

**FERC Order 1000:
Transmission Planning &
Cost Allocation
Inter-Regional Issues
Update**

by
John P. Buechler
NYISO Executive Regulatory Policy Advisor

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Overview

- ◆ **FERC Order 1000: Final Rule on Transmission Planning & Cost Allocation**
 - *Issued on 7/21/11 (Docket RM10-23-000)*
 - *Largely adopts the proposals from the June 2010 NOPR*

- ◆ **FERC Rehearing Orders 1000-A & 1000-B**
 - *Reaffirmed requirements of the Final Rule*
 - *Provided clarifications—including inter-regional issues*
 - *Dismissed jurisdictional challenges*
 - Numerous appeals have been filed in federal court
 - Appeals on hold pending FERC response to Order 1000-B rehearing

- ◆ **This presentation provides a status update on inter-regional compliance issues**

Northeast Compliance Activities

- ◆ Northeast ISO/RTOs to address inter-regional issues in the context of the Protocol
- ◆ Discussions held at IPSAC and IPTF/ESPWG
- ◆ March 30th IPSAC
 - *“Matrix” of inter-regional issues posted for discussion*
 - *Draft modifications to the Northeast Protocol were discussed and comments were provided*
- ◆ June 22nd IPSAC
 - *Order 1000-A clarifications were discussed*
 - *Responses were provided to comments on the Protocol*
 - *“Strawman” proposal for inter-regional cost allocation was discussed*
- ◆ Aug 27 IPSAC/Aug 28 IPTF/ESPWG – Status update

INTERREGIONAL PLANNING

Summary of Order 1000 Requirements

Order 1000: Planning

- ◆ **Each transmission provider must develop further procedures with each of its neighboring regions within its Interconnection**
 - *Final Rule identifies a number of specific requirements, including:*
 - **Data sharing on a regular basis—at least annually**
 - **Sharing of information on regional needs and potential solutions**
 - **A formal procedure for the “identification and joint evaluation of interregional facilities that may be more efficient or cost –effective solutions to regional needs”**
 - **Transparency – post information on a website**
- ◆ **Separate inter-regional planning agreements are not required**
 - **An inter-regional “plan” is not required**
- ◆ **Multilateral or interconnection-wide planning is encouraged — but not required**
- ◆ **An inter-regional stakeholder process is encouraged**
- ◆ **Jurisdictional entities to attempt to develop interregional coordination procedures with neighbors in another country**

Order 1000: Planning (Cont'd)

Specific Procedures required in the Final Rule:

- ◆ A developer must first propose an interregional project in each regional planning process
- ◆ The Inter-regional evaluation must be conducted in the “same general timeframe” as the regional evaluations
 - *FERC declines to set a specific timeline and leaves that to the regions*
- ◆ An interregional project must first be selected in both of the regional planning processes in order to receive inter-regional cost allocation

Order 1000: Planning (Cont'd)

Comments

- ***The Northeast ISO/RTO Planning Coordination Protocol already meets many of the Inter-regional Planning requirements of the Final Rule***
 - The Northeast RTOs have agreed to leverage the existing Protocol to comply with the Final Rule
 - Some modifications/clarifications will be needed
 - Revisions to individual tariffs may also be needed
- ***There is an active stakeholder process established under the Protocol***
 - IPSAC
- ***Canadian neighbors are already participants in inter-regional planning activities in the Northeast***
- ***DOE-ARRA funded inter-connection wide planning efforts are encouraged by FERC***
 - ISO-NE, NYISO and PJM are sponsors and active participants in EIPC

INTERREGIONAL COST ALLOCATION

Summary of Order 1000 Requirements

Interregional Cost Allocation

General Requirements

- ◆ Transmission providers in each pair of neighboring regions to develop a mutually agreeable cost allocation methodology for a transmission facility located in both regions for inclusion in each region's tariff
- ◆ Multi-lateral cost allocation is encouraged—but not required
- ◆ Final Rule does not propose a uniform methodology
 - Interregional cost allocation methodology may be different from the respective regional methodologies
 - Cost allocation for a region's share of an interregional facility may differ from the cost allocation for a regional facility
- ◆ Final Rule does not address cost recovery
- ◆ If region(-s) cannot agree, FERC will decide
- ◆ Principles do not prohibit voluntary participant funding
 - *Participant funding is not acceptable for compliance*

