Attachment H
Exhibit No. TRANSCO-300
Testimony of Robert Caso

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

NEW YORK TRANSCO LLC	**)**	**DOCKET NO. ER24-____-000**

DIRECT TESTIMONY OF
ROBERT CASO

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I. Introduction

Q 1. PLEASE STATE YOUR NAME AND BUSINESS ADRESS.

A 1. My name is Robert Caso. My business address is 1 Hudson City Center, Hudson, NY 12534.

Q 2. IN WHAT CAPACITY ARE YOU CURRENTLY EMPLOYED?

A 2. I am currently the Vice President of Budget, Finance and Accounting of New York Transco, LLC ("Transco").

Q 3. WHAT ARE YOUR AREAS OF RESPONSIBILITY IN YOUR CURRENT POSITION?

A 3. As Vice President of Budget, Finance and Accounting, the main areas that I am responsible for at Transco are human resources, payroll, benefits, risk management, budgeting, finance, treasury, accounting, and financial and regulatory reporting. I am also responsible for the preparation and filing of Transco's Annual Projection on September 30th of each year and the Annual Update on June 30th of each year.

Q 4. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EMPLOYMENT EXPERIENCE.

A 4. I received a Bachelor of Science in Business Economics from the State University of New York at Oneonta in 1988. In 1989, I received a Master of Science in Accounting from

Binghamton University. I started my career in public accounting with Arthur Andersen & Co. in New York and I obtained my Certified Public Accountant license in 1993. In 1995, after my public accounting career, I joined Central Hudson Enterprises Corporation, the unregulated wholly owned subsidiary of CH Energy Group, Inc. as its Controller. In 2003, I transferred to Central Hudson Gas & Electric Corporation to be the Director of Taxes and was responsible for all of the utility's taxes. In 2007 I became the Director of Investment Accounting and Taxes and then the Director of Strategic Planning in 2010. In November 2014, I was appointed the Vice President of Budget, Finance and Accounting of Transco.

Q 5. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE A REGULATORY BODY?

A 5. No.

II. Purpose and Scope of Testimony

Q 6. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A 6. The purpose of my testimony is to describe Transco's existing FERC-approved Formula Rate and Formula Rate Implementation Protocols ("Formula Rate") in Section 36.3 of Attachment DD of the New York Independent System Operator, Inc. ("NYISO") Open Access Transmission Tariff ("OATT" or "Tariff") and how the costs associated with the development and operation of the Propel New York Energy Project ("Propel NY Energy Project" or "Project") will be recovered under that rate. In doing so, I will discuss the safeguards Transco and New York Power Authority ("NYPA") intend to utilize to ensure that there is no duplicative recovery of Project costs under their respective formula rates. I will also discuss the financial risks underlying the development of the Project and the role that requested transmission rate incentives will play in helping Transco to develop and

finance the Project. Lastly, I will explain Transco's proposed cost containment mechanism for project development.

Q 7. WHAT TOPICS WILL YOU DISCUSS IN THE REMAINDER OF YOUR TESTIMONY?

A 7. I will first discuss how Transco intends to recover the costs of the Project through the Formula Rate. I explain that the Formula Rate is a flexible rate that permits the recovery of new transmission investment. I also explain that the Formula Rate includes project-specific base return-on-equity ("ROE") values that were agreed to as part of two settlement agreements approved by the Commission in Docket No. ER15-572-000, and describe the need for Transco to request approval for a base ROE value that will apply solely to the Project. In addition, I will describe the accounting treatment I intend to employ to account for project costs and I will also support the application of the current depreciation rates identified in the Formula Rate.

Next, I will describe, as an accounting matter, how Transco and NYPA expect to develop the Project and I will explain how Transco and NYPA will ensure that customers are not subject to any duplicative recovery of Project costs.

Then I will describe the financial risks underlying Transco's development of the Project. Specifically, I will discuss the risks and challenges Transco will face in maintaining adequate cash flow and obtaining financing for the Project and how the incentive rate treatments Transco requests will help support reasonable credit ratings and Transco's ability to issue debt capital on reasonable terms.

Finally, I will describe the cost containment mechanism Transco has agreed to in the development of the Project and how that cost containment mechanism will be reflected

in the Formula Rate. As part of its project submission in the NYISO competitive solicitation process, Transco committed to share in the risks of the Project during the permitting and construction phases and I will explain how the cost containment mechanism will be applied by Transco in the development of the yearly Project revenue requirement.

III. Identification of Exhibits

Q 8. PLEASE IDENTIFY THE EXHIBITS INCLUDED WITH YOUR TESTIMONY.

A 8. The exhibits included with my testimony include:

TRANSCO-301: Cost Containment Mechanism Workpapers

IV. Overview of the Project

Q 9. PLEASE PROVIDE AN OVERVIEW OF THE PROJECT.

