

NYISO Electric System Planning Working Group Meeting

**May 6, 2004
10:00 am – 3:00 pm**

NYS Nurses Association – Latham NY

Draft Minutes

Of the seventeen meeting of the New York Independent System Operator Electric System Planning Working Group held May 6, 2004 at the NYSNA, Latham, NY.

Welcome and Introductions

Mr. Bill Palazzo, Chairman of the Electric System Planning welcomed the Electric System Planning Working Group to the meeting and stated the agenda.

Approval of the Meeting Minutes

The minutes from the April 14th ESPWG Meeting were approved with revisions and will be posted to the NYISO/MDEX website.

Comprehensive Planning Process Development

Mr. John Buechler summarized the stakeholder comments on cost allocation methodology for reliability projects.

It was agreed at the last meeting that ESPWG would attempt to develop a set of principles for cost allocation and work out the methodology at a later date. Stakeholders were asked to send in their proposed list of principles under the beneficiaries pay methodology. The following stakeholder principles were received:

Multiple Intervenors Comments:

1. Costs should be paid by beneficiaries of the upgrade
 - Design specific methodology in future
 - An imprecise method is preferable to socialization of costs
2. Focus should be on violations of reliability criteria
 - Beneficiaries should be those who benefit from the elimination of the reliability criteria violation
 - Benefits unrelated to reliability should be irrelevant for cost allocation purposes
3. A materiality threshold should be applied

4. Cost allocation should be subject to jurisdiction of PSC and/or FERC and limited to costs that are incremental to existing rate levels

NY Municipals comments

1. Support “license plate” TSC’s under the NYISO OATT
 - Each TOs transmission costs are rolled into one revenue requirement
 - TSC’s should continue to include costs of reliability upgrades
2. Beneficiaries of reliability upgrades are all wholesale/retail customers served by a TO
3. Can support the “line deloading” approach to allocate costs among TOs
 - Each TO would then include their assigned costs in their respective TSC revenue requirement

National Grids comments

Ms. Mary Ellen Paravalos stated that National Grid is in favor of a strong NYISO role in the planning process. She added that the guiding principles they submitted below should be considered but indicated that National Grid is open to other stakeholder’s concepts.

Methodology should:

1. Be accompanied with assurance of cost recovery.
2. Be defined in advance with clear upfront rules to assign costs to system users.
3. Minimize case-by-case analysis for each and every upgrades.
4. Address the concept of “Beneficiaries Pay”.
5. Consider the multiple benefits of a facility over its full life.
6. Consider who needs it, who caused the need, who benefits from it
7. Address free rider issue
8. Should consider reliability and economic (e.g. congestion relief) considerations
9. Minimize debate and delays to necessary investment.
10. Be easy (or at least not unduly complicated) to implement and administer (by NYISO and asset owners)
11. Provide price certainty to investors and customers over time.
12. Be perceived as fair and equitable to transmission customers.

Mr. Howard Fromer asked for clarification on #2. He added that the cost allocation method should be clearly defined in advance, to the extent possible, so that future planners and investors will have clear expectations of process rules. In addition, he stated that there needs to be a clear linkage between the cost recovery methodology and any respective alternative proposal selected to meet a reliability need.

Mr. Tariq Niazi noted that the link between reliability need and economic benefit continues to be difficult to determine. Mr. Ralph Rufrano responded that the focus on cost allocation needs to be specifically on an assessment of the direct beneficiaries of the reliability need.

Transmission Owners comments

NYSEG, Con Ed, LIPA, NYPA endorse the “beneficiaries pay” principle. Beneficiaries will consist of two sets of parties (1) Primary – those who need the upgrade and (2) Other – those who receive ancillary benefits from the upgrade.

Primary Beneficiaries would be those transmission districts where the reliability violation resides and who require the upgrade. Rules would be based on the nature of the reliability violation: *locational capacity deficiency* would be divided among the TD’s on load ratio share, stability, *overload and voltage* would be divided among TD’s according to share of load contributing to the violation, and *other violations* would be determined on a case-by case basis. Primary Beneficiaries would assume full cost responsibility for non-transmission reliability solutions.

Other Beneficiaries would be defined as those transmission districts not identified as Primary Beneficiaries, whose facilities would experience significant de-loading, in accordance with 9.4.2, as a result of the reliability improvement project. The determination of Other Beneficiaries is intended to eliminate "free riders", or those parties who receive identifiable benefits from a project without any responsibility for the costs.

A load flow analysis would be performed to identify the expected system loading patterns both "before" and "after" the reliability improvement project is installed. If the project is intended to relieve a reliability violation under a contingency situation, the load flow analysis shall recognize such contingency. Individual TO facilities would be identified that are loaded to at least X % of their summer normal thermal rating before the reliability project is installed and that experience a decrease in loading such that they were loaded to no more than Y % of their summer normal thermal rating after the reliability improvement project was installed. The load flow analysis shall recognize contingency conditions as appropriate. The owners of any such facilities found through this screen would become candidates for Other Beneficiaries.

