

1 **NERTO Planning and Expansion Process**

2 **NOTE: SEE ATTACHED PROCESS FLOW CHART**

3 **1. General:**

4 The process defined in this document shall be utilized for regional planning in
5 NERTO. The NERTO System Plan (the “Plan”), including the related transmission
6 enhancement and expansion studies, shall be completed by NERTO. In completing the
7 Plan, NERTO shall consult with the Planning Advisory Committee. The Planning Advisory
8 Committee shall be established in accordance with the provisions of Section 2.1, and shall be
9 responsible for the functions identified in that Section.

10 **2. Establishment of Planning Advisory Committee:**

11 2.1. A Planning Advisory Committee shall be established to perform the functions
12 set forth in Section 2.2 below. It shall have a Chair and Secretary, who shall be
13 appointed by the chief executive officer of NERTO. Before appointing an
14 individual to the position of the Chair or Secretary, NERTO shall notify the
15 Committee of the proposed assignment and, consistent with its personnel
16 practices, provide any other information about the individual reasonably
17 requested by the Committee. The chief executive officer of NERTO shall
18 consider the input of the members of the Committee in selecting, removing or
19 replacing such officers. The Planning Advisory Committee shall be advisory only
20 and shall have no formal voting protocol. [conform to overall stakeholder
21 advisory committee procedures when completed to provide meaningful input]

22 2.2. The Planning Advisory Committee may provide input and feedback to the
23 NERTO concerning the development of the NERTO System Plan and the
24 conduct of system enhancement and expansion studies, including the facilitation

1 of the needs assessment and responding to NERTO's request for solutions. Any
2 entity (including state agencies) may designate a member to the Planning
3 Advisory Committee by providing written notice to the Secretary of that
4 Committee identifying the name of the entity represented by the member and the
5 member's name, address, telephone number, facsimile number and electronic
6 mail address. The entity may remove or replace such member at any time by
7 written notice to the Secretary of the Planning Advisory Committee.

8 **3. NERTO System Plan; Principles, Scope, and Contents:**

9 3.1. The NERTO System Plan provides an annual assessment of the system needs of
10 the NERTO Control Areas in a consolidated manner, and is designed to
11 maintain the NERTO Control Areas' reliability while accounting for economic
12 and environmental considerations. At least every three years, the NERTO
13 System Plan shall reflect the results of a new comprehensive system planning and
14 expansion study conducted pursuant to Section 5. In other years, the NERTO
15 System Plan may be only an update to a prior approved Plan. Comprehensive
16 system enhancement and expansion studies include a needs assessment by
17 NERTO (as described in Section 5.5), and NERTO analysis of the market and
18 transmission solutions offered in response thereto (as described in Section 5.6).

19 3.2. The baseline for the NERTO System Plan shall account for: (i) all projects that
20 have met milestones (such as the determination of the absence of "significant
21 adverse impact" under the NE Section 18.4 process or siting approvals)
22 determined by NERTO in collaboration with the Planning Advisory Committee,
23 including but not limited to proposed generation and transmission projects,
24 Merchant Transmission Facilities, and Elective Transmission Upgrades; (ii)

1 demand-side projects planned within the NERTO Control Areas and identified
2 to NERTO; and (iii) the requirements for system restoration services. The
3 development of the NERTO System Plan will not include development of a
4 system restoration plan.

5 3.3. The NERTO System Plan shall utilize a ten-year planning horizon, and reflect a
6 ten-year capacity and load forecast. The NERTO System Plan shall identify,
7 based on the results of system enhancement and expansion studies conducted
8 pursuant to Section 5, a list of proposed Reliability Transmission Upgrades and
9 Market Efficiency Transmission Upgrades to the NERTO Transmission System
10 for at least each of the ensuing five years, not otherwise proposed as Merchant
11 Transmission Facilities or Elective Transmission Upgrades, that are determined
12 by NERTO to be appropriate at the time of the issuance of the Plan (collectively
13 referred to as "Transmission Upgrades"). Each NERTO System Plan shall also
14 include the list of Transmission Upgrades included in any prior Plans (including
15 prior New England Regional Transmission Expansion Plans and those included
16 in New York's Annual Transmission Reliability Assessment), as updated, that
17 have not been completed at that time. The lists of Transmission Upgrades shall
18 identify separately (i) Reliability Transmission Upgrades, and (ii) Market
19 Efficiency Transmission Upgrades. The Plan shall also list transmission facilities
20 (as determined under the NERTO Interconnection Process) to be built to
21 accommodate new generation, merchant transmission, and elective transmission
22 interconnections that have satisfied the requirements of the Tariff. The Plan
23 shall also include a description of the reasons for any new Transmission

