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*REGISTERED TO PRACTICE BEFORE U.S.
PATENT AND TRADEMARK OFFICE

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Terry L. Schwennesen, Esq.
National Grid
40 Sylvan Road
Waltham, MA 02451-1120

RE: Preliminary Challenges to 2011 Annual Update

Dear Ms. Schwennesen:

The New York Association of Public Power (“NYAPP”) submits the following Preliminary Challenges to National Grid’s 2011 Annual Update, in accordance with Attachment H to the New York Independent System Operator, Inc.’s Open Access Transmission Tariff (“NYISO OATT”).

1. In response to data request NYAPP-Grid 1-9 Grid admitted that it had erroneously entered data concerning FICA taxes. The changes reduce Transmission Related Payroll Tax Expense from \$3.65 million to \$2.37 million, which results in a similar reduction of nearly \$1.3 million to the Transmission Revenue Requirement. Grid must agree to make this change within the Review Period and incorporate this change prospectively in the Formula Rate during the remainder of the rate year, in accordance with Section 14.11.9.4.4 of Attachment H to the NYISO OATT, and reflect the balance in the 2012 Annual Update.¹

¹ Section 14.11.9.4.4 states, in relevant part: “[I]f an error in a Data Input is discovered and agreed upon within the Review Period, the impact of such change shall be incorporated prospectively into the charges produced by the Formula Rate during the remainder of the year preceding the next effective Update Year, in which case the impact reflected in subsequent charges shall be reduced accordingly.”

2. At the Customer Meeting, Grid explained that a large portion of the \$5 million increase in Transmission O&M expenses relates to the canceled Tonawanda project. The costs arising from the preliminary engineering related to this project were allocated to Account 566, Miscellaneous Transmission Expense. In response to NYAPP- Grid 1-4 Revised, and NYMPA-Grid 2-1, Grid notes that the actual total costs of the Tonawanda Substation are \$5.6 million, with \$4.8 million expensed in 2010, and another \$0.7 million to be expensed in 2011. Grid further stated that the \$5.6 million would have been capitalized had the substation been constructed, but because the project was canceled there is no capital asset to amortize. However, FERC policy (Opinion No. 295) is that only 50% of canceled plant costs should be amortized and included in rate base, while the other 50% is written off as a loss below the line. For this rate year, Grid must remove \$4.8 million from Transmission O&M expense and add \$2.4 million to Transmission Plant. This results in a reduction of \$4.5 million in the Transmission Revenue Requirement. Grid must agree to make this change within the Review Period and incorporate this change prospectively in the Formula Rate during the remainder of the rate year, in accordance with Section 14.11.9.4.4 of Attachment H to the NYISO OATT, and reflect the balance in the 2012 Annual Update.

3. The 2011 Annual Update includes Research and Development “(R&D)” expenses on Workpaper 12. Grid also included a billing adjustment for 2009 equal to approximately \$99,000 for R&D. In response to NYAPP-Grid 2-6, Grid states that it plans to make adjustments in the 2012 Annual Update. Grid also says it made an error in the 2009 Common Plant balance, which increases the revenue requirement by \$26,232. In response to NYMPA-Grid 1-10, Grid states that this “adjustment was made to the Common Plant calendar year 2009 balance subsequent to the 2010 TSC Annual Update Filing.” However, Grid must not make these adjustments because to do so would violate the Settlement Agreement between the parties submitted to FERC on November 18, 2010 in Docket No. ER10-2228-000. That settlement fixed the 2010 Annual Update based on 2009 costs. Grid is precluded now from including expenses based on adjustments to 2009 inputs.

Please note that the adjustments made herein will change the rate from \$7.95/MWh to \$7.63/MWh. This lower rate must used in the remainder of the rate year, in accordance with Section 14.11.9.4.4 of Attachment H to the NYISO OATT, and the balances reflected in the 2012 Annual Update.

Sincerely,



Thomas L. Rudebusch
For the New York Association of Public Power