Mr. Bob Reed referenced past presentations that were given outlining cost allocation methodologies. He noted that a final cost allocation methodology would not be able to address every project contingency. As a result, the methodology would need to provide enough flexibility to meet varying needs. He believes the methodology can address the majority of the costs, while still allowing flexibility in determining allocation to any free riders. He further added that he is not anticipating there will be a lot of these types of projects.

The group discussed Primary and Other beneficiaries. Mr. Mike Mager expressed concern that other beneficiaries add multiple layers of complications, and suggested that only primary beneficiaries be looked at.

Ms. Diane Barney expressed concern with some of the examples used by Mr. Reed. She noted that if a reliability need is identified, and the problem is within one transmission owner territory, the cost allocation can easily be identified. However, if reliability need impacts other territories, determining an appropriate project to address the need, and

associated cost allocation, would be more difficult to determine. Finally, she noted that the cost allocation would be those parties whose load would be contributing to the overload.

Mr. Howard Fromer expressed concerns with the Transmission Owners proposal - he stated that he believes it may create a disincentive in the individual TO's approach to planning, whereas if a TO proposes a future project, it might then be deemed to be a potential contributor to another TO's project and may therefore be reluctant to include needed projects in their five-year plan.

Mr. Paul Gioia responded by saying that although a TO would have the ability to propose a project in the bulk power system, this would be subject to the same cost allocation as the others..

Mr. Fromer brought up the issue of incidental benefits and expressed concern with the TO's not identifying projects. If the TOs don't find a problem down the road and the NYISO does this gives the TO's an opportunity to assign costs to other beneficiaries. By eliminating the indirect beneficiaries approach this would not be an issue. Mr. Bob Reed stated that if we don't look at this there would be free riders.

Mike Mager noted that there has to be some level of rough justice. For example, if a project results in beneficiaries being from one small area, cost recovery will be imposed on that area. In that case it's the opposite of free riders. He stated that this is unavoidable but the free riders are unavoidable too.

Tim Foxen commented that the costs that are being allocated here are based on the assumption that a market-based solution is not forthcoming.

Laurie Oppel addressed Mr. Fromer's concern by saying that it is the plans intent that any reliability needs will all fall under the cost allocation approach (i.e. – either a NYISO identified need or a TO proposal). This eliminates the gaming possibility. Looking for an answer on this question and then Howard's concern should be what's on the list of bulk power facilities. Mr. Buechler responded that whatever facilities are designated for inclusion in the planning process should be included in the plan.

Ms. Barney indicated that cost allocation across transmission districts will probably need to be dealt with on a case-by-case basis.

Mr. Fromer asked for clarification on indirect beneficiaries.

Department of Public Service

- The overall approach to be adopted should be that beneficiaries pay
- Only reliability benefits should be included when determining beneficiaries
- A bright line voltage test should not be used to determine local versus regional beneficiaries. This determination should be made on a case-by-case basis. There could be instances when a 345kV upgrade would benefit a very localized area, in this

case, the bright-line approach would have improperly assigned the costs on a regional basis.

- If a reliability project is revised to capture economic benefits, the incremental costs and benefits related to economics should be dealt with under a separate process.

Mr. Buechler asked for input from the group on level of detail to be included in the planning process. There is wide consensus from the group on high level but not for details. At the last meeting it was agreed on that high level is sufficient.

Mr. Bob Reed stated that we are coming down to should we conduct a search for free riders or not? Nothing else seems to be out of line- this is the only issue. Can we come up with filing with areas agreement and say parties are still examining details.

Mr. Buechler discussed the need to develop cost allocation provisions that would be acceptable to the FERC. He indicated that the free rider issue could be characterized as bringing economic benefits into the evaluation of a reliability need.

Ms. Mary Ellen Paravalos stated that going above and beyond addressing the reliability violation needs to be looked at. Mr. Rufrano commented that rough justice has to be incorporated into analysis.

John Buechler will take a stab at drafting a set of cost allocation principles at a higher level for distribution prior to the next meeting.

Cost Recovery – TO presentation

Mr. Paul Gioia outlined the TOs proposal for Cost Recovery and added that he would try to circulate the proposal in writing prior to the next ESPWG.

As part of the planning process, TOs are going to step up and assume responsibility to build facilities necessary to maintain reliability, based on what comes out of the NYISO planning process. Investments made pursuant to the NYISO plan would be fully recovered. Further, promptness in recovering revenues is essential. If the TOs should undertake a project that the NYISO determines is not necessary, they should recover whatever necessary. Existing rights must be preserved.

