

ATTACHMENT II

THE NYISO TRANSMISSION PLANNING PROCESS

OVERVIEW

The transmission planning process proposed by the New York Independent System Operator (“ISO”) provides a comprehensive program for the coordinated planning and construction of transmission facilities in the ISO control area. The ISO proposal establishes a new transmission planning committee, a permanent joint subcommittee of the Business Issues Committee (“BIC”) and the Operating Committee (“OC”), to consider and coordinate all transmission expansion proposals in the ISO control area and develop a Consolidated Transmission Plan (“CTP”) that would include transmission facilities necessary to ensure the continued reliability of the New York transmission system.

To ensure that the transmission planning committee considers all aspects of proposed transmission expansions, the proposal provides for review and action on the CTP by the Business Issues Committee (“BIC”) the Operations Committee (“OC”) and approval by the Management Committee (“MC”). The ISO Board will have final approval authority over the CTP. Under the ISO proposal, responsibility for the construction of new transmission facilities and expansion of existing facilities is clearly defined. Each Transmission Owner (“TO”) will accept responsibility to construct reliability-based projects included in the CTP, provided that specified conditions are met, including assurance of full recovery of its investments, an appropriate rate of return, a reasonable amortization period, and recovery of other fixed costs. The Transmission Planning Committee (“TPC”) also will have the responsibility to consider incentives for the construction of reliability-based transmission facilities. The primary benefit of the CTP process is that it will provide a forum for market participants representing all segments of the New York State electricity industry and the ISO staff and the PSC to play a role in the development of the CTP.

The ISO proposal also provides for the review of economic based transmission projects proposed by market participants for the purpose of integrating such projects into the CTP, when appropriate. The TPC will consider market-based mechanisms to facilitate economic transmission expansions. The TOs have agreed to negotiate with market participants requesting construction of economic-based projects to facilitate their construction.

I. Transmission Planning Committee

A. Responsibilities

The TPC's responsibilities will include:

The development of a CTP that will specify transmission facilities needed to maintain minimum system reliability (“Reliability Project” or “RP”) after considering and including existing facilities, planned system expansions, and proposed generation interconnections, where appropriate. The TPC will evaluate the various alternatives for meeting reliability requirements. The CTP shall be updated no less than every two years. Reliability Project shall mean a project, included in the CTP, that is essential to maintain the

minimum reliability requirements of the New York Control Area established by NERC, NPCC and NYSRC Reliability Rules, based on a TPC determination that it cannot reasonably be expected that reliability requirements will be met by (a) developing new supply resources, (b) modifying transfer limits, (c) developing new demand-side resources or (d) economic-based transmission projects;

The assessment of generation and transmission expansion activities;

Working closely with neighboring Regional Transmission Organizations (“RTO”s) and state regulatory agencies to coordinate regional transmission expansion planning;

Facilitating the development of rules, procedures, and cost allocation methodologies for transmission expansion, and the adoption of generator interconnection requirements and cost allocation methodologies for generator interconnections (it is anticipated that the relevant work products of current ISO committees, working groups and task forces would be adopted as part of the TPC's initial rules, procedures and methodologies);

The development of a review process for reliability-based transmission projects that are identified during the plan review cycle;

All transmission planning-related functions, including, but not limited to, those specified above, that are assigned to the ISO in the ISO OATT, ISO-TO Agreement, ISO Agreement and in any other ISO rule or procedure;

Determination, under the SRIS process, of whether economic-based transmission projects proposed by market participants can be integrated reliably into the CTP;

Consideration of appropriate incentives for the construction of reliability--based transmission facilities identified in the CTP; and

Oversight of the development of, and approval responsibility for, reliability related analyses and reports, including:

- NPCC area transmission reviews conducted by ISO staff and the TOs;
 - System Reliability Impact Studies;
- Requests by the PSC or market participants for the consideration of reinforcement options;
- Studies performed to incorporate TO planned upgrades to the bulk power system;
- Analysis of neighboring control area facilities, changes and conditions affecting the New York Control Area;

— Other similar studies.

