NYISO's Planning Process: 9/14/07 Draft Posting In Response to Order 890

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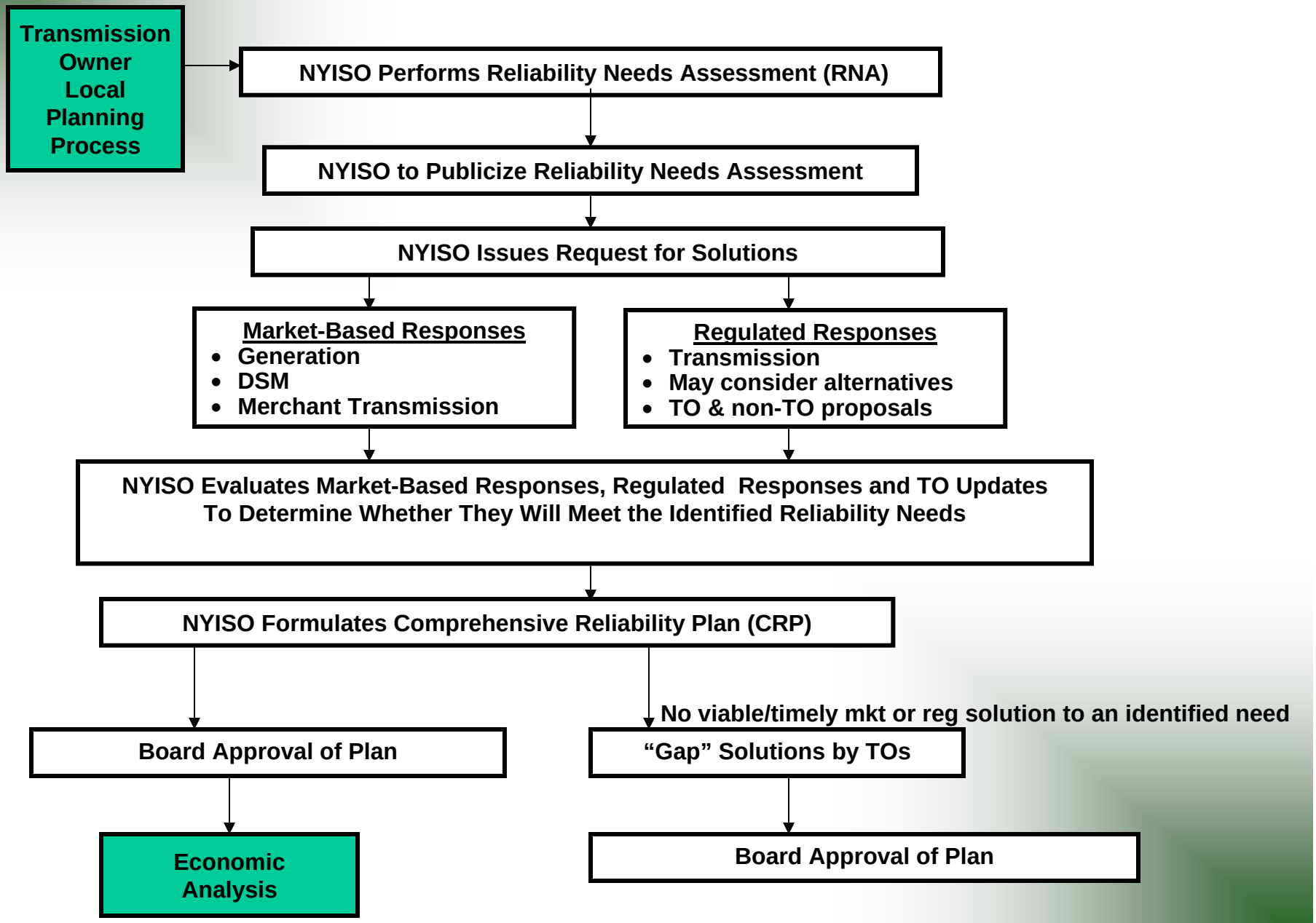
Outline

1. Background and NYISO Stakeholder Process Following the June Tech Conference
2. NYISO's September 14th Posting
3. Key Issues Still Under Discussion
4. Next Steps
5. Appendix A: Outline of Draft Attachment Y
6. Appendix B: Economic Cost Allocation Matrix

