

NYISO COMPREHENSIVE RELIABILITY PLANNING PROCESS FERC ORDER 890

NYPSC Case 07-E-1507

All Parties Meeting

Albany, NY

January 30, 2008

OVERVIEW

- BACKGROUND
- NYISO's EXISTING PLANNING PROCESS (CRPP)
- FERC Order 890's PLANNING REQUIREMENTS
- NYISO/NYTOs' JOINT MOTION FOR PARTIAL EXTENSION OF TIME
- PSC CASE 07-E-1507
- APPENDIX
 - *Timeline for Resolution of State Jurisdictional Issues*

BACKGROUND

NYISO's Market-Based Philosophy

- NYISO is a strong believer in the power of markets and strives to achieve market-based solutions whenever possible
 - *Market design & rules*
 - *Planning process*
- This philosophy has been generally supported by the NYS PSC and most other stakeholders and market participants
 - *NYISO utilizes an open and transparent process with stakeholder participation*
- The NYISO's markets and LMP pricing signals provide the benefits of competition while achieving the intended results (e.g.– majority of new merchant generation & transmission is located in SE NY region)
- Developers and investors can assess normal market risks reasonably well
 - *Risk of regulatory intervention is less certain*
 - *Uncertainty of regulatory intervention can have a chilling effect on the market*

Development of NYISO's Current Planning Process

- Phased approach
 - *Phase I: Reliability Needs*
 - *Phase II: Economic Considerations*
- Anchored in NYISO's market-based philosophy
- Dedicated stakeholder group was established in June 2003
 - *Electric System Planning Working Group (ESPWG)*
 - *Outgrowth of NYISO's Strategic Planning process*
 - *ESPWG has a continuing role during implementation*
- Active participation by market participants and NYPSC Staff

NYISO's Planning Responsibilities

- NYISO is the transmission service provider for New York in accordance with its FERC-approved OATT
- NYISO's Comprehensive Reliability Planning Process ("CRPP")
 - *Attachment Y to NYISO OATT*
 - *Applicable to NYS Bulk Power Transmission Facilities ("BPTF")*
 - *Based upon Annual Transmission Review for NPCC*
 - *Applicable to facilities generally above 115KV*
- NYISO administers the interconnection process for all transmission interconnections in New York
 - *Attachment X (LGIP) & Attachment Z (SGIP)*
 - *Attachment S – Interconnection Cost Allocation*

NYISO's Comprehensive Reliability Planning Process (CRPP)

