Attachment C

Exhibit No. NYP-100

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

New York Power Authority **Docket No. ER24-___-000**

PREPARED DIRECT TESTIMONY
OF VINCENT ZUCCARELLI
ON BEHALF OF THE NEW YORK POWER AUTHORITY

April 29, 2024

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Vincent Zuccarelli. My business address is 123 Main Street, White Plains, NY 10601.

Q. By whom are you employed and in what capacity?

A. I am the Director of Transmission Revenue for the New York Power Authority ("NYPA"), which is a corporate municipal instrumentality and political subdivision of the State of New York.

Q. Would you please summarize your educational and professional background?

A. I received a Bachelor of Science degree in computer engineering from Manhattan College in 2003 and attained a Master of Science degree in electrical engineering from Manhattan College in 2006.

My professional experience includes 22 years at NYPA, the last five of which as the Director of Transmission Revenue and Pricing Analysis within the Finance Department. I am currently responsible for the Authority's regulated transmission rate development for all existing and newly developed transmission projects. Prior to joining Finance, I worked within Utility Operations for the majority of my career as the Asset and Program Manager for the Authority's Southeast New York transmission assets, where I was responsible for the development of its Regional Asset Management Plan as well as oversight of all operations and maintenance activities and capital investments in the region.

II. PURPOSE AND SCOPE OF TESTIMONY

Q. What is the purpose and scope of your testimony?

A. The purpose and scope of my testimony is to describe NYPA's proposed changes to its transmission formula rate contained in the New York Independent System Operating ("NYISO") Open Access Transmission Tariff ("OATT" or "Tariff"). The proposed changes revise the calculations of most rate base items and all capitalization items from a beginning of year/end of year average to a 13-month average. In addition, NYPA is proposing to add land held for future use to rate base and the amortization and interest portions of right to use assets under Governmental Accounting Standards Board ("GASB") statements 87 and 96 to amortization expense, operations and maintenance ("O&M") expenses (for interest on transmission assets) and administrative and general ("A&G") expenses (for interest on general assets). Lastly, NYPA is proposing to add depreciation rates for three new transmission accounts for computer hardware, computer software and communications equipment, as provided for in Commission Order No. 898, Accounting and Reporting Treatment of Certain Renewable Assets (includes creating new accounts within existing functions for computer hardware, software and communications equipment).[1] Adding these accounts to the transmission function requires revisions to the depreciation rate schedule in NYPA's transmission formula rate. I will describe the accounts and explain the derivation of the depreciation rates later in my testimony.

III. DETERMINATION OF RATE BASE, CAPITALIZATION AND OTHER FORMULA RATE CHANGES

Q. Does NYPA have a transmission formula rate authorized by the Commission?

[1] Final Rule, *Accounting and Reporting Treatment of Certain Renewable Energy Assets*, 183 FERC ¶ 61,205 (2023).

A. Yes. NYPA has a transmission formula rate by which it recovers its transmission revenue requirement under the NYISO OATT. It is contained in Section 14.2.3 of Attachment H to the NYISO OATT. NYPA's transmission formula rate was initially made effective by the Commission on April 1, 2016 in Docket No. ER16-835[2] and formally approved in accordance with NYPA's formula rate settlement adopted by Commission order dated January 19, 2017.[3] NYPA has requested, and the Commission has approved, several changes to NYPA's transmission formula rate since that time.

Q. Generally describe the design of NYPA's transmission formula rate.

A. NYPA's transmission formula rate uses actual data for the prior calendar year to determine its annual transmission revenue requirement for each rate year beginning July 1 and ending on June 30 of the subsequent year. The transmission formula rate includes transmission operations and maintenance expense, an allocation of administrative and general expense, depreciation and amortization of transmission and allocated general and intangible assets, return on rate base, including incentive returns, and a true-up adjustment.