1. Background and NYISO Stakeholder Process Following the June Tech Conference

NYISO Proposed "Strawman" Planning Process



FERC Tech Conference: June 28th

- Economic Planning
  - *NYISO described its "market-based" philosophy*
  - *Most Stakeholders expressed their support for a NYISO "information only" role with respect to economic issues*
  - *FERC Staff indicated that a cost allocation methodology for economic projects is required for NYISO's compliance filing and that "principles" alone are not sufficient*
- TO Local Planning Process
  - *NYTOs presented a proposal to provide more transparency for their local planning process*
  - *Discussed need for coordination with the NYISO's planning process*

NYISO Stakeholder Process Following the June Tech Conference

- Held six formal stakeholder meetings between the June Tech Conference and the 9/14 posting
  - *Most were joint ESPWG/TPAS meetings*
- Held individual meetings with NYPSC Staff, NYTOs and members of other sectors
- Reviewed the guidance obtained at the FERC Tech Conference and the Staff White Paper
- Started with the NYISO "Strawman" for Economic Planning
- Turned Strawman's Economic Planning Process outline into draft tariff language (revised NYISO OATT, Attachment Y)

NYISO Stakeholder Process (Cont'd)

- Developed a cost allocation methodology for reliability projects which was initially proposed by the NYTOs
- Discussed several proposals for economic cost allocation—no consensus to date
- TOs proposed language to address their Local Planning Processes ("LTPP")
- NYISO drafted CRPP Manual and submitted to stakeholders for review and approval
- Continued discussions on cost recovery with PSC Staff and TOs
- Developed plans for expanded inter-regional planning with neighboring ISO/RTOs

Stakeholder Concerns

- NYTOs have made it clear that their support for any cost allocation methodology—whether for reliability or economic projects—depends on the inclusion of a cost recovery mechanism in the NYISO OATT that is satisfactory to them.
- The NYPSC has expressed concerns regarding jurisdictional aspects of the NYTOs cost recovery proposal.
- Stakeholders generally have expressed a concern that it be made clear that no consensus has been achieved on an economic cost allocation methodology to date and may not be prior to the December 7th compliance filing deadline.

2. NYISO's 9/14/07 Posting

Outline of September 14th Posting

- Cover Memo
  - *Describes Stakeholder Process*
  - *Highlights Key Issues*
- Draft Attachment Y (NYISO Planning Process)
  - *Clean and Red-line Versions*
  - *See Appendix A for more details*
- Economic Cost Allocation Proposals
  - *NYISO Strawman (Included in Draft Attachment Y: Section 14.2)*
  - *Con Edison/PSEG*
  - *National Grid*
  - *Matrix Comparison*
- NYTO's Cost Recovery Proposal

3. Key Issues Still Under Discussion

Key Issues Still Under Discussion

- Local TO Planning Process
- Economic Planning Process
- Economic Cost Allocation
- Cost Recovery
- Minor modifications to existing reliability planning process

TOs' Local Planning Process

- NYTOs have proposed language which is included in the draft NYISO posting
  - *See Section B.4 of draft Attachment Y for the current proposal*
  - *Has been discussed at several stakeholder meetings*
- High level—specifics TBD
- Timeline needs to be developed for Local TO Plans (LTPs) to ensure coordination with NYISO's Planning Process
  - *TOs have stated that they do not intend to change their internal planning processes*
- Unclear whether TOs will agree that stakeholder review of their "LTPs" will include their plans for all transmission facilities or just the BPTF
- Stakeholder concern regarding how changes in TO plans affect the NYISO's planning process
  - *Changes in TO plans can reduce the opportunities for market-based solutions*

Economic Cost Allocation Proposals

- Three proposals are currently under discussion
  - *NYISO Straw Proposal based upon FERC-approved MISO methodology (Exhibits 1A & B of NYISO Posting)*
  - *Con Edison/PSEG Proposal (Exhibit 2)*
  - *National Grid Proposal (Exhibit 3)*
- There have been considerable stakeholder discussions on these three proposals with no consensus to date
- NYISO prepared a comparison matrix to facilitate discussion/consensus building efforts (Exhibit 4)
- Matrix highlights both the similarities and differences among these three proposals

Economic Cost Allocation Matrix

SIMILARITIES:

