

National Grid's Proposal for an Economic Planning Process in New York

ESPWG

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Principles

- ◆ **Cost allocation through the NYISO tariff is only applicable to transmission solutions**
- ◆ **Cost allocation is based on beneficiaries pay**
- ◆ **Eligibility of economic project is based on bright line test**
- ◆ **Stakeholder input is needed to establish the criteria and study assumptions for the performance of studies**
- ◆ **The NYISO shall advise if a project is economically justified; however does not “trigger” a project to go forward**

Viability Criteria – Bright Line Test

- ◆ **The bright line test incorporates the metrics most meaningful to the NY market**
 - ◆ Load Payment (zonal load times zonal LBMP)
 - ◆ Capacity Payment (zonal load times locational ICAP payment)

- ◆ **Test**

If NPV for all NYISO loads of the sum of gross load payment savings and NYCA capacity payments savings exceed NPV of project's costs then project is economically justified

$$\Sigma(\text{Load Payment Savings} + \text{Capacity Payment Savings}) > \text{Cost of Project}$$

Timeframe for calculation of annual benefits

- ◆ **Project annual benefits over 15 year period**
 - ◆ Although 30 years is the general depreciation life of a project, 15 years is chosen as benefits become harder to forecast longer periods outward
- ◆ **Compare NPV of project annual benefits (Δ gross load payments and Δ capacity payments) to NPV of annual cost over same period**
- ◆ **To project annual benefits, use a single set of input assumptions regarding fuel costs, load forecasts, etc**
- ◆ **Timeframe to consider the RNA base case including all Responsible TO backstop reliability projects which the NYISO has found is needed**
 - ◆ If the NYISO did not “trigger” any Responsible TO solution(s), the NYISO should assume the existing system in its base case

Sensitivity Analysis

- ◆ **For informational purposes only, sensitivity analysis of the following parameters should be conducted to inform decisions**
 - ◆ Future Generation
 - ◆ Using the purposed market based solutions
 - ◆ Fuel costs
 - ◆ Load growth
 - ◆ Emission costs
 - ◆ Increased demand response/energy efficiency

Parameters

- ◆ **Project developer shall include in total cost of project, all known environmental costs and any costs associated with any required regulatory approvals**
- ◆ **Shall only apply to projects on the NYCA bulk power system as defined in the tariff**
- ◆ **Project shall not be a regulated reliability project that has already been triggered by the NYISO**
- ◆ **Project shall be included in NYISO reliability base case once appropriate milestones have been met**
- ◆ **Once deemed economic through bright line test and supporting NYISO findings, project must go through appropriate regulatory approvals to receive permitting and siting**

Cost Allocation of Economic Based Project

- ◆ FERC stated in the most recent PJM Order on this issue and repeated in Order No. 890...
 - ◆ RTOs should design cost allocation mechanisms to *“fairly assign cost to causer and beneficiaries”*
 - ◆ FERC has recommended a metric based approach and/or postage stamp based
 - ◆ The mechanism should *“enjoy broad support from regulators and stakeholders”*
 - ◆ Although FERC has warned that it will step in if consensus could not be reached
 - ◆ The mechanism *“must encourage transmission investment”*
 - ◆ FERC has acknowledged that transmission is needed for *both* reliability and economic efficiency of market
 - ◆ FERC has stated that cost allocation *must be well-defined, ex-ante, placed in the tariff, and not vulnerable to litigation when applied*

Cost Allocation Proposal

- ◆ **Cost allocation is beneficiaries pay**
- ◆ **Beneficiaries are determined as those zones that receive a net savings**
- ◆ **Loads whose total sum of load payment and capacity payment increase as a result of the economic transmission project are not eligible to receive any “make whole” payments or other reimbursements**
- ◆ **Each zone determined as beneficiaries will be allocated costs based on that zone’s percentage of total savings**
 - ◆ Loads within a zone will pay the pro rata share of their peak load

Cost Allocation Parameters

- ◆ **Cost allocation is only applicable to those reasonable costs incurred with the FERC approved ROE net all market revenues (TCC payments)**
- ◆ **Estimated project costs will be used in the bright line test to determine viability of project and eligibility under the economic cost allocation mechanism.**
- ◆ **Cost allocation of project is based on actual cost of project when completed as approved by the FERC and New York PSC as appropriate**
- ◆ **Cost recovery under NYISO tariff**

Economic Planning Timeline

- ◆ **The economic planning analysis should be performed as part of the overall NY planning process**
 - ◆ After completion of the reliability portion of the planning process
- ◆ **The assumptions and parameters to be used in the analysis should be developed by stakeholders within a NYISO working group**
 - ◆ NYISO will make final determination of assumptions and parameters used in study if stakeholders cannot come to consensus
- ◆ **Project developer(s), market participant(s), or DPS staff may approach NYISO to conduct economic analysis of proposal(s)**
 - ◆ If needed, stakeholders will discuss how to group and cluster studies
- ◆ **NYISO will conduct economic analysis using bright line test including sensitivity analysis**
- ◆ **Only if project passes bright line test, can project proceed through regulatory process**