6/23/04 Draft

(For OC Action on 6/30/04)

NYISO
Comprehensive Planning Process for Reliability Needs

NYISO Comprehensive Reliability Planning Process

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TO BE REVISED

1. Introduction

The NYISO Initial Planning Process, approved by the Operating Committee on September 10, 2003, was the first phase in the development of a comprehensive planning process for the NYISO. This process is being developed by NYISO Staff with assistance of the Electric System Planning Working Group ("ESPWG"), an ad-hoc committee comprised of BIC and OC member companies. This proposal, "A Comprehensive Planning Process for Reliability Needs", builds on the Initial Planning Process reliability-based analyses and retains the initial steps in that process. The Comprehensive Process, however, extends the scope of the Initial Planning Process beyond the simple identification of reliability needs. It provides a framework which includes consideration of both market-based and regulated solutions to identified needs and a procedure to ensure that reliability needs will be met in a timely manner. It also provides a cost allocation methodology and a cost recovery process for reliability upgrades. (See Attachment A for the Process Flow Diagram depicting the major elements of the Comprehensive Reliability Planning Process). .

The work already approved by the OC and underway at the NYISO regarding the collection and reporting of historic congestion costs will continue under this Proposal. This scope for the NYISO Comprehensive Reliability Planning Process will be introduced at the OC for discussion and action at the XXX meeting. Following OC approval, a tariff filing will be prepared for MC and Board approval and subsequent submission to the FERC.

It is anticipated that further development efforts on the Phase 2 "Comprehensive" Planning Process will continue immediately upon the OC/MC approval of the Reliablity Process. These efforts will consider, among other things, the various FERC planning requirements of Order 2000, the SMD NOPR, the Wholesale Market Design White Paper and the January 9, 2004 Pat Wood letter to the NYISO (together with the March 11, 2004 NYISO response) regarding the extension of the Comprehensive Planning Process to include economic issues. The scope for this Comprehensive Reliability Planning Process may need further modifications based upon the outcome of the Phase 2 process. It is anticipated that a future FERC filing will also be required.

2. Stakeholder Process

In light of the fact that the Comprehensive Reliability Planning Process contains both reliability and business issues, it has been agreed that both the Transmission Planning Advisory Subcommittee ("TPAS") and the ESPWG will participate in the

implementation process. This participation will consist of parallel input and review stages similar to the process for the Initial Planning Process as shown in **Attachment B**.

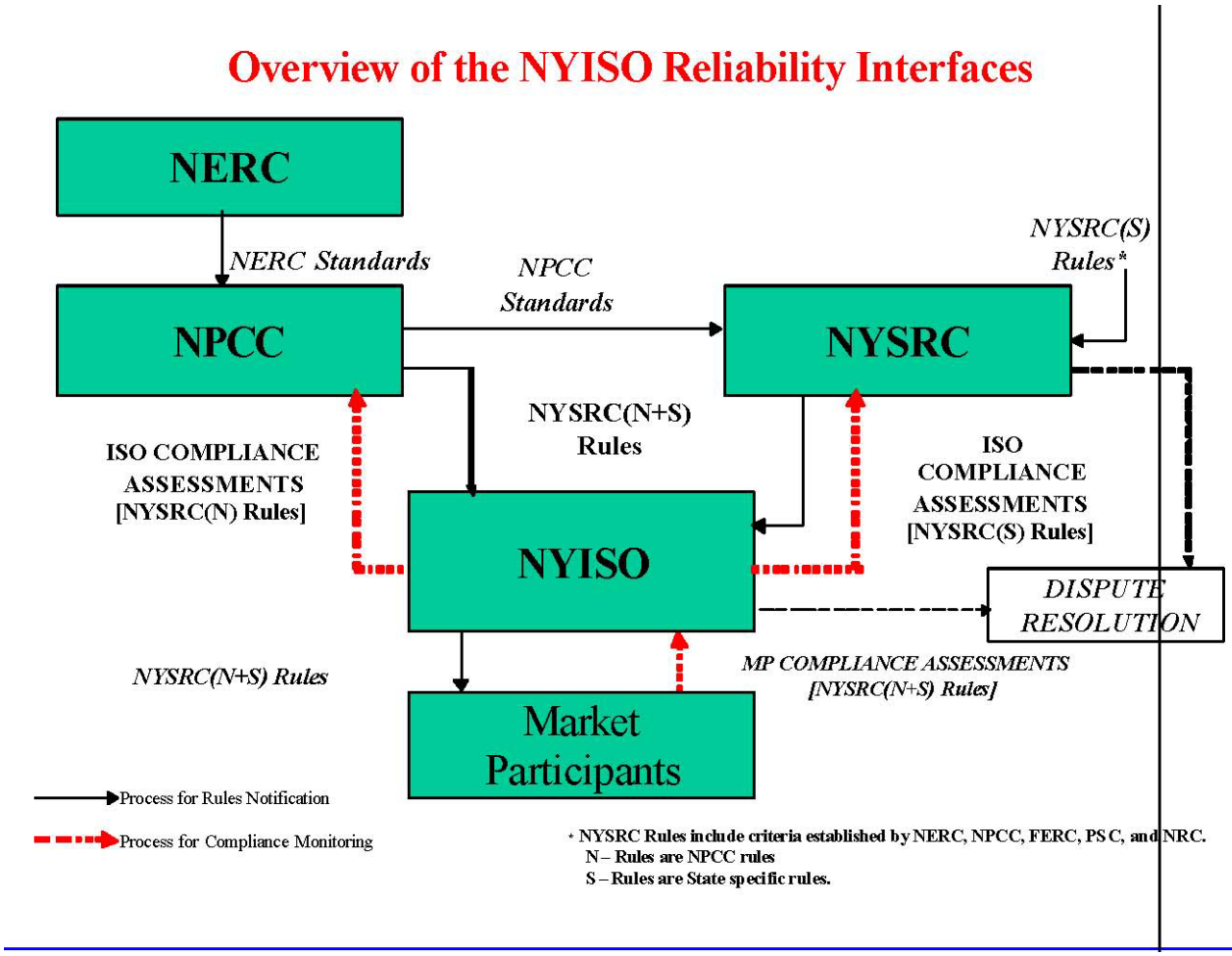
TPAS will have primary responsibility for the reliability analyses, while the ESPWG will have primary responsibility for providing commercial input and assumptions utilized in the development of reliability assessment scenarios and the reporting and analysis of historic congestion costs. Coordination will be established between these two groups and with NYISO Staff during each stage of the planning process.