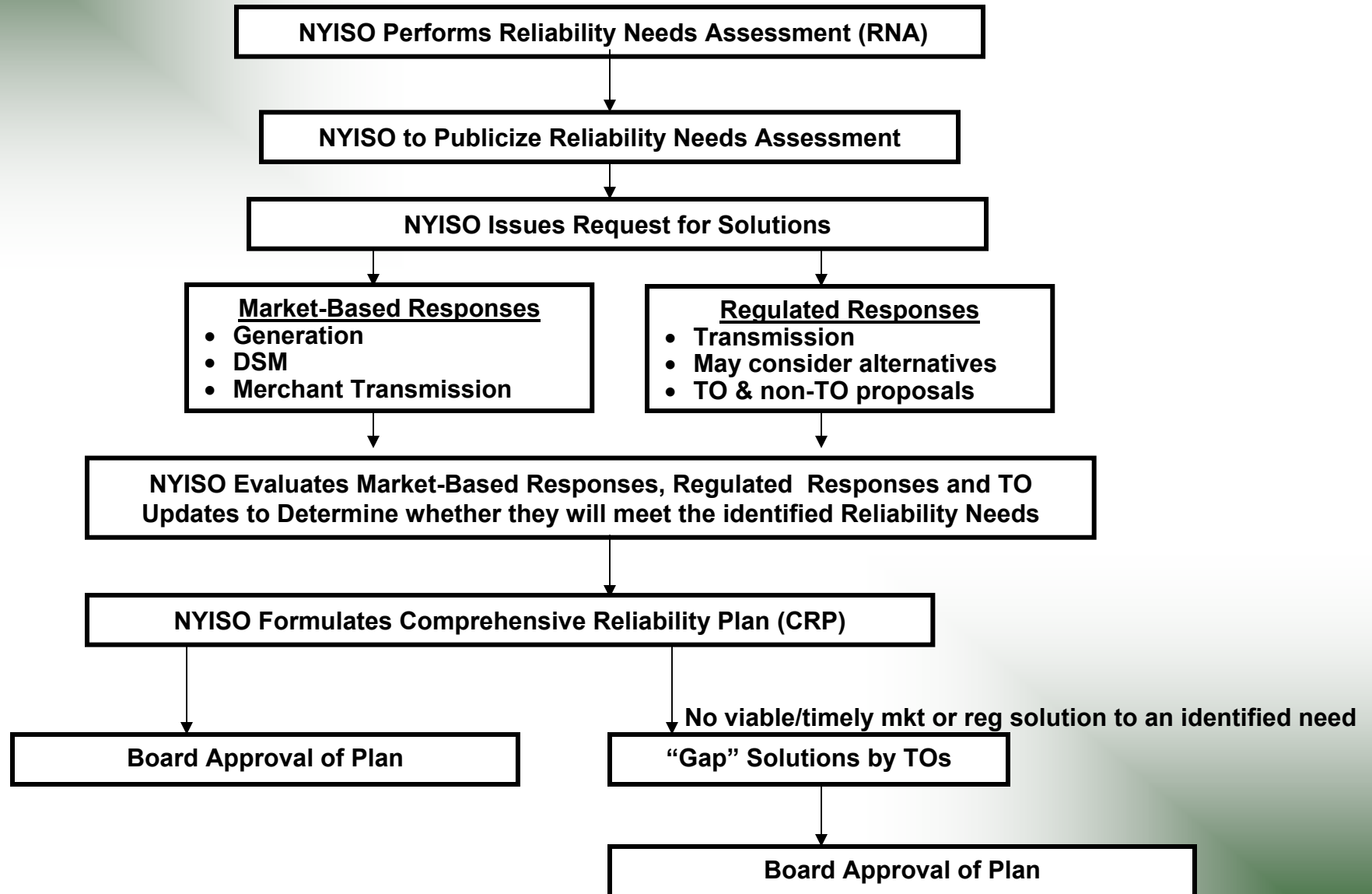
NYISO Comprehensive Reliability Planning Process (“CRPP”)

- Established a Comprehensive Planning Process for the identification and resolution of reliability needs that was approved by FERC on December 28, 2005
- Includes a methodology for the analysis and reporting of historic congestion costs
- FERC found the NYISO CRPP:
 - *to “properly balance” consideration of market-based and regulated solutions; and that*
 - *“It is certainly a substantial improvement over planning processes that have traditionally depended upon TO developed regulated solutions.”*

NYISO CRPP (cont'd)

- Establishes a formal long-term (10-year) planning process for the NYISO
 - *Provides for both market-based & regulated backstop solutions*
 - *Addresses roles of NYISO, FERC and NY PSC*
 - *Addresses cost allocation and cost recovery issues*
 - *Provides a commitment to investigate cause of potential market failure and to modify market rules as needed*
 - *NYISO-TO Agreement addresses TOs' rights and obligations under CRPP*
- Meets NYISO Objective: To ensure that upgrades will be built when needed for reliability

