
# New York Power Authority

## Staff Report

### Transmission Revenue Requirement Study
### Including the 2011 and 2012 Cost-of-Service

**July 2012**

# Table of Contents

Page

# New York Power Authority
## Transmission Cost of Service for 2011 and 2012

## Executive Summary

Delivery of reliable, low cost energy to the people of New York State would not be possible without the New York Power Authority's ("Authority" or "NYPA") transmission system. Reinvestment in this strategic component of NYPA's overall mission supports both its continued reliable operation as well as improvements, including upgrades and expansions of our existing 1,400-mile transmission infrastructure. Investment is further required to ensure regulatory compliance.

A utility recovers its investments and the operation and maintenance costs related to its transmission infrastructure through the collection of its annual revenue requirement from the users of that system. NYPA has an annualized transmission revenue requirement (or "TRR") of approximately $165 million as filed and accepted by Federal Energy Regulatory Commission ("FERC" or "Commission"). The current TRR, based on 1996 cost-of-service data, has been in effect since the New York Independent System Operator ("NYISO") became fully operational in November 1999. NYPA recovers a portion of its transmission revenues through various customer transmission rates, but most of the recovery of the $165 million is effectuated through the NYPA Transmission Adjustment Charge or "NTAC," a mechanism included in the NYISO Open Access Transmission Tariff ("OATT") and approved by FERC.

The cost-of-service analyses for 2011 and 2012 included with this report indicate that the annual cost of NYPA's transmission system is now $183.1 million. Thus, the current allowed annual revenues of $165 million fall short of meeting that requirement.

Increases in FERC-jurisdictional rates are generally subject to the provisions of the Federal Power Act ("FPA"). Based on NYISO OATT provisions and applicable FERC precedents, to obtain a change in its TRR, NYPA would have to apply to FERC for approval of its revised TRR under FPA Section 205, which requires that rates be "just and reasonable." Authority Staff

("Staff") proposes that its FERC filing for a revised TRR of $183.1 million be submitted by July 27, 2012 to become effective August 1, 2012. Although our TRR is subject to FERC approval, NYPA's status as a non-jurisdictional utility under the FPA means that the FERC would not require NYPA to comply with all of the filing requirements that normally apply to regulated, investor-owned utilities ("IOUs").

## Background

In December 1996, the Authority's Trustees approved the adoption of a new open access transmission tariff ("OATT"), which was voluntarily submitted to, and later accepted by, FERC.[1] FERC's acceptance of the NYPA OATT followed its 1996 promulgation of Order No. 888, which promoted wholesale competition through the provision of open access and non-discriminatory transmission services by regulated utilities, *i.e.* IOUs. FERC encouraged non-jurisdictional entities such as the Authority to file *pro forma* tariffs substantially the same as the *pro forma* tariffs required to be filed by IOUs under Order No. 888. NYPA's tariff filing was deemed consistent with FERC's "comparability" standard that required that other entities be granted non-discriminatory access to NYPA's transmission system (in the same manner as NYPA's existing customers) and created a reciprocity provision that gave NYPA open access to the transmission systems of all other entities that were required to file an OATT. As part of its filing, NYPA provided supporting cost and rate information, including a calculation of its transmission system revenue requirement.

In January 1997 the Authority's Trustees authorized entering into a series of agreements to facilitate the implementation of an "Independent System Operator" for the New York transmission system. These agreements, together with the associated tariffs, were subsequently submitted to and approved by FERC. This process resulted in the formation of the NYISO, whose tariffs and agreements established the framework for a competitive market for electricity in New York State and furthered the implementation of FERC's policy of non-discriminatory, open access to the bulk power transmission system.

[1] *New York Power Authority,* 82 FERC ¶ 61,078, *reh'g denied,* 83 FERC ¶ 61,137 (1998).

The Authority's participation in the NYISO was predicated upon the Authority's ability to recover its transmission revenue requirement and the avoidance of any disproportionate impact to Authority customers. In particular, the Agreement Between the New York Independent System Operator and Transmission Owners ("NYISO-TO Agreement") provides as follows:

> This Agreement is premised on NYPA recovering its full annual transmission revenue requirement. This is to be achieved through a mechanism known as the NTAC. NYPA will submit its annual revenue requirement for FERC approval. NYPA will be entitled to receive from the ISO the difference between its FERC-approved revenue requirement and the sum of revenues it collects from contracts and from TSCs [Transmission Service Charges] associated with its current transmission system. The ISO will credit any TCC [Transmission Congestion Contract] revenues associated with NYPA's facilities and allocate the remainder on a kWh basis to all transmission load the ISO serves. NYPA's recovery pursuant to NTAC is limited as described in Attachment H to the ISO OATT. This Agreement is further premised on each Investor-Owned Transmission Owner being authorized to fully recover the NTAC charged to its transmission and retail customers and that any necessary regulatory approvals for such full recovery will be granted by the PSC and FERC.