The intention is to achieve consensus at both TPAS and the ESPWG. While no formal voting process is established at this level, which is typical for NYISO working groups, majority and minority views will be reported in the absence of a consensus.

Following TPAS and ESPWG review, the Draft Report will be forwarded to the Operating Committee ("OC") for discussion and action and subsequently to the Management Committee for discussion and action prior to submission to the NYISO Board for review and approval. See Section 4.4.1 for a further description of the Stakeholder Review Process.

3. Planning Criteria and Objectives

The New York Control Area ("NYCA") power system is planned and operated to the planning and operating policies, standards, criteria, guidelines, procedures and rules promulgated by the North American Electric Reliability Council ("NERC"), Northeast Power Coordinating Council ("NPCC"), and the New York State Reliability Council ("NYSRC"). NERC establishes operating policies and planning standards for North America which includes the United States of America and the Provinces of Canada. NPCC criteria, guideline and procedures which apply to the five areas comprising NPCC (New York State, the New England States, and the Canadian Provinces of Quebec, Ontario and the Maritimes) may be more specific or more stringent than NERC standards and policies by recognizing regional characteristics or reliability needs – e.g., "the one day in ten years" loss of load expectation criteria. The NYSRC rules that apply to NYCA may be more specific or stringent than NERC and NPCC by recognizing NYCA characteristics and reliability needs – e.g., statewide installed capacity requirements. The NYISO is the primary interface between market participants and the reliability councils. The chart below presents an overview of those interfaces.



The objective of the NYISO's Comprehensive Reliability Planning Process is to: 1) provide a comprehensive evaluation of the reliability needs of the NY system; 2) demonstrate that the NYCA power system expansion plans are consistent with the reliability rules and will ensure the continued reliability (i.e., adequacy and security) of the power system consistent with good utility practice; 3) to identify reliability needs that may exist under the assumed baseline system conditions; 4) to provide a process whereby solutions to identified needs are proposed, evaluated and implemented in a timely manner to ensure the reliability of the system; 5)to identify, through development of various scenarios, factors and issues that might adversely impact the reliability of the power system; and 6) to coordinate the reliability assessment with Neighboring Control Areas.

In addition, the NYISO will provide, through the analysis of historical system LBMP congestion costs, information to market participants about historical congestion including the causes for that congestion so that market participants can make appropriately informed decisions. **(See Appendix X)**

3.1. Reliability Criteria

3.1.1. NERC: Establishes standards and policies for North America which includes the United States of America and the Provinces of Canada. The NERC Operating Policies and Planning Standards can be found on the NERC web site at http://www.nerc.com/standards/.