- Fundamental Principle: "Beneficiaries Pay"
- Open and transparent process for economic analysis
  - *Economic Planning process includes all resources*
- Cost Allocation is applicable to transmission projects
  - *Generation & Demand Response are market-based*
- NYISO process does not "trigger" or mandate an economic project
- Sequential process
  - *Economic analysis follows CRPP reliability analysis*
  - *Economic base case based on a reliable system per latest CRP*
- Cost/benefit analysis used to determine eligibility for funding
  - *Cost Recovery is under the NYISO Tariff*
  - *FERC approves cost and sets ROE*
- Scenario analyses are conducted for information only

Economic Cost Allocation Matrix

DIFFERENCES: (NYISO/CE-PSEG/NGrid)

- Planning Horizon:
  - *NYISO: 10 Years*
  - *Con Ed/PSEG: first 5 Years upon operation*
  - *NGrid: 15 Years*
- Base Case Resources:
  - *Per CRP Plan*
  - *TO Regulated backstops*
  - *Backstops actually triggered by NYISO*
- Cost/Benefit Metrics:
  - *Weighted Average (NPV NYCA wide Production Cost)+ (NPV zonal LBMP load savings)*
  - *Net reduction in LBMP load payments for all NYISO loads*
  - *Sum of (NPV LVMP zonal load savings)+(NPV zonal ICAP savings)*
- Cost/Benefit Multiplier/Minimum Project Cost: NYISO only

Economic Cost Allocation Matrix

DIFFERENCES (Cont'd):

- NYCA Wide Cost Allocation: *NYISO Only (%TBD)*
- Beneficiary Designation
  - Weighted Average (Zonal production cost savings)+(zonal LBMP load savings) > 0; Weighting factors TBD
  - Reduction in LBMP load payments
    - *Alternate: Include generators with higher LBMP revenues*
  - Zonal NPV (Load savings+capacity savings)> NPV cost of project
- Allocation Ratio
  - Peak load ratio share
  - Load: based on share of total load savings
    - *Alternate: Share of load savings + incremental generator revenues*
  - Zonal: % of total zonal load savings
    - *Within Zones: To LSE's on peak load ratio share*
- Beneficiaries Vote: *Not contained in NGrid proposal*
  - "Super Majority" requirement w/Specifics TBD

Cost Recovery

- Note that the NYISO's CRPP 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 changed their position and now want cost recovery for all resources to be under the NYISO Tariff
  - *See NYISO Posting Exhibit 5*
- PSC has not changed its position—primarily based upon jurisdictional reasons
- PSC has recently made a proposal which is under consideration by the TOs

Cost Recovery: TO Concerns

- NYTOs have expressed a number of concerns with the PSC's cost recovery proposal
- NYTOs have linked their agreement on cost allocation with agreement on an "acceptable" cost recovery provision
  - *NYISO & PSC believe that these issues are separable*
  - *PSC has proposed to adopt the NYISO's cost allocation methodology*
- The NYISO is neutral on the cost recovery mechanism and will continue its efforts to mediate a resolution
  - *Uncertain that full resolution can be achieved by the December 7th Compliance Filing Date*

Interregional Planning

- Draft Attachment Y now contains an explicit reference to the Northeastern ISO/RTO Planning Coordination Protocol ("Protocol")- (Section 19)
- NYISO, PJM and ISO-NE have heard our stakeholders' desire for expanding our joint planning efforts under the Protocol
- Additional 'loss of source" analyses are underway to identify potential mitigation of present constraints
- ISO/RTOs are developing a scope, work plan and schedule for the second Northeast Coordinated System Plan
- Planning to schedule an IPSAC meeting for regional stakeholders before the end of the year
- As discussed in June, Interregional Cost Allocation for the Northeast will not be resolved by the December compliance filing

4. Next Steps

Next Steps

- Draft Attachment Y Posted: Sept 14th
- FERC Technical Conference: TODAY
  - *Stakeholder discussion*
  - *Input from FERC Staff*
- Develop final Tariff modifications with stakeholders
  - *October-November*
  - *Economic Planning Process/Cost Allocation*
  - *Cost Recovery*
  - *TO's Local Planning Process*
  - *Minor modifications to existing CRPP process*
- Finalize/Approval of the CRPP Manual
- Compliance Filing: Due December 7th

