ISO-NE Cost Allocation Methodology

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Draft – for discussion purposes only

Background

- **Transmission Cost Allocation (TCA) was the subject of several years of debate in New England**
- **Dec 20, 2002 FERC SMD Order**
- **Nov 2002-Mar 2003: Four stakeholder workshops**
  - *Developed principles for TCA*
  - *ISO-NE presented strawmen proposals*
- **Final proposal received 78% NEPOOL support**
- **July 31, 2003: Filed with FERC**
- **December 18, 2003: approved by FERC**

FERC December 18, 2003 Order

- **FERC found the ISO-NE proposal to be:**

  "a clear, transparent and non-discriminatory method for allocating costs, consistent with the principles of open access transmission service"

- **Accepted rationale that transmission upgrades often provide diffuse network benefits to the entire grid and that the beneficiaries change over time**
- **Provides deference to regional choice and noted that there was "widespread consensus" among MPs in support of the filing**
- **Noted that there was no consensus among the NE regulators**

ISO-NE Cost Causation Principles

1. Consider the multiple benefits of the facility over its full life
2. Encourage proper investment
3. Send appropriate price signals relative to the SMD market
4. Be perceived as fair and equitable to transmission customers
5. Provide price certainty to investors and customers
6. Provide for ease of implementation/reduce complexity

ISO-NE "Straw Proposals" (Jan '03)

- **Initial study identifies the benefits for life of project**
  - *Costs allocated to beneficiaries for life of project*
- **Initial study identifies the benefits for first 5 years**
  - *Costs allocated to beneficiaries for first 5 years*
  - *Costs regionalzed after 5 years*
- **Tiered voltage approach**
  - *Cost allocation divided between two tiers (regional & local) dependent upon voltage level*
- **Existing ISO-NE PTF definition**
  - *Regionalize costs for PTF facilities 69kv and above for life*

ISO-NE Approved TCA Process

- **Utilizes participant funding when there is agreement as to the upgrade's beneficiaries**
- **Default mechanism provided if the market fails to address an identified need**
- **Default mechanism as a back stop for**
  - *Regional facilities support*
  - *Local facilities support*
- **Default based upon the ISO-NE RTEP process for determination of need**
- **Same default cost allocation used for both:**
  - *Reliability Need*
  - *Economic Need*
- **Default includes only transmission upgrades**

Participant Funding

- Generator Interconnection
- Elective Upgrades
- Merchant Transmission
- Local Benefit Upgrades
- Localized Costs associated with Regional Benefit Upgrades

Local Benefit Determination

- **Local Benefit Upgrades**
  - *"Bright line" test: Below 115kv; OR*
  - *Functional test: 115kv or above but does not meet non-voltage criteria for PTF (essentially a radial line)*
- **Localized Costs associated with Regional Benefit Upgrades**
  - *ISO-NE determines to be unreasonable*
  - *E.g. – "gold plating"; undergrounding when not justified*
  - *Local siting requirements are not dispositive*

Regional Benefit Determination

- **Prior determinations upheld**
  - *Existing PTF*
  - *NEMA upgrades*
  - *RTEP'02 upgrades*
- **Regional Benefit Upgrades**
  - *Rated at 115kv or above*
  - *Meets all non-voltage PTF criteria*
  - *Included in RTEP Plan*
    - Reliability Upgrade: in accordance with reliability criteria
    - Economic Upgrade: net economic benefit to region over life
  - *Regional costs are rolled into the regional transmission rates paid by all network customers*

Transmission Project Assessment & Cost Allocation Process