1 Upgrades proposed in the Plan, or for any removal of Transmission Upgrades
2 from the Plan pursuant to Section 3.4 below.

3 3.4. A Transmission Upgrade may be added to the NERTO System Plan by NERTO
4 at any time in a given year and in doing so NERTO shall consult with and
5 consider input from the Planning Advisory Committee, within the scope of its
6 respective functions as specified in Section 2. Similarly, a Transmission Upgrade
7 may be removed from the NERTO System Plan by the NERTO if the market
8 responds by developing credible alternative generation projects, Merchant
9 Transmission Facilities in accordance with Section 8, or demand-side projects, or
10 other circumstances arise such that the need for the Transmission Upgrade no
11 longer exists, and in doing so NERTO shall consult with and consider input
12 from the Planning Advisory Committee, within the scope of its functions as
13 specified in Section 2; provided that (if the Transmission Upgrade is removed
14 from the plan by NERTO) the entity responsible for the construction of the
15 Transmission Upgrade is reimbursed for any costs (plus a reasonable return on
16 investment at existing FERC-approved ROE levels) prudently incurred or
17 prudently committed to be incurred in connection with the planning, designing,
18 engineering, permitting, procuring and other preparation for construction,
19 and/or construction of the Transmission Upgrades proposed for removal from
20 the Plan. For Reliability Transmission Upgrades, the allocation specified in
21 Exhibit 1 hereto shall apply to this cost reimbursement. For Market Efficiency
22 Transmission Upgrades and for projects resulting from a Request for Alternative
23 Proposals (as described in Section 4.4 below), the allocation specified in the
24 approved funding allocation shall apply to this cost reimbursement.

1 3.5. The NERTO System Plan shall conform to: Good Utility Practice; applicable
2 reliability principles, guidelines, criteria, rules, procedures and standards of
3 NERC, NPCC, NYSRC and any of their successors; NERTO-approved
4 Transmission Owner criteria, rules, standards, guides and policies; and the
5 NERTO System Rules, as they may be amended from time to time.

6 3.6. The NERTO System Plan shall be designed (i) to avoid unnecessary duplication
7 of facilities; (ii) to avoid the imposition of unreasonable costs upon any
8 Transmission Owner, Transmission Customer or other user of a transmission
9 facility; (iii) to take into account the legal and contractual rights and obligations
10 of the Transmission Owners and the transmission-related legal and contractual
11 rights and obligations of any other entity; (iv) to provide for coordination with
12 existing transmission systems and with appropriate interregional and local
13 expansion plans; (v) to properly coordinate with market responses, including
14 generation, merchant transmission and demand-side responses.

15 **4. Procedures for Developing a NERTO System Plan**

16 4.1. At the initiation of an effort to update a Plan or develop a new Plan, NERTO
17 shall solicit input on regional needs for the updated or new Plan from members
18 of the Planning Advisory Committee. The Planning Advisory Committee shall
19 meet to perform its respective functions in connection with the preparation of
20 the NERTO System Plan, as specified in Section 2.1. Thereafter, drafts of the
21 NERTO System Plan shall be provided to the Planning Advisory Committee and
22 input from that Committee shall be received and considered in preparing and
23 revising subsequent drafts.