3.1.2. NPCC: Establishes criteria, guideline and procedures which apply to the five areas comprising NPCC (New York State, the New England States, and the Canadian Provinces of Quebec, Ontario and the Maritimes) may be more specific or more stringent than NERC standards and policies by recognizing regional characteristics or reliability needs. The NPCC criteria, guides, and procedures can be found on the NPCC web site at http://www.npcc.org/CriteriaGuidesProcedures.htm. [1]

3.1.3. NYSRC: Establishes rules that apply to NYCA that may be more specific or stringent than NERC and NPCC by recognizing NYCA characteristics and reliability needs. NYSRC rules can be found on the NYSRC web site at http://www.nysrc.org/documents.html. See Reliability Rules Revision No. 2, Version 7 (adopted May 9, 2003). [2]

3.2. Objectives

3.2.1. Reliability Needs Assessment

The baseline system for the first five-year period will be the system as defined for the Annual Transmission Reliability Assessment (ATRA) [3] The base line system will be assessed to determine if it meets all the reliability criteria for both resource and transmission adequacy. Transmission analyses will include thermal, voltage, short circuit and stability studies. The ATRA focuses on the first five years of the planning horizon. The baseline for the second five years will be developed from input received in accordance with Section 4.2. Reliability needs will be defined in terms of total deficiencies relative to reliability standards and not necessarily in terms of specific facilities. (For instance, the MW quantity of additional transfer capability or MW quantity of additional resources would be specified.)

Upon the completion and issuance of the Reliability Needs Assessment Report, if a reliability-based need is identified, the NYISO will solicit proposed solutions from the marketplace and provide an opportunity for market-based as well as regulated solutions to be proposed. The NYISO will evaluate the proposed solutions to determine their ability to meet the

identified reliability-based needs. The Comprehensive Reliability Plan will include potential market-based solutions, and/or specify the selected regulated solution when appropriate, in order to ensure that the reliability of the system will be maintained.

In addition, the baseline system will be evaluated for robustness against factors and issues identified through reliability scenario analysis that might adversely impact the reliability of the power system for years one through ten. The NYISO, in consultation with ESPWG and TPAS, shall determine the relevant scenarios to be analyzed. This evaluation of the baseline system for robustness will only identify conditions under which the reliability criteria may not be met. It will not identify or propose additional needs. In addition, appropriate sensitivity studies will be performed to determine whether reliability needs previously identified can be mitigated through alternate system configurations and/or operational modes.

[NOTE: THE FOLLOWING SECTION WILL BE MOVED TO AN APPENDIX]

3.2.2. Historic Congestion

The NYISO will prepare summaries and detailed analysis of historic congestion across the New York system. This will include analysis to identify the significant causes of historic congestion in an effort to help market participants distinguish between persistent and addressable congestion from congestion that results from one time events or operational procedures that may or may not reoccur.

These reports will be based upon the definition of congestion and related measurements developed by the ESPWG and approved by the Operating Committee on November 6, 2003.

4. Process for Development of the Reliability Needs Assessment Report

4.1. Overview

It has been stated that the planning process is as important as the plan itself, if not more important. This is certainly true for the NYISO's planning process. The purpose of the Comprehensive Reliability Planning Process is to facilitate the exchange of information between the NYISO, Market Participants and interested stakeholders regarding the future reliability of the NYCA power system and the historical economic performance of the transmission system. In addition, a framework is established which provides for the consideration of both market-based and regulated solutions to ensure that reliability needs will be met in a timely manner. This framework will also include a process for assessing the viability of proposed solutions. The ATRA will provide the baseline for the study for the first five years. The expansion plans used in these reliability assessments for the second five years will be those proposed by market participants based upon criteria to be developed during the implementation phase as well as planned regulated upgrades for reliability. In addition, alternate reliability scenarios will be developed in consultation with Market Participants. The key elements of the planning process are described further below. See **Attachment C** [TBD] for the proposed timeline for the first report resulting from the NYISO Comprehensive Reliability Planning Process.

4.2. Input Stage (See Attachment D)

4.2.1. Baseline: First Five Years

The ATRA will be used to set the baseline for the study for the first five years of the Comprehensive Reliability Planning Process.

4.2.2. Input Requirements

The input to be used for the second five years of the Comprehensive Reliability Planning Process includes: published data sources, existing standard reliability assessments, data for additional reliability analysis, input from Neighboring Control Areas, input from stakeholders, and input from the ESPWG regarding alternate reliability scenarios.

