

Cost Allocation Guiding Principles & Criteria

Note that the pieces below in *italics* are from the NYISO's FERC Tariff. The **bold** items are DPS staff suggestions and suggestions drawn from ESPWG discussions. Diane

a. *The focus of the cost allocation methodology shall be on solutions to violations of specific Reliability Criteria.*

1. **A solution either resolves the reliability violation exactly or is the next increment of equipment that is commonly available or used on the host utility's system.**
2. **If prudent investment dictates a solution that solves more than the immediate need and state regulatory authorization for the solution is granted, the full prudent cost of the project will be allocated and be recoverable through the NYISO tariff.**

Example: The immediate need calls for a single-circuit transmission line but it would be prudent to build a double-circuit line. If state authority is granted for the double-circuit line, the entire prudent costs associated with the double-circuit line would be subject to cost allocation under the NYISO tariff.

b. *Potential impacts unrelated to addressing the Reliability Needs shall not be considered for the purpose of cost allocation for regulated solutions.*

1. **Incidental changes in market activity resulting from implementation of the solution - that are not directly included in the net cost calculation – will not be considered allocatable costs.**

Example: If a new transmission line is built, associated capacity credits would be included in the net cost calculation but increased energy costs that might occur upstream of the upgrade are not included.

c. *Primary beneficiaries shall initially be those Transmission Districts identified as contributing to the reliability violation.*

1. **The load zones where load decrements (in MVA) result in contributing towards resolving the violation will be considered as contributing to the reliability violation. (Consistent with Grid proposed Method D.) This identifies the contributors and does not necessarily have to be the basis for allocation.**
2. **A load zone or sub-zone whose contribution to the reliability violation is minor (less than 5%) will not be considered a primary beneficiary and will not be allocated costs. (5% was chosen as that is the threshold FERC accepts as the cut-off for the resolutions of TLRs.)**
3. **All transmission districts down stream of a constrained interface or specific facility (that contributes to an RNA need) will be considered primary beneficiaries. Relative contribution should reflect load relationship as well as LOLE relationship(Metric could be hours of**

constraint or LOLE ratios) Any intrazonal constraint (related to serving local load) is the responsibility of that local load.

- 4. Transmission Districts "contributing to the reliability violation" are not necessarily the entities that caused the violation to exist (i.e. if only one entity's load is growing in an area they are not necessarily the only primary beneficiary; if a power plant closing results in voltage problems, the host utility is not necessarily a primary beneficiary; etc.) This "fix the problem, not the blame" concept supports the total load within a zone approach to cost allocation.**

- d. The cost allocation among primary beneficiaries shall be based upon their relative contribution to the need for the regulated solution.*
 - 1. Relative contribution to the resource adequacy need will be based on relative LOLE on the zonal level, weighted by load.**
 - 2a. All load sub-zones within a zone will be allocated costs based on their percentage load share within the zone.**

OR (DPS staff doesn't have a firm position at this time)
 - 2b. Load decrements (MVA) within the load zone by sub-zones will be used to allocate costs among the sub-zones.**

OR
 - 2c. Relative net MVA (or possibly net MVAR only for voltage) load ratios comparing zonal needs to NYCA need for transmission security violations will be used to allocate costs between zones.**

- e. The NYISO will examine the development of specific cost allocation rules based on the nature of the reliability violation (e.g., thermal overload, voltage, stability, resource adequacy and short circuit).*
 - 1. Cost allocation for thermal, voltage, stability and resource adequacy violations will apply the criteria outlined under principle d.**
 - 2. Short-circuit duty violations attributable to transmission facility additions and/or reconfigurations will be included as part of the transmission project costs and allocated accordingly. (Same as Grid proposal.)**

- f. Cost allocation among Transmission Districts shall recognize the terms of prior agreements among the Transmission Owners, if applicable.*

Need an example to understand impact on cost allocation.

- g. Consideration should be given to the use of a materiality threshold for cost allocation purposes.*

Materiality thresholds are identified in criteria c.2 and i.2.

- h. The methodology shall provide for ease of implementation and administration to minimize debate and delays to the extent possible.*
- i. Consideration should be given to the "free rider" issue as appropriate. The methodology shall be fair and equitable.*
 - 1. Free riders are any non-primary beneficiary (primary beneficiary is defined in principle c) that would: a) be a primary beneficiary of a solution to an identified need within 5 years of the need date for the project currently subject to cost allocation; and, b) derive a significant reliability benefit from the subject solution to an identified need.**
 - 2. Significant benefit is defined as relieving more than 5% of the future need of the potential free-rider.**
 - 3. A free rider - as defined in 1 and 2 - will be treated in the cost allocation process on the same basis as a primary beneficiary.**
- j. The methodology shall provide cost recovery certainty to investors to the extent possible.*
- k. The methodology shall apply, to the extent possible, to Gap Solutions.*
- l. The cost allocation methodology shall not bias solution selection.**