A 9. The development rights for the Propel NY Energy Project were awarded to Transco and NYPA through the NYISO Public Policy Transmission Planning Process ("PPTPP") and a competitive solicitation administered by NYISO. The testimonies of Mr. Mullin and Mr. Haering describe the Project in detail. As relevant for my testimony, the cost estimate Transco and NYPA submitted for the Project, including all necessary ancillary interconnection and third party costs is roughly $2.7 billion. As explained by Mr. Mullin, Transco and NYPA will develop the project as equal sponsors and Transco will financially own no less than 70% of the Project and NYPA will have financial ownership of up to 30% of the Project.

V. Transco's Formula Rate

Q 10. HOW DOES TRANSCO INTEND TO RECOVER ITS REVENUE REQUIREMENT FOR THE PROJECT.

A 10. Transco currently has a FERC-approved Formula Rate included in the NYISO OATT at Section 36.3, Attachment DD under which it recovers its electric transmission revenue

requirements. Transco will determine its revenue requirements for the Project utilizing this Formula Rate in the same manner it determines its revenue requirement for its other electric transmission investments with the minor modifications discussed below.

Q 11. PLEASE DESCRIBE TRANSCO'S CURRENT FORMULA RATE.

A 11. Transco initially filed the Formula Rate in Docket No. ER15-572-000 ("Formula Rate Filing"). At the time, Transco intended to own and operate the Transmission Owner Transmission Solution ("TOTS") portfolio of projects and develop and own the proposed solutions in the long-standing New York State Public Service Commission ("NYPSC") regulatory process to relieve historic congestion on the transmission lines near Albany known as the "Central East" and the "Upstate New York – Southeastern New York" constraint (the "AC Transmission Projects"). Transco's Formula Rate Filing sought acceptance of a formula rate, base ROE component, and certain incentive rate treatments for the TOTS and AC Transmission Projects. In its order, the Federal Energy Regulatory Commission ("FERC" or "Commission") approved certain of the incentive rate treatments and accepted the formula rate and ROE for filing, subject to hearing and settlement procedures. The Formula Rate included in the NYISO OATT is the result of two settlement agreements accepted by the Commission.

Transco entered into one settlement agreement to recover costs associated with its investment in the TOTS projects ("TOTS Settlement").[1] The TOTS Settlement provided for, among other things, the general formula that would apply for Transco's investment in

[1] *See Certification of Uncontested Settlement*, 154 FERC ¶ 63,007 (2016).

electric transmission facilities, a TOTS-specific base ROE value of 9.5%, and an incentive rate ROE adder specific to the TOTS cost recovery.

The second settlement concerned the AC Transmission Projects and would apply in the event Transco was awarded one or more aspects of the AC Transmission Projects consistent with the NYISO PPTPP and a competitive solicitation NYISO administered in accordance with the PPTPP ("AC Transmission Project Settlement").[2] As part of the AC Transmission Project Settlement, the parties agreed to an AC Transmission Project-specific base ROE value of 9.65% and incentive rate ROE adders specific to the AC Transmission Project cost recovery.

Q 12. CAN THE FORMULA RATE BE USED FOR RECOVERY OF PROPEL NY ENERGY PROJECT COSTS?

A 12. The Formula Rate, with one exception, was designed to recover the costs of any project or electric transmission asset Transco owns and operates. Transco only owns electric transmission facilities – it does not own any distribution or electric generation facilities, so all of its costs as reflected in Transco's FERC Form No. 1 are recovered through the Formula Rate. The Formula Rate contains highlighted cells that allow for the addition and identification of new transmission facilities and the base, static cells simply pull from the FERC Form No. 1 information that Transco is required to compile every year. There are no changes to the formula that are necessary to accommodate Transco's investment in the Project.

Q 13. YOU MENTION ONE EXCEPTION – WHAT IS THAT EXCEPTION?

[2] *See Certification of Uncontested Settlement*, 160 FERC ¶ 63,021 (2017).

A 13. As I mentioned above, Transco entered into settlement agreements that established the individual base ROE levels that would apply to its investment in the TOTS projects and the AC Transmission Projects, respectively. Transco's Formula Rate does not contain a general base ROE that would apply to its investment in anything other than those two projects. Therefore, Transco must request a base ROE component that would apply to the Project. Mr. McKenzie is providing testimony in support of Transco's requested base ROE value.

Q 14. DOES EITHER THE TOTS SETTLEMENT OR THE AC TRANSMISSION PROJECT SETTLEMENT PRECLUDE TRANSCO FROM SEEKING ROE INCENTIVE RATE TREATMENTS FOR ANY OTHER PROJECT THAT IT MAY DEVELOP?

A 14. No. Neither the TOTS Settlement nor the AC Transmission Project Settlement contains any provision that would preclude Transco from seeking incentive rate treatments in the form of ROE adders, or any other incentive rate treatment.

Q 15. IS TRANSCO PROPOSING ANY MATERIAL CHANGES TO ITS FORMULA RATE?

A 15. No. As described above, the Formula Rate is designed to be flexible to allow for such additional project development and investment. There are no specific changes that are necessary to the Formula Rate to include the investment in the Project or to reflect the appropriate base ROE level and ROE incentives that will apply to the Project once those elements are known. I describe below the addition of a new Note in the Incentives tab (Attachment 4) of the Formula Rate and Transco's commitment to complete Excel Workpapers to reflect the cost containment mechanism Transco has agreed to apply for its recovery of Project costs and ensure the proper rate recovery amounts for any cost overruns on NYISO-defined Included Capital Costs above the Project estimates.