4.2.2.1. Load and Capacity Data Report

The NYISO Load and Capacity Data Report (http://www.nyiso.com/services/documents/planning/pdf/2003_gold_book.pdf) will be the primary reference resource for the Initial Planning Process.

4.2.2.2. Applicable Transmission Facilities

The transmission facilities to be included in the Comprehensive Reliability Planning Process are those facilities designated as the New York State Bulk Power Transmission Facilities in the applicable baseline ATR. The NYISO will monitor and report reliability criteria violations on any of these Bulk Power Transmission Facilities in its Reliability Needs Assessment Report.

The New York Transmission Owners will continue to plan for their transmission systems, including the Bulk Power Transmission Facilities. The NYISO will review the needs identified by the TOs and their proposed plans involving the Bulk Power Transmission Facilities to determine if they meet the identified reliability needs, recommend an alternate means to resolve the needs from a regional perspective, or indicate that it is not in agreement with the TO's proposed additions.

4.2.2.3. Existing Reliability Assessments

The existing standard reliability assessments that will be used in the Comprehensive Reliability Planning Process include:

- ☒ The NPCC New York Area Transmission Review (ATR) [4]
- ☒ The NYISO Annual Transmission Reliability Assesssment (ATRA)
- ☒ The NPCC New York Resource Adequacy Review (RAR) [5]
- ☒ The NYSRC Installed Reserve Margin (IRM) Study [6]
- ☒ The NYISO Locational Installed Capacity Study

4.2.2.4. Short Circuit Data

The Comprehensive Reliability Planning Process would use the information from the NYISO Annual Transmission Reliability Assessment (ATRA)

4.2.3. Input from Neighboring Control Areas

The Comprehensive Reliability Planning Process will use the most recent power flow data collected through the annual regional (NPCC) and inter-regional (NERC) base case development process as the primary reference resource for the Neighboring Control Areas.

4.2.3.1. Forecasted Load, Facilities and System Conditions

The NYISO also will coordinate directly with the Neighboring Control Areas to exchange additional supplemental information for the study including: forecasted load, significant new or modified generation and transmission facilities, and anticipated system conditions.

4.2.4. Input from Stakeholders

In addition to information published in the NYISO Load and Capacity Data Report, the NYISO will solicit stakeholders directly for additional supplemental information . This input will include: ☒ Transmission system – existing and planned additions – Transmission Owners, Public Power entities ☒ Merchant transmission proposals – Merchant developers ☒ Generation additions/retirements – Generator Owners & Developers ☒ Demand response programs – Demand Response Providers ☒ Long-term firm transmission requests – NYISO and Transmission Owners, Public Power entities

In addition to the foregoing, stakeholders may submit optional suggestions for changes to NYISO rules or procedures which could result in the identification of additional resources or market alternatives suitable for meeting reliability needs.

4.2.5. Reliability Scenario Development

The ESPWG will provide input regarding alternate reliability scenarios for additional reliability analyses. Reliability scenarios will be developed in two time frames: the next five years (first five years), and the next five years after that (second five years). Variables for consideration in the development of these reliability scenarios include:

☒ Load Forecast Uncertainty
☒ Fuel (prices and availability of supply)
☒ New Resources
☒ Retirements
☒ Transmission network topology (e.g., changes in procedures of lines that are normally open; change in contingencies based on breakers being operated normally open or closed; etc.)
☒ Limitations imposed by proposed environmental legislation

4.3. Analysis Stage

[NOTE: THE FOLLOWING SECTION WILL BE MOVED TO AN APPENDIX]

4.3.1. Historic Congestion

The NYISO will prepare summaries and detailed analysis up to the past year of historic congestion across the New York system. This will include analysis to identify the significant causes of the historic congestion.

4.3.1.1. Summary Reports [See **Attachment E**: "Matrix"]

The NYISO will prepare various reports of historic congestion costs. These reports will be based upon the actual congestion data from the NYISO day-ahead market, and will include summaries, aggregated by month and calendar year, such as:

. □ By NYCA
. □ By zone
. □ By contingency in rank order
. □ By constraint in rank order
. □ Total Dollars

. □ Number of Hours

Congestion will be reported as the change in bid production costs. In addition, the following elements of congestion will also be reported:

. □ Impact on load payments
. □ Impact on generator payments
. □ Hedged and unhedged congestion payments

These reports will be based upon the definitions of congestion developed by the ESPWG and approved by the Operating Committee on November 6 2003. [See **Attachment E**]

4.3.1.2. Detailed Cause Analysis for Unusual Events

The NYISO will perform an analysis to identify the cause of unusual events causing significant congestion levels. Such analysis will include the following elements:[1]

. □ Identification of the cause of major transmission outages
. □ Quantification of the market impact of relieving historic constraints.

