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BEFORE THE U.S. PATENT
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** NOT ADMITTED IN DC

April 30, 2004

TO: William Palazzo – Chair, Electric System Planning Working Group
John Buechler - New York Independent System Operator

FROM: Tom Rudebusch, for the New York Municipals

RE: *Comments on Cost Allocation*

These Comments respond to the Working Group's request for further comments on cost allocation for reliability projects. These Comments supplement the Initial Comments submitted on January 12, 2004, by the certain New York municipal electric utilities ("NY Municipals").

BACKGROUND

The NY Municipals have participated in the Working Group and they support a strong role for the NYISO in planning for reliability needs for the entire transmission system. The NYISO must have the responsibility and authority to plan the regional (NY) transmission system, and engage in coordinated interregional planning within the NPCC and with other regions.

While market-based solutions (including merchant transmission and demand-side resources) should be given first opportunity to resolve issues on the bulk power system, the NYISO must have an active role in planning for reliability on the transmission system. This is particularly true on the bulk transmission facilities under the direct or indirect control of the NYISO. On lower voltage transmission facilities the NYISO must act as a backstop to the local planning activities of the Transmission Owners. At all levels, the NYISO planning activities must be transparent and reflect the participation of transmission users.

Under the NYISO OATT, the Transmission Owners must have the obligation to expand or modify the applicable portion of the NYS Transmission System according to NYISO approved plans for reliability projects. The NYISO Tariff provides that Transmission Owners file for recovery of transmission costs under the Transmission Service Charge (ATSC@).

FERC regulates cost recovery under the NYISO OATT, and FERC should make sure that Transmission Customers under the NYISO OATT do not pay more than their fair share of the costs to the Transmission Owners of providing transmission service. The PSC must make sure that retail customers contribute their fair share to the Transmission Owners= transmission revenue requirement.

COST ALLOCATION

As indicated in their January 12 Initial Comments, the NY Municipals support the “license plate” TSCs charged by the Transmission Owners under the NYISO OATT. Under this approach, the transmission-related costs of each Transmission Owner are “rolled-in” to one transmission revenue requirement. The TSC include, and should continue to include the costs of reliability upgrades to the network.

The beneficiaries of reliability upgrades are all wholesale and retail customers served by a Transmission Owner, according to FERC. *See Otter Tail Power Co.*, 12 FERC & 61,169 (1980):

Commission precedent strongly favors use of the rolled-in method of transmission allocation. Given a finding that the system operates as an integrated whole, transmission costs have generally been rolled-in, absent a finding of special circumstances. The principal reason behind adoption of this methodology is that an integrated system is designed to achieve maximum efficiency and reliability at a minimum cost on a system-wide basis. Implicit in this theory is the assumption that all customers, whether they are wholesale, retail or wheeling customers, receive the benefits that are inherent in such an integrated system.

12 FERC at 61,420, *citations omitted*.

The parties have been discussing cost allocation for reliability upgrades to the bulk transmission system. The NY Municipals have reviewed the Cost Allocation presentation made at the April 15, 2004 ESPWG meeting, and believe they could support the “line de-loading approach to determining beneficiaries among Transmission Owners.” As the NY Municipals understand it, for example, a reliability upgrade to the bulk transmission system could be assigned, by that methodology, 60 percent to one Transmission Owner, and 40 percent to another Transmission Owner. It would be appropriate for each Transmission Owner to include the assigned costs in their TSCs.

Please contact me if you have any questions.