Q 16. CAN YOU BE MORE SPECIFIC AS TO WHY A CHANGE IS NOT NECESSARY TO THE FORMULA RATE IN SECTION 36.3?

A 16. Certainly. When Transco entered into the TOTS Settlement in Docket No. ER15-572-000, the settling parties understood that it was likely that a different base ROE value would be agreed to for the AC Transmission Projects. As a result, Transco reflected the base ROE value agreed upon for the TOTS Projects (9.5%) on line 93, Column I of the formula. To address any difference in the base ROE value for any additional project, including the AC Transmission Projects, Transco accounts for the difference in Attachment 4 (Incentives). Specifically, Column (e) at line 66 of Attachment 4 identifies the percentage value above 9.5% that Transco is authorized by FERC to include in its ROE determination, including both the difference in base ROE values and any approved incentive rate ROE adders. Note F of Attachment 4 explains this determination and provides:

> Note F: Column (e), Incentive % Authorized by FERC represents the difference between the Base ROE level reflected in column (d) and the combination of any project specific base ROE approved by FERC and ROE incentives approved by FERC (such combination is reflected in column (c), which value may be positive or negative).

As a result, Transco's Formula Rate recognizes that a different base ROE value will apply to each project Transco develops and accounts for that difference through the normal application of the formula mechanics. Therefore, Transco's Formula Rate is able to accommodate Transco's investment in the Project.

Q 17. YOU MENTION THAT NO MATERIAL CHANGES ARE NECESSARY TO THE FORMULA RATE IN SECTION 36.3. ARE ANY CHANGES NECESSARY TO OTHER ASPECTS OF SECTION 36 OF ATTACHMENT DD IN THE NYISO OATT?

A 17. As I described above, Section 36.3 includes Transco's Formula Rate and Formula Rate Implementation Protocols. No changes are necessary to this section other than the addition

of a new Note G to reflect the cost containment mechanism described below. Section 36.1.1 identifies the projects Transco owns and operates and, in this filing, Transco has proposed to include a description of the Propel NY Energy Project in this Section 36.1.1. Also, Section 36.2.1 includes cost allocation tables for Transco's projects. Specifically, the cost allocation tables assign cost responsibility to customers under the NYISO Tariff. Transco proposes to add a new Section 36.2.1.3 to identify the cost allocation methodology that will apply for the Project. As described in Mr. Mullin's testimony, Transco proposes to adopt the NYPSC preferred cost allocation approach and requests approval to include a new Section 36.2.1.3 and allocate costs for the Project in the following manner:

> The costs associated with the Propel New York Energy Project will be allocated in accordance with Section 31.5.5.4.3 of Attachment Y of the ISO OATT, calculated volumetrically based on Actual Energy Withdrawals by all Load Serving Entities, but excluding Withdrawal Billing Units for Exports and Wheels Through.

Q 18. ARE THERE ANY OTHER CHANGES NECESSARY TO THE NYISO OATT TO REFLECT RECOVERY OF COSTS ASSOCIATED WITH THE PROPEL NY ENERGY PROJECT?

A 18. Yes, there are several minor administrative revisions to the NYISO OATT that are necessary to reflect Transco's ownership of the Propel NY Energy Project and recovery of its costs. Specifically, Section 6.13, Rate Schedule 13 under the NYISO OATT describes the rate mechanism for the recovery of Transco facilities. Section 6.13.1 provides a description of all Transco electric transmission facilities and currently lists the TOTS and Segment B projects. Transco proposes to include a description of the Propel NY Energy Project as an additional bulleted transmission project in Section 6.13.1.

Also, Section 6.13.3.4 includes the arithmetic calculation NYISO uses to determine the cost recovery methodology from each responsible Load Serving Entity taking service

under the NYISO OATT. As described above, Transco has adopted the NYPSC preferred cost allocation methodology. Transco proposes a new Section 6.13.3.4.3 to reflect the Cost Recovery Methodology Associated with the Propel NY Energy Project Facilities that NYISO will employ to establish the rate that will be charged to each LSE under the Tariff. Transco has developed this calculation with the assistance of the NYISO.

Finally, Transco proposes to include an additional sentence in Section 6.13.2 that pertains to Transco's commitment to adhere to the requirements of Section 6.10.6 of Rate Schedule 10 to the NYISO OATT for any transmission project for which Transco has proposed to limit its allowable cost recovery consistent with a Cost Cap mechanism, unless otherwise permitted by FERC.

VI. Depreciation Rates

Q 19. DOES TRANSCO PROPOSE TO CHANGE THE DEPRECIATION RATES IN THIS FILING?

A 19. No. Transco proposes to utilize the depreciation rates that are currently included in Attachment 9 of its Formula Rate.

Q 20. HOW WERE THOSE DEPRECIATION RATES DETERMINED?