4.3.2. Baseline Reliability Needs Assessment

The NYISO will evaluate the reliability needs of the New York system for the first five-year and second five-year baseline. The evaluation will address resource and transmission adequacy over both periods. The short circuit fault duty for the first five-year will be consistent with the ATRA process. In addition, a short circuit assessment will be performed for the tenth year of the study period. The evaluation will be based on information from the existing standard reliability assessments (see §4.2.2.2) and the NYISO will perform an additional reliability analysis that will include the effects of input from Stakeholders and the Neighboring Control Areas for the second five-year period.

[1] Some of this information may be deemed sensitive and will need to be handled with care to protect national security interests.

The analyses for the baseline reliability needs assessment will first determine whether or not the baseline resources and transmission system would meet all applicable reliability criteria (per §3.1). Then, if any reliability criteria would not be met, additional analyses will be conducted to determine whether additional resources and/or transmission capacity expansion would be needed to meet criteria, and to determine the expected first year of need for those additional resources and/or transmission. The study will not seek to identify specific additional facilities.

4.3.3. Evaluation of Alternate Reliability Scenarios (Robustness of Baseline)

After completion of the baseline reliability needs assessment, the NYISO will conduct additional reliability analyses for the alternate reliability scenarios it has developed in consultation with the ESPWG and TPAS. These evaluations will test the robustness of the baseline needs assessment. The reliability needs may increase in some reliability scenarios and may decrease, or even be eliminated, in others.

4.3.4. Reliability Needs Assessment Report Preparation

Once all the analyses have been completed, the NYISO will prepare a comprehensive report including assumptions, criteria and results.

4.4. Review Process (**See Attachment B)**

4.4.1. Stakeholder Review

At least two stakeholder review stages are anticipated for the Reliability Needs Assessment Report Following review of the Staff's Draft Report by TPAS and the ESPWG, it will be forwarded to the OC for a vote. Interested representatives from the Business Issues Committee ("BIC") are invited to attend the OC meeting at which the Draft Report is under consideration. Following the OC vote, the Draft Report will be transmitted to the Management Committee ("MC") for a vote.

4.4.2 . Board Action

Following the MC vote, the Reliability Needs Assessment Report resulting from the NYISO Comprehensive Reliability Planning Process, with working group, OC and MC input, will be forwarded to the NYISO Board for review and action. Concurrently, the Relaibility Needs Assessment Report will be provided to the Independent Market Advisor for his review and consideration of whether market rules changes are necessary to address an identified failure, if any, in one of the NYISO's competitive markets. The Board may approve the Needs Assessment as submitted, reject it , or propose modifications on its own motion. If any changes are made by the Board, the revised Needs Assessment shall be returned to the MC for comment. The Board shall not make a final determination on the Needs Assment until it has reviewed the MC comments. Upon acceptance by the Board, the report will be finalized by NYISO Staff

5. Issuance of Reliability Needs Assessment Report

Following Board acceptance, the NYISO Staff will issue the final Reliability Needs Assessment Report to the marketplace. In addition, this Report will be posted on the NYISO website. This report will identify potential reliability needs determined under various future reliability scenario assumptions and will provide reports and analyses of historic congestion costs.

5.1. Public Information Sessions

In order to provide the ample exposure for the marketplace to understand the identified reliability needs the NYISO will provide various opportunities for market participants and other stakeholders to discuss the final Reliability Needs Assessment Report. Such opportunities may include presentations at various NYISO stakeholder committees, focused discussions with various sectors, and/or presentations in other public venues.

6. Request for Solutions

Concurrent with issuance of the final Reliability Needs Assessment Report, the NYISO will request solutions to the identified reliability needs. This solicitation will not be a formal "RFP" process. This will normally be a two-step process, except as provided in Section 6.2.1.1. :

6.1. Market-Based Responses

In the first step of the solicitation process, the NYISO will request market-based responses from all interested market participants. To the extent timing considerations allow, while continuing to ensure reliability , a period of time will be reserved to solicit market-based responses only. Subject to the execution of appropriately drawn confidentiality agreements and FERCs standards of conduct, the NYISO and the subject TO or TOs shall provide each market participant who wishes to develop a response shall be given access to the data limited to that which is needed to develop its response. Such data shall only be used for purposes of preparing a market-based response to an identified reliability need. Such responses will be open to all resources, including generation, demand response and merchant transmission developers. Concurrently, market participants will have the option of proposing changes to NYISO rules or procedures which could result in the identification of additional resources or market alternatives suitable for meeting the identified reliability needs.

