

**Issue 4: Allocation of R&D Costs**

Comments: The R&D costs included in the Preliminary 2015 Fixed Costs account for \$8.8 million. The City specified that it is improper to allocate the R&D costs based on a labor ratio, as the summary of the R&D costs provided by NYPA indicates that the R&D projects are specifically related to individual operating organizations and can be easily allocated to those organizations. The City further claimed that many of the R&D projects have no direct relationship to NYPA's responsibilities under the LTA. The City requests the Board of Trustees direct NYPA staff to revise the allocation of R&D costs to be consistent with the LTA and adjust the Fixed Costs accordingly.

Staff Analysis: As described by FERC's definitions for the "Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act", R&D expenses are defined as expenditures incurred by public utilities either directly through another person or organization (such as a research institute, industry association, foundation, university, engineering company or similar contractor) in pursuing research, development and demonstration activities including experiment, design, installation, construction, or operation. This definition includes expenditures for the implementation or development of new and/or existing concepts until technically feasible operations are verified.....the term includes, but is not limited to: all such costs incidental to the design, development or implementation of an experimental facility, a plant process, a product, a formula, an invention, a system or similar items.....the term includes preliminary investigations and detailed planning of specific projects for securing for customers non-conventional electric power supplies that rely on technology that has not been verified previously to be feasible.....the term does not include expenditures for efficiency surveys; studies of management; management techniques and organization; consumer surveys, advertising, promotions, or items of like nature. NYPA's historical expenditures for fuel cell technology, electric vehicle demonstrations, hybrid fuel technologies, evaluation of high temperature conductor and connector systems, lithium ion battery demo, etc., meet the industry definition for R&D.

R&D costs are classified as operating expenses, and commonly recovered through rates. FERC grants recovery of R&D expenses from utility customers with the expenses predominately being accounted for in the Administrative and General Expenses section of the Operation and Maintenance Expense Chart of Accounts; specifically, in account 930.2 Miscellaneous general expenses. The FERC standard for functionalizing Administrative and General Expenses is through the use of labor ratios. NYPA is merely following this industry standard when it allocates a portion of the R&D expenses based on labor ratios to the NYC GCs.

Recommendation: NYPA's R&D program and projects are in alignment with the industry standard, as is the methodology of using labor ratios to allocate costs. Staff therefore recommends no change to Fixed Costs based upon R&D allocations.