A 20. In its filing in Docket No. ER15-572-000, Transco proposed to use an average of the FERC-approved depreciation rates for the New York Transmission Owner ("NYTO") affiliates of Transco.[3] Transco supported the use of these rates because it was a newly-formed entity with, at the time, no assets upon which to base depreciation rates.

[3] The NYTO affiliates of Transco are: utilities Central Hudson Gas & Electric Corporation ("Central Hudson"), Consolidated Edison Company of New York, Inc. ("ConEd"), Niagara Mohawk Power Corporation d/b/a National Grid ("National Grid") and New York State Electric & Gas Corporation ("NYSEG").

Q 21. DOES TRANSCO PLAN TO SUBMIT A FUTURE FILING WITH THE COMMISSION TO CHANGE THE DEPRECIATION RATES?

A 21. Yes. As part of its filing in Docket No. ER15-572-000, Transco originally committed to submit a new depreciation study within five years of the in-service date of the first project to be placed in service. However, as I mentioned above, Transco entered into two settlement agreements in that proceeding and the first settlement, the TOTS Settlement, did not contain any consideration of the depreciation rates or Transco's commitment as articulated to the Commission in its original filing letter. The second settlement, the AC Transmission Project Settlement, did address depreciation rates and included a Section 3.2(h):

> The depreciation rates applicable to all classifications of capital assets associated with the AC Transmission Projects are set forth in Attachment A to this Settlement. By January 1, 2026, NY Transco shall submit to FERC a limited Section 205 filing to implement any modification to depreciation rates as a result of a depreciation study.

Because the TOTS projects were placed in-service in 2016, there was some confusion on the part of Transco as to when it was required to conduct a depreciation study and submit with the Commission. Therefore, Transco met individually with the settling parties and articulated its interpretation of the settlements to be that Transco is required to perform a depreciation study and submit any modifications by January 1, 2026. The settling parties agreed with this interpretation of the settlement agreements and Transco intends to make such a filing by January 1, 2026.

VII. <u>Proposal to Ensure Adequate Joint Development Accounting</u>

Q 22. PLEASE BRIEFLY DESCRIBE THE JOINT DEVELOPMENT EFFORT THAT TRANSCO AND NYPA WILL EXERCISE FOR THE PROJECT.

A 22. As described in Mr. Mullin's testimony, Transco and NYPA will develop the project as equal sponsors with 50-50 decision-making authority through all aspects of project development. Transco will financially own no less than 70% of the estimated $2.7 billion Project and NYPA will have financial ownership of up to 30% of the Project. The final ownership percentages will be determined in advance of project completion.

Q 23. HAVE TRANSCO AND NYPA DEVELOPED A PROPOSAL TO ENSURE THAT THERE IS NO DOUBLE RECOVERY OF PROJECT COSTS?

A 23. Yes we have. As an initial matter, Transco and NYPA each plan to include its respective capital cost in separate company accounts. If Transco's request to include 100% of Construction Work In Progress ("CWIP") in rate base during the construction period ("CWIP Incentive") is approved, Transco will include its capital expense in a CWIP account and remove any such amount from an Allowance for Funds Used During Construction ("AFUDC") account. My current understanding is that NYPA will include its capital expense in an AFUDC account during the construction period. As part of the joint development of the Project, Transco and NYPA will engage a third party project accountant that will be responsible for tracking Project costs and ensuring all Project costs are appropriate and the amount that each party is responsible for consistent with its ownership share. Transco and NYPA will on a monthly basis review the amounts recorded by each to ensure there is no duplicative accounting of Project costs.

Q 24. WHAT DOES TRANSCO PROPOSE TO DO UPON PROJECT COMPLETION?

A 24. Once the Project is completed and the final accounting has been prepared, Transco and NYPA will schedule a special stakeholder meeting, in accordance with the stakeholder meeting notice provisions included in their respective Formula Rate Implementation

Protocols, during which Transco and NYPA will describe the final ownership percentages for each of Transco and NYPA, explain the accounting considerations necessary to reflect the final ownership percentages in their respective books and records, and answer any questions of stakeholders. Transco will also prepare an informational workpaper identifying the final assets owned by Transco and NYPA, respectively, the total rate base of the assets, details including accounting entries of any transfers of assets that may have occurred between the parties that changed the ownership of any assets, the amount of costs greater than the cost cap or less than the cost cap, as the case may be, and details on the operations and maintenance costs incurred as of that date. The stakeholder meeting and the workpapers demonstrate that there is no ability for duplicative recovery of Project costs.

This Project completion accounting proposal is designed to be consistent with the proposal that NYPA intends to follow for its co-development of "Segment A" of the AC Transmission Projects with LS Power Grid New York Corporation I ("LS Power"). LS Power entered into a settlement agreement in FERC Docket No. ER20-716-000 in which it, and NYPA, would provide an informational workpaper within six months of project completion, identifying the final assets owned by LS Power and NYPA and the same information outlined above. I understand that Segment A is close to being completed, but that stakeholder meetings have not yet been scheduled. Transco expects to utilize a similar workpaper once the Project is completed as the stakeholders, and NYPA, will have had the experience of demonstrating similar accounting issues.