In its Order issued January 27, 1999,[2] FERC approved the use of the Authority's present transmission system revenue requirement of $165,449,297. FERC also approved, among other things, the NYPA Transmission Adjustment Charge (*i.e.*, the NTAC, in accordance with the NYISO-TO Agreement passage noted above) as well as the NYPA Transmission Service Charge ("TSC") applicable to certain loads "directly connected" to NYPA's facilities at the St. Lawrence Project. All loads served in New York (including some exports) pay their share of NYISO costs. Each such customer is charged the NTAC as part of its NYISO costs.

With the commencement of the NYISO's operations in November 1999, all transmission service over the Authority's facilities is furnished in accordance with the NYISO OATT, with the Authority realizing its $165 million annual revenue requirement via the TSC, TCC revenues, existing customer contracts and the NTAC.

[2] *Central Hudson Gas & Elec. Corp., et al.,* 86 FERC ¶ 61,062 (1999).

## Revenue Requirement and Related Issues

In general, FERC follows standard cost-of-service principles in its regulation of transmission rates. Under the cost-of-service method, NYPA would be allowed to recover its cost of providing transmission service, plus a reasonable return on its investment. The cost-of-service method determines the total revenues, or revenue requirement, that NYPA should collect through rates in order to recover its costs incurred in providing electric service.

The starting point in deriving the revenue requirement is the application of the following formula:[3]

Cost of Service = E + d + T + (V – AD) * R

E = operating expenses

d = depreciation expenses

T = taxes

V = Gross value of property,

AD = Accrued depreciation

R = Overall rate of return

Generically, (V – AD) is known as the "Rate Base," and the overall rate of return (R) has both an equity and debt service component. There is no tax component (T) in the calculation of NYPA's revenue requirement.

The values used in the cost-of-service formula will usually be derived from a twelve-month test period, which is intended to be a representative period for the establishment of rates. In most cases, electric utilities are required to use a future test period (referred to as "Period II" by FERC).

Staff, with the assistance of the consulting firm Nexant, Inc. ("Consultants"), has undertaken a study and analysis of the Authority's transmission revenue requirement based on actual 2011 cost

[3] *See* Michael E. Small, *A Guide to FERC Regulation and Ratemaking of Electric Utilities and Other Power Suppliers* 31 (Edison Electric Institute, 3rd Edition 1994).

data and estimated 2012 cost data. Based on cost-of-service principles, this analysis supports a 2011 revenue requirement of $177.6 million, an increase of $12.1 million or 7.3% over the current revenue requirement of $165.4 million and a 2012 revenue requirement of $183.1 million, or 10.7% over the current revenue requirement.

Appendix I to this report is comprised of a detailed breakdown of the cost components of NYPA's bulk power transmission system and compares the values for a historical period (2011) and projected test period (2012) that will support the basis for NYPA's July 2012 filing. Also exhibited for comparative purposes is a breakdown by component of the existing $165.4 million revenue requirement. Additionally, for each of the three periods, the relative weighting of certain key cost components in the total revenue requirements for 1996, 2011 and 2012 is illustrated.

In the intervening 15 years since 1996, the vintage of the data used to develop NYPA's current TRR, the relative proportions of NYPA's generation assets and transmission assets have changed significantly, due in part to NYPA selling its nuclear plants and undergoing a quiescent period in building and/or replacing transmission assets. This combination of events and actions has led to a discernible change in the relative weights for the types of costs supporting the TRR level. For instance, operation and maintenance ("O&M") expense increases have had a more substantive impact on the proposed 2012 TRR than the existing TRR, and the 2012 rate base has been reduced measurably due to the relative lack of new transmission plant investment and the impact of accumulated depreciation on the book value of existing assets.

## Rate Base Items

**Plant in Service** – Staff defines the Authority's existing transmission plant in service to establish which assets contribute to the make-up of the NYISO bulk transmission network and which pertain solely to specific Authority generating projects. Assets which are considered generator leads have been excluded from the calculation of the TRR in accordance with generally accepted cost allocation principles. The generator leads so excluded are those at the 500 MW Combined-Cycle generating project site in New York City, the Richard M. Flynn plant on Long Island, the eleven small clean power plants in

New York City and Long Island, as well as several small hydro generators in upstate New York.

Additionally, the cost of generator step-up transformers at other Authority generating facilities are reclassified as production as prescribed by FERC. Further, all costs related to the Convertible Static Compensator at the Marcy substation were excluded, as the Authority was granted additional TCCs by the NYISO in lieu of cost recovery through the transmission revenue requirement.

NYPA's general plant in service, the value of assets not ascribed directly to specific production or transmission facilities, is allocated to transmission using the labor ratio of 24.05% for 2012 (25.91% for 2011). Relicensing costs related to the Niagara Power Project and the St. Lawrence-Franklin D. Roosevelt Power Project are excluded and allocated 100% to production. Related accumulated depreciation was deducted from plant in service to derive the amount of net plant in the rate base.

Appendix II to this report gives a more detailed listing of the Authority's transmission assets which were included in the updated TRR calculation as well as those transmission assets excluded from the TRR.