1 4.2. The Transmission Owners, those entities requesting transmission service or
2 interconnection, and any other entities proposing to provide facilities to be
3 integrated into the NERTO Control Areas or alternatives to such facilities shall
4 supply upon request and subject to applicable confidentiality requirements of the
5 [NERTO Information Policy/Code of Conduct] any information and data
6 reasonably required to prepare a NERTO System Plan or to perform a
7 transmission enhancement and expansion study. Any confidential cost estimate
8 for a proposed Transmission Upgrade to the NERTO Transmission System that
9 is or may be subject to Section 6 shall be considered by NERTO to be
10 competitively sensitive, confidential information and shall be considered the
11 estimator’s confidential information, and shall not be disclosed by NERTO to
12 other entities that may be eligible to submit a proposal in accordance with
13 Section 6, including, without limitation, other Transmission Owners. Any other
14 information or data provided shall be subject to the rights and obligations of the
15 NERTO [Information Policy/Code of Conduct].

16 4.3. A draft of a recommended NERTO System Plan shall be presented at least
17 annually by the NERTO staff to the NERTO Board of Directors for approval.
18 The draft NERTO System Plan shall incorporate the results of any expansion
19 and enhancement studies performed since the last Plan was approved. Before a
20 final draft of any recommended NERTO System Plan is presented to the
21 NERTO Board of Directors for approval, a subcommittee of that Board shall
22 hold a public meeting to receive input directly and to discuss any proposed
23 revisions to the draft. The final draft of the recommended NERTO System Plan

1 shall be presented to the NERTO Board of Directors no later than [month and
2 day] of each year and shall be acted on by the Board within __ days of receipt.

3 4.4. The NERTO Board of Directors may approve the recommended Plan as
4 submitted, modify the Plan or remand all or any portion of it back with guidance
5 for development of a revised recommendation in accordance with this Section 4.
6 The Board of Directors may consider the Plan in executive session, and shall
7 consider in its deliberations the views of the subcommittee of the Board
8 reflecting the public meeting held pursuant to this Section 4.3. In considering
9 whether to include a particular Market Efficiency Transmission Upgrade in the
10 approved Plan, the Board of Directors shall consider the relative severity of the
11 congestion addressed by that Market Efficiency Transmission Upgrade. If the
12 Board of Directors determines to include an Market Efficiency Transmission
13 Upgrade in the approved Plan, it shall consider the funding mechanism in
14 Exhibit 1 as well as any other funding mechanisms recommended by the
15 NERTO staff with input from the Planning Advisory Committee, subject to
16 Commission and/or state regulatory approval. In considering whether to
17 approve the recommended Plan, the Board of Directors may, if it finds a
18 proposed Market Efficiency Transmission Upgrade or Reliability Transmission
19 Upgrade not to be viable from a timeliness or financial standpoint, or if no
20 Transmission Upgrade has been proposed, direct the NERTO staff to issue a
21 Request for Alternative Proposals (“RFAP”) as described below, and withhold
22 approval of the Plan, or portions of the Plan, pending the results of that RFAP.
23 The RFAP shall seek generation, demand-side and merchant transmission
24 alternatives, and normally will focus on interim (“gap”) solutions. The NERTO

1 staff shall provide the Board of Directors and Planning Advisory Committee
2 with an analysis of the alternatives offered in response to the RFAP, and provide
3 a recommendation together with a funding mechanism reflecting input from the
4 Planning Advisory Committee. The Board of Directors may determine to
5 include one of the alternatives in the approved Plan.

6 4.5. **Interregional Coordination:** The NERTO System Plan shall be developed in
7 coordination with the similar plans of the surrounding RTOs and Control Areas.
8 Interregional planning studies shall be conducted over as broad a region as
9 feasible, including adjacent Canadian systems who are members of NPCC,
10 MAAC and ECAR.

11 4.6. **Cost Allocation:** The cost responsibility for each Reliability Transmission
12 Upgrade that is listed in the NERTO System Plan shall be determined in
13 accordance with Exhibit 1 hereto.

14 **5. Procedures for the Conduct of System Enhancement and Expansion Studies:**

15 5.1. System enhancement and expansion studies shall be conducted in accordance
16 with the procedures set forth in this Section 5. The results of these studies shall
17 be reflected in the NERTO System Plan.