VIII. Project Development Financial Risks

Q 25. PLEASE PROVIDE AN OVEVIEW OF THE FINANCIAL RISKS AND CHALLENGES FACED BY TRANSCO IN DEVELOPING THE PROJECT.

A 25. It will be a complex task to raise the amount of capital required to develop the Project. Currently estimated at $2.7 billion, the total investment and financing needed to fund a Project of this size and scope is significant by any metric. Transco's share of this investment with NYPA will be no less than 70% of total Project costs, but, for current planning purposes, Transco is estimating its share of Project costs to be $2.2 billion. This figure is still over twice the amount of investment Transco has in its existing portfolio of transmission projects. Transco also faces significant uncertainty in terms of obtaining all the necessary local permitting and regulatory rights to develop the Project, as described in the testimonies of Mr. Haering, Mr. Cole-Hatchard, Jr., and Mr. Tsoukalis. In addition, the seven-year development cycle and the long lead time for equipment, risk of cost escalation and ability to obtain the necessary labor and raw materials, given the current supply chain shortages, are all key risk factors. Each of these risks and challenges increase the risk profile of Transco, which has a negative impact on Transco's creditworthiness, making it more difficult and costlier to raise capital, debt and equity. The negative impact from these risks and challenges can be partially mitigated by the financial incentives being requested for abandonment of plant, 100% of CWIP in rate base and adders to Transco's base ROE, as later discussed in further detail.

Q 26. CAN YOU EXPLAIN WHAT LENDERS WILL LOOK FOR?

A 26. It has been my experience that, when reviewing opportunities to support large-scale project development, lenders will consider whether the developer is experienced with a good operating track record and strong credit quality, and whether the project itself has an appropriate capital structure and financial returns needed to meet its contractual obligations. Lenders will also take significant comfort from the existence of a fair

opportunity for the project to earn a pre-established ROE on a specifically defined capital structure and rate base, and from the fact that its revenue streams are underpinned by creditworthy customers. This is particularly true for rate-regulated services such as transmission of electric energy. Incentives such as the authority to include 100% of CWIP in rate base during the construction period and the ability to recover prudently-incurred costs in the event of abandonment of the Project for reasons outside the reasonable control of Transco ("Abandoned Plant Incentive") are important features lenders also expect.

Q 27. HOW DOES TRANSCO'S INVESTMENT IN THE PROJECT COMPARE TO TRANSCO'S CURRENT PLANT IN-SERVICE?

A 27. Transco's development responsibility will be no lower than 70% of total Project costs. Based on a $2.7 billion total Project estimate, Transco can be expected to finance at least $1.89 billion. Transco currently has roughly $180 million of plant in-service for the TOTS projects and $650 million for the AC Transmission Projects. Transco's investment in the Project is over twice the amount of its total investment in its other projects, combined.

Q 28. HOW DOES TRANSCO INTEND TO FINANCE THE COSTS OF CONSTRUCTING THE PROJECT?

A 28. Transco is a limited liability company controlled by its members, and does not plan to directly issue stock to the public. During development and construction of the Project, financing for the Project will come from equity contributions by its members, in proportion to their ownership shares, and external debt borrowings, while maintaining Transco's 53% equity capital structure.

Q 29. WHAT IS THE LIKELY FORM OF DEBT FINANCING FOR THE PROJECT?

A 29. Transco will utilize a combination of loans pursuant to a bank credit agreement and longer term bond financing. Typical to the utility industry and similar to Transco's other projects,

it is likely that Transco will borrow under a bank credit facility until the loan balance outstanding is large enough to warrant approaching the bond market with an efficiently sized offering of long-term debt (e.g., $250 million). Using the proceeds from the bond issuance to repay the balance outstanding under bank lending commitments, the Company will then borrow once again under the bank commitments until the amount of loans outstanding has built up once more to the efficient bond offering size, and the cycle of borrowing under the bank facility and funding out with longer-term bond issues would continue in this manner during the period of heavy capital expenditures. Consequently, Transco will need to enter the debt market several times to issue long-term bonds, perhaps at intervals of every 12 months, during the heavy construction period.

Q 30. PLEASE DESCRIBE HOW TRANSCO'S INVESTMENT IN THE PROJECT IS EXPECTED TO AFFECT TRANSCO'S CREDIT METRICS AND FINANCIAL HEALTH?

A 30. As I mentioned above, Transco's investment in the Project will be over twice the amount of its total investment in its other projects, combined. Transco will have many years of heavy capital expenditures where the cash outflows for capital expenditures will exceed Transco's internal operating cash flow. The ratio of cash flow from operations to capital expenditures is an important credit indicator tracked by bond investors, fixed income asset managers and credit rating agencies. Annual internal cash flow that is at least equal to the yearly capital expenditures is deemed to be a sign of very strong credit quality, while committed capital expenditures that are far in excess of internal cash flow from operating activities are viewed as a source of liquidity risk and weak credit.

Q 31. WHAT CREDIT QUALITY ARE YOU TARGETING FOR THE DEBT FINANCINGS DESCRIBED ABOVE?