5. Appendix A

Outline
of
Draft Attachment Y

Draft Attachment Y: Proposed Changes

- A.1: Expanded scope of NYISO Planning Process
  - *Comprehensive Reliability Planning Process ("CRPP")=>*
  - *Comprehensive System Planning Process ("CSPP")*
- B.4: Local Transmission Owner Planning Process
  - *Outline of process & timeline to coordinate with RNA*
  - *Presentation by NYTOs*
- Incorporated procedures developed in accordance with Tariff requirements:
  - *B.8.8: Confidentiality of Solutions (Tariff)*
  - *B.10.a: Monitoring of market-based solutions (Manual)*
  - *B.10.b: Monitoring of regulated solutions (Manual)*
  - *B.10.c: Criteria for halting a regulated solution (Tariff)*
  - *B.10.d: Criteria for cutoff date for a market-based solution (Tariff)*

Draft Attachment Y (cont'd)

- C.11: Economic Planning Process
  - *Congestion Assessment and Resource Integration Study ("CARIS")*
  - *Strawman outline converted into tariff language*
  - *11.1: Sequential process/reliable system/based on CRP*
  - *11.2: MP Participation*
    - Continued role for ESPWG/TPAS
    - Development of criteria for selection and prioritization of "high priority" studies
    - Development of a process for additional studies
  - *11.3: Preparation of the CARIS*
  - *11.4: MP Participation in CARIS*
  - *11.5: Scenario Development*
  - *11.6: Report Preparation*
  - *12: CARIS Review Process*

Draft Attachment Y (cont'd)

- D.13: Cost Allocation Principles
  - *13.1: Market-Based Responses ("Participant Funded")*
  - *13.2: Regulated Responses to Reliability Needs ("Beneficiaries Pay")*
  - *13.3: Regulated Economic Projects ("Beneficiaries Pay")*
- D.14: Cost Allocation Methodologies
  - *14.1: Regulated Responses to Reliability Needs*
    - Cost allocation is independent of specific project
    - Four-step process based upon location/type of deficiency
  - *14.2: Regulated Economic Projects (See Attachment A)*
    - NYISO Straw Proposal based upon FERC-approved MISO methodology
    - MP's have submitted alternate proposals
    - No consensus has been achieved to date
- D.15: Cost Recovery
  - *More specific process still under discussion*
- D.19: Interregional Planning
  - *Reference to Northeastern ISO/RTO Planning Coordination Protocol*

6. Appendix B:

Economic Cost Allocation Matrix

COMPARISON OF COST ALLOCATION PROPOSALS

	NYISO Straw Proposal (Based Upon MISO's FERC-Approved Methodology)	Con Edison/PSEG Proposal	National Grid Proposal
	(Presented @ 8/15/07 ESPWG)	(Presented @ 8/15/07 ESPWG)	(Presented @ 8/28/07 ESPWG)
APPLICABILITY			
Transmission Projects	Applicable (On the NYCA bulk power system)	Applicable	Applicable (On the NYCA bulk power system)
Generation & Demand Response Projects	Not Applicable for Cost Allocation under NYISO Tariff (Such projects to be market-based)	Not Applicable	Not Applicable
Reliability Backstop Projects	Not Applicable if already triggered by the NYISO. May be applicable to the advancement of a regulated backstop project.	Not Addressed in Proposal [CE's Accelerated Reliability Projects 08-27-07 was to address advancement of a regulated backstop project]	Not Applicable if already triggered by the NYISO
"Triggering"	NYISO process will not trigger an economic project	Same	Same
MODELING ISSUES			
Sequential Process	Builds on most recent CRP	Same	Same
Planning Horizon	10 Years (Same as CRPP)	5 Years	15 Years
Model	Production Costing Model	Industry standard production cost model	Not specified (Production cost model implicit in the methodology)

COMPARISON OF COST ALLOCATION PROPOSALS – Cont'd

Base Case Resources	According to CRP Plan (Preference for market-based solutions/use regulated reliability backstops only if needed)	TO Regulated Reliability Backstop Solutions to be installed in year of need	Consider only TO Regulated Reliability Backstop Solutions triggered by the NYISO. If no backstops triggered—use the existing system.
Open & Transparent Process	Develop methodology & study assumptions/ review study results with stakeholders (ESPWG/TPAS)	Same	Same
COST/BENEFIT ANALYSIS	Used to determine initial eligibility for cost allocation under NYISO Tariff	Same	Same
Time Period	10 Years	5 Years	15 Years
Benefits Metrics	Weighted average: (PV of NYCA wide production cost savings) + (NPV Zonal LBMP load savings) Weighting factors: TBD	Net reduction in (LBMP) load payments for all NYISO loads	Sum of (NPV LBMP Zonal load savings) + (NPV Zonal ICAP payment savings)
C/B Multiplier	Sliding scale depending upon the in-service date of the project Multipliers: TBD	No Multiplier (NPV Benefits must exceed total project costs, including environmental and regulatory approval costs) Zonal C/B may also be calculated for information purposes only	No Multiplier (NPV Benefits must exceed total project costs: including environmental and regulatory approval costs)
Minimum Cost Threshold	Project Cost to be greater than $X Amount: TBD	None	None
Cost Estimates	To be developed by NYISO with assistance of TO	Not specified	Based upon estimated costs Does not specify who calculates
Additional Metrics	For information only May include: generator payments; ICAP costs; AS costs; Losses; TCC payments	None Proposed	None Proposed
Additional Scenarios	For information only	For information only	For information only