18 5.2. NERTO shall initiate system enhancement and expansion studies at least once
19 every three years. A more targeted study shall be conducted if: (i) a need for
20 additional transfer capability is identified by NERTO in its evaluation of requests
21 for firm transmission service with a term of one year or more or as a result of
22 NERTO's ongoing evaluation of the bulk power supply system's adequacy and
23 performance; (ii) a need for additional transfer capability is identified as a result
24 of the NERC and/or NPCC reliability assessment or more stringent publicly

1 available local reliability criteria, if any; or (iii) constraints or available transfer
2 capability limitations are identified as a result of generation additions or
3 retirements, evaluation of load forecasts or proposals for the addition of
4 transmission facilities in the NERTO Control Areas. A system enhancement and
5 expansion study may also be initiated for any other circumstances which may
6 warrant such a study.

7 5.3. Written notice of the initiation of a system enhancement and expansion study
8 shall be provided to all members of the Planning Advisory Committee. That
9 notice shall identify the needs supporting the initiation of the study.

10 5.4. NERTO shall prepare a needs assessment that examines resource adequacy,
11 transmission adequacy, and projected congestion levels, and that considers the
12 views, if any, of state regulators, the Market Advisor to the NERTO Board of
13 Directors, and the NERTO Board of Directors. Meetings of the Planning
14 Advisory Committee shall be convened to identify additional considerations
15 relating to such a system enhancement and expansion study that were not
16 identified in support of initiating the study, and to provide input on the study's
17 scope, assumptions and procedures, consistent with the responsibilities of the
18 Planning Advisory Committee as set forth in Section 2. The needs assessment
19 will identify situations that significantly affect the efficient operation of the
20 NERTO bulk power system, and any critical time constraints for addressing
21 reliability needs. The criteria for determining which market efficiency needs shall
22 be included in the completed needs assessment, and for assessing the cost-
23 effectiveness of solutions proposed in response thereto, will be developed by
24 NERTO with input from the Planning Advisory Committee. A subcommittee

1 of the NERTO Board of Directors will convene a public meeting to review the
2 proposed needs assessment.

3 5.5. NERTO shall publish the completed needs assessment on its website, including
4 both reliability needs as well as projected congestion levels under various
5 conditions, and issue a final report serving as a Request for Solutions for
6 responses that can meet the needs described in the assessment. A period of __
7 days is provided for market participants and transmission owners and developers
8 to provide solutions, which, for example, may be in the form of new
9 transmission facilities (either by a Transmission Owner or a merchant
10 transmission developer), generation (conventional, distributed or renewables), or
11 demand response and conservation programs. It is expected that, whatever the
12 market response, the affected Transmission Owner(s) will provide a regulated
13 transmission proposal(s) in response to NERTO's needs assessment for all
14 identified needs within the timeframe specified above.

15 5.6. Upon receipt of the responses to the Request for Solutions, the NERTO shall
16 (with input from the Planning Advisory Committee) evaluate such responses to
17 determine whether, and to what extent, any such proposals will meet the
18 identified needs. The evaluation shall be premised on the goals of maintaining
19 reliability and reducing congestion where economically justified under the criteria
20 developed in accordance with Section 5.4 above. If the market response
21 (including merchant transmission) is determined by NERTO to be sufficient to
22 alleviate the need for a particular Transmission Upgrade, and is judged to be
23 achievable within the required time period, the NERTO will reflect this finding
24 (without selecting a particular market proposal) in its recommended NERTO

1 System Plan to be submitted to the NERTO Board for approval, and that
2 particular additional Transmission Upgrades will be listed in the recommended
3 NERTO System Plan subject to NERTO having the flexibility to indicate that
4 the project should proceed at a later date. If the market response (including
5 merchant transmission) is determined by NERTO to be insufficient to alleviate
6 the need for a Transmission Upgrade, that Transmission Upgrade will be listed in
7 the recommended Plan (assuming that it is considered viable from both a
8 timeliness and a financial standpoint) with an indication to begin development
9 in accordance with Section 3.3, together with the information required therein.