A 31. Transco does not currently have credit ratings from the Moody's or S&P Global Ratings credit rating agencies. In order for Transco to have adequate access to the capital markets and to be able to raise capital on reasonable terms specific to the Project, it will be important that the offerings themselves be considered investment grade, or at least BBB/Baa2. If the offerings fall below investment grade, the increase in debt cost would be exponentially greater; but more importantly, the available market for debt financing would be greatly reduced making it more difficult to find investors.

IX. Incentive Rate Treatments Requested

Q 32. IS TRANSCO REQUESTING INCENTIVE RATE TREATMENTS FOR ITS INVESTMENT IN THE PROJECT?

A 32. Yes, as more fully described in Mr. Mullin's testimony, and supported by the testimonies of Mr. Haering, Mr. Cole-Hatchard, Mr. Tsoukalis, and Mr. McKenzie, Transco is requesting the CWIP Incentive, the Abandoned Plant Incentive, a 50 basis point adder to its base ROE value for RTO participation ("RTO Participation Adder"), and a 150 basis point adder to its base ROE value to compensate for the significant risks and challenges associated with the development of the Project and in recognition of its significant benefits ("Risks and Challenges Adder"). As I explain below, each of the requested incentive rate treatments are critical for Transco to be able to develop the Project on reasonable financial terms. The size and complexity of the Project, current market conditions (high risk free rates, risk adverse investors, supply chain disruptions, etc.) could result in the inability to attract investors at appropriate credit ratings. The package of incentives is designed to support expected debt coverage ratios required by investors. Without the incentives,

Transco's credit rating could suffer, making it difficult for Transco to economically develop the Project.

Q 33. PLEASE EXPLAIN WHY TRANSCO IS SEEKING TO INCLUDE CWIP IN RATE BASE.

A 33. By any measure, the Project represents a significant investment that will require large capital expenditures during a roughly seven-year development schedule with a four-year construction period. This will create significant pressure on the cash flows of Transco. Granting the CWIP Incentive will lessen the financial burdens during the seven-year development period that the Project will impose by improving cash flows and financial ratios used by financial analysts to gauge Transco's financial status and creditworthiness. Even with the CWIP Incentive cash flows are expected to be negative, but having more cash flow from operations during years of very high capital expenditures helps reduce a company's exposure to the risks of capital market financing. Furthermore, cash recovery of a return on CWIP has been cited by credit rating agencies as part of their rationale for applying a more favorable credit rating to utilities in jurisdictions with that practice. Consequently, the cost of debt capital to Transco would be reduced as a result of the improved investor sentiment and the favorable effect on Transco's credit ratings.

Q 34. HOW WILL THE CWIP INCENTIVE BENEFIT CUSTOMERS?

A 34. The CWIP Incentive benefits ratepayers in several ways. First, as discussed above, because of the stronger cash flow metrics and improved credit strength, the CWIP Incentive leads to a lower overall cost of borrowing for a given level of debt, as compared to an AFUDC recovery mechanism.

Q 35. HOW ELSE WILL THE CWIP INCENTIVE BENEFIT CUSTOMERS?

A 35. By not capitalizing financing costs during construction through an AFUDC-based mechanism, the resulting rate base placed in service (and associated revenue requirement) will be lower than that of an identical project constructed with an AFUDC-based recovery mechanism. Based on a preliminary forecast for the annual Project spend and use of Transco's 53% equity and 47% debt capital structure, Transco estimates that its rate base would be approximately $800 million lower by including 100% of CWIP in rate base and the revenue requirement over the life of the assets would be at least $500 million less on a present value basis by including 100% of CWIP in rate base. Also, by gradually increasing rates as project spend occurs, the CWIP Incentive improves rate stability, as ratepayers will not experience the "rate shock" that may occur if the full revenue requirement of the Project was placed into rates overnight. Mr. Tsoukalis provides greater detail on this benefit in his testimony.

Q 36. WILL CUSTOMERS HAVE AN OPPORTUNITY TO REVIEW THE CWIP EXPENSE?

A 36. Yes. Transco prepares a CWIP Report as part of its yearly Annual Update process in its Formula Rate Implementation Protocols. Interested customers will be able to verify the CWIP expense on a yearly basis.

Q 37. PLEASE EXPLAIN WHY TRANSCO IS SEEKING THE ABANDONED PLANT INCENTIVE.

A 37. The primary financial benefit of the Abandoned Plant Incentive is that this incentive rate treatment will prompt potential construction lenders to proceed with financing with assurance that they can be repaid should abandonment occur for reasons outside the developer's control. It has been my experience that the prospect for recovery of prudently-incurred costs, in conjunction with the entire package of incentives, has been instrumental

in the willingness of lenders to commit capital for financing. The lenders want assurance of their ability to recoup monies lent should abandonment occur. Upfront assurances that costs can be recovered in the event of abandonment are particularly important when it comes to expenses that must be incurred well in advance of construction. Lenders will be hesitant to support such expenditures, which will be quite large, absent reasonable assurance that they will be able to recover those investments if events beyond Transco's control interfere with the Project going forward. While unlikely, this protection offers ratepayers significant savings as described above.