6.2. Regulated Responses

6.2.1 Except as provided in Section 6.2.1.1,in the event that a sufficient market-based response is not proposed, the NYISO will initiate the second step of the solicitation process by seeking a regulated response to the identified need. The NYISO will designate the responsible TO(-s), which will normally be the TO(-s) in whose Transmission District(-s) the need occurs. The responsible TO(-s) will prepare a regulated proposal targeted to meet the reliability need identified by the NYISO's needs assessment for submission to the NYISO. Such proposals may include reasonable alternatives that would effectively address the identified reliability needs.

6.2.1.1 For the first round of the Comprehensive Reliability Planning Process, the NYISO will request the responsible TO(s) to immediately prepare regulated solutions to all identified baseline needs in order to establish the lead time for the regulated backstop solution as the benchmark for the future. In subsequent rounds, whenever a reliability need is first determined, the NYISO will also request the responsible TO(s) to immediately prepare a regulated solution. This process shall not

apply to previously identified needs for which the responsible TO(s) has previously submitted a regulated solution that the NYISO has deemed to meet that need.

6.2.2 Contemporaneously, non-TOs may develop regulated proposals for generation, demand side alternatives and/or other solutions to address the identified reliability-based need to be submitted to the NYS DPS. Subject to the execution of appropriately drawn confidentiality agreements and FERC's standards of conduct, the NYISO and the subject TO or TOs shall provide each non-TO market participant who wishes to develop a response access to the data that is needed to develop its response. Such data shall only be used for purposes of preparing an alternative regulated proposal in response to a reliability need. . Non-TO proposals that satisfy the NY DPS may be submitted by the respective developers to the NYISO for review.

6.3 . Establishment of Lead Time for Responses

The NYISO will establish the lead time for responses to identified reliability needs based upon the lead time believed to be required for the TO(s)'s regulated solution to each identified reliability need.

6.4. Qualifications and Criteria For a Valid Response

The NYISO staff will develop qualifications and criteria for a valid market-based solution in conjunction with ESPWG. Such qualifications shall recognize the differences between various resources' characteristics and development time lines.

7. NYISO Evaluation of Proposed Solutions

NYISO Staff shall perform an evaluation of market-based and regulated proposals submitted in accordance with Sections 6.1 and 6.2, to determine which, if any, of these proposed solutions will meet the identified reliability need. .

7.1. Market Based Responses

If market-based responses are found by the NYISO to be sufficient to meet an identified need in a timely manner, the NYISO will so state in the Comprehensive Reliability Plan.

7.1.1. The NYISO will not select from among the market-based responses if there is more than one response which will meet an identified need.

7.1.2. The NYISO will monitor the status of market-based projects to ensure their continued viability to meet the reliability need on a timely basis as part of its ongoing annual planning process. The NYISO will develop criteria, in conjunction with the ESPWG, to determine the continued viability of such projects.

7.1.3. The NYISO, in conjunction with the ESPWG, will develop criteria for determining the cutoff date for a determination that a market-based project will not be available to meet an identified reliability need on a timely basis.

7.2. Regulated Responses

If no qualified market based solution has been proposed, or the NYISO determines that no proposed market-based solution is viable to meet an identified reliability need, and that it is necessary to take action to ensure reliability, it will state in the Comprehensive Reliability Plan that a regulated solution is necessary.

7.2.1. The NYISO will determine whether the proposed regulated solutions identified in Sections 6.2.1 and 6.2.2 will address the identified need in a timely manner. The NYISO will specify the reasons for it's determination and identify any reliability deficiencies in each of the proposed solutions. The affected TO or non-TO developer will discuss with the NYISO any identified deficiencies. A non-TO developer and shall have the option to revise and resubmit its proposal to address the identified deficiency. The TO shall make necessary changes to its proposed solution to address reliability deficiencies identified by the NYISO and to submit a revised proposal to the NYISO for review.

7.2.2 Upon completion of any changes in response to the NYISO's analysis and review in accordance with Section 7.2.1, which NYISO has determined will resolve the identified deficiencies,the NYISO will request the appropriate TO(s) to submit its regulated proposal to the appropriate state regulatory agency(ies) to begin the approval process. The TOs in response to the NYISO request shall make such a submission. Non-TO developers with alternative proposed regulated

proposals identified in Section 6.2.2 that have completed any changes required by the NYISO's analysis and review in accordance with Section 7.2.1, which the NYISO has determined will resolve the identified deficiencies, may submit these proposals to the appropriate state regulatory agency(ies) for review.

