

DRAFT FOR DISCUSSION PURPOSES ONLY

ORDER 890 PLANNING PRINCIPLE #9: COST ALLOCATION

Requirements of Order 890

- The Commission finds, after considering comments, that it is appropriate to include a specific principle regarding cost allocation (Para 557)
- We therefore find that, for a planning process to comply with the Final Rule, it must address the allocation of costs of new facilities (Para 557)
- Our intent is not to upset existing cost allocation methods applicable to specific requests for interconnection or transmission service under the *pro forma* OATT (Para 558)
- We will not impose a particular allocation method for such projects, but rather will permit transmission providers and stakeholders to determine their own specific criteria which best fit their own experience and regional needs. (Para 558)
- The Commission will weigh three factors when considering a cost allocation proposal:
 - Whether a cost allocation proposal fairly assigns costs among participants, including those who cause them to be incurred and those who otherwise benefit from them.
 - Whether a cost allocation proposal provides adequate incentives to construct new transmission.
 - Whether the proposal is generally supported by state authorities and participants across the region. (Para 559)
- These factors are particularly important as applied to (the) economic upgrades (Para 561)
- As a general matter, we believe that the beneficiaries of any such project should agree to support the costs of such project (Para 561)
- We recognize that there are free rider problems associated with new transmission investment. (Para 561)
- It is important that each region address these issues up front, at least in principle, rather than having them relitigated each time a project is proposed. (Para 561)

PROPOSED NYISO “STRAWMAN” RESPONSE TO PRINCIPLE #9

Reliability Projects

- The NYISO’s CRPP, as contained in Attachment Y of the NYISO OATT, contains principles for cost allocation for regulated reliability projects which are based upon the principle that beneficiaries should bear the cost responsibility (See Attachment Y, Section 10.2)

Economic Projects

- The NYISO will develop cost allocation principles for economic projects in conjunction with its market participants, state agencies and other stakeholders
- The primary principle shall be based upon a “beneficiaries pay” approach, similar to that employed for reliability projects (Ref: Attachment Y, Section 10.2)
- The specific cost allocation methodology, to be developed by the NYISO and its stakeholders, shall contain the following elements:
 - The methodology shall be fair and equitable (Section 10.2.i)
 - Primary beneficiaries shall initially be those Transmission Districts identified as benefiting from the proposed upgrade (Section 10.2.c)
 - Consideration shall be given to the “free rider” issue as appropriate (Section 10.2.i)
 - The methodology shall provide cost recovery certainty to investors to the extent possible (Section 10.2.j)
 - Consideration shall be given to the use of a materiality threshold for cost allocation purposes (Section 10.2.g)
 - The methodology shall provide for ease of implementation and administration to minimize debate and delays to the extent possible (Section 10.2.g)
 - Benefits determination shall consider various perspectives (e.g. – bid production cost and the other agreed-up metrics for analyzing congestion)
 - Benefits determination shall account for future uncertainties (e.g. – load forecast, fuel prices, environmental regulations)
 - Benefits determination shall consider non-quantifiable benefits (e.g. – system operations, environmental effects)