**Marcy South Capitalized Leases** – In 1988 the Authority completed and energized a 190-mile transmission line that runs from its Marcy substation near Utica to Consolidated Edison Company of New York Inc.'s East Fishkill substation in Dutchess County. In connection with this project, substation improvements were undertaken by several investor-owned utilities. All costs related to substation modifications were borne by the substation owners and reimbursed by the Authority through various facilities agreements over a ten-year period. Due to the long-term service life of these substation modifications, in its 1996-era transmission revenue requirement, NYPA appropriately treated these agreements as capital lease obligations in order to recover the costs over the useful life of the assets. Staff's analysis of the 2011 and 2012 TRR similarly treats these costs as capitalized leases.

**Cash Working Capital** – Staff utilizes the FERC 45-day rule to include in the cost of service the amount of cash needed by a utility to meet its operating expenses during the gap period between when expenses are paid and when revenues are received for service.

**Materials and Supplies Inventory** – Staff includes total Authority transmission materials and supplies inventory (excluding fuel).

**Non-Interest Bearing Construction Work in Progress ("NIBCWIP")** – Staff includes Non-Interest Bearing CWIP in rate base. Interest Bearing CWIP is not included.

**Net Rate Base** – The sum of the gross plant in service (less accumulated depreciation), Marcy South capitalized leases (less accumulated amortization), cash working capital, materials and supplies inventory and NIBCWIP.

**Return on Investment ("ROI")** – ROI is a percentage comprised of two parts: return on equity (or "ROE") and cost of debt. Although the Authority does not issue common stock, its operations generally result in net revenues in any given year. The cumulative amount is listed on the Authority's balance sheet as total net assets. As of December 31, 2011, the total net assets of the Authority were $3.3 billion.

The Consultants undertook a study of the Authority's cost of capital to determine a just and reasonable rate of return on its equity. This study examined FERC's methodology of determining a reasonable rate of return, the returns on transmission investments approved by the New York Public Service Commission and allowed by FERC for New York State IOUs, as well as FERC precedent for allowable returns for municipal transmission owners. The study contains a proxy group analysis that shows a range of returns from roughly 7.2% to 10.4%. The proxy group studies, as well other comparative data, support NYPA's requested base ROE of 9.25%. Further, the latest equity returns allowed for New York IOUs have been 9.25%. FERC precedent indicates that a non-jurisdictional entity like NYPA is entitled to the same equity return as a similarly-rated IOU.

Staff believes a base cost of equity of 9.25% is reasonable, can be justified and will help the Authority maintain its AA- bond rating from Standard & Poor's. To this 9.25% Staff added a 50-basis-point premium (0.5%) commonly allowed by FERC for continued participation in a regional transmission organization such as the NYISO. Based on informal discussions with FERC staff, it appears that NYPA would be able to justify including this premium in its filing. Our review of FERC cases shows that rate of return is a frequently contested issue with outside parties. The Authority's TRR filing will conform to the FERC preferred analytical methods and will include detailed testimony and exhibits justifying the recommended return on equity.

The Authority's long-term debt outstanding at December 31, 2011, was $1.5 billion, with an average interest rate of 4.28%. The weighted average of the debt and equity components produces a total cost of capital, or ROI, of 7.95% for 2011. For 2012, the weighted average cost of capital is 8.19%.

**Return Requirement** – This is the product of the net rate base and the return on investment.

## Operating Expense Items

**Operation & Maintenance Expense ("O&M") –** The transmission revenue requirement includes actual O&M expenses for all transmission assets other than those considered to be generator leads or otherwise excluded, as noted above in the Plant in Service discussion. Specifically, this includes FERC accounts related to the maintenance of overhead and underground lines, station equipment, and certain load dispatching expenses, among other items. In addition, certain headquarters Administrative & General expenses are properly allocated to the transmission cost center by applying the appropriate labor ratio.

**Depreciation –** The Authority uses straight-line depreciation for all of its capital assets, with the exception of the eleven small clean power plants in New York City and Long Island for which the double-declining balance method of depreciation is used. As noted above, the transmission components of these eleven small clean power plants are considered generator leads and are excluded from the transmission revenue requirement. Depreciation of general plant is allocated to transmission using the transmission labor ratio.

**Revenue Requirement** – The sum total of the return requirement, O&M expense and depreciation.

## FERC Jurisdiction, Filing Requirements and Cost Support

NYPA's proposal to file for an increase in its TRR at FERC is consistent with FERC's authority over the regulation of rates for transmission services in interstate commerce and past Trustee approvals. In January 1997, the Trustees authorized NYPA to sign four agreements to establish the NYISO. The Trustee Memorandum described how these agreements and associated transmission tariffs would be filed at FERC and that NYPA's transmission revenue requirement would be collected in accordance with FERC-filed tariffs. In particular, the Memorandum explained that NYPA would be committing "to seek periodic approval" from FERC regarding its revenue requirement.

The NYISO OATT further indicates FERC's authority over NYPA's TRR in light of its statement as follows:

> An integral part of the agreement between the other Transmission Owners and NYPA is NYPA's consent to the submission of its [T]RR for FERC review and approval on the same basis and subject to the same standards as the Revenue Requirements of the Investor-Owned Transmission Owners.

