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January 9, 2025

SUBMITTED VIA eTARIFF FILING

The Honorable Debbie-Anne Reese
Acting Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

**Re: *New York Transco LLC*
 Proposed Revisions to New York Transco LLC Formula Rate
 Docket No. ER25-____-000**

Dear Secretary Reese:

Pursuant to Section 205 of the Federal Power Act (“FPA”)¹ and Part 35 of the Federal Energy Regulatory Commission’s (“Commission” or “FERC”) regulations,² New York Transco LLC (“Transco” or the “Company”) submits this request for approval to revise its formula rate included in Attachment DD, Section 36 of the New York Independent System Operator, Inc. (“NYISO”) Open Access Transmission Tariff (“OATT” or “Tariff”) (“Formula Rate”),³ to: (i) include certain additional operation and maintenance expense accounts from the FERC Uniform

¹ 16 U.S.C. § 824d.

² 18 C.F.R. Part 35 (2024).

³ NYISO submits this filing in its role as Tariff Administrator. The burden of demonstrating that the proposed Tariff amendments are just and reasonable rests with Transco, the sponsoring party. NYISO takes no position on any substantive aspect of this filing at this time and reserves its right to subsequently file comments relating to this filing. Capitalized terms not defined herein shall have the meaning set forth in the NYISO OATT.

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System of Accounts (“USofA”)⁴ to allow for the recovery of prudently incurred, transmission-related expenses, and (ii) to establish a company-wide base return on equity (“ROE”) of 10.9%.⁵

Under the existing Formula Rate, rather than a base ROE value that applies to all Transco transmission investment, Transco employs a project-specific base ROE for each project that it develops and owns. This project-by-project base ROE determination has become administratively complicated and is not consistent with the more common approach used by other transmission developers, including developers in New York, to establish base ROEs for all transmission investment within a specific region or state. Transco now seeks to amend its Formula Rate to establish a consistent company-wide base ROE for rate recovery. Establishing a company-wide base ROE will ensure rate certainty and will align it with the customary way electric transmission developers structure their rates.

Transco confirms that the new company-wide base ROE proposed here **will not apply to Transco’s recovery for its development of and investment in the Propel New York Energy Alternate Solution 5 Project (“Propel NY Energy Project”)**. In accordance with the terms of a FERC-approved settlement, the settling parties agreed to a base ROE value of 10.3% for the Propel NY Energy Project.⁶ That settlement also includes a stay-out provision that prohibits Transco from making any filings that would modify the base ROE value of 10.3%, effective ROE value of 11.3%, and any other settlement provision prior to May 31, 2030.⁷ To be abundantly clear, Transco does not seek to make any changes to the settlement approved in Docket No. ER24-232-000, et al.⁸

Transco requests that the proposed changes to the NYISO OATT and approval of the requested base ROE value become effective March 11, 2025.

⁴ 18 C.F.R. Part 101 (2024).

⁵ As described herein, the base ROE proposed here will not apply to Transco’s investment in the Propel New York Energy Solution project – cost recovery for that project is subject to the FERC-approved settlement in Docket No. ER24-232.

⁶ *New York Transco, LLC, et al.*, 189 FERC ¶ 61,209 (2024).

⁷ *Uncontested Offer of Settlement* at § 3.5 (Aug. 21, 2024) (“Propel Settlement”).

⁸ *Texas Eastern Transmission Corp.*, 69 FERC ¶ 61,309 (1994); *Columbia Gas Transmission Corp.*, 40 FERC ¶ 61,195 (1987) (A settlement is binding on all parties to the settlement once it is approved and becomes a Commission order); see also *Pa. Water & Gas Co. v. FPC*, 463 F.2d 1242 (D.C. Cir. 1972).

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I. BACKGROUND

A. Description of Transco

Transco is a New York limited liability company that develops high voltage bulk transmission facilities and maintains those projects under the functional and operational control of the NYISO.⁹ Transco's corporate objective is to plan, develop and own new high-voltage electric transmission projects designed to reduce energy prices for consumers, facilitate the integration of renewable generation resources into the grid, and provide long-term grid reliability and resiliency. Transco is a transmission-owning member of NYISO and recovers its revenue requirements in accordance with the formula rate included in Attachment DD and the Transco Facilities Charge under Rate Schedule 13 of the NYISO OATT.