The TPC shall limit studies undertaken on its own initiative to those that are needed for reliability purposes. ISO staff, in cooperation with the TPC, shall perform the studies. Studies related to a Reliability Project will be funded by the ISO. Studies performed at the request of a market participant related to an economic based project will be funded by the requesting market participant.

B. TPC Relationship With Other Committees

The TPC will be a joint subcommittee of the BIC and the OC. It will report jointly to the BIC and the OC with respect to transmission planning policy matters and related methodologies, including the development of the CTP, the Objective Allocation Criteria, any market-based mechanisms to foster economic-based transmission expansion projects, and the rules, procedures and cost allocation methodologies for transmission expansions and generator interconnections. With respect to actions related to the application of policies and methodologies to specific transmission expansion and generator interconnection projects and the development and approval of reliability related reports, the TPC shall report only to the OC. The TPC shall solicit the input of the BIC, OC, and ISO staff¹ in developing the CTP. The TPC shall periodically brief the MC regarding the status of CTP development.

The TPC shall submit a draft CTP, including any Reliability Projects and associated cost allocation determinations, to the BIC, OC and ISO staff for review and comment. The BIC, OC and ISO staff shall review the draft CTP and, within 60 days of the transmittal date, submit written recommendations to the TPC.

The TPC shall revise the CTP, to the extent it deems appropriate, to reflect the recommendations of the BIC, OC and ISO staff. The TPC shall then submit its completed CTP to the BIC and the OC. The BIC and the OC will review the CTP prepared by the TPC and shall act on the plan within 60 days. If the BIC and the OC concur on a revision to the CTP, the CTP will be revised as determined by the BIC and the OC and the revised CTP will be sent to the MC for action. The TPC may submit separate comments to the MC, including comments concerning any revision jointly adopted by the BIC and the OC. If the BIC or the OC approves a revision that is not concurred in by the other committee, the CTP will be forwarded to the MC with the positions of the BIC and the OC presented to the MC for resolution. The TPC may submit comments to the MC on the positions taken by the BIC and the OC. If the BIC and/or the OC fail to act in the CTP within 60 days, the CTP will be sent to the MC for action.

The MC will consider the CTP, along with any written comments by the BIC, the OC, the TPC and ISO staff. If the MC determines that revisions are necessary that change the design or technical

¹ ISO staff shall keep the ISO Board apprised of the developing CTP and shall relay to the TPC the ISO Board's comments concerning the CTP. The ISO Board shall use ISO staff to convey its comments to the TPC as early as possible during development of the CTP to enable the TPC to provide a comprehensive CTP for committee review.

specifications to any modification or upgrade, the MC will provide the TPC with an opportunity to review and comment on any such revision prior to its adoption, to ensure that reliability requirements will be met. The MC will adopt a CTP, including any revisions it deems appropriate, and submit the CTP to the ISO Board within 60 days of its receipt from the BIC and the OC. If the MC does not adopt a CTP within 60 days, the CTP, as submitted to the MC, will be sent to the ISO Board for action; provided that the 60 day period may be extended by the ISO Board in its discretion.

The ISO Board shall either adopt the CTP or, if it determines that modifications are needed, remand it to the MC, with an explanation of the reasons for the proposed modifications. The MC, in consultation with the BIC, OP and TPC, will submit its analysis and comments on the proposed modifications directly to the ISO Board for final action.

C. Membership and Voting

The TPC will have the same membership rules and voting structure as the BIC and the OC. Committee membership will be open to any party eligible to participate in the NYISO's governance.

II. Construction of Reliability Projects Included in the Consolidated Transmission Plan

A. TO Commitment to Construct

The TOs agree to construct Reliability Projects included in the CTP, subject to satisfaction of the conditions set forth below. It is reasonable to expect that the CTP process will achieve a broad consensus among the TOs, other market participants, the PSC and the ISO Board as to the Reliability Projects included in the CTP.