While FERC "cannot acquire jurisdiction merely by agreement of the parties before it,"[4] there is clear precedent for FERC asserting jurisdiction and applying the FPA Section 205 "just and reasonable" standard of review to the transmission costs of non-jurisdictional utilities if such costs are collected as part of an independent system operator's rate subject to FERC's regulatory oversight. Starting with its orders in *City of Vernon*,[5] FERC has applied Section 205 review to the transmission revenue requirements of numerous California municipal utilities whose costs are recovered through the application of the California Independent System Operator's transmission charge.[6] Because of its statutory duty to ensure that jurisdictional rates are just and reasonable, FERC has held that it must review non-jurisdictional utilities' cost components that are included in jurisdictional rates.[7] Consequently, there is good reason to believe that FERC would regard NYPA's proposal to increase its TRR as subject to its Section 205 review in light of NYPA's recovery of increased costs through the NTAC mechanism, which is part of the NYISO OATT.[8]

Because NYPA is a "non-jurisdictional" utility with respect to FERC's regulation of electricity rates, NYPA can expect FERC to waive or relax the filing requirements that normally apply to IOUs. This is also consistent with FERC's decision in *Vernon* and successive cases involving municipal utilities. In particular, NYPA will likely not be required to file cost support in the form of the statements prescribed by the Commission in 18 C.F.R. § 35.13 (2012) ("section 35.13").[9] As a state-owned utility, NYPA is not required to file an annual "FERC Form 1 Report," which is a comprehensive statement of revenue and expense data that applies to

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[4] *E.g., Transmission Agency of Northern Calif. v. FERC,* 495 F.3d 663, 676 (D.C. Cir. 2007); *Columbia Gas Transm. Corp. v. FERC,* 404 F.3d 459, 463 (D.C. Cir. 2005).

[5] *City of Vernon, Calif.,* Opinion No. 479, 111 FERC ¶ 61,092, *order on reh'g,* Opinion No. 479-A, 112 FERC ¶ 61,207 (2005), *reh'g denied,* Opinion No. 479-B, 115 FERC ¶ 61,297 (2006) ("*Vernon*").

[6] *See, e.g., City of Azusa, Calif.,* 138 FERC ¶ 61,049 (2012); *City of Pasadena, Calif.,* 137 FERC ¶ 61,045 (2011); *City of Riverside, Calif.,* 136 FERC ¶ 61,137 (2011).

[7] *Vernon,* 111 FERC ¶ 61,092 at PP 37, 44.

[8] *See also Southwest Power Pool, Inc.,* 138 FERC ¶ 61,231 (2012) (applying *Vernon* analysis to Section 205 review of non-jurisdictional electric cooperative's transmission charges administered by Southwest Power Pool).

[9] *See, e.g., Vernon,* 111 FERC ¶ 61,092 at P 44.

regulated utilities. In a FERC Form 1, the utility presents its data in accordance with FERC's uniform system of accounts, which facilitates the filing of Statements AA through BM required under section 35.13 to support new rates. Because NYPA has no obligation to file a FERC Form 1 Report, it should not have to meet the strict filing requirements of section 35.13.

Nonetheless, NYPA intends to file cost support data that at least in substance follows the requirements of section 35.13 and will include both 2011 actual and 2012 test year data. In addition, NYPA intends to file direct testimony by two witnesses and supporting exhibits to address all cost-of-service and rate of return issues. Staff believes that these cost support data will convey the components of NYPA's TRR with sufficient transparency to allow FERC and other parties to understand the basis for NYPA's increased costs of operating its transmission system and to conclude that such costs are just and reasonable.

## FERC Filing Process

Upon NYPA's rate filing,[10] FERC will issue a notice of filing after which interested parties have 20 days to file interventions, comments or protests. NYPA may submit answers to protests, but answers in reply to protests are not required to be accepted by FERC.[11]

Normally, a Section 205 rate filing goes into effect 60 days after filing, but FERC has routinely accepted requests to waive the 60-day notice period for non-jurisdictional utilities, which should permit NYPA's proposed TRR increase to become effective one day after the filing if NYPA so requests. In addition, non-jurisdictional utilities are normally exempt from FERC's filing fees. FERC will generally issue an order within 60 days. Unless FERC finds the filing deficient and

[10] NYPA's filing will be done in coordination with the NYISO, which will electronically file NYPA's rate proposal at FERC together with proposed revised tariff sheets. NYISO's involvement is consistent with FERC's electronic tariff filing requirements and will facilitate NYPA's proposal which, if adopted, would necessarily require changes to a certain portion of the NYISO OATT that relates to NYPA's TRR.

[11] Rule 213(a)(2) of FERC's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2011), prohibits an answer to a protest unless otherwise ordered by the decisional authority. FERC will accept answers to protests if the agency believes the answer clarifies the record or assists in the decision-making process.

rejects it outright,[12] FERC will accept the filing to become effective upon the date requested, and if there are issues in dispute, refer the proceeding to a settlement judge, *i.e.* one of FERC's Administrative Law Judges ("ALJs"), who would convene a meeting of the parties to start a settlement negotiation process.

Based on its prior decisions involving non-jurisdictional utilities, FERC lacks the statutory authority to "suspend" NYPA's proposed rate increase[13] or to order refunds. However, NYPA has previously made refunds to NYISO ratepayers for NTAC over collections, and would expect to provide appropriate refunds to ratepayers for any amounts collected based on a TRR that exceeds the level that FERC determines to be just and reasonable.