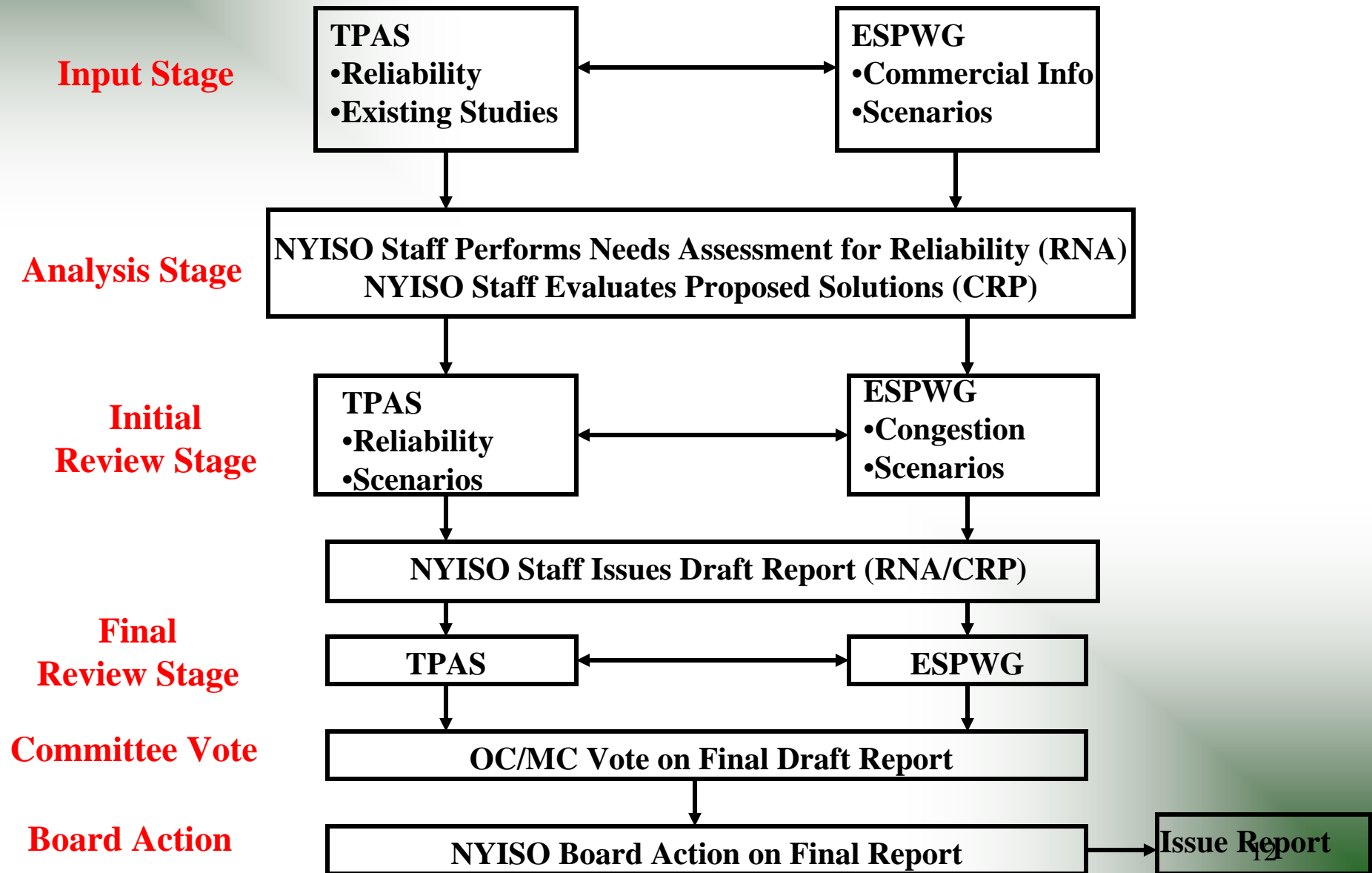
NYISO's Comprehensive Reliability Planning Process



Reliability Needs Assessment (“RNA”)

- NYISO Staff performs a Reliability Needs Assessment over the 10-year planning horizon based upon existing reliability criteria
- Scenario analysis is employed to test the robustness of the base case assumptions
- RNA will identify violations of reliability criteria, but does not identify specific facilities to meet the identified needs
- Provision for MP input & review of RNA
 - *Through ESPWG & TPAS*
 - *Vote at OC and MC*
- Provision for coordination with adjacent regions
- NYISO Board approves RNA
- The final approved Reliability Needs Assessment will be widely distributed
 - *Posted on NYISO website*

NYISO CRPP: Stakeholder Participation



Request for Solutions

- Following issuance of its RNA, the NYISO will provide an appropriate time period for the development of market-based & regulated responses
- Process is open to all resources
- NOT a formal “RFP” process
- When a Reliability Need is first identified by the NYISO:
 - *TOs have obligation to prepare a regulated backstop proposal*
 - *Such proposals are not limited to transmission*
 - *Implementation time for the regulated backstop provides the benchmark for the lead time for non-TO alternate proposals*

Request For Solutions (Cont'd)

- Market-based proposals are prepared in parallel with regulated backstop proposals
 - *All resources are eligible: generation, merchant transmission, demand response*
- Non-TOs may submit alternative regulated proposals to the NYDPS for consideration
 - *Such proposals which satisfy the DPS may be submitted to the NYISO for evaluation*

NYISO Evaluation Process

- NYISO evaluates all proposals to determine if they will meet the identified reliability needs
- Regulated backstop proposals by TOs establish the lead time for non-TO proposals
- If Market-based proposals are judged sufficient to meet the identified needs in a timely manner, the Comprehensive Reliability Plan ("CRP") will so state
 - *NYISO will not select from among the market-based responses*
 - *NYISO will monitor status of market-based projects to ensure needs will continue to be met as part of its annual update process*