Q. Please explain how rate base is determined.

A. NYPA's current transmission formula rate includes net electric plant in service, cash working capital, Marcy South capitalized lease, materials and supplies, prepayments and construction work in process ("CWIP"). These cost components, except for working capital and CWIP,[4] are determined using a beginning of year/end of year average approach, that is, the average of two values. NYPA's transmission formula rate also determines debt and net position (equity) capitalization using this same beginning of year/end of year

[2] *N.Y. Indep. Sys. Operator, Inc*., 154 FERC ¶ 61,268 (2016).
[3] *N.Y. Indep. Sys. Operator, Inc*., 158 FERC ¶ 61,043 (2017).
[4] NYPA's transmission formula rate determines cash working capital using 45 days of O&M and includes the year-end CWIP balance.

average approach.

Q. Is this beginning of year/end of year average approach for determining rate base and capitalization typical of most transmission formula rates in use in the United States?

A. No, it is not. Most transmission formula rates determine rate base and capitalization using a 13-month average of applicable values.[5]

Q. What is the advantage of using a 13-month average versus a beginning of year/end of year average in determining rate base and capitalization in a transmission formula rate?

A. The advantage of using a 13-month average is that it provides a more accurate result of the values of rate base and capitalization experienced by a transmission owner during a year.

Q. Explain why the 13-month average approach is more accurate.

A. The 13-month average approach provides a more accurate average as it considers the balance of the item at the end of each month (it uses 13 values to determine the annual average). On the other hand, the beginning of year/end of year average only considers the balances on December 31 of the prior year and on December 31 of the current year (it uses two values to determine the annual average).

Q. Can you provide an example to demonstrate the superiority of the 13-month average approach?

A. Suppose a transmission owner put in service a $130 million investment in December. With the beginning of year/end of year average approach, $65 million would be included in rate base, based on the average of a zero balance on the prior December 31st and $130 million balance at the end of the subsequent year. Effectively, this treats the asset as though it went into service on July 1st rather than when it actually went into service, which is December. Using the 13-month average, only $10 million would be included in rate base in that same

[5] For a transmission formula rate using calendar year data, the 13 months used are December 31 of the prior year and the ending monthly balance for each month in the current year (January through December).

set of facts: $0 for each month starting December of the prior year through November of the current year and then a $130 million balance in December of the current year – for an average of $10 million. Effectively, only one month's value of such asset would be included in rate base, accurately reflecting its in service occurring in December. On the other hand, suppose a transmission owner put in service a $130 million investment in March. With the beginning of year/end of year average, only $65 million would be included in rate base (average of $0 and $130 million), again treating the asset as though it went into service on July 1st. But the 13-month average approach embodies a more realistic representation of how the utility's capital assets were used: 10/13s ($100 million) of such asset would be included in rate base ($0 for the months December prior year through February current year and $130 million for the months March through December current year – for an average of $100 million),[6] accurately reflecting its in-service occurring in March and continuing for the remainder of the 13-month period.

Q. Why does NYPA want to change its transmission formula rate from the beginning of year/end of year average to a 13-month average?

A. When NYPA's transmission formula rate was first established in 2016, NYPA's asset additions and capitalization were not impacted by large transmission projects or large debt offerings, so the beginning of year/end of year average produced fairly accurate rate base and capitalization. However, that has changed. NYPA has and is expected to continue both to develop and construct large transmission projects that come into service at various times of the year and to issue large debt offerings also at various times of the year. Therefore, to realize a more accurate values for rate base and capitalization in its

[6] This calculation can be summarized as follows: ($130 M ∗ 10 months) + ($0 ∗ 3 months) = $1.3 billion; $1.3 billion ÷ 13 months = $100 M average plant balance.

transmission formula rate, NYPA proposes to adopt a 13-month average approach. Note further, the 13-month average is always a better reflection of how an additional capital asset was used, and it does not inject bias in favor of the utility. In the first example discussed above, the method appropriately recognized that only $10 million was put in service over that 13-month period, and not $65 million as determined using the begin year/end of year average. In the second example, the method made the appropriate recognition that the capital assets were in use for 10 of the 13 months used in calculating the average, and a $100 million plant balance is more accurate than $65 million.

Q. Describe the necessary changes to NYPA's transmission formula rate to adopt a 13-month average approach for most rate base items and for capitalization.