NYPA expects that if the proceeding leads to a settlement negotiation process, the case would be successfully resolved over a period of a few months. However, in the unlikely event that no settlement can be attained, NYPA has the option to present its case in a full evidentiary hearing before a FERC ALJ. Administrative litigation would be a time-consuming process because it would involve discovery, intervenor and FERC staff testimony, NYPA rebuttal testimony, a full hearing with witness cross-examination, post-hearing briefs, an ALJ initial decision, followed by Commission review. NYPA will keep the Trustees informed if administrative litigation needs to be pursued.

## Stated Rate versus Formula Rate

A utility has two options available for filing for a rate increase with FERC:

A **stated rate** is developed through the analysis of a historic test year, and possibly a forecasted test year. The cost support is filed with FERC for its review. After the regulatory process is concluded, the Commission's final order accepting, modifying or rejecting the rate request will

[12] Any such rejection is without prejudice to re-filing and correcting deficiencies that FERC has identified.

[13] Under FPA § 205(e), FERC has the authority to suspend a jurisdictional utility's proposed rate increase for up to five months in order to facilitate a hearing and decision on the utility's proposal.

result in a final TRR--in effect, a stated rate--applicable to NYPA. If NYPA were to experience significant increases in O&M expenses or capital additions to transmission plant, it would need to make a new rate filing with FERC to request recovery of such additional costs. NYPA may need to file for changes frequently in order to keep pace with an increasing revenue requirement.

A **formula rate** is developed when the utility files a specific formula allowing for periodic updates of its transmission rate. Once approved by the Commission, these rates are generally updated on an annual basis. The Commission requires formula rates to be specific enough for any reasonably knowledgeable party to be able to calculate what charge will be produced by the formula. In the case of investor-owned utilities, they are required to file a FERC Form 1 annually. This information is made available to the public through the FERC website. The Authority is not required to file a FERC Form 1 but does place its annual report on its website. The latter does not contain the level of detail that would be required for a formula rate. The use of public data (i.e., FERC Form 1) has been recognized as an important measure to facilitate the transparency of a formula rate. Once approved, a formula rate would adjust the revenue requirement annually either upwards or downwards, based on the new data inserted into the formula.

Currently, Staff recommends seeking approval of a stated rate from FERC in order to update the TRR to reflect changes in costs and rate base since 1996. Staff will ascertain from FERC staff what financial information could be used to support the approval of a formula rate which may be needed in future years when NYPA anticipates undertaking extensive life extension and modernization projects for its transmission system.

## Customer Impacts

The Authority's TRR is a component of the NYISO OATT's NTAC formula. The NTAC formula tracks, on a monthly basis, the various sources of transmission revenue that NYPA recovers in the NYISO market place. Through the formula, these recoveries are credited against NYPA's monthly TRR (the current $165 million divided by 12 months) and the remaining balance is collected from all energy users on a $/MWh basis. Thus, the NTAC formula ensures

the recovery of NYPA's TRR after all other NYPA transmission revenue sources have been exhausted.

Since the inception of the NYISO in 1999, the share of the TRR recovered through the NTAC has grown in comparison to the "other NYPA transmission revenue sources." Most prominent of these other sources are the "EA" and "IR" components of the NTAC formula. The EA component represents the transmission revenue under existing agreements that NYPA has historically collected from its transmission customers under pre-NYISO contracts. The IR component represents the initial cost of NYPA's OATT reservations for its governmental customers in southeastern New York ("SENY")[14], which is $2.23/kW-month applied to the 600 MW of TCCs. These TCCs, which were recognized upon the start of the NYISO, allow NYPA to provide its SENY load with less expensive upstate energy resources as compared to the downstate alternatives.

The IR transmission revenue source is tied to the expiration of certain SENY contracts at the end of 2017 and, due to its substantial economic value, has little danger of disappearing before that date. However, the EA revenue source has been steadily decreasing in recent years due to customer terminations and contract expirations. For instance, a large majority of the municipal electric system and rural electric cooperative customers have terminated their EA transmission contracts due to lack of perceived value and the transmission contracts associated with NYPA's sales of Economic Development Power ("EDP," including contracts with municipal distribution agencies or "MDAs") and High Load Factor Power have either expired on their own terms or will cease in 2012 to coincide with the start-up of the new Recharge New York Power Program.

With respect to bill impacts, while the $17.65 million increase appears high in aggregate dollars, it would be spread over a significant amount of energy usage – on the order of 160 million MWh. Staff has conducted an analysis of the expected total bill impact to residential and industrial

[14] SENY customers consist of governmental customers located in the New York City metropolitan area, including Westchester County.