B. Description of Transco Formula Rate

Transco's formula rate template and formula rate implementation protocols were first established in Docket No. ER15-572-000 ("Formula Rate Filing"). At the time of the filing, Transco intended to own and operate the Transmission Owner Transmission Solution ("TOTS") portfolio of projects and potentially develop and own the proposed solutions to relieve historic congestion on the transmission lines near Albany known as the "Central East" and the "Upstate New York – Southeastern New York" constraints that were identified in the long-standing New York State Public Service Commission ("NYSPSC") regulatory process (the "AC Transmission Projects"). The parties in the Formula Rate Filing engaged in settlement discussions and Transco's current Formula Rate 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").¹⁰ The TOTS Settlement provided for, among other things, the general formula that would apply for Transco's investment in all electric transmission facilities, a TOTS-specific base ROE value of 9.5%, and incentive rate ROE adders specific to the TOTS cost recovery.¹¹

⁹ Transco is owned by the following affiliates of the "New York Transmission Owners": Consolidated Edison Transmission, LLC, Grid NY LLC; Avangrid Networks New York TransCo, LLC; and Central Hudson Electric Transmission LLC.

¹⁰ See *Certification of Uncontested Settlement*, 154 FERC ¶ 63,007 (2016).

¹¹ See *Offer of Partial Settlement*, Section 2.1 ("Except as expressly set forth herein, this Settlement Agreement applies to the Applicants' TOTS Projects . . ."); Section 3.2 (establishing a base ROE of 9.5% that would apply "to the capital costs of the TOTS Projects").

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The second settlement, also in Docket No. ER15-572-000, et al., 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's Public Policy Transmission Planning Process ("PPTPP") and a competitive solicitation NYISO administered in accordance with the PPTPP ("AC Transmission Project Settlement").¹² As part of the AC Transmission Project Settlement, accepted by the Commission by Letter Order on November 16, 2017, the parties agreed to an AC Transmission Project-specific ROE value of 9.65% and incentive rate ROE adders specific to the AC Transmission Project cost recovery.¹³ Transco was ultimately awarded the Segment B and Segment B Additions components of the AC Transmission Projects (subsequently renamed as the New York Energy Solution ("NYES"), Rock Tavern – Sugarloaf Upgrade ("RTS Upgrade"), and Dover phase angle regulator ("Dover PAR") substation projects).

As a result of the settlements in Docket No. ER15-572-000, et al., and as confirmed in the Propel Settlement, Transco's base ROE values are project specific and Transco is required to submit a new filing and propose a base ROE value for each transmission investment and project it develops.¹⁴ This filing seeks a company-wide base ROE that will apply to all current and future transmission investment, other than the Propel NY Energy Project, for greater efficiencies and consistency with industry standards.

II. SUMMARY OF REQUESTED ACTIONS

A. Revisions to Formula Rate

Transco requests that the Commission accept for filing the following revisions to the Transco cost recovery provisions under the NYISO OATT:

1. Minor Changes to the Formula Rate

Transco requests approval to include Account Nos. 561.1 through 561.8 of the Commission's USofA to allow for the recovery of costs for general transmission operation and maintenance expenses related to reliability, planning, standards development, transmission service

¹² See *Certification of Uncontested Settlement*, 160 FERC ¶ 63,021 (2017). Transco was awarded development rights to the Segment B and Segment B Additions components of the AC Transmission Projects through a NYISO competitive solicitation.

¹³ See *Offer of Settlement*, Section 2.1 ("This Settlement resolves all outstanding issues pertaining to NY Transco Docket No. ER15-572-000 associated with the AC Transmission Project proposals . . ."); Section 3.2 (establishing a base ROE of 9.65% that would apply "to all AC Transmission Project-related investments . . .").

¹⁴ As noted, *supra*, Transco filed a base ROE for its investment in the Propel New York Energy Project in Docket No. ER24-232-000.

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studies, and generation interconnection studies.¹⁵ Transco's Formula Rate currently excludes these accounts from cost recovery. However, each of these expense items are transmission-related expenses that will be prudently incurred in accordance with the requirements of the NYISO transmission owner membership agreements.

2. Establishment of Company-Wide Base Return on Equity Value

As described above, Transco does not have a company-wide base ROE value in its current Formula Rate and is required to apply for a base ROE for each individual project. Transco requests approval of a single base ROE value of 10.9% to be applied to Transco's transmission investment on a company-wide basis. As explained below, a company-wide base ROE for Transco is appropriate for its evolving role as both a transmission owner and transmission developer in NYISO. The base ROE value is supported by the analysis and testimony Mr. Adrien McKenzie, which is attached as Exhibit No. TRANSCO-200 within Attachment D. As explained by Mr. McKenzie, the requested base ROE of 10.9% is well within the composite zone of reasonableness of 8.35% - 13.16%.¹⁶

III. CONTENTS OF FILING

In addition to this filing letter, which provides support for the approvals requested herein, this filing contains the following components:

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|---------------|--|
| Attachment A: | Redline revisions to Attachment DD (Section 36) of the NYISO OATT with proposed revisions to include the FERC Accounts requested and to incorporate the change to the company-wide base ROE; |
| Attachment B: | Clean version of the proposed revisions to Attachment DD (Section 36) of the NYISO OATT; |
| Attachment C: | Direct Testimony of Mr. Robert Caso (Exhibit No. TRANSCO-100); |
| Attachment D: | Direct Testimony and Supporting Exhibits of Mr. Adrien McKenzie (base return on equity methodology) (Exhibit Nos. TRANSCO-200 through TRANSCO-212). |

¹⁵ 18 C.F.R. Part 101 §§ 561.5 – 561.7.