A. NYPA includes with this filing an updated, unpopulated transmission formula rate template containing the 13-month average for rate base and capitalization in clean format. NYPA also includes with this filing an updated, unpopulated transmission formula rate template in redline format to show the revisions as compared to the current unpopulated formula.[7] Last, I have included Exhibit No. NYP-101 that describes the changes NYPA is proposing to its transmission formula rate to adopt the 13-month average approach.

Q. Why is NYPA not changing Workpaper WP-BD to a 13-month average?

A. Workpaper WP-BD contains the amortization schedule and unamortized value related to the Marcy-South transmission line. Since the amortization of these costs is linear, the beginning/end of year average, which NYPA uses on this Workpaper, results in the same value as the 13-month average. Therefore, NYPA is not proposing to change this Workpaper.

[7] The current unpopulated transmission formula rate results from changes made in Docket No. ER23-491. *See* Delegated Order dated March 15, 2024 approving Settlement filed on December 8, 2023. Attachment B to the Settlement contains the approved unpopulated transmission formula rate template (Exhibit A).

Q. What other changes is NYPA proposing to make to its transmission formula rate?

A. NYPA is proposing to add land held for future use to its rate base. NYPA will add a new workpaper (WP-CC) to its formula rate template to calculate the 13-month average balance. Consistent with the FERC Uniform System of Accounts, NYPA will include here only the original costs of transmission land and land rights and held for future use in electric service under a plan for such use in accordance with the instructions for FERC Account 105. NYPA is also proposing to add the amortization and interest components of "right to use" contracts, recorded consistent with recently issued GASB statements, to either O&M (transmission-related interest on Schedule A1-O&M), A&G (general- and intangible-related interest on Schedule A2-A&G) or depreciation expense, accordingly.

Q. Please explain NYPA's request to add the amortization and interest components of right to use contracts to its formula rate template.

A. In accordance with two GASB statements, 87[8] and 96,[9] beginning in 2022 and 2023, respectively, NYPA records the net present value of payments under these right to use contracts as an asset and liability and amortizes the asset and determines interest expense, accordingly. Prior to GASB 87 and 96, NYPA was recording payments under such contracts as operating expenses, which were recovered under its formula rate template as an O&M expense for transmission contracts and as an A&G expense for general contracts

[8] GASB Statement No. 87, *Leases* (June 2017) (effective fiscal years beginning after June 15, 2021) ("GASB 87") (available at https://gasb.org/page/ShowPdf?path=GASBS87.pdf&title=GASB%20Statement%20No.%2087,%20Leases). GASB 87 covers certain "leases," *i.e.* contracts for a term of one year or longer that convey control of the right to use another entity's nonfinancial assets, including building, land, vehicles and equipment. GASB 87 at i-ii.

[9] GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (May 2020) (effective fiscal years beginning June 15, 2022) ("GASB 96") (available at https://gasb.org/page/ShowPdf?path=GASBS+96.pdf&title=GASB%20STATEMENT%20NO.%2096,%20SUBSCRIPTION-BASED%20INFORMATION%20TECHNOLOGY%20ARRANGEMENTS). GASB 96 covers contracts that convey the control of the right to use an IT vendor's software, alone or in combination with tangible underlying IT capital assets. GASB 96 at 3.

(*e.g.*, IT subscription contracts). Under GASB 87 and 96, NYPA now amortizes the assets created to amortization expense (FERC Account 403.1) and records interest expense (FERC Account 431.1), both of which are not included NYPA's current formula rate template. NYPA proposes to include the amortization and interest expense on WP-AB and then forward amounts to WP-AA to categorize such items as transmission or general and then to Schedule A1-O&M, A2-A&G or B1-Depreciaton, as applicable. Thus, NYPA requests to add the amortization and interest components of these right to use contracts to its formula rate template, as described above, in order to recover the transmission-related portion. NYPA simply seeks to restore its ability to recover right to use contract payments in its formula rate template as it was doing prior to these GASB 87 and 96 changes.

