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Cost Allocation Proposal
of
LIPA and Con Edison

I. Cost Allocation Process

The cost allocation process should reflect how reliability violations are identified and traditionally addressed in planning and operating studies, ensuring that the entity that causes the violation in the first place is appropriately identified. Cost allocation for backstop reliability projects to meet the reliability needs identified under the NYISO Comprehensive Reliability Planning Process ("CRPP") should be determined separately for:

- Voltage violations;
- Thermal violations;
- Stability violations;
- Fault duty violations; and,
- Capacity deficiencies.

Such a process is needed in order to assure proper allocation, especially since the RNA translates all violations into capacity deficiencies, which may not properly indicate the initial cause of the violation. In order to properly allocate costs, the order in which reliability violations are looked at is critical. By first determining the cause of a voltage violation, a capacity deficiency could be impacted. So, the order is critical as described below.

Cost allocation should be first determined to eliminate voltage, thermal and stability violations and restore system transfer limits to their accepted pre-CRPP RNA levels. This way costs will be properly allocated in a manner reflecting the underlying cause, regardless what the solution type is (added generation or transmission). Once cost allocation to restore the system limits to their pre-RNA levels has been completed, costs to resolve capacity deficiencies (assuming the restored transfer levels whose cost allocation has previously been determined) may be calculated. The total cost allocation to an entity will be a combination of cost allocations to address each category of violation.

Performing cost allocation to resolve capacity deficiencies without first allocating costs to resolve reliability violations needed to restore the system transfer limits could mask the true allocation of costs to resolve reliability issues needed to restore system transfer limits. In effect, performing capacity deficiency cost calculations first, without accounting for the restoration of the transfer limits, transforms the cost allocation for all reliability violations into the method used to allocate capacity deficiency costs.

II. Cost Allocation Methods

Thermal/Voltage Violations: Costs for a regulated solution would be allocated on an impact basis to account for both load share and the location of the load. The impact

would be determined by evaluating the contribution a reduction in load (based on MVA) has on eliminating the reliability criteria violation that caused the need for the regulated solution.

Capacity Deficiencies: Calculate a forecast state-wide reserve margin then determine the respective forecast locational requirements for the two Localities. This calculation is the same as the calculation presently conducted by the NYSRC and NYISO in determining the yearly IRM and LCR requirements. Resource adequacy in the Localities can then be evaluated with respect to the locational requirements and a surplus/deficiency can be calculated for each locality.

Reliability Violation Caused by LICAP Deficiency in a Locality - loads within the deficient Transmission District(s) would be allocated the costs for a regulated reliability solution based upon a load ratio share of coincident peak loads forecast for the year in which the reliability deficiency is expected to first occur.

ICAP Deficiency in NYCA - all loads within the NYCA would be allocated the costs for a regulated reliability solution based upon a load ratio share of coincident peak loads forecast for the year in which the reliability deficiency is expected to first occur for each load within the NYCA. The load ratio share calculation (for cost allocation of a regulated project associated with an ICAP deficiency in NYCA) would account for resources in a Locality toward that Locality's LSEs load ratio share.