¹⁶ The change in the base ROE value from 9.5% to 10.9% is reflected in the redline revisions to Attachment DD (Section 36) of the NYISO OATT and included in Attachment A to this filing.

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IV. THE PROPOSED REVISIONS TO THE FORMULA RATE ARE JUST AND REASONABLE

A. The Addition of FERC USofA Accounts to the Formula Rate

1. Identification and support for inclusion of accounts.

Transco's Formula Rate currently excludes Account Nos. 565, 561 and 561.1 through 561.8 which are listed as operational transmission expense accounts in the Commission's USofA.¹⁷ As described by Company witness Robert Caso, when Transco first submitted its Formula Rate proposal in 2014, Transco's future was still in question.¹⁸ Transco knew that it would have financial ownership of the TOTS projects, but there was still uncertainty around the new competitive solicitation process administered by the NYISO and whether Transco would be selected as a designated developer of any of the AC Transmission Project portfolio. Due to this uncertainty, and because Transco, at the time, did not foresee engaging in the types of transactions contemplated in Account No. 565 (Transmission of electricity by others),¹⁹ nor envision having to perform the types of services defined in the Account No. 561.1 - 561.8 series of accounts, Transco determined that there was no need to include the accounts in Transco's revenue requirement. If Transco ultimately were required to perform such services, it could contract with third parties or rely on member shared services and pass through such costs as outside services to Transco.

However, as Transco has become responsible for the development and physical ownership of increasing electric transmission investment and performs the requirements of a NYISO transmission-owning member, it has become clear that Transco will incur costs appropriately booked to Account Nos. 561.1 - 561.8, but that Transco's current Formula Rate will not permit recovery of these prudently-incurred costs. In accordance with the USofA, these accounts relate to the following cost items:

- Account No. 561.1 – Load Dispatch – Reliability: This account shall include the cost of labor, materials used and expenses incurred by a regional transmission service provider or other transmission provider to manage the reliability coordination function as specified by the North American Electric Reliability

¹⁷ See Formula Rate, Appendix A, Line 40. Line 40 specifies that Accounts 565, 561 and 561.1-561.8 are deducted from the transmission operation and maintenance cost items. The USofA does not include an Account No. 561 and Transco believes this reference was included to cover all of the subaccounts.

¹⁸ See Exh. No. TRANSCO-100, Direct Testimony of Robert Caso at 8 (“Caso Testimony”) as set forth in Attachment C.

¹⁹ FERC Account No. 565 includes “the amounts payable to others for the transmission of the utility's electricity over transmission facilities owned by others.”

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Corporation (NERC) and individual reliability organizations. These activities shall include performing current and next day reliability analysis. This account shall include the costs incurred to calculate load forecasts, and performing contingency analysis.

- Account No. 561.2 Load Dispatch – Monitor and Operate Transmission System: This account shall include the costs of labor, materials used and expenses incurred by a regional transmission service provider or other transmission provider to monitor, assess and operate the power system and individual transmission facilities in real-time to maintain safe and reliable operation of the transmission system. This account shall also include the expense incurred to manage transmission facilities to maintain system reliability and to monitor the real-time flows and direct actions according to regional plans and tariffs as necessary.
- Account No. 561.3 – Load Dispatch – Transmission Service and Scheduling: the costs of labor, materials used and expenses incurred by a regional transmission service provider or other transmission provider to process hourly, daily, weekly and monthly transmission service requests using an automated system such as an Open Access Same-Time Information System (OASIS). This account shall also include the expenses incurred to operate the automated transmission service request system and to monitor the status of all scheduled energy transactions.
- Account No. 561.4 – Scheduling, System Control and Dispatching Service: This account shall include the costs billed to the transmission owner, load serving entity or generator for scheduling, system control and dispatching service. Include[d] in this account [are] service billings for system control to maintain the reliability of the transmission area in accordance with reliability standards, maintaining defined voltage profiles, and monitoring operations of the transmission system.
- Account No. 561.5 – Reliability, Planning and Standards Development: This account shall include the cost of labor, materials used and expenses incurred for the system planning of the interconnected bulk electric transmission systems within a planning authority area.²⁰
- Account No. 561.6 – Transmission Service Studies: This account shall include the cost of labor, materials used and expenses incurred to conduct transmission service studies for proposed interconnections with the transmission system. Detailed

²⁰ Among other items, Account No. 561.5 includes: collecting transmission information and transmission facility characteristics and ratings; developing and documenting transmission expansion plans; and, maintaining transmission system models (steady-state, dynamics, and short circuit). These are activities that Transco performs.

