# ATTACHMENT H

# EXHIBIT NOS. NMPC-400 – NMPC-402

# PREPARED DIRECT TESTIMONY
# OF TIFFANY M. ESCALONA

Exhibit No. NMPC-400

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

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| **Niagara Mohawk Power Corporation d/b/a National Grid** | ) ) | **Docket No. ER23-_____-000** |

# PREPARED DIRECT TESTIMONY
## OF TIFFANY M. ESCALONA
## ON BEHALF OF NIAGARA MOHAWK POWER CORPORATION

## I. BACKGROUND AND QUALIFICATIONS

**Q. Please state your name, current title, and business address.**

A. My name is Tiffany M. Escalona. I am a Director in New England Regulation for National Grid USA Service Company, Inc. ("National Grid"). My business address is 2 Hanson Place, Brooklyn, New York 11217.

**Q. Please summarize your education and professional background.**

A. I graduated from St. Francis College with a Bachelor of Science degree in Accounting and Business Management and from Baruch College in New York, New York with a Master of Business Administration in Finance. I have been with National Grid for seventeen years in various positions in the Accounting and Regulatory functions. I was promoted to a Director in Strategy & Regulation in July 2015. In my current role as Director in the New England Regulation Department, my responsibilities include supporting National Grid's Federal Energy Regulatory Commission ("FERC" or "Commission") regulated companies on rate matters, including those relating to Niagara Mohawk Power Corporation ("NMPC") rates.

**Q. Have you previously been a witness in proceedings before the Federal Energy Regulatory Commission?**

A. Yes. I testified on behalf of NMPC in Docket No. ER19-132-000 to update the depreciation rates in NMPC's wholesale Transmission Service Charge ("TSC") under the New York Independent System Operator's ("NYISO") Open Access Transmission Tariff ("OATT"). I also submitted pre-filed testimony in Docket No. RP21-100-000. My testimony in that docket addressed a National Grid LNG

LLC storage rate update pursuant to section 4 of the Natural Gas Act and Part 154 of the Commission's Regulations.

Lastly, I testified on behalf of New England Power Company ("NEP") in Docket Nos. ER22-246-000 and ER22-248-000 to update the depreciation rates stated in its wholesale Regional Network Service ("RNS") and Local Network Service ("LNS") rate formulas in the ISO New England Inc.'s ("ISO-NE's") Open Access Transmission Tariff ("ISO-NE OATT") and its Generation in Support of Transmission rate formulas under a Local Service Agreement among NEP, Massachusetts Electric Company, and Nantucket Electric Company.

## II. PURPOSE OF TESTIMONY

**Q. What is the purpose of your testimony in this filing?**

A. The purpose of my testimony is to support the proposed amendments to Section 14.2.1 of Attachment H of the NYISO OATT, in order to calculate the revenue requirement for NMPC's portion of the Smart Path Connect priority transmission project (the "Project" or "SPC Project"). Because the SPC Project will be allocated statewide, the SPC Project will not be charged under NMPC's existing TSC rate, which is only paid by customers within NMPC's service territory. Therefore, in addition to the amendments necessary to calculate the revenue requirement for the SPC Project, NMPC is also proposing amendments to Attachment H to ensure that NMPC's TSC customers are not double-charged for the SPC Project.

My testimony also supports the formula rate proposed in sections 6.18.2 and 6.18.3 of proposed Rate Schedule 18 to the NYISO OATT, which sets forth the rate mechanism (the "Smart Path Connect Facilities Charge" or "SPC-FC") which will be used to recover the costs of NMPC's portion of the Smart Path Connect priority transmission project (the "Project" or "SPC Project") statewide. The SPC-FC is a new rate which the NYISO will collect from all load-serving entities serving load within the New York Control Area on a volumetric load-ratio share basis.

Clean and redlined versions of the proposed changes to Attachment H of the NYISO OATT are included in this filing as Attachments A and B respectively, and clean and redlined versions of the proposed Rate Schedule 18 to the NYISO OATT are included as Attachments C and D, respectively.

**Q. Are you sponsoring any exhibits to support your testimony?**

A. Yes. In addition to this testimony, I am sponsoring the following exhibit:

- **Exhibit No. NMPC-401** – Illustrative Diagram of Proposed TSC and SPC Revenue Requirements Design
- **Exhibit No. NMPC-402** – Illustrative Diagram of Proposed COR Accounting Treatment and Rate Impact

## III. AMENDMENTS TO ATTACHMENT H OF NYISO OATT

**Q. Please provide an overview of the proposed changes to Attachment H of the NYISO OATT.**

A. NMPC is proposing to add four schedules—Schedule 15a, Schedule 15b, Schedule 15c, and Schedule 15d—to Section 14.2.1 of Attachment H of the NYISO OATT. These schedules will be used to calculate the revenue requirement for the SPC Project. It is necessary to calculate a separate revenue requirement for the SPC Project because the costs of the SPC Project will be allocated statewide through the new SPC-FC rate, and will not be charged through the TSC, which only goes to customers within NMPC's service territory.

