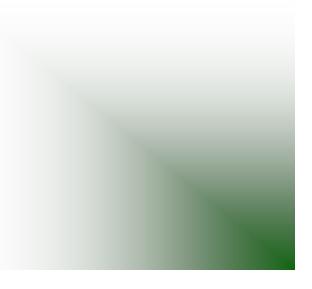


NYISO CRPP PROCESS RELIABILITY COST ALLOCATION PROPOSAL

NYPSC Case 07-E-1507

All Parties Meeting Albany, NY January 30, 2008



Background

- NYISO's existing CRPP contains the basic principles governing cost allocation for regulated reliability projects (NYISO OATT: Attachment Y, Section 10)
- Primary principle: "beneficiaries pay"
- The NYISO and its stakeholders have spent the past several years developing a cost allocation methodology to implement these principles
- During 2007, general consensus was achieved at ESPWG on a cost allocation methodology
- This methodology was included in NYISO's 9/14/07 posting for FERC's Order 890 Boston Tech Conference
 - Referenced in Footnote 34 of the PSC's December 24th Order
 - See Appendix A of DPS Staff Straw Options, dated 1/25/08
- > Not included in NYISO's 12/7/08 Order 890 Compliance Filing
 - FERC granted an extension to 6/4/08 to resolve the "state issues"

FERC Order 890: Cost Allocation Principle

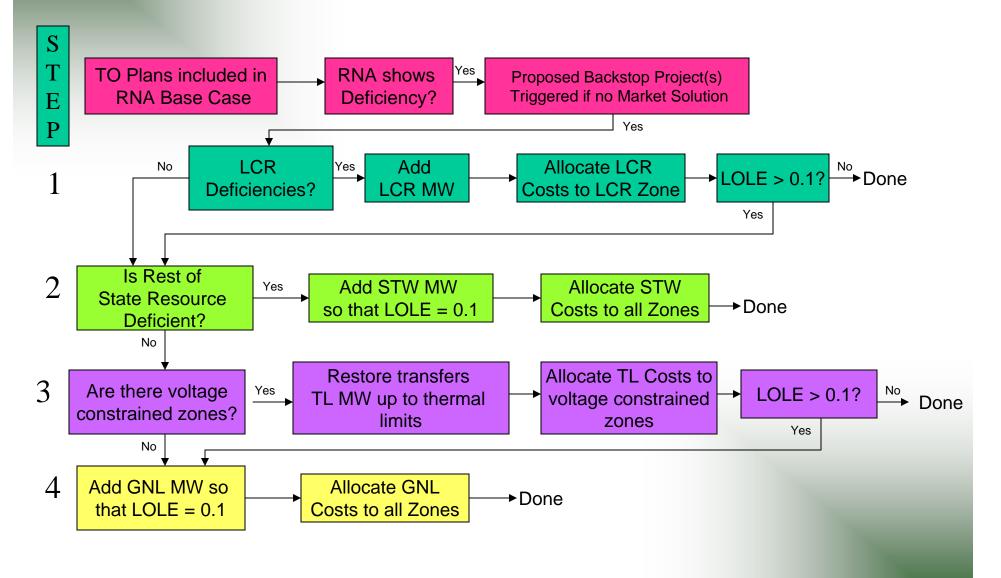
- > Order 890 did not designate a specific cost allocation methodology
- >FERC acknowledged that cost allocation is not an 'exact science"
- "Beneficiaries should pay"
- >Allows for regional flexibility
- > FERC provided guidance for the process:
 - Simple, fair, and direct
 - Transparent and reproducible
 - Avoid constant litigation
 - Support from stakeholders and state authorities

Primary Characteristics of Reliability Cost Allocation Methodology

Sequential, 4-Step process

- Step 1: First, address and assign locational capacity deficiencies to the respective locational zone(-s) (i.e. – Zones J or K)
- Remaining deficiencies are assigned to those zones contributing to the reliability violation
 - *Step 2:* If resource deficiencies still exist, all zones are designated
 - *Step 3:* Otherwise only isolated zones are designated
 - Step 4: If returning interfaces to thermal levels is insufficient, then all zones are designated for any remaining deficiency
- > Project costs are net of any market revenues (eg. ICAP, TCCs)
- > Methodology applies to all resource types

Proposed Reliability Cost Allocation Process



Allocating the Costs to Zones

- Methodology distributes costs to zones where reliability violations exist
- Costs of solutions are assigned on a coincident peak load share basis
 - LCR needs are assigned wholly to the respective LCR zone only
 - Zones with LCR requirements contribute to statewide needs taking into account their locational requirements
 - Solutions that satisfy multiple needs are allocated proportionally based on the type of need
- Consistent with the "beneficiaries pay" principle