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records shall be maintained for each study undertaken and all reimbursements received for conducting such a study.

- Account No. 561.7 – Generation Interconnection Studies: This account shall include the cost of labor, materials used and expenses incurred to conduct generation interconnection studies for proposed interconnections with the transmission system. Detailed records shall be maintained for each study undertaken and all reimbursements received for conducting such a study.
- Account No. 561.8 – Reliability Planning and Standards Development Services: This account shall include the costs billed to the transmission owner, load serving entity, or generator for system planning of the interconnected bulk electric transmission system. Include also the costs billed by the regional transmission service provider for system reliability and resource planning to develop long-term strategies to meet customer demand and energy requirements. This account shall also include fees and expenses for outside services incurred by the regional transmission service provider and billed to the load serving entity, transmission owner or generator.²¹

Transco's significant growth in transmission ownership and its anticipated ownership of additional, new transmission assets, including the Propel NY Energy Project as well as perhaps other projects selected in response to Public Policy Transmission Needs ("PPTNs") pursuant to the NYISO PPTPP, has made it clear that Transco needs to perform the services described above. For example, Transco is responsible to perform the tasks enumerated in Account No. 561.1 for its electric transmission assets that are not included in the Bulk Power System and comprising its 115kV and 138kV transmission and substation assets. Similarly, Transco is responsible for the Account No. 561.2 work items for its 115kV and 138kV transmission and substation assets. At this time, Transco engages third parties to perform these functions and assigns those costs to Account No. 923 (Outside services employed). Transco's significant growth suggests that it may be more efficient and cost effective if Transco were to open its own control center and utilize its own employees to perform these and other tasks. In doing so, it would no longer be appropriate to account for these costs in Account No. 923, the way Transco is currently accounting for these prudently incurred costs, and it will be necessary to book these and other prudently incurred transmission operation and maintenance expenses in the 561 series of accounts for recovery under the Formula Rate. Moreover, other transmission owners in New York currently have these

²¹ 18 C.F.R. Part 101 (2024).

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accounts as part of their FERC-approved formula rates and Transco's request is consistent with that precedent.²²

Inclusion of the accounts identified above in Transco's Formula Rate is appropriate to ensure that prudently incurred costs by Transco are recoverable. Therefore, it is appropriate that they be included in the Formula Rate itself.

2. Inclusion of the accounts will not result in a rate increase.

The inclusion of FERC Account Nos. 561.1 – 561.8 will not result in a rate increase or any double-recovery of costs. Transco's Formula Rate allows for recovery of all prudently incurred costs of the company, which may fluctuate year-over-year. To the extent Transco is currently incurring costs associated with the tasks and services described in the listed accounts, Transco has enlisted the services of outside providers to perform those functions and accounts for the costs in FERC Account No. 923.²³ Once Transco performs these services on its own, the costs will be reflected in the Account 561.1 – 561.8 series and the costs that had historically been included in the Account No. 923 will no longer be necessary nor incurred by the Company.

Further, in the event any costs are reimbursable to Transco under a separate bilateral agreement with any third party, Transco will maintain detailed records for each cost item undertaken and all reimbursements received for conducting such cost items as required by the instructions to these Accounts so that there is no duplicative recovery of study, or any other, costs. Transco believes that the inclusion of these accounts in its Formula Rate are necessary for proper cost recovery.

3. Proposed tariff revisions.

To implement the proposed change, Transco proposes to eliminate the reference to Account Nos. 561 and 561.1 through 561.8 from Line 40 of Appendix A in the Formula Rate. Specifically, Transco proposes to revise that line to read: "Less Account 565." Also, Transco proposes to revise the FERC Form No. Page, Line and Column references to read: "321.96.b." These changes are reflected in the redlined and clean versions of Attachment DD (Section 36) of the NYISO OATT included hereto as Attachments A and B. Other than the inclusion of these additional accounts in the Formula Rate, and the change to the base ROE value as described below, Transco is not

²² See, e.g., LS Power Grid New York, Attachment 1 to Rate Schedule 10 of the NYISO OATT, Section 6.10.7; NextEra Energy Transmission New York, Attachment 3 to Rate Schedule 10 of the NYISO OATT, Section 6.10.9.

²³ FERC Account 923 includes "the fees and expenses of professional consultants and others for general services which are not applicable to a particular operating function or to other accounts. It shall include also the pay and expenses of persons engaged for a special or temporary administrative or general purpose in circumstances where the person so engaged is not considered as an employee of the utility."