IV. DEPRECIATION RATE CHANGES

Q. Explain the changes to Schedule B3-Depreciation Rates.

A. Pursuant to Order No. 898, Accounting and Reporting Treatment of Certain Renewable Assets (includes creating new accounts within existing functions for computer hardware, software and communications equipment),[10] NYPA is proposing to add depreciation rates for new transmission accounts for computer hardware, computer software and communications equipment to Schedule B3-Depreciation of its formula rate template. The transmission computer hardware and software have five-year lives, so NYPA proposes a 20% depreciation rate, like computer equipment with a five-year life in the general function and software in the intangible plant function with a five-year life. NYPA proposes a 10% depreciation rate for transmission communications equipment, the same as the depreciation rate used for general communications equipment.

[10] 183 FERC ¶ 61,205 (2023).

V. SUMMARY OF CHANGES

Q. Can you provide a summary of the changes NYPA is seeking in this application?

A. Yes, a description of the more significant changes NYPA is proposing is as follows, but I note that a comprehensive listing of all NYPA's proposed formula rate changes is included in Exhibit No. NYP-101:

1. Schedule A1-O&M: Includes interest on transmission-related time of use assets;
2. Schedule A2-A&G: Includes interest on general and intangible-related time of use assets;
3. Schedule B2-Plant: This schedule develops by function plant in service, accumulated depreciation and net plant in service. The current version of this Schedule calculates the average using beginning of year/end of year values. NYPA has eliminated those calculations and replaced them with a link to the 13-month average balance calculations on Workpaper WP-BB, WP-BC, WP-BE, WP-BF and WP-BG;
4. Schedule B3-Depreciation Rates: Added three additional accounts to transmission plant;
5. Schedule C1-Rate Base: Includes land held for future use, and the CWIP balance is from Note 7 on the bottom of this Schedule, with the 13-month average balance developed on WP-BC, WP-BC Support A and Support B;
6. Schedule WP-BC Support A and Support B: These are new workpapers that calculate the 13-month average gross plant in service and accumulated depreciation, respectively, that are brought forward to WP-BC and then to Schedule B2-Plant;
7. WP-BE Support: This is a new workpaper that calculates the 13-month average

gross plant in service and accumulated depreciation for the excluded FACTS Project which values are then brought forward to WP-BE and Schedule B2-Plant;

8. WP-BF Support: This is a new workpaper that calculates the 13-month average gross plant in service and accumulated depreciation for the excluded generator step-up transformers which values are then brought forward to WP-BF and Schedule B2-Plant;
9. WP-BG Support: This is a new workpaper that calculates the 13-month average gross plant in service and accumulated amortization for the excluded hydroelectric relicensing costs included in the general and intangible asset function which values are then brought forward to WP-BG and Schedule B2-Plant;
10. WP-BJ Support: This is a new workpaper that calculates the 13-month average gross plant in service and accumulated amortization for transmission projects for which the formula rate computes the annual transmission revenue requirement on Schedule F1-Project Revenue Requirement. These values are carried forward to Workpaper BJ and Schedule F1-Project Revenue Requirement; and
11. WP-CC LHFU: A new workpaper to develop the 13-month average land held for future use value to include in rate base.

VI. CONCLUSION

Q. Please summarize your request to the Commission.

A. NYPA requests approval of the transmission formula rate modifications described in this filing, which includes converting to a 13-month average approach for most rate base items and for capitalization; adds land held for future use to rate base and interest on

leases to O&M and A&G, as appropriate; and adds three new accounts and their respective depreciation rates on Schedule B3-Depreciation.