In addition, each TO retains the right to expand or modify its facilities, either on its own initiative or in response to a lawful order of an appropriate regulatory authority. Such projects shall be inputs into the CTP and shall be reviewed by the TPC with regard to their conformance with reliability criteria.

B. TO Cost Recovery

The TO commitment to construct Reliability Projects included in the CTP, other than transmission projects that are constructed pursuant to a lawful order of an appropriate regulatory authority, is contingent upon and subject to the satisfaction of each of the following conditions:

The TO is assured of full recovery by the appropriate regulatory authorities of its reasonably incurred costs ("Full Recovery") which shall include:

- Recovery of all reasonably incurred expansion costs, including an amortization period, as determined by the appropriate regulatory authorities, that reflects the risk inherent in the construction of transmission projects in a restructured electricity industry, and that is no longer than the amortization periods authorized by the FERC for TOs in neighboring regions;

- A return on investment, as determined by the appropriate regulatory authorities, that reflects the risks inherent in investments in new transmission facilities in a restructured electricity market, and sufficient to provide an adequate incentive for capital investments in transmission facilities;
- The recovery of the reasonably incurred expansion costs and return to commence immediately upon completion of the project;
- Recovery of all reasonably incurred costs of operating, maintaining and owning the facilities; and
- Recovery of all reasonably incurred costs associated with a TO's efforts to satisfy the requirements necessary to proceed with a project identified in the CTP if, through no fault of the TO, the project is not completed.

C. Recovery Mechanisms For TOs

- Cost recovery mechanisms for a TO constructing a transmission project, and for a non-constructing TO allocated project costs, include, without limitation, the following:
 - An ISO or TO-specific FERC-jurisdictional rate schedule change or surcharge;
 - A distribution surcharge that would not be subject to a retail price cap;
 - Provisions contained in a bilateral agreement;
 - An ISO or TO-specific TSC-like charge targeted at the customers that benefit from the expansion (not recovered through a general uplift); and
 - Any combination of the above recovery mechanisms.
- The ISO shall cooperate with the affected TOs to effectuate Full Recovery, including recovery of the cost to prepare regulatory filings.

D. Receipt of Necessary Approvals

The TO commitment to build facilities also is contingent upon satisfying all TO expansion technical requirements, and receipt of all federal, state and local approvals. Such approvals include:

- Receipt by the TOs, including non-constructing TOs who are allocated project costs, of regulatory approval at the federal and state level providing each TO reasonable assurance that it will receive Full Recovery, in the aggregate, at the wholesale and retail levels. Recovery at the retail level must expressly allow for

the current recovery of such costs through retail rates (e.g., and not be subject to a retail rate cap);

- Receipt of all necessary federal, state and local approvals or authorizations to construct the project;
- Securing any necessary real property rights, including rights of way and easements;
- Receipt of board of trustees or directors approvals, as applicable, to the extent required; and
- Receipt by the TO of adequate financing.

E. Cost Allocation

- The CTP shall address cost allocation associated with each Reliability Project that a TO must construct.
- TPC to establish Objective Allocation Criteria.
- The TPC will facilitate development of generic cost allocation principles and criteria (“Objective Allocation Criteria” or “OAC”) to apply to each RP case-by-case. The principles and criteria must allocate costs based primarily upon market participant reliability benefits and obligations, and, to the extent they exist, economic benefits. Until the OAC is developed, the TPC will, at the request of affected parties, attempt to facilitate a consensus allocation case-by-case.