7.2.3 The NYISO will monitor the status of regulated projects to ensure their continued viability to meet the reliability need on a timely basis as part of its ongoing annual planning process. The NYISO will develop criteria, in conjunction with the ESPWG, to determine the continued viability of such projects.

7.2.4. The NYISO will provide its Comprehensive Reliability Plan to the appropriate regulatory agency(ies) for consideration in its review of the proposals.

7.2.5. If the NYISO determines that it is necessary for the TOs to proceed, under Section 7.2.2 with a regulated solution to be conducted in parallel with a market-based solution in order to ensure that an identified reliability need is met in a timely manner, the Comprehensive Reliability Plan will so state. The TO responsible for the regulated solution shall proceed with due diligence to develop it in accordance with good utility practice unless or until notified by the NYISO that it has determined that the regulated solution is no longer needed.

7.2.6. The NYISO, in conjunction with ESPWG, will develop the criteria for halting a regulated project that is already underway because of the entry of a viable market-based project that the NYISO has determined will meet the identified reliability need. Such criteria shall also establish a cut-off point following which a regulated project may not be cancelled regardless of the appearance of a market-based project.

7.2.7. The appropriate TO(-s) will receive cost recovery, in accordance with Section 10, for a regulated project that is subsequently cancelled in accordance with NYISO procedures. Such procedures will include recovery of costs incurred through the time of cancellation, including any forward commitments made.

7.2.8. If, after consultation with the TO responsible for a regulated solution under Section 7.2.2, the NYISO determines that the TO has not submitted that solution for state regulatory action within a reasonable period of time, or that the TO has been unable to obtain the approvals or property rights necessary under applicable law to construct the project, the NYISO shall submit a report to the FERC for its consideration and determination of whether any action is appropriate under federal law.

7.3. "Gap" Solutions

If the NYISO determines that neither market-based proposals nor regulated proposals can satisfy the identified reliability needs in a timely manner, the NYISO will request the appropriate TO(-s) to seek a "gap" solution.

7.3.1. The determination of the need to seek a gap solution will normally occur as part of the Comprehensive Reliability Planning Process and will be stated in the Final Report issued by the NYISO.

7.3.2. If there is an imminent threat to the reliability of the New York power system, the NYISO Board, after consultation with the PSC, may request the appropriate TO(-s) to propose a gap solution outside of the normal planning cycle.

7.3.3. Upon the NYISO's determination of the need for a gap solution, pursuant to either Section 7.3.1 or 7.3.2 above, the appropriate TO(s) will immediately propose such a solution for consideration by the NYISO and PSC.

7.3.4. Any party may submit an alternative gap proposal to the NYISO and the NYS DPS for their consideration. The NYISO shall evaluate all gap proposals to determine whether they will meet the identified reliability need. The NYISO will report the results of its evaluation to the party making the proposal as well as to the NYS PSC and/or other appropriate regulatory agency(ies) for consideration in their review of the proposals.

7.3.5. Gap solution proposals submitted under Sections 7.3.3 and 7.3.4 shall be designed to be temporary solutions and to strive to be compatible with permanent market-based proposals.

7.3.6. A permanent regulated solution, if appropriate, may proceed in parallel with gap measures.

8. Comprehensive Reliability Plan

Following the NYISO's evaluation of the proposed market-based and regulated responses to the needs identified in the final Reliability Needs Assessment Report, the NYISO will prepare a comprehensive report (the "Comprehensive Reliability Plan") of its findings and recommendations including a determination to proceed with a regulated solution (which may

include a “gap solution”) if needed to ensure system reliability.

8.1. Stakeholder Review

At least two stakeholder review stages are anticipated in the Comprehensive Reliability Planning Process. Following review of the NYISO Staff’s Draft Comprehensive Reliability Plan by TPAS and ESPWG, a Final Draft will be prepared which includes input received from stakeholders.

8.2. Committee Approval

The Final Draft of the Comprehensive Reliability Plan will then be forwarded to the OC for a vote. Interested representatives from the Business Issues Committee (“BIC”) are invited to attend the OC meeting at which the Draft Report is under consideration. Following the OC vote, the Draft Report will be transmitted to the Management Committee (“MC”) for a vote.

8.3. Board Action

Following the MC vote, the Comprehensive Reliability Plan resulting from the NYISO Comprehensive Reliability Planning Process, with working group, OC and MC input, will be forwarded to the NYISO Board for review and action. The Board may approve the Plan as submitted, reject the Plan, or propose modifications on its own motion. If any changes are made by the Board, the revised Plan shall be returned to the MC for comment. The Board shall not make a final determination on the Plan until it has reviewed the MC comments. Upon final approval by the Board, the Plan will be finalized by NYISO Staff. The Plan will also be provided to the Independent Market Advisor for his review.