customers should the proposed TRR increase be approved in full by FERC. The results are shown in the following tables:

| | Typical Residential 500 kWh | Typical Residential 750 kWh | Lg Commercial 250 kW 90,000 kWh | Med Industrial 2000 kW 720,000 kWh |
|---|---|---|---|---|
| Avg. Monthly Bill ($)* | 93.63 | 130.45 | 10,689.42 | 73,867.93 |
| Monthly Bill Change ($) | 0.05 | 0.07 | 9.00 | 72.00 |
| Monthly Bill w/ NTAC ($) | 93.68 | 130.53 | 10,698.42 | 73,939.93 |
| NTAC Effect (%) | 0.05% | 0.06% | 0.08% | 0.10% |
| *Monthly bill based on annual average (where available), includes sales taxes | | | | |

| Average NTAC Customer Impact | Current Rate ($/MWh) | Increase ($/MWh) | Future Rate ($/MWh) | Increase (%) |
|---|---|---|---|---|
| EP/RP* | 47.50 | 0.10 | 47.60 | 0.21% |
| Muni/Coop** | 64.24 | 0.10 | 64.34 | 0.16% |
| ALCOA | 18.18 | 0.10 | 18.28 | 0.55% |
| Reynolds | 18.30 | 0.10 | 18.40 | 0.55% |
| SENY‡ | 146.76 | 0.27 | 147.03 | 0.18% |

* Based on average NIMO, NYSEG customer, 1,000 kW, 70% LF

** Weighted average Full and Partial Req. customers, based on system totals EIA data

‡ Includes SENY IR NTAC component effect

NYPA does have a limited ability to pass a portion of the increased transmission system costs to its own customers. Specifically, the IR component is automatically increased when the TRR is raised, as set forth in the NYISO OATT:

> B. The system rate of $2.23 per kilowatt per month will be benchmarked to the RR for NYPA transmission initially accepted by FERC ("Base Period RR") for purposes of computing the Initial Cost. Whenever an amendment to the RR is accepted by FERC ("Amended RR") the system rate for the purposes of computing the Initial Cost will be increased (or decreased) by the ratio of the Amended RR to the Base Period RR ….

Thus, if NYPA's proposed TRR were accepted without change, the SENY customers' rate on the 600 MWs of TCCs would be adjusted to $2.47/kW-month (see "Average NTAC

Customer Impact" table notes), translating into an estimated $1.7 million of the $17.65 million TRR increase.

Aside from the higher IR component to be charged to SENY customers, it is not feasible for NYPA to develop an independent, revised cost basis applicable to its grandfathered transmission customers. First, the dwindling number of contracts that comprise the EA component are grandfathered contracts (as designated in the NYISO OATT, Attachment L) in which NYPA's charges for the use of specific transmission facilities were appended to power sales contracts from certain NYPA generating resources. While NYPA now calculates a cost for all of its transmission facilities as an integrated system, the grandfathered contracts recover the costs of discrete portions of NYPA's system. It is neither feasible nor practical for NYPA to suddenly develop a revised cost of service for such discrete portions of its system when this bears no resemblance to the manner in which NYPA now develops its transmission system cost of service. In addition, none of NYPA's facility-specific service tariffs exist any longer, as they were superseded[15] when NYPA developed its own "reciprocity" OATT which FERC accepted in 1998, which in turn was superseded by the NYISO OATT in 1999. In fact, the only grandfathered transmission customers who pay for a service approximating the use of NYPA's full transmission system will see their grandfathered contracts expire on October 31, 2013.[16]

NYPA notes that most of its grandfathered contracts do not specifically foreclose a transmission rate increase,[17] and that one possible approach would be to increase the grandfathered

[15] NYPA discontinued the following service tariffs when it developed its OATT in accordance with FERC's open access policy as it applied to non-jurisdictional utilities: Service Tariff No. 31 for service over the Fitzpatrick to Edic 345 kV line; Service Tariff No. 45 for service over the Marcy-South 345 kV line; Service Tariff No. 47 for service over the Massena-Marcy 765 kV line; and Service Tariff No. 52 for service over the 345 kV lines from the Niagara Project to the Edic substation plus the 230 kV lines from the St. Lawrence Project to the Adirondack substation and connecting eastward to Plattsburgh (a.k.a. the "Upstate Facilities").

[16] See NYISO OATT, Attachment L, Contract #s 65.1, 65.2 and 65.3 which pertain to the Long Island villages of Greenport, Freeport and Rockville Centre. Each village is a preference hydropower customer and pays NYPA's "system rate" for the use of two or more of NYPA's discrete transmission segments but even this rate was developed excluding the costs of the Sound Cable (Y-49) facility.

[17] A major exception is the NYPA's Sound Cable Facilities and Marketing Agreement with the Long Island Power Authority ("LIPA"), which contractually defines the cost components that determine NYPA's annual charges to LIPA for the provision of 300 MW of transmission capacity over the Y-49 facility.

transmission rates across the board to make them all based on the cost of NYPA's full transmission system as represented by the revised TRR. However, to increase grandfathered transmission rates in this manner would likely be viewed by most customers as a unilateral change to the terms and conditions of their grandfathered contracts, since NYPA would be asserting its right not to simply update the costs of the specific transmission facilities paid for under the contract, but to charge for the costs of facilities different from those for which the customer agreed to pay. In sum, these pre-NYISO contracts provide scant basis to develop revised rates to recover costs related to NYPA's increased TRR.

## Conclusion

For the reasons stated herein, Staff recommends making a rate filing at FERC to effectuate an update to NYPA's TRR. This updated TRR, which is necessary for NYPA to recover the costs of operating its transmission system, will help ensure the continued reliability of these facilities and the State's transmission grid.