NYISO Evaluation Process (Cont'd)

- If Market proposals are judged insufficient, NYISO will indicate that a regulated solution is needed
- NYISO will evaluate non-TO regulated alternatives to determine whether they will meet the identified need, and will report its evaluation in the CRP
- If market-based proposals are not forthcoming
 - *NYISO and its Independent Market Advisor will investigate whether that is due to market failure in one of its markets*
 - *If so, NYISO and its IMA will examine appropriate modifications to its market rules with MPs.*

CRP Review and Approval Process

- NYISO staff issues draft CRP including designated regulated backstop solutions, if needed, to meet identified reliability needs
- NYISO Staff draft CRP is circulated for stakeholder review and comment
- NYISO staff makes revisions as appropriate
- Final draft CRP is sent to the appropriate stakeholder committees (OC and MC) for review and vote
- NYISO staff makes revisions as appropriate
- Final draft CRP sent to Board for approval
 - *Provision for remand to Management Committee*
 - *NYISO Board approves CRP*
- CRP provided to regulatory agencies for their consideration
 - *Posted on NYISO website*

Implementation of Regulated Backstop Solution

- If market-based solutions are insufficient to meet Reliability Needs by need date
- NYISO can “trigger” a regulated backstop solution
- NYISO requests Responsible TO(-s) to seek regulatory approval of backstop solution
- **PSC and other regulatory agencies proceed with their review & approval**
 - *Alternate regulatory solutions may be proposed for consideration*
- Regulated project proceeds to implementation
 - *Unless halted by the NYISO due to the appearance of a viable market-based project*

“Gap” Solutions for Immediate Needs

- If neither market proposals nor regulated proposals can satisfy the need in a timely manner, the NYISO may trigger a “Gap” solution
 - *NYISO may seek a gap solution outside of the normal Planning Process if there is an imminent threat to reliability*
 - *NYISO will not contract directly for gap resources*
- TOs assume the obligation to immediately propose a “gap solution” for consideration by the NYISO and DPS
- To the extent possible, the gap solution should be temporary and strive to ensure that market based solutions will not be economically harmed
- A permanent regulated solution, if appropriate, may proceed in parallel with gap measures

Cost Allocation and Cost Recovery

(Current Provisions of NYISO Tariff)

- Cost Allocation for Regulated Projects
 - *Based upon a "beneficiaries pay" principle*
 - *A specific methodology has been developed by NYISO/ESPWG*
 - *Methodology intended to apply to all resources*
- Cost Recovery for Regulated Projects
 - *Transmission solutions*
 - ▶ TOs to file for recovery with FERC
 - ▶ Recovery proposed through a separate rate schedule under the NYISO Tariff
 - *Non-transmission solutions (generation & demand response)*
 - ▶ *In accordance with NYS Public Service Law*
- **To be addressed in Phase I of PSC Case 07-E-1507**

NY TO's Planning Responsibilities

- Responsible for planning for the reliability of their local systems
- TO plans are submitted to the NYISO for review
- TO plans are used as input to the NYISO's CRPP & Interconnection System Impact Studies
 - *The Local Transmission Planning Process is included in NYISO's Order 890 Compliance Filing*
- TOs assist NYISO with respect to modeling of their local systems
- TOs assist NYISO in performance of Facilities Studies for interconnections
- TOs also have responsibility for reliability under NY Public Service Law

NYISO-TO Agreement

- Defines TO rights and obligations with respect to the Comprehensive Reliability Planning Process
- TOs assume obligation to provide backstop regulated solutions
 - *If NYISO determines that there are no viable market-based solutions which will meet identified Reliability Needs*
 - *Subject to cost recovery, permitting and other conditions*
- Supplements existing NYISO/TO Agreement
- Approved by FERC
 - *May require modification following PSC determination on cost allocation and recovery mechanism for non-transmission regulated projects*

Role of the NYSPSC

- Reviews “regulated alternatives” proposed by TOs or other developers upon request
- Reviews and screens “gap” solutions
- Adjudicates disputes relating to reliability determinations in final RNA and in CRP if solely within NYSPSC’s jurisdiction
- Reviews TOs’ backstop solution when NYISO determines action is necessary to ensure reliability
- PSC has final siting & certification authority with respect to backstop solution ultimately implemented
- PSC Staff participation in the NYISO process will facilitate necessary approvals to ensure reliability
- **PSC process to be addressed in Phases I & II of Case 07-E-1507**