Comprehensive Reliability Planning Process - Revised draft with TO/PSC Comments 5/3/04 – John Buechler

Mr. John Buechler reviewed the revised draft Comprehensive Planning process that included comments from the Transmission Owners and PSC. He stated that the NYISO's role was to facilitate discussion regarding the differences in opinions between the PSC and TOs, and then bring to ESPWG for discussion. The NYISO has not taken a position on these proposed modifications to the Reliability Planning Process.

There was discussion on the action item that was taken at the last Operating Committee meeting for NYISO to provide a consolidated matrix of critical facilities. ESPWG

members asked when this list would be distributed. Mr. Palazzo indicated that Mr. Calimano was given this task by the OC and Mr. Buechler indicated that he would follow up on this issue.

Mr. Reed stated that the NYISO is working with PJM and NE on the interregional planning process. Lower voltage ties between NYCA and other areas that are modeled and flagged that come up as limiting elements. He added that these are not on the list and asked if they would be on the inter-regional list. Mr. Buechler indicated that the interregional discussions have not yet addressed this issue.

Tom Rudebush commented that a rule is needed for NYISO to act as a backstop for reviewing the TO's plan. He indicated that FERC views the NYISO as the transmission provider for the state, and as such, the NYISO has a responsibility to participate in planning at all distribution levels.

Ms. Diane Barney stated that the NYISO's determination on reliability needs is limited by reliability criteria that apply to the bulk power system. Facilities that are covered by the mandatory standards are the lines that should be focused on.

Section 4.2.2.2 – Applicable Transmission Facilities

Mr. Fromer asked what happens if you are not in agreement with a TO's ' proposed upgrade ? This is not covered in this Section. Should this be referred to a different section? Mr. Buechler referred him to section 11 – Dispute Resolution.

Section 6 – Request for Solutions

Mr. Mark Younger expressed concern that this section only indicates what the NYISO can do with the Transmission Owners regulated response and therefore limits the NYISO's role. Mr. Mark Younger suggested changes to Section 6 which would provide for the NYISO to review whether an alternate proposal would meet the identified reliability needs in addition to the TOs' proposals. Mr. Younger, Mr. Fromer and Ms. Saia will put together draft language for this section and circulate prior to the May 25th meeting.

Mr. Gioia responded that this process entitles all Market Participants to a level playing field when it comes to competitive markets. The NYISO has the responsibility to plan and facilitate construction. Once the NYISO identifies a need independently that is market based the TO's will assume responsibility to meet needs. Once it's a regulated it's the utilities responsibility to oversee - subject to regulatory oversight. Unregulated companies don't have a right to approve or oversee a regulated solution.

Mr. Mager commented that he shares the concern Mr. Niazi had about not setting up an incentive and he agrees with Mr. Younger. It's important that we make sure that non-transmission alternatives are given a fair shake.

The group discussed regulated transmission and generator proposals and the PSC's role. Will PSC consider both on equal footing and then make their decisions and what will their decisions be based on? What happens when you have competing proposals? Mr. Mager asked how a decision is made in the event there is a generator alternative and a transmission owner alternative

Mr. Barney responded that the TO solution will not have an advantage. Appeals can be made to PSC itself.

Section 6.2

Mr. Charlie Pratt commented that the DPS review process is not clear enough. Mr. Buechler stated that there was consensus that the PSC would play a role with respect to TOs regulated proposals. Depending upon the situation, that role may vary and the proposed language for the NYISO planning process doesn't need to be explicit or attempt to cover all the possible situation of the PSC involvement. Ms. Barney stated that all proposals would be looked at before a logical conclusion is made.

Mr. Gioia indicated that the TO's should be allowed full recovery of their costs for any regulated solution to a reliability need.

Mr. Mager commented that the basic concept is understandable and agreement would need to be reached on sections that haven't been worked out yet.

Tim Foxen indicated that this presents a non-level playing field, since unregulated proposals typically do not have an opportunity to recover.

The group will need to discuss how demand response and generator solution costs would be captured. Mr. Buechler responded that the intention of the gap is that the TOs have the responsibility to provide reliability in the event of a critical near-term reliability need.

Section 11: Dispute Resolution

Mr. Rudebusch commented that disputes regarding the NYISO Planning Process should be decided by FERC. The PSC expressed an opposite position. Given a choice between PSC hearing disputes and FERC, they feel it should be PSC as they have jurisdiction over reliability in NYS and FERC does not. Mr. Rudebusch stated that he does not agree with this. Mr. Fromer and Mr. Foxen both expressed their strong agreement with Mr. Rudebusch that FERC should resolve any such disputes instead of the PSC.

Section 7.3: Gap Solutions

Mr. Fromer expressed concern under this section to changes we have already discussed under Section 6.2. The PSC noted that the intent is to look to the TO as a mandate to put in a response once the NYISO has flagged an issue. We are now into short term and have to do something on short notice. The TO is going to propose something short term. Mr. Buechler asked for specific comments on this section.

Next Meeting: The next ESPWG meeting has been scheduled for May 26th in Albany, NY.