Interregional Cost Allocation

Six Cost Allocation Principles:

- ◆ Cost allocation to be “roughly commensurate” with estimated benefits
- ◆ No costs allocated to those who receive no benefits
- ◆ B/C threshold, if used, may not exceed 1.25
- ◆ Costs may be assigned only to regions where the facility is located
 - *Costs cannot be assigned involuntarily to a region in which the facility is not located*
- ◆ Transparent and documented process
- ◆ Different allocation methodologies allowed for different types of facilities (i.e. – reliability, economic, public policy)

Interregional Cost Allocation

Procedural Framework Under Final Rule

- ◆ An interregional project must first be selected in both of the regional planning processes for the purpose of cost allocation in order to be eligible to receive interregional cost allocation
- ◆ Joint interregional evaluation to take place in “the same general timeframe” as the regional planning processes

INTERREGIONAL COST ALLOCATION

“Strawman Proposal”

(As Posted for 6/22/12 IPSAC Webex)

Interregional Cost Allocation

Proposed Approach

- *Strive for “simplicity” to the extent feasible*
- *Discuss the feasibility of a “multi-lateral” methodology*
- *Address compatibility with regional cost allocation methods*
- *Proportional savings in transmission project costs allocated to each region*
- *Applicable to various needs*
 - E.g. – reliability, economic, public policy
- *Include methodology(-ies) in the Northeast Protocol*

“Strawman Proposal” for Interregional Cost Allocation

Proposed Process

- ♦ **Region A has identified Transmission Project X to meet a Reliability Need identified in its regional planning process at Cost (X)**
- ♦ **Region B has identified Transmission Project Y to meet a Reliability Need identified in its regional planning process at Cost (Y)**
- ♦ **Regions A & B through their interregional planning process have determined that Interregional Transmission Project Z at Cost (Z) will address the Reliability Needs in both regions “more efficiently and cost effectively” than the separate regional Transmission Projects X & Y**
 - *The Cost of Project Z is less than the combined cost of Projects X & Y*
- ♦ **Regions A & B have each determined that Interregional Project Z is the preferred solution to their individual Reliability Needs and have each adopted that project in their respective Regional Plans replacing Projects X & Y respectively**

Cost Allocation “Strawman”

Interregional Cost Allocation Methodology

- ◆ **Cost Allocation to Region A = Cost (Z) x Cost(X)/[Cost(X) + Cost(Y)]**
- ◆ **Cost Allocation to Region B = Cost (Z) x Cost(Y)/[Cost(X) + Cost(Y)]**

Example

- ◆ **Region A, Project X Cost = Cost (X) = \$60 Million**
- ◆ **Region B, Project Y Cost = Cost (Y) = \$40 Million**
- ◆ **Interregional Project Z Cost = Cost (Z) = \$80 Million**

- ◆ **Cost Allocation to Region A = \$80 x 60/(60 + 40) = \$48 Million**
- ◆ **Cost Allocation to Region B = \$80 x 40/(60 + 40) = \$32 Million**

Next Steps

- ◆ **Determine modifications to Northeast Protocol**
 - *Inter-regional planning process specificity/clarifications*
 - *Coordination with Regional Planning cycles*
 - *Conforming language to Order 1000 terminology*
 - *How to address public policy considerations*
- ◆ **Determine modifications to NYISO OATT**
- ◆ **Inter-regional Cost Allocation**
 - *Determine feasibility of a “multi-lateral” methodology*
 - *Strive for “simplicity” to the extent feasible*
 - *Compatibility with regional cost-allocation methods*
- ◆ **Logistical Issues**
 - Establish linkages to regional planning processes
 - Appropriate mechanism for compliance filing

Compliance Schedule

- ◆ **Effective Date of Final Rule**
 - *60 days from publication in Federal Register – Oct 11, 2011*
- ◆ **Compliance filing is required on everything except interregional planning and interregional cost allocation**
 - *Compliance Filing Submitted on Oct 11, 2012*
- ◆ **Compliance filing on interregional planning & cost allocation**
 - *Due 18 months from Effective Date of Final Rule – April 11, 2013*
- ◆ **Final Rule’s requirements will apply only to “new transmission facilities”**
 - *After the Effective Date of the compliance filings (e.g. – after FERC Approval)*

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