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proposing any other change to its FERC-approved Formula Rate which is consistent with the Commission's current, long-standing formula rate precedent and requirements.

B. Base Rate of Return on Equity

1. Transco's proposed base ROE is just and reasonable.

As discussed above, Transco's Formula Rate currently requires Transco to request individual base ROE values for each electric transmission project it develops. Through this filing, Transco now requests to establish a company-wide base ROE value that will apply to the TOTS projects and the AC Transmission Projects rate recovery as well as any future electric transmission asset that Transco develops and owns.²⁴

The need for Transco to establish a company-wide base ROE value is based on two primary factors. First, because Transco has developed and placed in-service multiple electric transmission assets, Transco could need to construct a Designated Public Policy Project (including those comprised of Public Policy Transmission Upgrades) and Designated Network Upgrade Facilities in accordance with the NYISO OATT.²⁵ Transmission Owners are permitted to recover the costs of such facilities in accordance with Rate Schedule 10 of the NYISO OATT and the company-wide base ROE value Transco seeks here would apply to those projects in conjunction with the Formula Rate to determine transmission asset revenue requirements.²⁶

Second, having a company-wide base ROE for its transmission projects will put Transco on equal footing with other transmission developers, including developers in the NYISO competitive transmission solicitations. A company-wide base ROE provides rate certainty, consistency and better clarity for current and future development activities.²⁷

A company-wide base ROE would be consistent with how similar transmission developers have structured their rates. For example, Viridon New York Inc. ("Viridon New York") submitted a tariff filing proposing a formula rate and formula rate implementation protocols to calculate its

²⁴ Transco's cost recovery for the Propel NY Energy Project is the subject of a settlement agreement filed in Docket No. ER24-232. Nothing in the instant application affects or changes the rate recovery for the Propel NY Energy Project.

²⁵ See Caso Testimony at 11, 13.

²⁶ See *Consolidated Edison Company of New York, Inc., et al.*, 185 FERC ¶ 61,091 (2023); see also, *Orange and Rockland Utilities, Inc.*, 187 FERC ¶ 61,110 (2024).

²⁷ Caso Testimony at 12-13. Transco recently submitted several proposed solutions to the current NYISO competitive solicitation for the New York City Offshore Wind PPTN. The base ROE established in this proceeding would apply to that project if one of Transco's proposed solutions is selected by the NYISO in that process. (*Id.*)

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revenue requirement for investment in transmission facilities in NYISO. Included in the filing is a request to establish a base ROE value of 11.7% for the transmission facilities it develops. The Commission accepted the formula rate and base ROE subject to hearing and settlement procedures thereby establishing the company-wide base ROE for Viridon New York.²⁸ The Commission has routinely accepted base ROEs for existing and new transmission investment.²⁹

Transco requests approval to establish a company-wide base ROE value of 10.9% in its Formula Rate. The base ROE is supported by the analysis and testimony of Mr. Adrien M. McKenzie. As explained by Mr. McKenzie, the requested base ROE of 10.9% is well within the composite zone of reasonableness of 8.35 - 13.16%.³⁰

Mr. McKenzie describes the risks faced by Transco as a transmission-focused entity and explains the critical role both the base ROE and the overall ROE will have in determining access to investment capital.³¹ Establishing an ROE that is sufficient to attract the necessary capital is essential for Transco as a transmission developer focused on development of large, complex transmission projects selected pursuant to an Order No. 1000-compliant competitive solicitation.

Mr. McKenzie's evaluation of a just and reasonable base ROE relies on the results of the two-step discounted cash flow ("DCF") model, the capital asset pricing model ("CAPM") and the risk premium method.³² In his testimony, Mr. McKenzie supports the use of the risk premium method and responds to the Commission's questions related to its use.³³ In addition, Mr. McKenzie supports supplementing these methods to include the results of the expected earnings approach.

²⁸ *Viridon N.Y. Inc.*, 186 FERC ¶ 61,125 (2024).

²⁹ See, e.g., *New York Independent System Operator, Inc., et al.*, 171 FERC ¶ 61,159 (2020) (Approving formula rate and establishing base ROE for LS Power Grid New York projects); *NextEra Energy Transmission New York, Inc.*, 161 FERC ¶ 61,138 (2017) (Establishing base ROE for NEET New York), *order on reh'g*, 162 FERC ¶ 61,186 (2018); *Consolidated Edison Co. of N.Y., Inc.*, 185 FERC ¶ 61,091 (2023) (Establishing base ROE for all future Rate Schedule 10 and Rate Schedule 19 projects); *Transource West Virginia, LLC*, 154 FERC ¶ 63,025 (2016). NYPA recently submitted a request to increase its base ROE value for all of its transmission investment in Docket No. ER25-198-000.