10 5.7. The results of the system enhancement and expansion study(ies), along with a
11 discussion of the study assumptions and input(s), shall be made public and shall
12 be included as part of the next annual NERTO System Plan in accordance with
13 Sections 3 and 4.

14 **6. Request for Proposals (“RFP”) Process For Construction of Transmission**

15 **Upgrades:**

16 6.1. Siting approval for a Transmission Upgrade is the responsibility of the Project
17 Sponsor. Except as otherwise provided in Section 6.8 below, once siting
18 approval has been obtained by the Transmission Owner, NERTO shall develop
19 and post on its website a request for proposals (“RFP”) inviting any entity or
20 entities, including without limitation Transmission Owners, to construct a
21 Transmission Upgrade included in the NERTO System Plan. The RFP is for
22 construction, and not ownership, of the Transmission Upgrade. If the
23 Transmission Owner that will own the completed facilities (the “Project
24 Sponsor”) does not plan to submit a proposal in response to the RFP, it shall

1 develop (in coordination with NERTO) and propose the RFP for NERTO
2 approval. If the Project Sponsor plans to submit a proposal in response to the
3 RFP, the RFP shall be prepared by NERTO, which shall consult with the
4 Transmission Owner(s) to obtain necessary data, information and technical
5 specifications that NERTO finds necessary to prepare the RFP. The RFP shall
6 include appropriate requirements to safeguard the confidential nature of
7 information provided to NERTO in accordance with applicable commercial
8 practices, the requirements of the NERTO [Information Policy/Code of
9 Conduct] and the requirements of any applicable Commission order. Each such
10 RFP shall require that respondents meet specified technical and financial
11 qualifications and submit proposals: (i) that conform with all the requirements
12 of Section 3.1 and reasonable Transmission Owner requirements and
13 specifications identified in the RFP which are not inconsistent with Commission
14 policy, (ii) that are consistent with other applicable accepted engineering
15 practices, governmental, technical, and financial requirements.

16 6.2. The RFP shall include, at a minimum: (i) a proposed construction contract; (ii)
17 required technical and financial qualifications, including measure of the ability to
18 implement the proposed project; and (iii) acceptable engineering practices, and
19 governmental, technical, and financial requirements. Each shall be consistent
20 with the technical specifications provided by the Project Sponsor and approved
21 by NERTO.

22 6.3. NERTO shall develop generic selection criteria and in doing so shall consult
23 with the Planning Advisory Committee and post the criteria on NERTO's
24 website prior to issuance of the RFP. If the Project Sponsor does not plan to

1 submit a proposal, NERTO shall consult with the Project Sponsor before issuing
2 an RFP to determine if any specific selection criteria are required; NERTO shall
3 include all reasonable selection criteria requested by the Project Sponsor. The
4 evaluation criteria may consider any or all of the following nonexclusive factors:
5 (i) the qualifications of the entity that would be responsible for implementing the
6 proposal to build the proposed Transmission Upgrade; (ii) the estimated financial
7 and reliability impacts on Transmission Customers and load during and after
8 construction and installation of the proposed Transmission Upgrade if the
9 proposal is accepted and implemented; (iii) the timing for completion of the
10 proposal; (iv) the assurance that the entity responsible for implementing the
11 proposal is able to perform; and (v) the mobilization or demobilization of
12 facilities affected by the building of the proposed Transmission Upgrade during
13 construction and installation.

14 6.4. The selection process shall be conducted as follows. (i) Where the Project
15 Sponsor is not a bidder, the Project Sponsor selects the successful bidder. The
16 Project Sponsor and the successful bidder execute a construction contract, and
17 the Project Sponsor manages the construction project. NERTO approves major
18 change orders. (ii) Where the Project Sponsor is a bidder, NERTO selects the
19 successful bidder, and, if the Project Sponsor is the successful bidder, NERTO
20 may arrange for third-party review of construction performance. If the
21 successful bidder is not the Project Sponsor, the Project Sponsor shall proceed as
22 in (i) above.

23 6.5. The issuance of an RFP for a Transmission Upgrade shall not preclude the
24 modification of a NERTO System Plan in accordance with Section 3.4,

1 including, without limitation, a modification that eliminates such Transmission
2 Upgrade from the recommended plan.