NMPC is also proposing revisions to Schedule 1 Historical Transmission Revenue Requirement; Schedule 4 – Annual True-ups; and Schedule 10 Other – Billing Adjustments, Bad Debt Expense, Revenue Credits, and Transmission Rents to include the appropriate revenue credit for the SPC Project Specific Revenue Requirement Credit amounts in the TSC rate calculation to ensure that the impact to the TSC rate is effectively zero.

The proposed schedules will be populated consistent with the terms of the TSC Annual Update Process specified in Section 14.1.9.4 of Attachment H to the NYISO OATT whereby the data inputs will be derived from NMPC's FERC Form No. 1 data for the most recent calendar year and be based upon the books and records of NMPC consistent with FERC accounting policies. The proposed schedules will also adhere fully to the Annual Update Process specified in Section 14.1.9.4 of Attachment H to the NYISO OATT.

Note that capitalized terms not defined in new schedules are defined as set forth in Section 14.1.9.1 of Attachment H to the NYISO OATT.

**Q. Why is it necessary to add new Schedules to Attachment H to the NYISO OATT to calculate a revenue requirement for the SPC Project?**

A. The current NMPC formula rate in Section 14.1.9.1 of Attachment H to the NYISO OATT is designed to calculate NMPC's transmission revenue requirement, which is a component of NMPC's TSC rate. The TSC is assessed to

NMPC wholesale transmission customers in the NMPC service territory on a monthly basis. However, NMPC is proposing to recover its investment in the SPC Project statewide on a load-ratio basis. The rationale for statewide load-ratio share allocation is addressed in the testimony of Bart Franey (Exhibit No. NMPC-300). Because this statewide allocation is distinct from how the TSC revenue requirement is assessed, a separate revenue requirement formula is necessary for the SPC Project. Absent the calculation of a separate revenue requirement for the SPC Project, NMPC would have no means to distinguish between investment and costs associated with the SPC Project and those associated with its other transmission plant. The proposed new Schedules 15a, 15b, 15c, and 15d will be used to calculate the SPC Project revenue requirement. That revenue requirement will then be recovered through the SPC-FC rate, which is set forth in new Rate Schedule 18.

**Q. Does NMPC currently have transmission projects in service that are not included in the TSC rate and are instead allocated and recovered on a different basis?**

A. Yes. The Commission has approved the recovery of certain NMPC transmission upgrades relating to projects to address NYPSC-identified public policy needs in western New York (the "WNY Ancillary Upgrades") through a rate that is separate from the TSC and is charged to load throughout New York. This rate, known as the Western New York Facilities Charge ("WNY-FC"), is set forth in Rate Schedule 17 (Section 6.17) of the NYISO OATT. Rate Schedule 17 provides for the calculation of a revenue requirement specific to the WNY

Ancillary Upgrade, the recovery of that revenue requirement from New York load-serving entities on the same basis as the public policy project that drove the need for the upgrades (which is being allocated statewide),[1] and a crediting mechanism to ensure that NMPC's TSC customers are not double-charged.

Although there are some differences in how NMPC proposes to determine the revenue requirements for the SPC Project compared to the WNY Ancillary Upgrades, which I discuss below, conceptually the approach proposed for the SPC Project is comparable to that accepted by the Commission for the WNY Ancillary Upgrades. Both involve the calculation of a revenue requirement and rate (along with an appropriate crediting mechanism) separate from the TSC for a subset of NMPC transmission facilities. In both cases, this is necessary in order to allow for the recovery of the costs of the specific facilities from load on a statewide basis, rather than just from NMPC's Wholesale TSC customers.

**Q. How do the new rate schedules proposed for the SPC Project differ from Rate Schedule 17?**

A. The main difference between the rate schedules proposed for the SPC Project and what was approved for the WNY Ancillary Upgrades in Rate Schedule 17 involves the revenue requirement formula. Because of the limited scope of the WNY Ancillary Upgrades, and the administrative burden that would be involved with tracking the relatively small costs thereof—roughly $16 million—Schedule 17 uses a carrying charge approach. Under this approach the WNY Ancillary

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1 That public policy project—NextEra's Empire State Line Project—is allocated to the various NYISO load zones based on apportionment percentages set forth in Section 31.8.4 of the NYISO OATT, based on a settlement approved by the Commission. Per Schedule 17, the WNY Ancillary Upgrades are being allocated on the same basis.

Upgrade revenue requirement is determined by dividing NMPC's Historical Transmission Revenue Requirement ("HTRR") by NMPC's gross transmission plant in service, multiplied by the gross plant investment related to the WNY Ancillary Upgrades. The carrying charge data is sourced from the inputs to NMPC's HTRR per Attachment 1 to Attachment H of the NYISO OATT.

For the SPC Project, the proposed new schedules will calculate a detailed revenue requirement where each component of the existing TSC formula rate will be assessed to determine amounts directly attributable to the SPC Project or amounts that will be allocated to the SPC Project. NMPC is proposing this more involved and detailed approach for the SPC Project primarily due to the significant estimated cost of the Project (over $500 million for NMPC's portion of the Project).

**Q. Why is NMPC proposing to add the new schedules to calculate the SPC Project revenue requirement to Attachment H to the NYISO OATT instead of Rate Schedule 18?**

A. NMPC is proposing to add new Schedules 15a, 15b, 15c, and 15d to Attachment H of the NYISO OATT instead of Rate Schedule 18 of the NYISO OATT because the SPC Project revenue requirement inputs will be derived from amounts included in the TSC revenue requirement per Attachment H of the NYISO OATT.