³⁰ Exh. No. TRANSCO-200, Direct Testimony of Adrien McKenzie at 14 ("McKenzie Testimony") as set forth in Attachment D.

³¹ McKenzie Testimony at Section III.

³² McKenzie Testimony at Section V.

³³ In a recent order, the Commission determined that the record in the proceeding did not support utilization of the risk premium method in the determination of the base ROE, but invited applications in future proceedings to support use of the risk premium methodology by answering certain specific questions. (See *Ass'n of Bus. Advocating Tariff Equity v. Midcontinent Indep. Sys. Operator, Inc.*, 189 FERC ¶ 61,036 (2024) ("Order on Remand"). Mr. McKenzie addresses these questions in his direct testimony. McKenzie Testimony at 9.

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The expected earnings approach serves as a direct measure of the expected returns on equity that investors associate with companies of comparable risk and provides a meaningful guide to the return the utility should be expected to earn on its book equity investment.³⁴

Mr. McKenzie employed a national proxy group composed of thirty-one risk comparable electric utilities (“National Proxy Group”) and utilized that proxy group in each of the methods.³⁵ Mr. McKenzie explains the development and selection of the National Proxy Group, elimination of low and high-end outliers, describes the DCF, CAPM, risk premium, and expected earnings methods, and the analysis under each. Mr. McKenzie also performs an ROE analysis that is consistent with the recent FERC Order on Remand related to a long-standing complaint proceeding to determine the just and reasonable ROE for transmission owners in the Midcontinent Independent System Operator, Inc. service territory and that determined only the DCF and CAPM models should be utilized in that proceeding. The results of Mr. McKenzie’s analysis are summarized below:

- Application of the two-step DCF methodology results in a zone of reasonableness of 7.37% to 11.44% with a median of 10.01% and a midpoint of 9.41%;
- The CAPM estimates suggest an average ROE range of 10.46% to 13.48% with a median of 11.90% and midpoint of 11.97%;
- The utility risk premium approach implies an ROE point estimate in the range of 7.95% to 12.75% with a median of 10.35% and midpoint of 10.35%;
- The expected earnings approach results in a range of 7.63% to 14.95% with a median of 10.88% and midpoint of 11.29%;
- The composite ROE determination results in a zone of reasonableness of 8.35% to 13.16 % with a median of 10.79% and midpoint of 10.75%.
- Application of the Commission’s Order on Remand approach of using the two-step DCF model and an application of the CAPM using Institutional Brokers’ Estimate System (“IBES”) growth rates to determine the market risk premium results in:
 - A two-step DCF methodology with a zone of reasonableness of 7.37% to 11.44% and a median of 10.01% and a midpoint of 9.41%;
 - CAPM estimates with an average ROE range of 10.79% to 13.99% with a median of 12.33% and midpoint of 12.39%;

³⁴ *Id.*

³⁵ McKenzie Testimony at 28; Exhibit No. Transco-602.

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- Composite ROE zone of reasonableness of 9.08% to 12.72% with a median of 11.17% and midpoint of 10.90%.
- The 10.9% base ROE recommendation reflects Mr. McKenzie's expert analysis and provides weight to the Commission's Order on Remand approach.

Overall, several factors support the conclusion that a generally applicable 10.9% base ROE is just and reasonable. First, the proposed base ROE of 10.9% is well within the composite zone of reasonableness of Mr. McKenzie's preferred four financial model approach of 8.35% to 13.16% and is also well within the composite zone of reasonableness using the Commission's methodology (9.08% - 12.72%).

Second, Mr. McKenzie applies the DCF model to a select group comprised of low-risk companies to the non-utility sectors of the economy. The DCF analysis of this group results in median cost of equity estimates ranging from 10.03% to 10.37% and midpoint values ranging from 10.90% to 11.22%.³⁶ The recommended 10.9% base ROE is consistent with these comparable metrics.

Third, while the 10.9% value is well within the composite zone of reasonableness derived from the DCF model, the CAPM, Risk Premium Method, and the Expected Earnings approach, it is relevant to note that the proposed base ROE of 10.9% is below the 11.17% median value derived through a strict application of the Commission's recent Order on Remand approach, and is effectively set at the lower midpoint value of that approach. Mr. McKenzie's recommendation for a 10.9% base ROE value, while higher than the 10.79% median value determined by his analysis, reflects his expert opinion to give due consideration to the results of the approach adopted by the Commission in its Order on Remand. As a result, and given that the 10.9% value is determined as the midpoint value under the Commission's Order on Remand approach, Mr. McKenzie's approach is just and reasonable.³⁷

Further, Mr. McKenzie's testimony supports use of the risk premium method and responds to the Commission's concerns as enumerated in the Order on Remand. Specifically, in that case, the Commission determined that "the record does not contain any evidence suggesting that investors use the Risk Premium model adopted in Opinion No. 568-A" or "that would resolve the

³⁶ *Id.* at 15.