3 6.6. Any entity whose proposal is accepted by NERTO in accordance with Section
4 6.4 shall be compensated in accordance with the terms of its accepted proposal,
5 without regard to whether the actual project cost for the Transmission Upgrade
6 was less than or greater than the costs reflected in the accepted proposal.

7 6.7. NERTO will post the following initial exemptions from the RFP requirements
8 of this Section: (a) Transmission Upgrades costing under \$20 million; (b)
9 Transmission Upgrades that constitute general maintenance or replacements of
10 existing equipment; (c) Transmission Upgrades with an expected construction
11 period of less than nine months; and (d) facilities associated with
12 interconnections for generation, Elective Transmission Upgrades, or Merchant
13 Transmission Facilities, and with requests for transmission service under the
14 NERTO Tariff. NERTO, in its discretion and after receiving input from the
15 Planning Advisory Committee, may expand or supplement these initial
16 exemptions and exempt other Transmission Upgrades from the RFP
17 requirements of this Section 6, and post the additional or amended exemptions
18 on the NERTO website. Where a Reliability Transmission Upgrade is exempt,
19 the Transmission Owner or Owners on whose system(s) the proposed Reliability
20 Transmission Upgrade in the Plan is located, or its/their designee(s), shall be
21 designated as the appropriate entity responsible for completion of that Reliability
22 Transmission Upgrade, in accordance with the requirements of Section 7.

23 6.8. No proposed Merchant Transmission Facility shall be the subject of the RFP
24 process of this Section 6. No provision of this Regional Planning Process affects

1 any obligations to interconnect new customers to the NERTO Transmission
2 System imposed by other provisions of this Tariff or the Federal Power Act.

3 **7. Obligations of Transmission Owners to Build:**

4 7.1. Subject to the requirements of applicable law, government regulations and
5 approvals, including, without limitation, requirements to obtain any necessary
6 state or local siting, construction and operating permits, to the availability of
7 required financing, to the ability to acquire necessary right-of-way, and to the
8 right to recover, pursuant to appropriate financial arrangements and tariffs or
9 contracts approved or accepted by those regulatory agencies with jurisdiction, all
10 reasonably incurred costs, plus a reasonable return on investment, Transmission
11 Owners designated by NERTO as the appropriate entities to construct and own
12 or finance Transmission Upgrades included in the Plan shall construct and own
13 or finance such facilities or enter into appropriate contracts to fulfill such
14 obligations.

15 7.2. The costs of any Reliability Transmission Upgrades constructed pursuant to the
16 provisions of Section 7.1 shall be allocated as specified in Exhibit 1 hereto.

17 **8. Merchant Transmission Facilities; Compliance:**

18 8.1. Subject to compliance with the requirements of the Tariff and any other
19 applicable requirements with respect to the interconnection of bulk power
20 facilities with the NERTO Transmission System, any entity shall have the right
21 to propose and construct the addition of transmission facilities outside the Plan,
22 none of the costs of which shall be covered under the cost allocation provisions
23 of the Tariff (“Merchant Transmission Facilities”). Any such Merchant
24 Transmission Facilities shall be subject to the requirements of Section 8.2 below.

1 In performing studies in connection with the NERTO System Plan, the prospect
2 that proposed Merchant Transmission Facilities will be completed shall be
3 accounted for on the same basis as the prospect that proposed generating units
4 will be completed.

5 8.2. All Merchant Transmission Facilities shall be subject to: (i) an agreement
6 (complying with the requirements of the Tariff) to transfer to NERTO
7 operational control authority over any facilities which constitute part of the
8 Merchant Transmission Facilities that are to be integrated with, or that will
9 affect, the NERTO Transmission System; and (ii) taking such other action as
10 may be required to make the facility available for use as part of the NERTO
11 Transmission System.

12 **9. Alternative Remedies:**

13 Nothing herein shall limit in any way the right of any entity to seek any available relief
14 pursuant to the provisions of the Federal Power Act.