FERC Order 890 PLANNING REQUIREMENTS

Background

- Order 890 is FERC's Final Rule on Open Access Reform
- Adopts a number of modifications to the *pro-forma* OATT originally adopted in Order 888
- Adopts nine "planning principles" as requirements
- Applies to all jurisdictional public utilities—including ISOs and RTOs
- Final Rule requires all TO members of ISO/RTOs to participate in the planning process
- FERC indicates its expectation that non-public TOs will also participate

FERC's Nine "Planning Principles"

- NYISO's CRPP already addresses the following FERC planning principles for reliability:
 - *Coordination*
 - *Openness*
 - *Transparency*
 - *Information Exchange*
 - *Comparability*
 - *Cost Allocation*
 - *Dispute Resolution*
 - *Regional Participation*
- New requirement: economic planning
 - *To include cost allocation*

NYISO Response to Order 890

NYISO's efforts were focused upon FERC's new requirements:

- **Local TO Planning Process**

- *As input to the NYISO planning process*

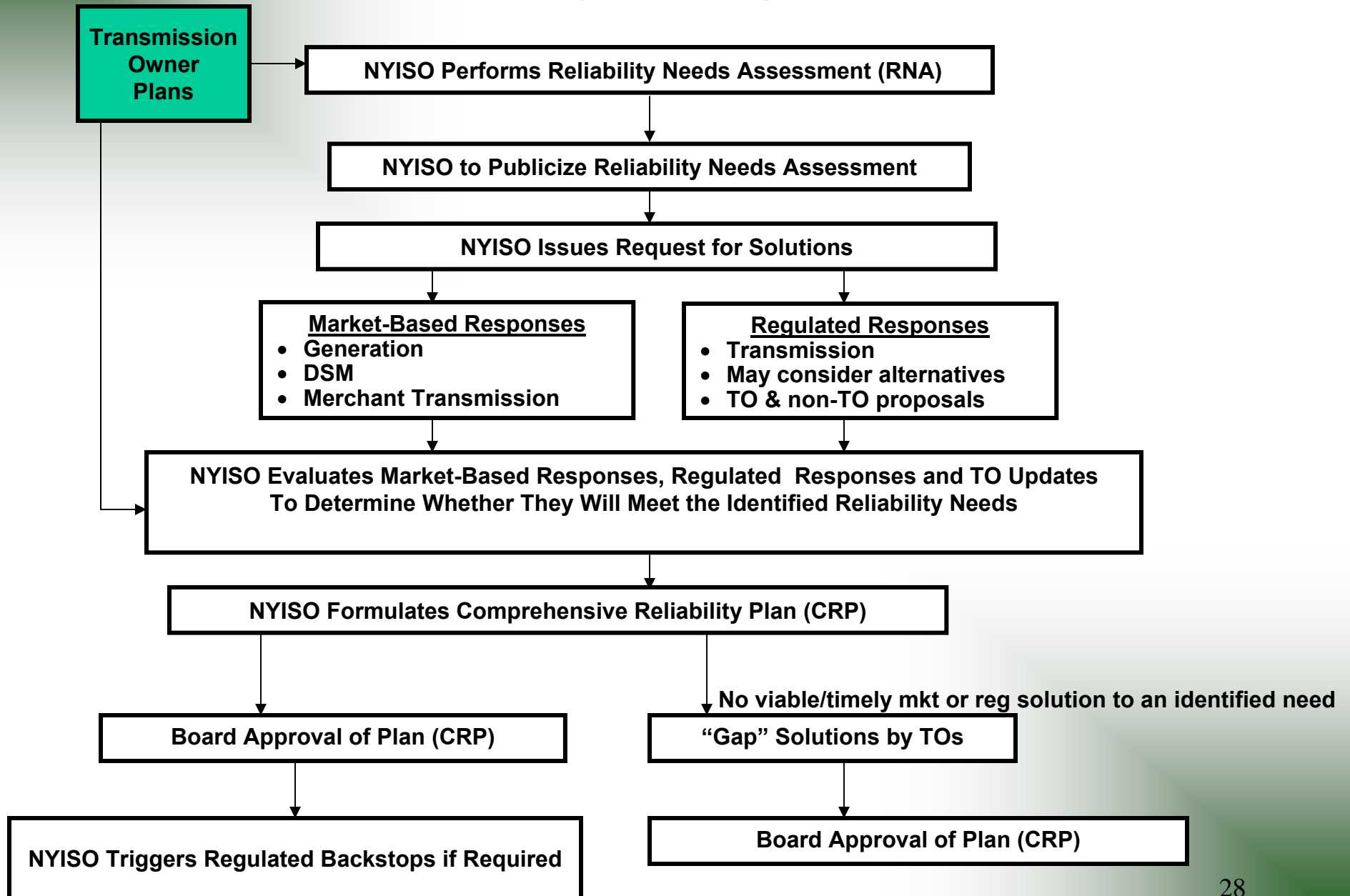
- **Economic Planning**

- *Most contentious issue among stakeholders*

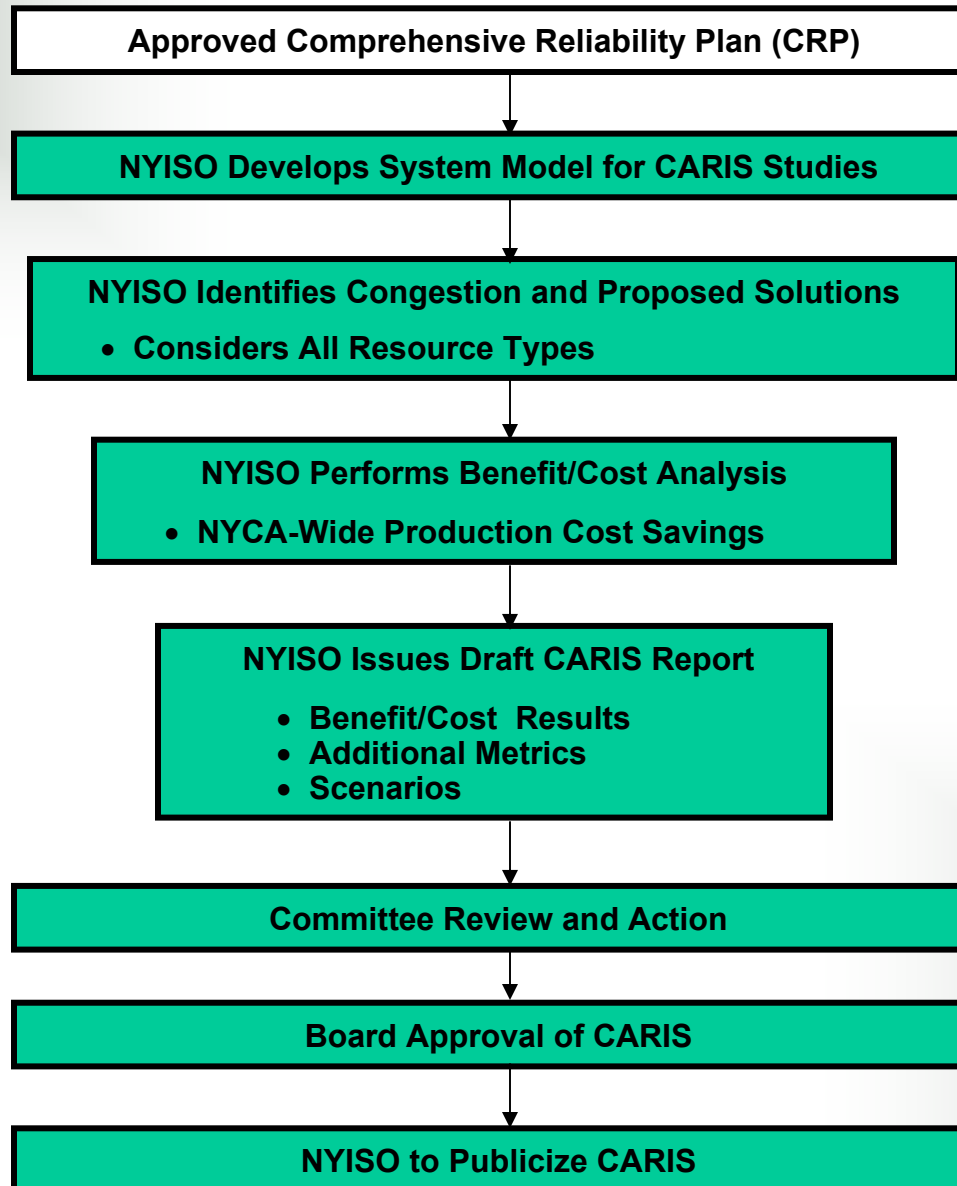
- **Cost Allocation**

- *For both reliability & economic projects*
- *Raises state-federal jurisdictional issues since the CRPP is an "all source" process*
- *Cost allocation & recovery for regulated non-transmission reliability projects is the basis of request for extension of time*

