NYISO Economic Project Cost Allocation Proposal – 08/13/07

- Economic cost allocation through the NYISO tariff is only applicable to economic transmission solutions.
- Only high quality economic projects which meet stringent project viability criteria can be considered for cost allocation through the NYISO tariff.
    - Viability criteria should be based on a "five year payback" decision rule: only project(s) where the net reduction in load payments for all NYISO loads over the first five year in service period exceeds the total cost, including environmental costs and any costs associated with any required regulatory approvals, of the project should be considered viable and therefore eligible for cost allocation
- Beneficiaries shall include loads who benefit from access to lower cost generation previously unavailable due to congestion. The following point to be discussed to determine individual MP positions: Consideration will be given to including generators as beneficiaries to the extent that certain generators receive additional payments through increased access to higher priced markets.
    - Beneficiary allocations shall be determined on a percentage basis through a consideration of each beneficiary's share of the total sum of incremental load savings and, if considered, incremental net generator revenues (i.e. summing the absolute value of the load savings with the increased net generator revenues.)
    - Neither loads whose LBMPs increase nor generators whose revenues fall as a result of an economic transmission project are eligible to receive any "make-whole" payments or other reimbursements.
- Once beneficiaries are identified and the appropriate cost allocation to each is determined, these same beneficiaries must agree that the project delivers needed benefits
    - A beneficiaries only "vote", weighted pro-rata by their potential cost allocation percentage, will determine a project's eligibility for tariff recovery. A market participant's right to vote is aligned with its obligation to directly pay for the proposed project. If the project is not supported by a super-majority of paying beneficiaries, it is not eligible for cost recovery through the NYISO tariff. If the project is supported by a super-majority of paying beneficiaries, then it is eligible for cost recovery through a direct charge to all paying beneficiaries through the NYISO tariff
    - To the extent that individual TOs, municipalities, LSEs, and if considered, generators, are charged directly as beneficiaries of the economic project, each would be delegated a voting share in proportion to its pro-rata share of the costs being allocated to them.
    - Point to be discussed to determine individual MP positions: The role of the NYPSC in the process should be appropriately considered and the process should provide an opportunity for their input before the beneficiaries vote.
    - While the payback threshold trigger is based on the total payback in the first five years, a more detailed zonal payback may be calculated to assist beneficiaries in evaluating their individual risk
- At least 80% of the designated beneficiaries must vote in favor of a project for the project to be eligible for cost recovery through the NYISO tariff

- For a project that meets the "80% of beneficiaries support" test, those identified by the NYISO as beneficiaries but who do not support the project would still be required to pay for the project
- For projects that have at least 67% support of beneficiaries but less than 80% support, can request a NYS PSC review for regulated project recovery.

- Economic analysis of a particular project (used to determine project viability and cost allocation percentages) will focus on changes in load payments and generator payments as the key decision metric [Note: This may need to be revised depending on whether the generators are included as beneficiaries.]
  - Economic modeling of a particular project will be performed by the NYISO, as requested by a market participant or project sponsor, using an industry standard production cost modeling program. The analyses assumptions will be vetted through the stakeholder process and should be endorsed by the projected beneficiaries. (Note: If beneficiaries don't like the assumptions they will vote against the project, so there seems to be a proper check in place)
  - Such customer requested economic planning studies will commence after the Comprehensive Reliability Planning Process for a given year has concluded and must be completed before the next planning cycle begins

The next two bullets should be discussed. While the base case should assume a reliable system, the process to get there should be vetted more fully to determine individual MP positions:

  - The base case for the economic analysis of a particular project will include all TO backstop reliability projects as though they will be built in the year indicated in the CRPP. Considerations will be given to inter-regional plans.
  - Sensitivity analyses will consider the effect of market based solutions on the base case economic benefits, and the results of these sensitivities will be provided to the designated beneficiaries for consideration during the super-majority vote.

  - Future costs of fuels, emissions credits and system topology will be estimated by the NYISO, with high and low price forecast sensitivities for fuel and emissions; a sensitivity will also be performed to account for the cost or benefit of carbon emissions
  - Future generation shall be modeled using projects currently active and in the generation interconnection queue; in outer years when the generation interconnection queue is smaller, NYISO will forecast generation additions such that the NYISO (1) always meets the IRM requirements and the applicable LCR requirements as they exist in the year of the study and (2) the location of generation additions are influenced by capacity prices and the cost of construction in various NYISO capacity zones
  - Pre-existing long term power purchase contracts shall be considered as an offset to calculated benefits. If detailed information is not available, the NYISO shall consider quantities of MWs that may be committed for the longer term, and exclude those MWs from potential savings.

- If the project is approved, economic cost allocation will be applicable only to those reasonable costs incurred with the FERC approved ROE net of all market revenues.

- To the extent that a developer's costs change prior to the commencement of procurement and construction activities, the project developer's cost increases will be considered for possible inclusion in the cost allocation and recovery process once the developer provides appropriate verification of the projected cost increases, without elimination of the projected benefits, and must have appropriate regulatory approvals.
- Prior to inclusion in the cost allocation process, beneficiaries will vote on the revised economic analysis and only a super-majority vote still in favor of the project moving ahead will determine if the increases can be recovered

The next bullet is an option for consideration and to be vetted more fully to determine individual MP positions:

- Cost recovery applicable only when and if economic project commences commercial operation.

- If the project is approved, recovery from the beneficiaries for such project costs (net of market revenues) and its associated FERC approved ROE will occur over the first five years of the project in-service date, consistent with the projected "five year payback" decision rule, and consistent with the projected savings.
- Alternative: If the project is approved, the beneficiaries' allocation shall be reviewed 4 years after the project is put in service, with a reallocation in the following year. The study shall look at the change in the projected impacts to all customers in the NYISO territory with and without the project. To the extent that benefits are no longer achieved or are distributed significantly differently than originally anticipated, the project costs will be socialized, in all or in part depending on the study results.
  - In no case shall a beneficiaries' allocation increase by more than 5% in any one year
  - Since after 15 years it will be difficult to determine whether the original benefits are being achieved because the bulk power system will be significantly different from the system at the time the original triggering decision was made, at that point in time any remaining costs, including maintenance investments, will be socialized