The currently approved formula rate in Attachment H includes all investments and costs related to NMPC's transmission assets with provisions for revenue credits to the extent that NMPC collects revenues from non-TSC customers related to use of its transmission assets. While the revenues collected under the proposed SPC-FC can be included in the Revenue Credit component as defined in Attachment H, the new schedules, and proposed edits to existing schedules, will provide transparency as to the development of the SPC Project revenue requirement. The inclusion of the new schedules in Attachment H also will provide the ability for parties interested in both the TSC rate and the SPC-FC to review the documents and workpapers supporting both rate calculations to ensure the underlying costs are appropriately allocated and that there is no over-charging or double-recovery. Because the new schedules will become part of NMPC's existing formula rate, they will be subject to the existing Commission-approved Annual Update Process which includes the formula rate review protocols, thereby streamlining and simplifying the stakeholder review process. Please reference Exhibit No. NMPC-401 to this testimony for an illustrative diagram of the proposed design.

**Q. Please describe new Schedule 15a to Attachment H.**

A. Schedule 15a calculates the revenue requirement for the SPC Project. Schedule 15a shows the investment base items, the associated return and income tax amount, and the Project-related expenses. Schedule 15a consists of three main components: (1) Net Investment Base, (2) Base Revenue Requirement and (3) Non-Base Revenue Requirement. The purpose of separating the Project's revenue requirement into Base and Non-Base components is to ensure that the credit to TSC customers representing the SPC Project revenue requirement is appropriately calculated. This is discussed further below.

For components where the source column includes "Workpaper_," NMPC will provide a workpaper during the Annual Update Process supporting the input amount. The data inputs to Schedule 15a will be sourced from NMPC's general ledger records and will show reconciliations to filed FERC Form No. 1 amounts/pages. Consistent with the manner in which NMPC calculates the HTRR for the TSC as part of the Annual Update process, these components will be determined using data from the filed FERC Form 1 for the most recently ended calendar year for rates effective as of the beginning of the applicable Update Year. Each component of Schedule 15a is briefly explained below.

**Net Investment Base**

Net Investment Base includes Project Gross Plant In-Service, construction work in progress ("CWIP"), Project-Related Depreciation and Amortization Reserves, Project-Related Accumulated Deferred Income Taxes ("ADIT"), Project-Related Regulatory Assets (Liability), any Project-Related (Excess) Deficient ADIT, Project-Related Prepayments, Project-Related Materials & Supplies, and Project-Related Cash Working Capital. CWIP and Project-Related Regulatory Asset (Liability) balances will be populated only if such treatment is specifically approved by the Commission for the SPC Project. The remaining components of the Net Investment Base are briefly described below:

- Project Gross Plant In-Service will be the total capital investment for the Project included in Transmission Plant In Service, plus an allocation of Transmission allocated General, Common, and Intangible Plant calculated using the ratio of Project specific transmission plant to Transmission Plant.

- Project-Related Depreciation and Amortization Reserves shall equal the accumulated credit of Project-Related Depreciation Expense net of any applicable retirements, cost of removal, or salvage adjustments associated with the Project consistent with FERC accounting policies.
- Project-Related Accumulated Deferred Income Taxes shall equal ADIT calculated based on cost, accumulated book depreciation, and accumulated tax depreciation.
- Project-Related (Excess) Deficient ADIT shall be the unamortized excess or deficient ADIT balance related specifically to the applicable transmission project as reconciled in Schedule 15c (Project Specific (Excess)/Deficient ADIT Worksheet).
- Project-Related Prepayments shall equal the ratio of Project Gross Plant In-Service to Gross Transmission Investments multiplied by Transmission Related Prepayments calculated on Schedule 7 of Section 14.2.1 of Attachment H.
- Project-Related Materials & Supplies shall equal the ratio of Project Gross Plant In-Service to Gross Transmission Investments multiplied by Transmission Related Materials & Supplies calculated on Schedule 7 of Section 14.2.1 of Attachment H.
- Project-Related Cash Working Capital shall equal the ratio of Project Gross Plant In-Service to Gross Transmission Investments multiplied by

Transmission Related Cash Working Capital calculated on Schedule 7 of Section 14.2.1 of Attachment H.

**Base Revenue Requirement**

Base Revenue Requirement will be the portion of the SPC Project's revenue requirement that will serve as the basis for determining the revenue credit to the annual TSC HTRR, in order to ensure that NMPC's existing TSC customers are not double-charged for the costs of the SPC Project, due to the fact that the Project will be included in NMPC's total Transmission Plant in Service. TheBase Return and Associated Income Taxes amount will be sourced from the calculation in Schedule 15b using inputs from the existing TSC formula. Theinputs for Project-related depreciation expense, amortization of regulatory asset (liability), real estate taxes, and operation & maintenance expenses will be supported with workpapers during the Annual Update and determined as follows:

- Project-Related Depreciation Expense will be determined based on application of the current FERC-approved depreciation accrual rates set forth in the existing TSC (Attachment H, Section 14.1.9.1.14) on a utility account basis to the project investment placed in service.
- Project-Related Amortization of Regulatory Assets (liabilities) will be based on any Commission approval of regulatory asset or liability treatment related to these projects. As discussed below, NMPC is proposing to establish a regulatory asset for the SPC Project relating to cost of removal.