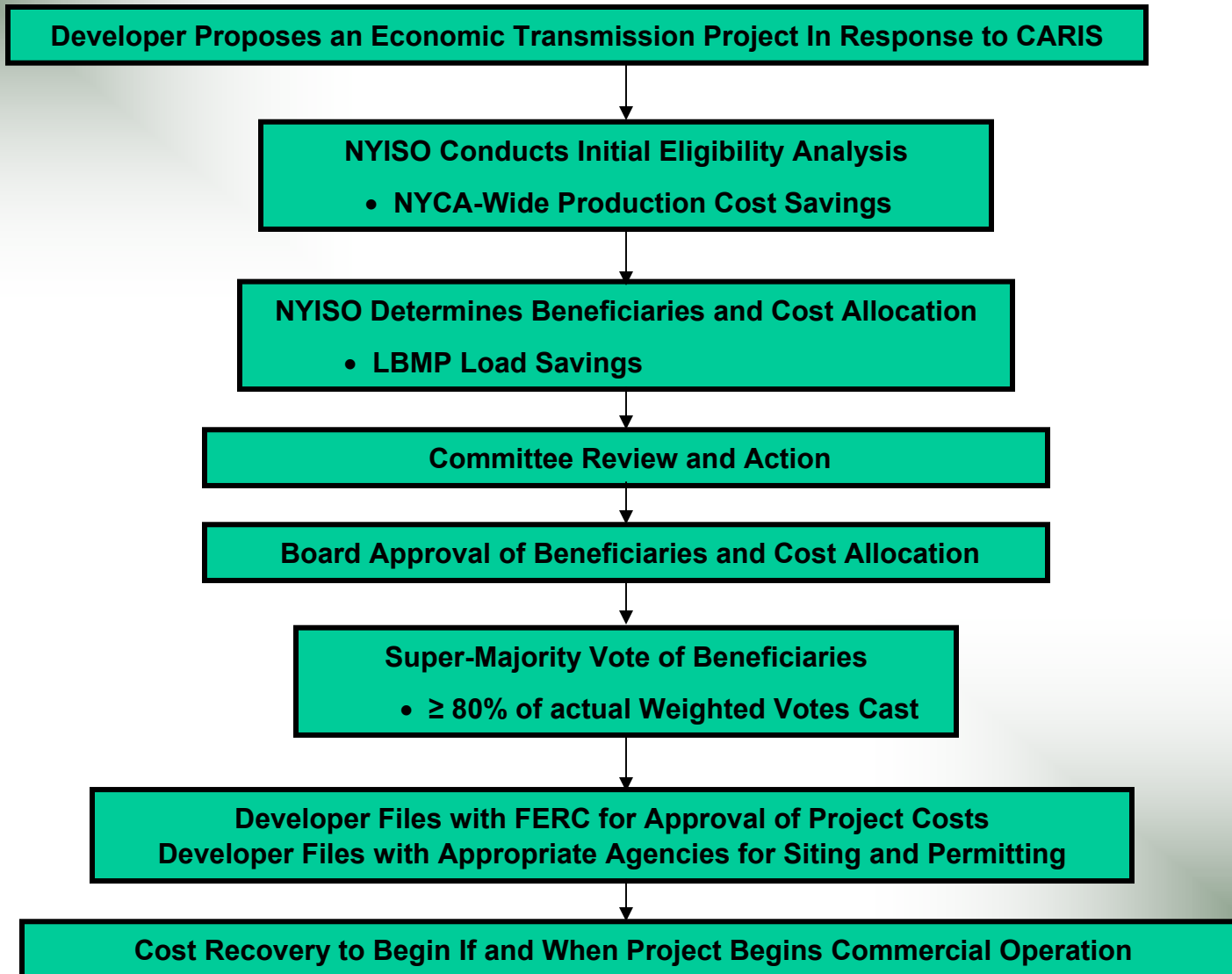
NYISO Proposed Comprehensive System Planning Process (CSPP) - Reliability Planning Process -



NYISO Proposed Comprehensive System Planning Process (CSPP) Economic Planning Process (CARIS)



NYISO's Proposed Economic Cost Allocation Process (For a Specific Economic Transmission Project)