15 **10. Definitions:**

16 10.1. Generator Interconnection Related Upgrade: An addition to or modification of
17 the NERTO Transmission System (as determined pursuant to the NERTO
18 Interconnection Process) to effect the interconnection of a new generating unit
19 or an existing generating unit whose capacity is being materially changed and
20 increased.

21 10.2. NERTO System Plan: A plan for the expansion or modification of the NERTO
22 Transmission System which has been developed pursuant to Sections 1 through
23 7 hereof.

1 10.3. Reliability Transmission Upgrade: Those additions and upgrades not required by
2 the interconnection of a generator that are nonetheless necessary to ensure the
3 continued reliability of the NERTO system, taking into account load growth and
4 known resource changes, and include those upgrades necessary to provide
5 acceptable stability response, short circuit capability and system voltage levels,
6 and those facilities required to provide adequate thermal capability and local
7 voltage levels that cannot otherwise be achieved with reasonable assumptions for
8 certain amounts of generation being unavailable (due to maintenance or forced
9 outages) for purposes of long-term planning studies. In evaluating proposed
10 Reliability Transmission Upgrades, the following will be used to define the
11 system facilities required to maintain reliability: applicable principles, guidelines,
12 criteria, rules, procedures and standards of NERC, NPCC, NYSRC, and any of
13 their successors; the NERTO System Rules, as they may be amended from time
14 to time; and NERTO-approved Transmission Owner criteria, rules, standards,
15 guides, and policies.

16 10.4. Market Efficiency Transmission Upgrade: Those additions and upgrades that do
17 not qualify as Reliability Transmission Upgrades, are not related to the
18 interconnection of a generator, and are designed to improve the efficiency of the
19 markets by, for example, reducing congestion in load pockets and relieving
20 “bottled generation.”

21 10.5. Regional Transmission Facilities (“RTF”): The transmission facilities subject to
22 NERTO’s operational control.

23 10.6. Elective Transmission Upgrade: An addition to or modification of the NERTO
24 Transmission System that is not: (i) a Generator Interconnection Related

1 Upgrade; (ii) a Reliability Transmission Upgrade; (iii) an Market Efficiency
2 Transmission Upgrade; or (iv) otherwise identified in the current NERTO
3 Transmission Plan in publication as of the date an Elective Transmission
4 Upgrade Application is filed with NERTO in accordance with the NERTO
5 Tariff. An Elective Transmission Upgrade may increase transfer capability of the
6 NERTO Transmission System, may increase the reliability or stability of the
7 NERTO Transmission System above the requirements and criteria established by
8 NERC, NPCC, NYSRC, or NERTO System Rules or may reduce Congestion
9 Costs into or within the NERTO Control Areas.
10

1 **Exhibit 1**

2 **Allocation of Costs of Reliability Transmission Upgrades**
3 **Included in NERTO System Plan**

4 These cost allocation principles apply to Reliability Transmission Upgrades of
5 Regional Transmission Facilities (“RTF”), the assets subject to the NERTO planning
6 process:

7
8 I. If entities have agreed to bear some or all of the cost responsibility for a
9 Transmission Upgrade, the Transmission Upgrade costs shall be allocated to such entities in
10 accordance with that agreement.

11
12 II. In the absence of such agreement,*

13 A. Costs of 345 kv facilities and above (other than transformers) that contribute
14 to the parallel carrying capability of the NERTO Transmission System shall be charged to
15 NERTO load;

16 B. Costs of facilities below 345 kv (other than transformers) shall be charged to
17 the load in the sub-region (i.e., either New York or New England) in which the facilities are
18 built, in accordance with existing practices; and

19
20 C. One-half of the costs of transformers shall be allocated in accordance with
21 the methodology specified in II.A. or B. above, based upon the voltage at the high side of
22 the transformer and one-half of the costs shall be allocated in accordance with the
23 methodology specified in II.A. or B. above, based upon the voltage at the low side of the
24 transformer.

25
26 The preceding default allocation method shall be reevaluated in light of final rules
27 issued subsequently by the FERC.

* The allocation of the costs for other technologies, such as HVDC and FACTS, shall be developed on a cas-by-case basis.

NSP Process Flow