- Project-related Amortization of (Excess) Deficient ADIT will be the annual amortized excess or deficient ADIT balance related specifically to the project as identified in Schedule 15c Project Specific (Excess) Deficient ADIT.
- Project-Related Real-Estate Taxes will be calculated based on the taxable value of the investment and the applicable property tax rate.
- Project-Related Operation & Maintenance Expense will be determined based on charges to project-specific work orders. Operation & maintenance costs such as system planning, information services and control center operations that cannot be directly attributed to the project will be allocated using the ratio of the project's gross plant in-service to NMPC's total Gross Transmission Investment.
- Project Allocated Administrative & General Expense will be allocated to each project based on the ratio of the project's gross plant in-service to NMPC's total Gross Transmission Investment multiplied by both Transmission Related Administrative and General and Transmission Related Payroll Tax Expenses as calculated on Schedule 9 of Section 14.2.1 of Attachment H of the NYISO OATT.
- NMPC has included a Billing Adjustments line item which would be limited to any billing adjustments related to prior year revenue requirement calculations in accordance with Section 14.1.9.4 (d) of Section 14.2.1 of Attachment H of the NYISO OATT.

**<u>Non-Base Revenue Requirement</u>**

The components included in this section of the Project's revenue requirement calculation are those that would not be reflected in any amounts included in the annual TSC revenue requirement calculation, and therefore are not appropriately included in the credit provided to NMPC's TSC customers. The components to be included in Non-Base Revenue Requirement are (i) Return and Associated Income Taxes associated with any CWIP for the SPC Project approved for inclusion in Ratebase, (ii) Cost Containment Adjustments, which will reflect any adjustments relating to the application of any cost containment commitments approved by the Commission for the applicable project, and (iii) Billing Adjustments, made pursuant to Section 14.1.9.4.4 of Attachment H as applicable. Workpapers supporting these amounts will be provided by NMPC as part of the Annual Update process. For example, any CWIP that the Commission authorizes for the SPC Project will not be included in the annual TSC revenue requirement because the annual TSC revenue requirement does not include any general or project-related CWIP in rate base, and the Project will not yet have entered service. However, if NMPC was to include this amount in the Base Revenue Requirement, NMPC's TSC customers would receive a credit reflecting these amounts, which would not be appropriate because they are not included in the TSC revenue requirement.

**<u>Annual True-up including Interest</u>**

This component will include any differences between amounts billed and remitted by NYISO to NMPC, adjusted to remove true-ups billed for prior years, and the actual revenue requirement for that period as calculated during the Annual Update. Interest on any over- or under-recovery will be calculated pursuant to 18 C.F.R. Section 35.19a.

**Q. Please describe new Schedule 15b to Attachment H.**

A. Schedule 15b will calculate the return for the SPC Project. The Base Return and Associated Income Tax items reflect the return and associated income taxes based on the application of the ROE and capital structure contained in the existing TSC, and are calculated using:

a) the Cost of Capital Rate components as defined in Schedule 8 of Section 14.2.1 of Attachment H of the of the NYISO OATT;

b) plus Federal Income Tax calculated by taking the product of the equity related cost of capital and the effective federal income tax rate divided by 1 minus the effective federal income tax rate; and

c) plus State Income Tax calculated by taking the sum of the equity related cost of capital and the Federal Income Tax value times the effective state income tax rate divided by 1 minus the effective state income tax rate.

**Q. What ROE and capital structure will be utilized in calculating the Base Return and Associated Income Tax?**

A. NMPC proposes to apply the 10.3% ROE reflected in the 2015 settlement relating to the TSC.[2] With regard to capital structure, NMPC proposes to use the

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[2] *See* Settlement Agreement and Offer of Settlement, Docket Nos. EL14-29-000, *et al.* (Feb. 24, 2015). TheCommission accepted the 2015 TSC Settlement in an order issued May 13, 2015. *N.Y. Ass'n of Pub. Power v. Niagara Mohawk Power Corp.*, 151 FERC ¶ 61,121 (2015).

approach set forth in the existing TSC, which utilizes NMPC's actual capital structure with the common equity ratio capped at 50 percent.[3]

**Q. Please describe new Schedule 15c and Schedule 15d to Section 14.2.1 of Attachment H.**

A. Schedules 15c and 15d are to be utilized in the event there is excess or deficient accumulated deferred income taxes ("ADIT") due to changes in federal, state, or local income taxes that can be directly attributed to the SPC Project. This would ensure that balances related to the SPC Project are appropriately refunded or charged to the correct customer groups. The income tax allowance adjustment mechanism and rate base adjustment mechanism in compliance with Order No. 864 have been included in the revenue requirement calculation on Schedule 15a in order to ensure that the revenue requirement for the SPC Project fully reflects the directives of Order No. 864. These schedules directly correspond to schedules 14 and 14a that apply to the TSC formula rate, which NMPC submitted in compliance with Order No. 864, and which the Commission approved in Docket No. ER20-2051-003.[4]

**Q Please describe the changes to Schedules 1, 4, and 10 to Section 14.2.1 of Attachment H.**

A. NMPC is proposing a revision to two items in Schedule 10 to ensure appropriate credits flow through the TSC for the SPC Project. Specifically, the Revenue Credits item will exclude revenues received from the NYISO associated with the

[3] *See* NYISO OATT, Section 14.2.1 of Attachment H, Schedule 8.
[4] *New York Indep. Sys. Operator, Inc.*, Docket No. ER20-2051-003 (Oct. 7, 2022) (delegated letter order).

