Recommendations**

ISO-NE stands to benefit from increased competition in transmission development





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# About NextEra Energy, Inc.

NextEra Energy, Inc. is the largest and most diverse energy company in the world



**~72,000 MW**  
generating capacity  
as of year-end 2023



**\$177 B**  
in total assets  
as of year-end 2023



**~\$181 B**  
infrastructure capital  
deployed since 2003



**~94,000 miles**  
of transmission and  
distribution lines  
as of year-end 2023



**~16,800**  
employees as of  
year-end 2023



**\$28 B**  
operating revenues  
as of year-end 2023



**49 states**  
with operations and  
development projects



**4 Provinces**  
in Canada, with operations  
and development projects

# About NextEra Energy Transmission



Over the last decade, NextEra Energy Transmission has built a proven track record of working with local communities and regulators to build and operate complex transmission projects across North America



**\$5 billion** in total investments



**280+** employees



**~2,900** miles of transmission lines in development and operation



**16** states, Canada and all RTOs with operating or development projects

Our subsidiaries were among the first non-incumbents to be awarded projects by system operators and utility commissions in California, New York, Kansas, Missouri, Oklahoma, and Ontario, Canada.



## Competitive Projects in North America

Competitive transmission procurements in ISO/RTOs typically drive significant cost savings compared with the ISO/RTO's expected capital cost for the project

| Project                            | Transmitter        | RTO   | RTO Expected CAPEX | Winning Bid CAPEX      | Incumbent Bid |
|------------------------------------|--------------------|-------|--------------------|------------------------|---------------|
| Wolf Creek – Blackberry            | NEET               | SPP   | \$143 MM           | \$85 MM (60% savings)  | Yes           |
| Denny – Zachary – Thomas – Maywood | Ameren Illinois    | MISO  | \$500 MM           | \$275 MM (45% savings) | Yes (Won)     |
| Minco – Pleasant Valley Draper     | NEET               | SPP   | \$81 MM            | \$55 MM (32% savings)  | No            |
| Duff – Coleman                     | LS Power           | MISO  | \$59 MM            | \$50 MM (16% savings)  | Yes           |
| Fort McMurray – Edmonton           | Alberta Power Line | AESO  | \$1.8 B            | \$1.4 B (23% savings)  | Yes (Won)     |
| Imperial Valley-North of SONGS     | NEET               | CAISO | \$2,288 B          | \$1B (56% savings)     | Yes           |
| North Gila - Imperial Valley #2    | NEET               | CAISO | \$340 MM           | \$256 MM (24% savings) | Yes           |

## Cost Containment Recommendations

**Balancing risks between developers and ratepayers supports cost-effective development by minimizing required developer risk premiums while protecting ratepayers from cost overruns**

- **Capital Cost Cap**
  - “Hard Cap” - Sets a hard maximum limit on capital expenditures. May place too much risk on developers without adequate exclusions.
  - “Soft Cap” - Sets a soft limit on cost with prudently incurred cost overruns between ratepayers and developers or earn a reduced return on equity (ROE).
  - Soft Cap Example: \$100M cost estimate, bid with a 50/50 soft cost cap risk is completed at a cost of \$110M. Developer would place \$105M into the rate base and absorb \$5M, or lower ROE to provide a mathematically equivalent cost to ratepayers.
- **Exclusions to Cap on Capital Expenditures** – reduce risk premium & contingency
  - Standard exclusions such as regulatory-driven scope changes, new laws, tax changes, and force majeure
  - Developer proposed exclusions based on project-specific considerations
- **Cap Return on Equity** - Developers voluntarily agree to a maximum ROE limit on project or cost overages
- **Cap on Annual Transmission Revenue Requirement (ATRR)**
  - Provides ratepayer cost certainty for the duration of the cap
- **Operating Cost Containment** - Cap aggregate O&M and G&A – or Cap increases in operating costs

**Enable transmission developers to propose project specific cost containment to incentivize innovation and increase competition**



Thank You!





# Examples From the Field

## NEET awarded projects from the 2022-2023 CAISO Transmission Planning Process

|                             | North Gila-Imperial Valley #2 500 kV  | Imperial Valley-North of SONGS 500 kV Line and 500/230 kV Substation   |
|-----------------------------|---|--|
| Soft Cap                    | <b>\$256 million</b> over which project earns <b>8.5%</b> equity returns for overages   | <b>\$1,004 million</b> over which project earns <b>5%</b> equity returns for overages  |
| ATRR or O&M Cap             | <b>15-year revenue cap</b> limiting total allowed annual revenue for the first 15 years of operation.   | <b>15-year cumulative cap on O&amp;M + G&amp;A expenses</b>  |
| ROE Floor                   | No  | Yes  |
| Example Cost Cap Exclusions | <ul style="list-style-type: none"> <li>• <b>Changes in scope or functional specifications</b> by the CAISO</li> <li>• <b>Change in law, tax rates, or property tax</b> assessment methodology</li> <li>• <b>Uninsured losses or liabilities</b> and <b>losses or liabilities in excess</b> of insurance policy coverages</li> <li>• <b>Changes by a Transmission Owner</b>, including project scope, location, and delays to interconnection</li> <li>• <b>Uncontrollable Force</b> as defined by the CAISO Tariff</li> </ul> |  |
| Unique Cost Cap Exclusions  | <ul style="list-style-type: none"> <li>• <b>Undergrounding</b> any portion of the line</li> <li>• <b>Environmental mitigation</b> measures beyond those assumed in the proposal</li> </ul>  | <ul style="list-style-type: none"> <li>• <b>Wildfire mitigation</b> mandated by the Office of Energy Infrastructure Safety in excess of that assumed in the proposal</li> <li>• <b>Operations cost over 1.5 times the cap</b></li> </ul> |
| Schedule Penalty            | <b>0.2% ATRR cap reduction for every month</b> past the guaranteed ISD up to a <b>maximum of 1.2%</b> .   | None   |

1) Annual Transmission Revenue Rights