

A. On Cost Allocation for Regulated Transmission Enhancements

PROPOSAL:

We suggest consideration of a cost allocation mechanism that provides for participant-funding when a transmission upgrade is a private, market-based investment, and when there is participant agreement as to the upgrade's beneficiaries. When this does not occur, we should develop a default cost mechanism under which there will be regional cost support of transmission upgrades that produce network benefits, and local cost support for upgrades that provide only a local benefit. A clear workable default mechanism will ensure that needed transmission investments get built without undue delay or obstruction.

Regional Cost Support Facilities: We may define regional facilities as those that meet a voltage threshold level and that provide parallel path capability to the system.

Local Cost Support Facilities: We may define local costs as those that are determined to be unreasonable to be supported on a regional-basis. Such costs could include facilities that fall beneath the voltage threshold, have a clear sole-use/beneficiary, incremental costs of "gold-plating", or the construction of underground lines where not justified. Facilities that are radial in nature and supply only load may be considered local costs.

This proposal follows from consideration of the following principles developed in the New England cost allocation workshops held during 2003:

- 1. We should avoid a lengthy case-by-case determination for every transmission upgrade.**
 - a. It is often a difficult and debatable process to try to determine a specific cause as to why a particular upgrade is needed. It is also a difficult and debatable process to determine which discrete set of parties benefit from a particular upgrade.
 - b. Some entities may try to delay certain upgrades from being built if such upgrade would have undesirable economic or other undesirable effect on any particular party, even if the upgrade would benefit the region's customers. Such a case-by-case process will be used by such entities to delay or block a particular project.
- 2. We should consider the multiple benefits of a facility over its full life.**
 - a. Even if we can wrap our arms around the benefits of a facility to certain parties, the benefiting parties are likely to change over time as the system (transmission, generation, demand patterns) change. Also, reliability upgrades can and will bring economic benefits and vice-versa. This further complicates the determination of beneficiaries. Over time, it is likely that the region as a whole benefits from reliable and broad competitive markets.
- 3. We should encourage appropriate transmission investment.**
 - a. It is recognized that the nation's transmission system is under-invested. The May 2002 U.S. Department of Energy (DOE) study of the nation's transmission system identifies New York's central-east transmission constraint and other constraints as among the worst in the nation. Both the DOE report and FERC also recognizes the central role of the transmission system in lowering costs to consumers through increased trade. We should promote policies that will result in needed transmission getting built.
- 4. We should ensure that the cost allocation method sends appropriate price signals.**
 - a. Dr. David Patton (market advisor to NYISO) has determined that broad regional cost support for transmission facilities is consistent with LMP.

5. **We should provide price certainty to investors and customers.**
 - a. A clear mechanism for cost allocation that will result in timely decisions and reduce litigation opportunities will provide greater certainty to the industry and to customers.
6. **We should not create unduly burdensome administrative and accounting processes for the NYISO, and the PSC, and transmission owners.**
 - a. A case-by-case determination of specific causes and beneficiaries of a transmission upgrade may be prove a futile exercise, given the complexities of reliability versus economic benefits, and the changing uses and benefits over the life of the facility. The resultant rate-making could prove equally complex.

B. How much of the NY Transmission System should fall under the purview of the NYISO for its regional planning process?

1. **There should be developed a clear definition of “New York Regional Transmission System (NY RTS)” for purposes of comprehensive regional planning purview.**

The NY Regional Transmission System “NY RTS” should not necessarily be the same as the Bulk Transmission System for NERC and NPCC criteria purposes. The NPCC criteria focus on the backbone reliability of the entire NPCC region, which covers a large part of the Eastern Interconnection. The NY RTS should provide NYISO, as independent regional entity, the ability to focus on the New York system reliability, efficiency, and generator interconnection. This focus will likely require that the NYISO have purview of more than just the NPCC Bulk Transmission System.

For ease of administration and reduction of disputes that may delay or unduly complicate the regional planning process, we suggest that a clear “bright-line” voltage test be considered. This approach is used by several other ISO/RTOs. Under a bright-line definition, the NYISO and TOs would jointly perform the role of needs assessment and planning. The NYISO’s involvement ensures an independent regional perspective. The TOs role ensures that those entities with the close and detailed knowledge about their system are involved to provide data to the NYISO for its system needs determination, as well as develop detailed regulated solutions to identified system needs.

2. **The bright-line voltage level should not be set too high.**

Reliability problems in one TO's system are a concern for the region. Load pocket or market-related problems in one TO's system are a concern for a broad range of market participants in the region. Setting the regional voltage threshold arbitrarily too high could have future adverse reliability and economic impact, as well as potentially increasing free-rider issues (where entities use or benefit from facilities without paying for them). We should set the regional voltage test level to reach far enough down into the system to recognize the NYISO’s oversight role for planning (including generator interconnection), reliability, and competitive markets. We suggest the group begin by considering 115 kV for this voltage threshold.

In determining what the right voltage level is for New York, we should consider the parallel path capability of the transmission system. Underlying voltage systems provide needed normal and contingency flow capability to higher voltage systems. Also, underlying voltage systems can contribute significantly to market and efficiency related perspectives, including generator interconnection.