SPC Project, while a new item will be added for the SPC Project ("Project Specific Revenue Requirement Credit") defined as the Base Revenue Requirements associated with transmission projects that are charged via rates separate from the TSC. This will ensure that TSC customers are not double-charged for the SPC Project and enhances the transparency of the charge. Due to the addition of the Project Specific Revenue Requirement Credit on Schedule 10, Schedule 1 has been adjusted to include subpart (M) Project Specific Revenue Requirement Credits as part of the definition and calculation of the TSC HTRR, and Schedule 4 – Annual True-up has been updated to reference Schedule 1 Line 26.

**Q. How will NMPC ensure that wholesale transmission customers will not be double charged for both AFUDC and CWIP?**

**A.** If NMPC's request to include 100 percent of CWIP in rate base for the SPC Project is approved, NMPC will implement accounting procedures that will monitor and specifically tag all project work orders associated with the project using Powerplan, NMPC's utility plant accounting software, to prevent AFUDC from accruing on the work orders. NMPC will also provide footnote disclosures in the notes to the financial statements of the Company's annual FERC Form No. 1 and quarterly FERC Form 3-Q which will fully explain the impact of CWIP in rate base, including details of AFUDC not capitalized because of CWIP in rate base for the current year, the previous two years, and the sum of all years. Theproposed disclosure will also include a partial balance sheet which includes an Assets and Other Debit section with a line item for AFUDC not capitalized due to the inclusion of CWIP in rate base.

**Q. Is NMPC proposing any changes to the Forecasted Transmission Revenue Requirement and Annual True Up components of NMPC's TSC Revenue Requirement?**

A. No. NMPC is not proposing any changes to the Forecasted Transmission Revenue Requirement ("FTRR") and the Annual True Up ("ATU") components of the TSC Revenue Requirement ("RR"). The FTRR component of the RR utilizes only the Investment Return and Income Taxes, Depreciation Expense, and Property Tax components of the TSC HTRR to determine the Annual Forecast Transmission Revenue Requirement Factor ("FTRRF"). The FTRRF, which is further adjusted to allow for ADIT proration, is applied to NMPC's Forecasted Transmission Plant Additions to determine NMPC's forecasted incremental revenue requirement needs. In the following year, the ATU then compares NMPC's prior year RR, excluding prior true-up amounts, to NMPC's actual HTRR for that year. The proposed modifications to Attachment H to include any Project Specific Revenue Requirements as a credit in the TSC HTRR will therefore reconcile any impact that the SPC Project may have on the FTRR. Any such impacts will be assessed interest as part of the ATU calculation, thereby ensuring that the impact to TSC customers is zero.

**Regulatory Asset Relating to Cost of Removal**

**Q. Is NMPC requesting authorization to establish any regulatory assets or liabilities as part of this filing?**

A. Yes. In order to construct the SPC Project, it is necessary for NMPC to remove certain transmission assets—such as substation equipment, poles, conductors, and other transmission fixtures—that are currently in service and which would not be removed in the absence of the SPC Project. NMPC is therefore requesting authorization to establish a regulatory asset for the Cost of Removal less Salvage ("COR") incurred to remove these transmission assets in FERC Account 182.3 (Other Regulatory Assets) as part of the SPC revenue requirement (the "COR Regulatory Asset"). NMPC estimates the COR to be incurred as a result of the SPC Project to be approximately $36 million, and, contingent on the Commission's approval of NMPC's request to establish the COR Regulatory Asset, will make a subsequent section 205 filing to initiate recovery of these costs.

**Q. Please provide an overview of NMPC's proposed treatment of COR relating to the SPC Project.**

A. The approved depreciation rates for transmission assets included in the rates paid by NMPC's retail customers and TSC customers incorporate an estimated net salvage rate that considers the future gross salvage or cost of removing a given asset based on an analysis of past experience and a review of any potential deviations from historical costs incurred. Because the transmission assets to be removed as part of the SPC Project would not be removed but for the Project's construction, NMPC is proposing a mechanism to ensure that COR incurred to remove these existing assets will be recovered through the SPC-FC, and consequently, from those customers benefitting from the SPC Project, rather than through rates specific to NMPC's retail customers and TSC customers.

NMPC will record these costs in the accumulated provision for depreciation account (FERC Account 108) consistent with the Commission's regulatory accounting requirements under the Code of Federal Regulations. NMPC then proposes to create a regulatory asset and an offsetting regulatory liability for the COR costs charged to the accumulated provision for depreciation account. The proposed regulatory asset will be included in the SPC-FC investment base, with the amortization of the regulatory asset included as part of the SPC-FC expense.