X. Cost Containment Mechanism

Q 38. DID TRANSCO INCLUDE A COST CONTAINMENT MECHANISM IN ITS PROJECT PROPOSAL SUBMISSION?

A 38. Yes, Transco and NYPA included a cost containment mechanism as part of its project proposal in accordance with Section 31.4.5.1.8 of the NYISO OATT.

Q 39. PLEASE EXPLAIN THE PROPOSED COST CONTAINMENT MECHANISM.

A 39. Transco and NYPA proposed a soft cost cap of 80/20 whereby Transco, NYPA and New York ratepayers would share in the risk that actual costs for the NYISO OATT-defined Included Capital Costs are above the estimated costs. Under an 80/20 soft cost cap, Transco and NYPA are jointly responsible for twenty percent (20%) of the amount that the actual foreseeable costs exceed the estimate. Transco and NYPA may include for recovery under their respective Formula Rates the remaining eighty percent (80%) of costs that exceed the estimate.

In its project submission, Transco and NYPA included an Included Capital Cost estimate of $2.554 billion and a total developer cost estimate (inclusive of interconnection

related costs and other third party costs) of roughly $2.7 billion. Transco and NYPA also included a 2% escalation factor on the initial estimate that, as noted in the testimony of Mr. Tsoukalis, is below the inflation rate.

Section 6.10.6.3 of Rate Schedule 10 to the NYISO OATT provides that a developer may achieve the percentage cost sharing either (i) through foregoing rate recovery of that percentage of capital costs in excess of the soft cost cap, or (ii) through an alternative rate mechanism that may adjust rate recovery through only a reduction in the ROE and any applicable incentives solely on the amount in excess of the soft cost cap. Transco proposes to implement the soft cost cap by reducing the applicable ROE (base ROE plus approved incentive ROE adders) solely on the amount in excess of the soft cost cap in a manner that reduces Transco's allowable recovery on its share of the actual foreseeable Included Capital costs in excess of the soft cost cap (Included Capital Costs estimate included in the proposal, plus the 2% escalation factor), such that the recovery on the amount in excess of the soft cost cap is equal to or better for ratepayers on a present value basis compared to that which would be achieved under option (i).

Q 40. DOES TRANSCO CURRENTLY EMPLOY A COST CONTAINMENT MECHANISM FOR ANY OF ITS OTHER PROJECTS?

A 40. Yes it does. As part of the AC Transmission Project Settlement, Transco agreed to an 80/20 cost containment mechanism whereby Transco does not earn an equity return on 20% of any prudently incurred foreseeable project costs above the settlement-defined cost cap, but is permitted to recover the associated depreciation and debt cost for those amounts. For the remaining 80% of prudently incurred costs above the settlement-defined cost cap, Transco is permitted to earn a base ROE on those amounts plus associated depreciation

and debt cost, but it is not permitted to earn any ROE incentive adders that were agreed to as part of the settlement.

Q 41. IS THE COST CONTAINMENT FOR THE AC TRANSMISSION PROJECTS REFLECTED IN THE FORMULA RATE IN SECTION 36.3 OF THE NYISO OATT?

A 41. Yes. In the Incentive tab (Attachment 4) of the Formula Rate, Transco included a Note E that reflects the cost containment commitment and states:

> Column (a), The Segment B Facilities and any applicable Segment B Addition are subject to certain cost recovery allowances as specified in the settlement approved by the Commission by Letter Order dated November 16, 2017 in Docket No. ER15-572. If implicated, those cost allowance provisions will be reflected independently in column (a) and corresponding columns.

Transco has also made allowance for "Segment B Facilities – NYES Capped" in Line 66c of Attachment 4 which will reflect the allowable recovery for the costs above the cost cap consistent with the AC Transmission Projects Settlement.

Q 42. DOES TRANSCO PROPOSE A SIMILAR APPROACH TO REFLECT ANY POTENTIAL COST OVERRUNS OF INCLUDED CAPITAL COSTS FOR THE PROPEL NY ENERGY PROJECT?

A 42. As described above, the cost containment mechanism agreed to in the AC Transmission Project Settlement is slightly different than the cost containment mechanism permitted in the NYISO OATT and proposed by Transco and NYPA in its project submission. The soft cost cap that will apply to the Project precludes the equivalent of any recovery of 20% of the Included Capital Costs that exceed the soft cost cap estimate. While the cost containment mechanisms for the two projects may differ in allowable recovery, Attachment 4 included with the Transco Formula Rate can accommodate the Project cost containment mechanism with some minor updates and Transco's commitment to utilize a workpaper (the "Propel NY Energy Project Cost Containment Verification Workpaper")

that supports the calculation of the Included Capital Costs above the cost estimate that Transco may recover by reducing the base ROE and incentive ROE adders to a level that results in the same or greater benefits to ratepayers if Transco were to simply write-off that amount. I have included this workpaper, completed with a representative example on a 10% cost overrun of Included Capital Costs for the entire project where Transco is responsible for 70% of the 10% overrun, as Exhibit No. TRANSCO-301.

Q 43. WHAT ADDITIONS TO ATTACHMENT 4 OF THE FORMULA RATE DOES TRANSCO PROPOSE?