8.4. Issuance of Comprehensive Reliability Plan

Following final approval by the Board, the NYISO Staff will issue the final Comprehensive Reliability Plan to the marketplace. In addition, the Plan will be posted on the NYISO website.

9. Cost Allocation

9.1 Market-Based Responses

The costs of market-based responses shall be the responsibility of the developer of the market-based proposal and shall not be subject to the provisions of Section 9.2.

9.2 Regulated Responses

Cost allocation for backstop regulated responses to reliability needs identified in the NYISO Plan shall be determined by the NYISO based upon the principle that beneficiaries should bear the cost responsibility. The specific cost allocation methodology, to be developed by the NYISO in consultation with the ESPWG, will incorporate the following elements:

9.2.1 The focus of the cost allocation methodology shall be on solutions to violations of specific reliability criteria

9.2.2 Potential impacts unrelated to addressing the reliability needs shall not be considered for the purpose of cost allocation for reliability upgrades

9.2.3 Primary beneficiaries shall initially be those Transmission Districts who are identified as contributing to the reliability violation.

9.2.4 The cost allocation among primary beneficiaries shall be based upon their relative contribution to the need for the upgrade

9.2.4.1 The NYISO will examine the development of specific cost allocation rules based on the nature of the reliability violation (e.g. – thermal overload, voltage, stability, resource adequacy & short circuit)

9.2.5 Cost allocation among Transmission Districts shall recognize the terms of prior agreements among the transmission owners, if applicable.

9.2.6 Consideration should be given to the use of a materiality threshold for cost allocation purposes

9.2.7 Methodology shall provide for ease of implementation and administration to minimize debate and delays to the extent possible.

9.2.8 Consideration should be given to the “free rider” issue as appropriate

9.2.9 Methodology shall be fair and equitable.

9.2.10 Provide cost recovery certainty to investors to the extent possible.

9.2.11 Methodology shall apply, to the extent possible, to regulated "gap" solutions as well.

9.3 Not Applicable to Interconnection Cost Allocation

The cost allocation procedures described in this Section shall not apply to cost allocation for market based generation and merchant transmission interconnection purposes, which is determined in accordance with Attachment S of the NYISO OATT.

10. Cost Recovery for Regulated Projects

10.1 The Transmission Owners will be entitled to full recovery of all reasonably incurred costs related to the development , construction, operation and maintenance of regulated projects, including gap projects, undertaken by a Transmission Owner to meet a reliability need on the Bulk Power Transmission Facilities included in the NYISO's Comprehensive Reliability Plan, including a reasonable return on investment and any applicable incentives.

10.2 The Transmission Owner shall have the right to make a filing with FERC, under Section 205 of the Federal Power Act, for approval of its costs described in Section 10.1 incurred with respect to the implementation of a regulated transmission project determined by the NYISO to be needed to meet a reliability need included in the NYISO's Comprehensive Reliability Plan. Upon request, the NYISO will make a filing with FERC on behalf of LIPA.

10.3 Cost recovery for regulated transmission projects shall be under Rate Schedule X of the NYISO OATT and in accordance with the provisions of the Agreement Between the New York Independent System Operator, Inc. and the New York Transmission Owners on the Comprehensive Planning Process for Reliablity Needs.

10.4 Costs related to regulated non-transmission reliability projects will be recovered by the Transmission Owners in accordance with the provisions of New York Public Service Law.

11. Dispute Resolution

[SUBJECT TO RESOLUTION AT THE MANAGEMENT COMMITTEE]

12. References [TO BE PROVIDED]

13. Figures [TO BE REVISED AS NEEDED]

(1) NPCC Basic Criteria for Design and Operation of Interconnected Power Systems
(A-2)
(2) NYSRC Reliability Rules For Planning and Operating the New York State Power
System
(3) NYISO Open Access Transmission Tariff – Attachment S
(4) NPCC Guidelines for NPCC Area Transmission Reviews (B-4)
(5) NPCC Guidelines for Area Review of Resource Adequacy (B-8)
(6) NYSRC Policy 5
(7) NYISO Load and Capacity Report

Attachment A – Process Flow Chart Attachment B – Stakeholder Participation

Attachment C – Timeline Attachment D – Process Inputs Chart Attachment E – Historic

Congestion Matrix [TO BE INSERTED]