The TPC will vote on the OAC. The OAC approved by the TPC shall be forwarded to the BIC and the OC. The BIC and the OC will review and act on the OAC within 60 days. If the BIC and the OC concur in a revision to the OAC, the OAC will be revised as determined by the BIC and the OC, and the revised OAC sent to the MC for action. If the BIC or the OC approves a revision that is not concurred in by the other committee, the OAC will be forwarded to the MC with the positions of the BIC and OC presented to the MC for resolution. The TPC may submit comments on the positions taken by the BIC and OC. If the BIC and/or the OC fail to act on the OAC within 60 days, the OAC will be sent to the MC for action. The MC will consider the OAC, along with any written comments by the BIC, the OC, the TPC and ISO staff. The MC will adopt an OAC, including any revisions it deems appropriate, and submit the OAC to the ISO Board within 60 days of its receipt from the BIC and OC. If the MC does not adopt the OAC within 60 days, the OAC, as submitted to the MC, will be sent to the ISO Board for

action; provided that the 60 day period may be extended by the ISO Board in its discretion.

The ISO Board shall either adopt the OAC or, if it determines that modifications are necessary, remand it to the MC with an explanation of the reasons for the proposed modifications. The MC, in consultation with the BIC, the OC and the TPC, will submit its analysis and comments on the proposed modifications directly to the ISO Board for final action. When approved by the Board, the OAC will be filed with FERC.

The OAC is subject to FERC acceptance or approval.

Revisions to the OAC are subject to the same review process described above.

— Application of OAC Case-By-Case

During the development of an RP, the parties affected by the RP may first attempt to apply the OAC and reach agreement upon an allocation. If the parties reach agreement on cost allocation, then the TPC, during its review of the CTP, shall accept the allocation unless (a) the allocation is clearly inconsistent with the OAC and (b) the proposed allocation will materially and adversely affect third parties that did not participate in allocation decision. Market participants that would be obliged to pay all or some of the allocation may appeal the TPC's determination to the OC in accordance with applicable ISO procedures. The OC shall apply the same criteria applied by the TPC.

If the parties cannot reach agreement, then the TPC shall apply the OAC and develop an allocation. The TPC's allocation will be developed during the CTP review process. Market participants that would be obliged to pay all or some of the allocation may appeal the TPC-determined allocation to the OC in accordance with applicable ISO procedures. The OC shall accept the allocation unless the allocation is clearly inconsistent with the OAC.

Parties to whom expansion costs have been allocated ("Allocatee") retain the right to contest the allocation at FERC.

Each Allocatee that is a TO shall have the right to recover the allocated costs through rates, surcharges or other mechanisms filed with any applicable regulatory authority to the extent required to achieve recovery consistent with the requirements described above.

III. Economic Projects

- The TPC shall examine whether the current system provides inadequate incentives or impediments to the construction of economic-based transmission

expansions. If the TPC finds that there are inadequate incentives or impediments to the construction of such projects, the TPC shall develop and recommend appropriate market-based mechanisms that foster economic transmission expansion projects. The TPC also will develop rules to address the allocation of TCCs in connection with the construction of economic-based transmission facilities.

- The TOs will negotiate all relevant issues with market participants requesting economic-based transmission expansions or modifications, including ownership, in order to facilitate construction and maintenance of such projects. The ISO and the TOs will maintain the same physical and operational control over an economic-based transmission facility as they exercise over the transmission facilities owned by the TOs, unless otherwise agreed to by the ISO and the affected TO.

IV. Effectiveness and Changes to the Planning and Expansion Procedures

- The ISO Transmission planning process set forth herein and the RTO filing as a whole, were negotiated in an open process with the participation of all interested market participants. The RTO filing is subject to FERC acceptance or approval as a package without material modification.
- The preconditions for the construction of transmission facilities set forth in the CTP shall not be subject to modification absent the unanimous written agreement of the TOs.
- A TO may waive a specific precondition on a project-specific basis.
- The ISO tariffs and agreement shall be modified to the extent necessary to give effect to the CTP process outlined herein.
- Nothing in this document will preclude the TOs from pursuing alternative transmission asset ownership approaches or structures