NMPC also intends to request authorization from the NYPSC to establish the offsetting regulatory liability, which will be included as part of NMPC's retail rate case filing. The offsetting regulatory liability included in the retail rate revenue requirement would represent the credit due to retail customers, while the proposed regulatory asset that will be included in the SPC-FC represents the amount due from SPC-FC customers.

**Q. What amortization period is NMPC proposing for the COR Regulatory Asset?**

A. NMPC is proposing an amortization period of 10 years for the COR Regulatory Asset, effective from the SPC Project in-service date. Straight line amortization over 10 years is a fair and reasonable mechanism to collect these expenses from SPC-FC customers and subsequently credit NMPC retail and Wholesale TSC customers. The proposed 10-year period will mitigate the rate impact to SPC-FC customers that will occur as a result of the increased investment base due to establishing the regulatory asset. It will also provide the credit to retail and

Wholesale TSC customers over an administratively reasonable period of time in consideration of prior costs collected through depreciation rates.

**Q. How will NMPC treat the COR relating to the SPC Project in its retail and TSC rates?**

A. As explained above, the actual COR to retire these assets should be recovered through the SPC-FC because the customers paying the SPC-FC are the ones who benefit from the removal of the assets necessary to accommodate the SPC Project. The COR booked to the accumulated provision for depreciation account will increase NMPC's retail and Wholesale TSC investment base to the extent the costs have not yet been fully recovered through transmission depreciation rates. Therefore, NMPC proposes to credit NMPC retail rates and Wholesale TSC customers with the SPC-FC revenues to offset both the retail rates and Wholesale TSC revenue requirements. As a result of NMPC's bundled rate design, and the proposed treatment of the SPC-FC revenues as a revenue credit to the TSC formula rate, establishment of a regulatory asset in the SPC-FC investment base—and consequent recovery of the expenses through the SPC-FC—will provide an appropriate credit to NMPC Wholesale TSC and retail customers with respect to COR.

As explained previously, NMPC will request authorization from the NYPSC to establish a regulatory liability in an amount equal to the proposed COR Regulatory Asset, to be amortized over the same proposed ten-year period. The COR-associated regulatory asset and regulatory liability and the corresponding amortization of each will offset each other in retail rates, resulting in a rate impact reflecting only the provision of the proposed SPC-FC revenue credit to NMPC Wholesale TSC and retail customers. For Wholesale TSC purposes, NMPC will achieve the same effect by excluding both the regulatory asset and the regulatory liability from its investment base. The proposed treatment of the COR Regulatory Asset and regulatory liability ensures that there is no impact to NMPC's income statement as the result of the requested rate treatment of these COR amounts. In sum, the only effect of this treatment is to ensure that the COR incurred as a result of the SPC Project is appropriately allocated between NMPC customer groups. Please reference Exhibit No. NMPC-402 to this testimony for an illustrative diagram of the proposed accounting treatment and rate impact on each rate/customer group.

**Q. Please further explain NMPC's proposed revenue credit approach.**

A. Both NMPC's retail and Wholesale TSC revenue requirement are currently designed to include revenue credits as a component. The currently approved Wholesale TSC formula rate in Attachment H of the NYISO OATT includes all investments and costs related to NMPC's transmission assets with provisions for revenue credits to the extent that NMPC collects revenues from non-TSC customers related to use of its transmission assets. Because the proposed COR treatment will be included in the SPC-FC revenue requirement calculation, NMPC will utilize the Project Specific Revenue Requirement credit to be included in Schedule 10 of Attachment H Section 14.2.1 to ensure that the TSC revenue requirement is appropriately credited for the COR recovery.

NMPC's retail rate case filing to the NYPSC has historically included revenue credits for Wholesale TSC revenues which, similar to the proposed treatment of the SPC-FC revenues in the Wholesale TSC revenue requirement (Exhibit No. NMPC-401), ensures that there is no double recovery and customers are appropriately charged. NMPC's revenue credit for retail rate case filings will now also include SPC-FC revenues, which will ensure that retail customers receive the credit associated with the COR recovery.

**Q. Does the proposed treatment of COR affect NMPC's cost containment proposal?**

A. No. NMPC's cost containment proposal is unaffected by the its request to record a regulatory asset for COR. NMPC's cost containment proposal, addressed in the testimony of Andrew Byrne (Exhibit No. NMPC-200), already includes an estimated COR amount, and any over- or underspend will affect NMPC's return on investment base. The proposed treatment of COR that I have discussed herein is limited to addressing the cost allocation ramifications of COR – *i.e.* which NMPC rate/customer classes will be responsible for COR relating to the SPC Project.

## IV. RATE SCHEDULE 18 TO NYISO OATT

**Q. Please provide an overview of proposed Rate Schedule 18.**

A. Schedule 18 (contained in Section 6.18 of the NYISO OATT) establishes the Smart Path Connect Facilities Charge ("SPC-FC") which is the rate mechanism for the recovery of the SPC Project. In addition, Rate Schedule 18 sets forth the determination of the underlying revenue requirement for the SPC-FC, the process for billing and remitting the revenue collected from the SPC-FC, and the formula for determining the SPC-FC Rate.