³⁷ The Commission typically uses the median value for single utility ROE ratemaking purposes, and the midpoint value for a group of utilities. Here, the 10.9% base ROE value is appropriate given that it also reflects the midpoint value of the Commission's Order on Remand approach. *Ass'n of Bus. Advocating Tariff Equity et al. v. Midcontinent Indep. Sys. Operator, Inc. et al.*, Opinion No. 569, 169 FERC ¶ 61,129 at P 144 (2019).

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circularity concerns inherent in the risk premium model adopted in Opinion No. 569-A.”³⁸ Mr. McKenzie testifies that the merit of any financial model, including the DCF and CAPM models, is not premised on a demonstration that investors rely on any particular model in estimating returns and making investment decisions.³⁹ A variety of models have been developed to approximate investors’ expectations and reliance on one model over another is not directly observable in the market.

Mr. McKenzie also refutes the claim that the risk premium model is undermined by circularity and demonstrates that the Commission’s concerns are misplaced.⁴⁰ “Because allowed ROEs consider market inputs and are not based strictly on past regulatory findings, this mitigates concerns over any potential for circularity.” Mr. McKenzie cites to well-respected experts and treatises in demonstrating that any circularity issue is easily overcome by the fact that even the models the Commission does prefer (the DCF model, in particular) are susceptible to similar criticisms.⁴¹

Transco respectfully requests that the Commission accept Transco’s proposal to include a base ROE value of 10.9% for use in the Formula Rate and applicable to the TOTS Projects,⁴² the

³⁸ Order on Remand at P 23.

³⁹ McKenzie Testimony at 48-50.

⁴⁰ McKenzie Testimony at 50-51.

⁴¹ McKenzie Testimony at 51. Mr. McKenzie also responds to additional concerns with the risk premium model and demonstrates that the risk premium approach is recognized as a distinct financial model and is not redundant with the CAPM methodology (Id. at 51-52), and that the risk premium method is no less predictable and transparent than other models refuting the Commission’s determination that it does not lend itself to a methodological decision (Id. at 52-53).

⁴² In accordance with the TOTS Settlement, a 50-basis point ROE adder for Customer Benefits applies to the TOTS Projects. Combined with the requested 10.9% base ROE, the resultant 11.4% effective ROE for the TOTS Projects is well within the zone of reasonableness of 8.35% to 13.16%. The TOTS Projects’ benefits are enumerated in an order issued by the NYSPSC on November 4, 2013. *Proceeding on Motion of the Commission to Review Generation Retirement Contingency Plans*, NYSPSC Case No. 12-E-0503 at 24 (Nov. 4, 2013) (“Thus, for the first 15 years of asset life, DPS Staff estimated net benefits to have a net present value (NPV) of approximately \$260 million in 2016 dollars. For the full 40 years of rate recovery, the NPV of net benefits was estimated to be approximately \$670 million. DPS Staff indicates that if IPEC were retired, the estimated net benefits of the TOTS projects are expected to be higher.”).

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AC Transmission Projects,⁴³ and any future electric transmission project or facility developed and owned by Transco.⁴⁴

2. Transco's proposed new base ROE value results in a minor increase in the TOTS Project and AC Transmission Projects yearly revenue requirement.

Transco seeks to establish a company-wide base ROE value that will apply to all of its current and future transmission investment, other than its investment in the Propel NY Energy Project. As a result, the base ROE value for Transco's investment in the TOTS Project (currently set by settlement at 9.5%) and the AC Transmission Project (including the NYES, RTS Upgrade and Dover PAR projects and currently set by settlement at 9.65%) would increase to the 10.9% base ROE value included with this application.⁴⁵

Transco's most recent Annual Projection for Rate Year 2025 was published on September 30, 2025, and is publicly available on the NYISO Billing Rates page on its website.⁴⁶ In that projection, Transco calculated a Rate Year 2025 annual revenue requirement for the TOTS

⁴³ In accordance with the AC Transmission Project Settlement, a 50-basis point ROE adder for Customer Benefits applies to the AC Transmission Project. Transco was also awarded a 50 basis point ROE adder for Risks and Challenges in developing the project. Combined with the requested 10.9% base ROE, the resultant 11.9% effective ROE for the AC Transmission Project is well within the zone of reasonableness of 8.35% to 13.16%. The AC Transmission Project's benefits are enumerated in the April 8, 2019, AC Transmission Public Policy Transmission Plan issued by the NYISO. ("Project T019's greater transfer capability results in the lowest cost per MW ratio, highest production cost savings, greatest CO2 reductions, and highest Installed Capacity savings of the Segment B projects. In addition, the series compensation component of the project provides performance benefits through greater operational flexibility and increased use of the UPNY/SENY interface. The project also has the most resilient foundation and structure design, resulting in significant benefits to the operability of the transmission system during extreme weather events.") (AC Transmission Public Policy Transmission Plan at 7).

