

**MULTIPLE INTERVENORS' RECOMMENDED
COST ALLOCATION PRINCIPLES PERTAINING TO
"REGULATED" RELIABILITY UPGRADES**

At the request of the New York Independent System Operator, Inc. ("NYISO"), Multiple Intervenors hereby submits recommended cost allocation principles pertaining to "regulated" reliability upgrades. These principles are submitted in furtherance of ongoing work by the Electric System Planning Working Group ("ESPWG") and pertain solely to reliability upgrades implemented pursuant to a regulatory solution following a failure by market participants to address a NYISO-identified reliability problem.

1. The cost of regulated reliability upgrades should be paid by the beneficiaries of the upgrades. Multiple Intervenors notes that there is broad-based consensus in support of beneficiary funding, and whatever difficulties may be encountered in attempting to design the optimal cost allocation methodology should not lead to any movement away from the principle of beneficiary funding. Although future efforts within the ESPWG should be devoted to designing the best possible allocation methodology to implement on beneficiary funding, a methodology that admittedly may be imprecise in certain circumstances still is preferable to merely socializing the costs to entities that receive no benefit whatsoever from a particular upgrade.

2. In identifying the beneficiaries of a regulated reliability upgrade, the focus should be on the reliability criteria that have been, or are in danger of being, violated. For cost allocation purposes, beneficiaries are those that benefit from the elimination of a reliability problem related to established reliability criteria. The fact that an upgrade may result in incidental benefits unrelated to the threatened reliability criteria should be irrelevant

for cost allocation purposes. The project is being undertaken to address a specific reliability problem and those that benefit from the solution to that problem are the beneficiaries.

3. In identifying the beneficiaries of a regulated reliability upgrade, a materiality threshold should be applied. Costs only should be allocated to those localities receiving a direct and material benefit from the upgrade. The fact that the entire state, or region, may experience some indirect and/or immaterial benefit from a reliability upgrade is not an appropriate nexus for cost allocation purposes.

4. The costs that are allocated to beneficiaries of a reliability upgrade must be: (a) subject to the jurisdiction and regulatory oversight of the New York State Public Service Commission and/or the Federal Energy Regulatory Commission; and (b) incremental to the level of costs provided for in existing rate levels. For instance, many transmission owners have multi-year rate plans in effect that provide for a certain level of infrastructure projects. Additional cost recovery – allocated to the beneficiaries of an upgrade – should be limited to costs that truly are incremental.

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Respectfully submitted,

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