**Q. Please describe how the proposed cost recovery methodology contained in Schedule 18 will operate.**

A. The cost recovery methodology proposed in Rate Schedule 18 prescribes that NYISO will calculate the SPC-FC and charge all transmission customers serving load within New York (defined as "Responsible LSEs") based on actual energy withdrawals—*i.e.* a "load-ratio share" methodology as addressed in the Prepared Direct Testimony of Bart Franey, Exhibit No. NMPC-300. The SPC-FC rate to be assessed by NYISO is determined for each NYISO Billing Period using the (1) annual transmission revenue requirement for the SPC Project as calculated in accordance with the proposed Schedules 15a and 15b in Section 14.2.1 of Attachment H of the NYISO OATT, (2) less incremental transmission rights revenue ("TRR") derived from the sale of incremental transmission congestion contracts ("TCCs") and any TCC payments received by NMPC for the SPC Project, and (3) plus outage adjustments related to incremental TCCs for the SPC Project. As set forth in Section 6.18.3.5 of Rate Schedule 18, these three components, as allocated to the Billing Period, will be multiplied by actual energy withdrawals for the Responsible LSE for the Billing Period divided by the total actual energy withdrawals for all Responsible LSEs for the Billing Period, to arrive at the rate to be assessed to each Responsible LSE for the applicable Billing Period.

**Q. Does this conclude your testimony?**

A. Yes. This concludes my testimony.

Exhibit No. NMPC-400

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

| | | |
|---|---|---|
| **Niagara Mohawk Power Corporation d/b/a National Grid** | ) ) | **Docket No. ER23-_____** |

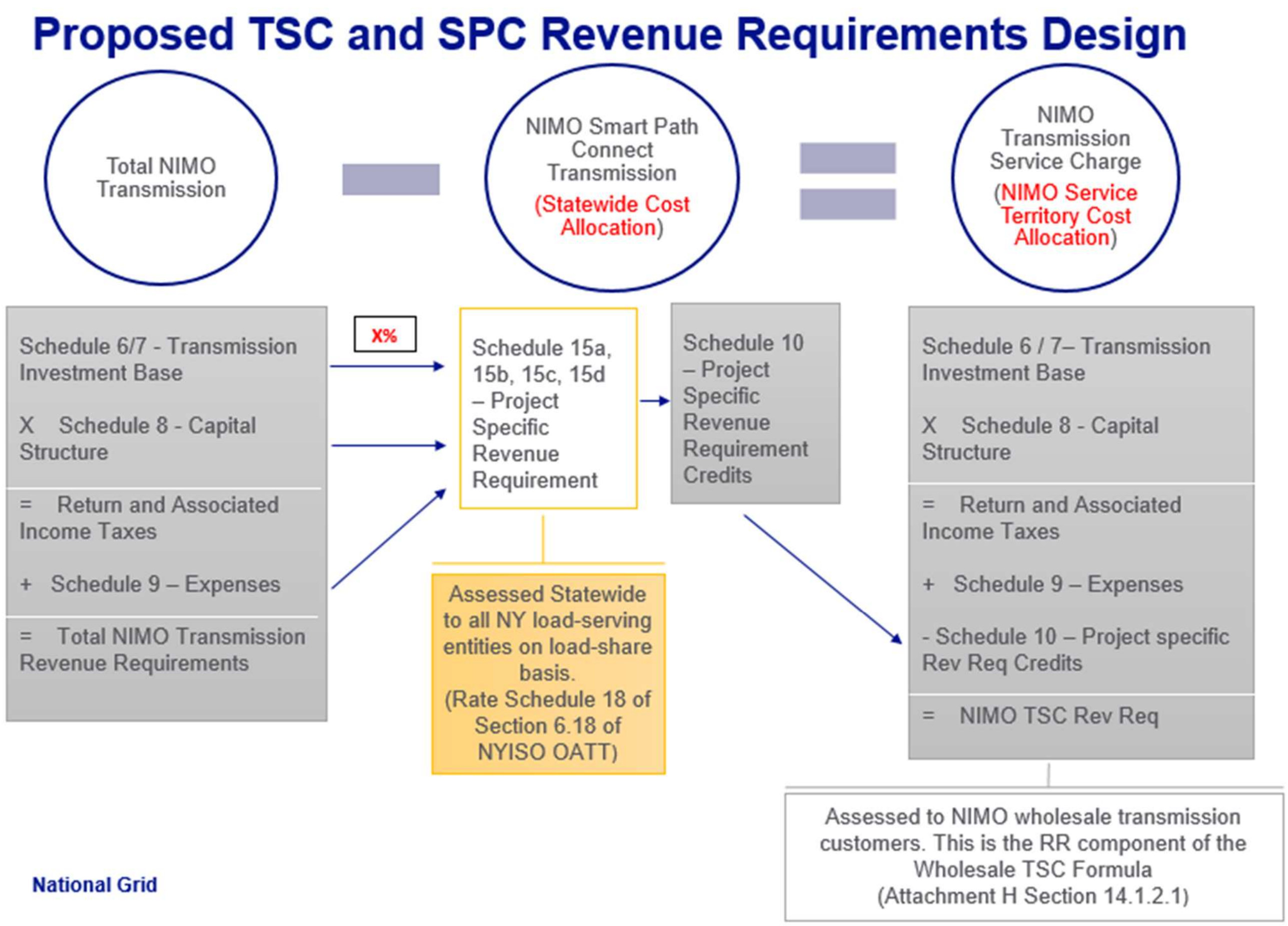
**DECLARATION OF TIFFANY M. ESCALONA**

I depose and state under penalty of perjury that the foregoing testimony was prepared or assembled by me or under my direction; that I have read the questions and answers labeled as my testimony; that if asked the same questions my answers in response would be as shown; and that the facts contained in my answers are true to the best of my knowledge, information, and belief.