NYISO/NYTOs REQUEST FOR PARTIAL EXTENSION OF TIME

Background

- The NYISO's CRPP is a unique process that is open to "all resources"
- Existing NYISO Tariff provisions for cost recovery:
 - *Transmission – under NYISO Tariff (Attach Y: Section 15.c)*
 - *Generation or Demand Response – in accordance with NYS Public Service Law (Attach Y: Section 15.d)*
 - *Supported by NYTO's & the PSC when filed*
 - *Has been accepted by FERC*
- TOs have concerns regarding comparable treatment for all resources under a split jurisdictional structure for cost allocation and recovery
- LIPA and NYPA have special concerns in light of their structures as "non-jurisdictional" state authorities

Request for Partial Extension

- Numerous discussions have taken place between and among the DPS Staff, TOs and the NYISO during the development of the NYISO's Order 890 compliance filing
- In late November, it was clear to all parties that resolution of the "state issues" would not be possible in time for the Dec 7th FERC deadline
- The NYISO Board indicated that it was willing to consider a limited request for extension---provided that a definitive schedule and timeline for resolution of these issues would be included

Request for Partial Extension (Cont'd)

- The timeline was developed jointly by the NYISO, TOs and DPS Staff (**See Appendix**)
 - *Based upon PSC's procedural requirements*
- Joint request for partial extension was filed by NYISO and NYTOs on 11/30/07
- FERC granted the extension until June 4, 2008
 - *PSC support was a key factor in FERC's acceptance*
 - *FERC understands that the state issues are complex*
- The "state issues" are primarily for the PSC and TOs to resolve
- The NYISO is "neutral" on the jurisdictional issues and will continue its efforts to facilitate a resolution
 - *NYISO role regarding implementation must be addressed*

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PSC Order: Near-Term Issues

- Cost allocation & recovery
 - *PSC Order notes that cost allocation and recovery should be compatible across all resource types regardless of jurisdiction*
 - *PSC Order also indicates its intent to accommodate the NYISO's June 4th compliance filing obligation to FERC*
 - *ALJ Schedule: April 23, 2008 PSC Meeting*
- PSC process related to selection of regulated backstop projects
 - *PSC Order indicates that Commission action is anticipated in August 2008*
 - *ALJ Schedule: August 2008 PSC Meeting*

Related Issues: for NYISO's June 4th Compliance Filing

There are several other issues which require resolution for the NYISO's June 4th filing but these cannot be resolved until the PSC acts and agreement is achieved with the TOs:

(See Appendix)

- State and Federal jurisdictional issues related to cost recovery
- NYISO tariff modifications and potentially billing system changes
- NYISO and TOs must update the supplemental agreement on planning
- TO's to develop a "separate rate mechanism" for cost recovery under the NYISO Tariff
- NYISO stakeholder process to review the above changes prior to filing with FERC

Questions??

APPENDIX

TIMELINE FOR RESOLUTION OF “STATE ISSUES”

***PROJECTED TIMELINE FOR RESOLVING STATE
JURISDICTIONAL ISSUES REGARDING
DEMAND RESPONSE AND GENERATION
REGULATED RELIABILITY PROJECTS***

Dec. 07: NYPSC Staff files proposal with NYPSC to address the cost allocation and cost recovery issues for Demand Response and Generation Reliability Solutions on a basis comparable to transmission solutions.

Dec. 07: NYPSC notice and comment period on Staff proposal.

Jan.-March 08: NYPSC and State Authorities negotiate, draft, and finalize a Memorandum of Understanding or other mechanism to address the State Authorities' cost allocation and cost recovery issues in light of their non-jurisdictional status.

Jan.-March 08: NYPSC and FERC Staff resolve any jurisdictional issues that must be addressed.

Jan.-March 08: NYPSC, NYTOs and NYISO develop tariff language and billing arrangements to integrate the cost allocation and cost recovery provisions for transmission, generation and demand response solutions.

March-April 08: NYPSC expected to issue decision on Staff proposal.

March-April 08: NYTOs and NYISO update supplemental agreement on planning.

Timeline* (Cont'd)

(* Attachment A to Joint Request for Extension of Time filed with FERC on 11/30/08)

March – April 08: NYTOs develop “separate rate mechanism” for cost recovery under NYISO’s tariff.

April – May 08: NYISO reviews any tariff changes with stakeholders.

May 08: NYTOs, NYPSC, LIPA and NYPA agreement to state process, and all necessary documents are finalized.

June 4, 08: NYISO files its compliance filing with FERC on cost allocation and cost recovery for Regulated Reliability Projects.