COMPARISON OF COST ALLOCATION PROPOSALS – Cont'd

	May include: fuel & load forecast uncertainty; pending environmental regulations; alternative resource scenarios; energy efficiency	May include: market-based solutions; high & low price forecasts for fuel & emissions	May include: additional generation scenarios, including consideration of market-based reliability solutions; fuel & load forecast uncertainty; emissions costs; demand response/energy efficiency
COST ALLOCATION			
Fundamental Principle	"Beneficiaries Pay"	Same	Same
Other Principles	See NYISO "Strawman"	None Specified	None Specified
NYCA Wide/Zonal Allocation	X% NYCA-Wide/Y% Zonal Allocation %: TBD	No NYCA-Wide Allocation	No NYCA-Wide Allocation
Beneficiary Designation	Weighted average over 10 years: (Zonal production cost savings) + (zonal LBMP load savings) > 0 Weighting factors: TBD To determine eligibility for the zonal cost allocation	Loads who benefit: Based on reduction in LBMP load payments (Zonal basis??) Generators: Who benefit from access to higher LBMP revenues	Zonal NPV (Load Payment Savings + Capacity payment savings) > NPV Cost of Project
Non-Beneficiaries	Will not receive any zonal cost allocation; must still pay NYCA-Wide cost; no "make-whole" payments	No "make whole" payments	No "make whole" payments
Allocation Factor	Peak load ratio share	Load: based on share of total load savings Generator + Load: based on share of load savings + incremental generator revenues	Zonal costs: based on % of total savings Within Zone: to LSEs on peak load ratio share
Project Cost	Actual project cost Methodology: TBD	All "Reasonable costs" actually incurred Net of all market revenues Provision for review and vote on cost increases prior to start of	Actual cost of project when completed Net of all market revenues (e.g., less TCC payments)

COMPARISON OF COST ALLOCATION PROPOSALS – Cont'd

		procurement/construction	
Approval of Project Cost	By FERC through NYISO Tariff	FERC sets ROE	By FERC and/or NYSPSC "as appropriate" FERC sets ROE
BENEFICIARIES VOTE?	Yes	Yes	No Vote
Eligibility to Vote	Only zones who are beneficiaries	Only loads (generators) who are beneficiaries	NA
Voting Rules	TBD	Voting share weighted pro-rata in accordance with cost allocation percentage	NA
Percentage	"Super Majority" %: TBD	80% Between 67% and 80%: Can request a NYS PSC review for regulated cost recovery	NA
Beneficiaries voting "no"	Required to pay proportional share of project	Required to pay proportional share of project	NA
COST RECOVERY			
Vehicle	NYISO Tariff	NYISO Tariff	NYISO Tariff
Cost Recovery Begins	TBD	When and if project commences commercial operation	Not Addressed
Recovery Period	TBD	5 Years With a FERC-approved ROE	Not Addressed
OTHER PROVISIONS			
Conform to NYISO Tariff	Economic project must comply with all other requirements of NYISO Tariff (e.g. interconnection)	Not Mentioned	Not Mentioned

COMPARISON OF COST ALLOCATION PROPOSALS – Cont'd

Regulatory Approvals for Permitting & Siting	Not Mentioned	Not Mentioned	Per normal regulatory process
Consideration of LT Contracts	Not Included	Pre-existing LT power purchase contracts to offset projected benefits. Use MW offset if cost information is not available.	Not Included
Prospective Review of Cost Allocation	Not Included	Provision for prospective review of project benefits after 4 years Possible reallocation/ socialization of costs at that time	Not Included

NOTE: Alternative positions are highlighted in yellow