A 43. Transco proposes to include a new Note G to reflect Transco's commitment to the cost containment mechanism described above. Specifically, proposed Note G states:

> Column (a), The Propel New York Energy Project is subject to certain cost recovery allowances as specified in the Development Agreement with the New York Independent System Operator, Inc. that governs the development rights for the Propel NY Energy Project and as further described in Section 31.4.5.1.8 of Attachment Y of the ISO OATT and Section 6.10.6 of Rate Schedule 10 of the ISO OATT. If implicated, those cost allowance provisions will be reflected independently in column (a) and corresponding columns. As permitted by Section 6.10.6.2 of Rate Schedule 10 to the ISO OATT, the following excusing conditions apply which excuses New York Transco from the applicable Cost Cap on recovering the Included Capital Costs of the Propel New York Energy Project to the extent the costs arise from one of the following:
>
> 1. Transmission project changes, delays, or additional costs that are due to the actions or omissions of the NYISO, Connecting Transmission Owner(s), Interconnecting Transmission Owner(s), Affected Transmission Owner(s), or other Designated Entity(ies) responsible for completing other parts of the Propel New York Energy Project, as those terms are defined in the ISO OATT;
> 2. A Force Majeure event as defined in the Development Agreement and subject to the Force Majeure requirements in Section 15.5 of the Development Agreement;
> 3. Changes in laws or regulations, including but not limited to applicable taxes;
> 4. Material modifications to scope or routing arising from siting processes under Public Service Law Article VII or applicable local laws as

determined by the New York State Public Service Commission or local governments respectively; and

5. Actions or inactions of regulatory or governmental entities, and court orders.

Q 44. PLEASE DESCRIBE THE WORKPAPER YOU MENTION ABOVE.

A 44. The workpaper is an Excel spreadsheet with three tabs that is designed to determine the appropriate combined base ROE value and incentive ROE adders to apply to the allowable 80% cost overrun amount that would result in a rate recovery reduction that is equal to or better for ratepayers in the total long run revenue requirement on a present value basis compared to that which would have been achieved if Transco simply wrote-off its share of the 20% cost overrun. The worksheet attached to my testimony as Exh. No. TRANSCO-301 is an example calculation populated with values to demonstrate how the workpaper operates. Specifically, the tab titled "Rev. Req. Soft Cap 80-20" determines the net present value revenue requirement Transco would be entitled to if were to write-off its share of the 20% cost overrun. For purposes of the illustration, we have assumed an initial Included Capital Cost estimate of $1.8 billion and a 10% cost overrun resulting in a total in-service cost of $1.98 billion. We also assume a base ROE value of 10.7% and a 200 basis point ROE incentive adder consistent with the requests in this filing, along with assumptions on the effective tax rate, borrowing interest rate, weighted average cost of capital and 50 year expected life. These values will be populated with actual figures that reflect Transco's share of the cost overruns once they are known following the end of the construction phase. Based on the illustrative figures, Transco's total long run revenue requirement on a present value basis is $2.15 billion.

The tab titled "Rev. Req. ROE Sharing" includes the necessary information to determine the percentage reduction in the effective ROE value needed to result in cost recovery that is equivalent, on a net present value basis, to what Transco would recover if it were to simply write-off its share of the 20% of the cost overrun. The worksheet includes the same base assumptions described above. By calculating the net present value revenue requirement in tab "Rev. Req. Soft Cap 80-20," we can determine what effective ROE value is necessary for cost recovery to be equivalent under the "Rev. Req. ROE Sharing" tab. In this example, the result is 67.8503% of the effective 12.7% ROE resulting in a base ROE of 8.62% and no incentive ROE adders.

Finally, we have included a tab titled "No Cost Containment" that determines what the total long run revenue requirement for the Project would be if there is no cost containment mechanism applied. We perform this calculation to determine the overall ratepayer cost savings. In our example, ratepayers would save $40 million on a net present value basis over the life of the assets.

Together, the tabs included in this workpaper will reflect the allowable cost recovery for the Propel NY Energy Project in a transparent and appropriate manner.

Q 45. HOW DOES THIS INFORMATION THEN FLOW THROUGH THE FORMULA RATE?

A 45. The information from this workpaper will be used to populate the table that breaks out the total revenue requirement for each project investment. Transco will identify in the Line 66 series the Project investment attributable to costs below the cap, costs above the cap, and third party costs to delineate between those amounts that are subject to the cost containment ROE reduction and those amounts that the FERC-approved effective ROE will apply.

Q 46. DOES THIS CONCLUDE YOUR TESTIMONY?

A 46. Yes, this concludes my testimony.

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

New York Transco, LLC	)	**Docket No. ER24-____-000**

AFFIDAVIT OF ROBERT CASO

Pursuant to 28 U.S.C. § 1746, I, Robert Caso, under penalty of perjury, state under oath that the information contained in the foregoing "Prepared Direct Testimony of Robert Caso" on behalf of New York Transco, LLC is true, correct, accurate, and complete to the best of my knowledge and belief.

Executed this 18th day of October 2023

Robert Caso