# Appendices

## Appendix I – Historical Comparison of Transmission Revenue Requirements

***Comparison of Transmission Revenue Requirement - 2012, 2011 and 1996***

| | | Transmission Cost-of-Service 2012 | Transmission Cost-of-Service 2011 | Transmission Cost-of-Service 1996 |
|---|---|---|---|---|
| Plant in service: | | | | |
| Production | | | | |
| Transmission | | 1,517,028,485 | 1,492,335,593 | 1,416,473,162 |
| General | | 114,747,537 | 119,011,657 | 19,186,963 |
| | **A** | 1,631,776,022 | 1,611,347,250 | 1,435,660,125 |
| Accumulated depreciation: | | | | |
| Production | | | | |
| Transmission | | 943,845,286 | 919,486,684 | 421,468,950 |
| General | | 76,148,459 | 76,387,296 | 6,926,522 |
| | **B** | 1,019,993,745 | 995,873,980 | 428,395,472 |
| Net plant | **A-B** | 611,782,277 | 615,473,269 | 1,007,264,653 |
| Marcy South Capitalized Leases | | 55,557,757 | 57,736,492 | 110,438,424 |
| Cash working capital | **1/8 x F** | 10,553,295 | 10,132,799 | 3,414,375 |
| Materials & supplies | | 12,655,082 | 12,577,054 | 6,083,000 |
| CWIP | | 3,755,203 | 4,045,778 | |
| Prepayments | | 1,090,714 | 1,175,113 | |
| Net rate base | **C** | 695,394,327 | 701,140,506 | 1,127,200,452 |
| ROI | **D** | 8.19% | 7.95% | 7.97% |
| Return on Equity | | 9.75% | 9.75% | 11.00% |
| Return requirement | **E = C x D** | 56,986,724 | 55,729,086 | 91,545,307 |
| O&M | | | | |
| Transmisson | **F** | 84,426,361 | 81,062,395 | 41,564,057 |
| Production | | | | |
| Depreciation | | | | |
| Production | | - | - | |
| Transmisson | **G** | 36,447,828 | 34,510,033 | 30,514,693 |
| General Plant | **H** | 5,235,112 | 6,263,609 | 1,825,228 |
| ***Revenue requirement*** | **E+F+G+H** | ***183,096,025*** | ***177,565,122*** | ***165,449,285*** |
| O&M % of Revenue Requirement | | 46.11% | 45.65% | 25.12% |
| Depreciation % of Revenue Requirement | | | | |
| Transmisson | | 19.91% | 19.44% | 18.44% |
| General Plant | | 2.86% | 3.53% | 1.10% |
| Return Requirement % of Rev. Requirement | | 31.12% | 31.39% | 55.33% |
| Capitalization: | | | | |
| Debt | | 29.3% | 32.9% | 64.2% |
| Equity | | 70.7% | 67.1% | 35.8% |
| Average Cost of Debt * | | 4.45% | 4.28% | 6.27% |

* 2012 and 2011 based on 2010 actual

ROE for 2012, 2011, 2010 and 2007 assumes 0.5% adder for NYISO membership

ROE for 2012, 2011, 2010 and 2007 assumes 0.5% adder for NYISO membership

## Appendix II – Major Transmission Facilities Included in, or Excluded from Transmission Revenue Requirement

### A. TRANSMISSION FACILITIES INCLUDED IN THE TRANSMISSION REVENUE REQUIREMENT RATE BASE

**NIAGARA/ST. LAWRENCE FACILITIES**

- **Niagara-Ontario Hydro ties**
- **Niagara substation**
- **Transmission lines from the Niagara substation to Edic substation**
- **St. Lawrence/FDR-Ontario lines**
- **St. Lawrence/FDR-substation**
- **St. Lawrence/FDR-Willis lines**
- **St. Lawrence/Reynolds lines**
- **Reynolds substation**
- **St. Lawrence/GM lines**
- **Willis substation**
- **Willis-Plattsburgh lines**
- **Plattsburgh to Vermont state border tie**
- **Plattsburgh substation**
- **Plattsburgh to Saranac line**
- **Saranac substation**
- **St. Lawrence/FDR-Adirondack lines**
- **Adirondack substation**
- **Marcy-Edic lines**
- **St. Lawrence-Massena lines**

**MASSENA-MARCY 765kV PROJECT**

- **Massena substation**
- **Massena-Chateauguay line**
- **Massena-Marcy line**
- **Marcy substation**

**MARCY SOUTH PROJECT**

- **Marcy-Coopers Corner line**
- **Edic-Fraser line**
- **Coopers Corner-Rock Tavern lines**
- **Roseton-East Fishkill line**