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

A. Yes, it does.

New York Power Authority
Transmission Formula Rate Template Changes

Schedule or Workpaper	Description of Change
Index	Added several, new supporting workpapers that are necessary for calculating the 13-month average balances that are then carried forward to the core workpapers and added a workpaper for land held for future use.
Summary	References to Schedule C1 changed to reflect change in line numbers.
A1-O&M	Addition of interest on transmission right-of-use assets.
A2-A&G	Addition of interest on general and intangible right-of-use assets.
B1-Depreciation	Addition of amortization of right-of-use assets
B2-Plant	The inputs to Schedule B2, Adjusted Plant in Service, come from workpapers WP-BB, WP-BC. WP-BE, WP-BF and WP-BG. Those inputs now reflect the 13-month average approach, so NYPA has changed Schedule B2 to accept those inputs. Since Schedule B2 no longer needs to compute the plant in service beginning of year/end of year averages, NYPA has removed these calculations. Additionally, the Plant in Service NYPA Form 1 Equivalent cell references have been removed.
B3-Depreciation	Added three new transmission accounts and their respective depreciation rates.
C1-Rate Base	Links for Net Electric Plant in Service, Materials and Supplies and Prepayments changed due to changes to the source workpapers resulting from the move to the 13-month average calculation. References and text in footnotes updated to reflect changes to other schedules or workpapers. Added line for Land Held for Future Use.
D1-Capital Structure	No changes.
D2-Project Capital Structures	CEEC and SPC project capital structure formulas updated to link to WP-DA.
E1-Allocator	No changes.
F1-Project Revenue Requirement	Several links to other schedules or to workpapers changed due to changes in averaging approach. Several references changed due to changes to other schedules.
F2-Incentives	No changes.
F3-True-up	No changes.
WP-AA	Lines added for interest on and amortization of right-of-use assets

New York Power Authority
Transmission Formula Rate Template Changes

Schedule or Workpaper	Description of Change
WP-AB	Lines added for interest on and amortization of right-of-use assets
WP-AC	Two links to other schedules changed due to changes in averaging approach. References in notes changed to reflect changes to other schedules.
WP-AD	Two links to other schedules changed due to changes in averaging approach. References in notes changed to reflect changes to other schedules.
WP-AE	No changes.
WP-AF	No changes.
WP-AG	No changes.
WP-AH	No changes.
WP-AI	Made changes to accommodate the 13-month average approach coming from another workpaper. Added “Line No.” to first column.
WP-BA	Added new transmission 351.1, 351.2 & 351.3 and general 391.2 & 391.3 accounts.
WP-BB	Changes to reflect 13-month average approach. Made page formatting changes.
WP-BC	Changes to reflect 13-month average approach. Made page formatting changes. Line added to account for CEEC CWIP values
WP-BC Support A	New workpaper to determine gross plant values using 13-month average approach for WP-BC.
WP-BC Support B	New workpaper to determine accumulated depreciation values using 13-month average approach for WP-BC.
WP-BD	No changes.
WP-BE	Changes to reflect 13-month average approach. Line number format change.
WP-BE Support	New workpaper to determine gross plant in service and accumulated depreciation values using 13-month average approach for WP-BE.
WP-BF	Changes to reflect 13-month average approach.
WP-BF Support	New workpaper to determine gross plant in service and accumulated depreciation values using 13-month average approach for WP-BF.
WP-BG	Changes to reflect 13-month average approach.

New York Power Authority
Transmission Formula Rate Template Changes

Schedule or Workpaper	Description of Change
WP-BG Support	New workpaper to determine plant in service and accumulated depreciation values using 13-month average approach for WP-BG.
WP-BH	Changes to reflect 13-month average approach. Made page formatting changes. New note added.
WP-BI	Changes to reflect 13-month average approach. Made page formatting changes.
WP-BJ	Changes to reflect 13-month average approach. Made page formatting changes.
WP-BJ Support	New workpaper to determine plant in service and accumulated depreciation values using 13-month average approach for WP-BJ.
WP-CA	Changes to reflect 13-month average approach. Made page formatting changes. New note added.
WP-CB	Changes to reflect 13-month average approach. Made page formatting changes. New note added. Eliminated “Estimated” in heading.
WP-CC	New workpaper added to develop 13-month average amount for Land Held for Future Use.
WP-DA	Made number formatting changes. Changed some links to other workpapers due to 13-month average approach. Made page formatting changes. References in notes changed to reflect changes to other workpaper.
WP-DB	Changes to reflect 13-month average approach. References to NYPA Form 1 Equivalent changed to reflect 13-month average approach. New note added.
WP-EA	No changes.
WP-AR-IS	No changes.
WP-AR-BS	No changes.
WP-AR-Cap Assets	Format change to include future row additions.
WP-Reconciliations	Changes due to 13-month average approach and for reconciling rate base amounts as of December 31.