⁴⁴ Transco's Formula Rate does not currently include a 50-basis point ROE adder for RTO Participation, nor is Transco requesting the RTO Participation incentive adder for future projects at this time. The TOTS Settlement, AC Transmission Project Settlement and the Propel NY Energy Project Settlement each addressed the application of the RTO Participation adder and Transco intends to abide by those settlements. Each of the incentive rate treatments applied to Transco's projects were either approved by Commission order or a Commission order approving settlement and it is Commission policy not to disturb integrated settlement packages. *Office of the Ohio Consumers' Counsel v. American Electric Power et al.*, 181 FERC ¶ 61,214 at P 64 (2022). Nothing in this application or the previous settlements prohibits Transco from seeking the application of the RTO Participation adder for future projects.

⁴⁵ Neither the TOTS Settlement nor the AC Transmission Projects Settlement precludes Transco's right to submit an FPA Section 205 filing to increase the base ROE for these projects at this time.

⁴⁶ NYISO's Billing Rates page is available here: <https://www.nyiso.com/billing-rates>.

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Projects of \$27,366,087 and a Rate Year 2025 annual revenue requirement for the AC Transmission Projects of \$114,714,948. For ease of comparison, if the change in the base ROE were to go into effect on January 1, 2025, the Rate Year 2025 annual revenue requirement for each project set would increase consistent with the following:

- TOTS Project: The expected increase to Transco's yearly revenue requirement for the TOTS Projects resulting from the proposed change to the base ROE value is \$1.67 million.
- AC Transmission Projects: The expected increase to Transco's yearly revenue requirement for the AC Transmission Projects resulting from the proposed change to the base ROE value is \$6.65 million.⁴⁷

C. Depreciation Rates

Transco proposes to utilize the depreciation rates that are currently included in Attachment 9 of its Formula Rate (as set forth in Section 36.3.1.1 of Attachment DD to the NYISO OATT). When Transco was newly formed and without assets, it calculated these rates using an average of the FERC-approved depreciation rates for the New York affiliates of Transco. 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, 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.⁴⁸

Transco met individually with the settling parties to confirm its interpretation of the settlements to be that Transco is required to perform a depreciation study and to submit any

⁴⁷ Caso Testimony at 15. Transco seeks an effective date of March 11, 2025, so the 2025 Rate Year impact will be lower than the figures provided here. Transco provides a 12-month impact here to provide the Commission with an understanding of the anticipated rate impacts and to comply with 18 C.F.R. §35.13(c).

⁴⁸ *Id.*

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modifications by January 1, 2026. The settling parties agreed with this interpretation of the settlement agreements and Transco intends to make such a filing in advance of the January 1, 2026, date.⁴⁹

V. PROPOSED EFFECTIVE DATE

Transco requests that the proposed changes to the NYISO OATT and approval of the requested base ROE value become effective on March 11, 2025 the day following the end of the statutory 60-day notice period.

VI. REQUESTED WAIVERS

Consistent with the Commission's precedent in formula-rate related proceedings, Transco respectfully requests waiver of any component of the Commission's filing requirements not met by this application including the need to submit additional cost-of-service statements.⁵⁰ Transco also requests waiver of any other provision of Part 35 of the Commission's regulations that may be deemed necessary to permit the ROE to become effective and permit the inclusion of the requested accounts in Transco's Formula Rate on the dates requested herein.

VII. OTHER REGULATORY FILINGS AND APPROVALS

Other than the administrative changes described above, Transco does not anticipate any other FERC or state approval will be necessary.

VIII. CORRESPONDENCE AND COMMUNICATIONS

The following persons are authorized to receive notices and communications with respect to this filing:

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⁴⁹ *Id.*

⁵⁰ *See Okla. Gas & Elec. Co.*, 122 FERC ¶ 61,071, at P 41 (2008).

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IX. SERVICE

Transco has confirmed with the NYISO that a complete copy of this filing will be posted on the NYISO's website at www.nyiso.com. The NYISO has also informed Transco that it will send an electronic link to this filing to the official representative of each of its customers and to each participant on its stakeholder committees.

X. CONCLUSION

For the reasons set forth above, Transco respectfully requests that the Commission:

- Accept for filing the proposed revisions to Attachment DD (Section 36) of the NYISO OATT and permit Transco recovery of FERC Account Nos. 561.1 – 561.8;
- Accept for filing and approve the requested company-wide 10.9% base ROE value as supported by the testimony of Mr. McKenzie; and
- Make such other determinations as requested herein.

Respectfully submitted,

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