**BLENHEIM-GILBOA PROJECT**

**- BG substation**
**- BG-Leeds line**
**- BG-New Scotland line**
**- BG-Fraser line**

**FITZPATRICK LINES**

**- FitzPatrick substation**
**- FitzPatrick-Edic line**
**- FitzPatrick-Scriba line**

**LONG ISLAND SOUND CABLE**

**- Sprain Brook to East Garden City lines**

**POLETTI**

**- Poletti-East 13th Street substation circuits**
**- Poletti-substation**

## DESCRIPTION OF INDIVIDUAL NYPA TRANSMISSION FACILITIES INCLUDED

1. **Two parallel 71-mile, 230kV transmission circuits connecting the St. Lawrence/FDR switchyard to the Authority's substation at Plattsburgh, along with an Authority substation near the midpoint of that circuit at Willis that interconnects with New York State Electric & Gas Corporation (NYSEG).**

2. **Two parallel 86-mile, 230kV single-circuit lines between the St. Lawrence/FDR switchyard and an Authority substation at Adirondack. The first 8 miles are on double circuit towers.**

3. **Two single-circuit 115kV transmission circuits connecting the Plattsburgh substation with the State of Vermont (9 miles) and NYSEG at Saranac (8 miles).**

4. **Three parallel 115kV circuits, each about 4 miles long, connecting the St. Lawrence/FDR switchyard with Reynolds Metals Company in Massena and one mile double circuit 115kV tap line to General Motors facility.**

5. **Two parallel 8-mile 230kV circuits on double circuit towers connecting the St. Lawrence/FDR switchyard with the Authority's substation at Massena.**

6. **Two parallel 230kV circuits, each 2 miles long, interconnecting the St. Lawrence/FDR switchyard with Ontario Hydro at the International Boundary.**

7. **Two parallel single-circuit 345kV transmission lines extending almost 200 miles from the Niagara switchyard to Niagara Mohawk Power Corporation's (NMPC) Edic substation. These circuits also interconnect with Rochester Gas & Electric Corporation's (RG&E) Station 80 and Pannell Road substation and NMPC's Clay substation. In addition, NYSEG's Somerset generating station is tapped into one of these circuits in the vicinity of Dysinger.**

8. **One 4-mile single-circuit 230kV line connecting the Niagara switchyard with Ontario Hydro at the International Boundary.**

9. **One 68-mile, single-circuit 345kV line connecting the James A. FitzPatrick Nuclear Power Plant (JAF) with NMPC's Edic Substation.**

10. **Two 1.5-mile, single-circuit 345kV circuit lines connecting the Authority's Marcy substation with NMPC's Edic substation.**

11. **A one-mile, 345kV transmission circuit between JAF and NMPC's Scriba substation.**

12. **Three single-circuit 345kV lines of 34 miles, 37 miles and 32 miles in length, connecting the Blenheim-Gilboa Pumped Storage Plant (B-G) with substations at Fraser (NYSEG), Leeds (NMPC) and New Scotland (NMPC), respectively.**

13. **One 21-mile, 765kV circuit between the Authority's Massena substation and Hydro-Québec at the International Boundary.**

14. **One 134-mile, 765kV circuit between the Authority's Massena and Marcy substations.**

15. **Two 7-mile, 345kV underground oil-filled cable transmission circuits between the Authority's Poletti Generating station and Con Edison's East 13th Street substation.**

16. **Two parallel 345kV transmission circuits, each less than one mile long, connecting the Niagara switchyard with Ontario Hydro.**

17. **A predominantly double-circuit, 190-mile (right-of-way miles), 345kV transmission line between the Town of Marcy, near Utica, and the Town of East Fishkill in Dutchess County known as the Marcy-South Project. This project consists of the following circuits (312 total circuit miles): the 76-mile Edic-Fraser line and the 135-mile Marcy Coopers Corner (NYSEG) lines which are on double circuit towers, the 46-mile double circuit from Coopers Corners to Rock Tavern (Central Hudson Gas & Electric Corp. (CH)) and one 8.3-mile Roseton (CH) to East Fishkill (Con Edison) line which includes a submarine crossing of the Hudson River.**

**18. A single-circuit 27-mile, 345kV underground, underwater transmission circuit between Yonkers, Westchester County and Hempstead, Nassau County known as the Long Island Sound Cable.**

**Note: NYPA also has capacity available, as per the Marcy-South agreement, in Central Hudson's 17-mile line between Rock Tavern (CH) and Roseton (CH) and in Central Hudson's 59-mile line between Roseton (CH) and Leeds (NMPC).**

## B. FACILITIES EXCLUDED FROM TRANSMISSION REVENUE REQUIREMENT RATE BASE

**- Generator step-up transformers since these are considered by FERC to be related to production.**

**- Generator leads for the 500 MW Astoria generating plant, Flynn Power Project, small hydro projects and the small clean power plants in New York City and Long Island. These units either provide service to certain customer groups under contract or are sold into the NYISO capacity and energy markets.**

**- Flexible AC Transmission Systems (FACTS) – also referred to as a Convertible Static Compensator (CSC), is excluded from the revenue requirement computation since the Authority chose to receive transmission congestion contracts in lieu of cost recovery through the revenue requirement.**

**- The Authority financed the construction of the Tri-Lakes Project, a transmission system upgrade involving National Grid and two of the Authority's municipal customers in northern New York. National Grid reimbursed the Authority for expenses related to this project and the assets were transferred to National Grid in 2011.**

**- The transmission work in the North County to support the wind farm developers is a result of NYISO Interconnection process whereby developers/generators request connecting to the transmission system.**