Executed on January 30, 2023

*/s/ Tiffany M. Escalona*
Tiffany M. Escalona

# EXHIBIT NO. NMPC-401



Proposed TSC and SPC Revenue Requirements Design
Total NIMO Transmission
NIMO Smart Path Connect Transmission
(Statewide Cost Allocation)
NIMO Transmission Service Charge
(NIMO Service Territory Cost Allocation)
Schedule 6/7 - Transmission Investment Base
X Schedule 8 - Capital Structure
= Return and Associated Income Taxes
+ Schedule 9 – Expenses
= Total NIMO Transmission Revenue Requirements
X%
Schedule 15a, 15b, 15c, 15d – Project Specific Revenue Requirement
Schedule 10 – Project Specific Revenue Requirement Credits
Assessed Statewide to all NY load-serving entities on load-share basis.
(Rate Schedule 18 of Section 6.18 of NYISO OATT)
Schedule 6 / 7– Transmission Investment Base
X Schedule 8 - Capital Structure
= Return and Associated Income Taxes
+ Schedule 9 – Expenses
- Schedule 10 – Project specific Rev Req Credits
= NIMO TSC Rev Req
Assessed to NIMO wholesale transmission customers. This is the RR component of the Wholesale TSC Formula
(Attachment H Section 14.1.2.1)
National Grid

# EXHIBIT NO. NMPC-402

**Smart Path Connect Project**
**Proposed Cost Of Removal Recovery**

**This example is intended to show how NMPC is proposing to recover Cost of Removal related to the construction of the SPC Project only. For simplicity, the interaction of other rate base items (example: Plant in Service) between the TSC, SPC-FC, and retail rates has been omitted.**

| | **NMPC Ledger** | | | | | | | | | | | | | | | | | | **FERC Regulated Rates** | | | | **NYPSC Regulated Rates** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | | | | | | | | **% of Transmission revenues collected:** | **9%** | | | **91%** | |
| | Balance Sheet | | | | | | | | | | Income Statement | | | | | | | | **Wholesale TSC** | | **SPC-FC** | | | |
| | Plant In-service | | Accumulated Depreciation | | Cash | | Reg Asset - 182.3 | | Reg Liability - 254 | | Dep Expense | | Regulatory Debits - 407.3 | | Regulatory Credits - 407.4 | | Revenues | | Ratebase | Expense | Ratebase | Expense | Ratebase | Expense |
| | Dr | Cr | Dr | Cr | Dr | Cr | Dr | Cr | Dr | Cr | Dr | Cr | Dr | Cr | Dr | Cr | Dr | Cr | | | | | | |
| *Historical* Existing Transmission Plant in Service & Depreciation Reserve | 150,000 | | | 50,000 | | | | | | | | | | | | | | | *9,000* | | | | *91,000* | |
| Retire Transmission Asset | | 10,000 | 10,000 | | | | | | | | | | | | | | | | - | | | | - | |
| Incur COR to Retire Transmission Asset | | | 5000 | | | 5,000 | | | | | | | | | | | | | 450 | | | | 4,550 | |
| Record a Transmission Regulatory Asset of COR | | | | | | | 5,000 | | | | | | | | | 5,000 | | | | | 5,000 | | 5,000 | |
| Record a Transmission Regulatory Liability of COR | | | | | | | | | | 5,000 | | | 5,000 | | | | | | | | | | (5,000) | |
| Construct SPC Transmission Assets | 75,000 | | | | | 75,000 | | | | | | | | | | | | | | | 75,000 | | | |
| Amortize Regulatory Asset over 10 Years | | | | | | | | 500 | | | | | 500 | | | | | | | | (500) | 500 | (500) | 500 |
| Amortize Regulatory Liability over 10 Years | | | | | | | | | 500 | | | | | | | 500 | | | | | | | 500 | (500) |
| SPC-FC Revenue (COR only) | | | | | 500 | | | | | | | | | | | | | 500 | | (45) | | | | (455) |

Common to both TSC and NYPSC ratebase. Revenue from TSC is a revenue credit in NYPSC retail rate.

Common to SPC-FC, TSC, and NYPSC ratebase. Revenue from SPC-FC is a revenue credit in TSC and NYPSC retail rate. Refer to Exhibit No. NMPC-401 (For simplicity this is shown as only in SPC in this example).

Included in SPC-FC and NYPSC retail rate only.

Included in NYPSC retail rate only; results in net neutral impact to ratebase and expense as the regulatory asset/amortization is included as well.

Common to both TSC and NYPSC revenue requirement. Revenue from SPC-FC is a revenue credit in TSC and NYPSC retail rate.

Not included in revenue requirement.