

Transmission Cost Allocation

IPSAC07

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Background

FERC Policy has evolved

- **Order 888 – No Planning Requirement for ISOs**
- **Order 2000 – Planning Requirement for RTOs**
 - Initially, RTOs addressed Reliability, then Economic Planning and cost allocation issues
- **Order 890 – Planning Requirement for all Transmission Providers, including ISO/RTOs**
 - Requires both Reliability & Economic Planning
 - Requires cost allocation to be developed for each region
 - All ISO/RTO Order 890 Planning Processes have now been accepted by the Commission (further compliance filings are pending)

Order 890 Planning Principles

- **New Requirements**
 - Economic Planning
 - ***Cost Allocation***
- **FERC Encouraged Regional Flexibility**
 - Must comply with the nine Planning Principles
 - No standardized method was mandated
 - Work with stakeholders
 - To address regional needs
- Each ISO/RTO Region has proposed somewhat different approaches

Cost Allocation Methodologies

- Focus on the Northeastern ISO/RTOs
- Current methods reflect a range of philosophies
 - All are based on “beneficiaries pay”
 - All provide for Merchant Transmission
- Region-wide Allocation: ISO-NE for Pool Transmission Facilities (“PTF”)
- Sub-regional Allocation: NYISO by zone
- Hybrid: PJM
 - Above 500kv: Region-wide allocation
 - Below 500Kv: Zonal allocation based on DFAX methodology
 - Allocation for Merchant Transmission is pending before FERC

Cost Allocation: Metrics

- The Northeastern ISO/RTOs utilize similar—but not identical—metrics
- **ISO-NE**
 - Reliability:
 - PTF costs socialized across region
 - Economic or “Market Efficiency Upgrades”
 - Utilizes region-wide total net production cost savings; costs allocated region-wide
 - Criteria currently being revisited
- **NYISO**
 - Reliability:
 - Costs allocated to loads based upon contribution to meeting resource adequacy requirements—by zone
 - Economic: Based on a 2-part test:
 - Initial Threshold: Statewide net production cost savings
 - Beneficiary/Cost Allocation: Zonal LBMP load savings

Metrics (Cont'd)

- **PJM**

- **Reliability: for RTEP “baseline facilities”**

- **Cost Allocations to Zones:**

- $\geq 500\text{KV}$: Based on load ratio share based on prior year's zonal peak
 - $< 500\text{KV}/\text{Cost} > \5M : Based on DFAX analysis by zone
 - $< 500\text{KV}/\text{Cost} < \5M : Allocated to local zone

- **Cost Allocations to Merchant Transmission Facilities w/Firm Transmission Withdrawal Rights (“FTWRs”):**

(Pending before FERC in Docket No. ER06-456 *et al.*)

- Currently, Schedule 12 of the Tariff provides that such allocations are based on:
 - $\geq 500\text{KV}$: 100% of existing or planned FTWRs
 - $< 500\text{KV}$: Interim Values = 50% of existing or planned FTWRs

- **Economic:**

- **Threshold tests:**

- Energy = $[(70\% * \text{Total Production Cost Savings}) + (30\% * \text{Net LMP Savings})]$
 - Capacity = $[(70\% * \text{Total Capacity Cost Savings}) + (30\% * \text{Net Load Capacity Savings})]$
 - B/C Ratio > 1.25

Metrics (Cont'd)

- **PJM**

- **Economic (cont)**

- **Cost Allocations to Zones:**

- **≥500KV: Based on load ratio share based on prior year's zonal peak**
 - **<500KV**
 - **Modifications to reliability-based upgrades: Based on DFAX**
 - **New Projects: Pending filing due 7/09 per settlement**
 - **Accelerations of reliability upgrades : LMP Benefits Methodology or DFAX**

- **Cost Allocations to Merchant Transmission Facilities:**

- (Pending before FERC in Docket No. ER06-456 *et al.*)

- **Currently, applying:**
 - **≥500KV: 100% of existing or planned FTWRs**
 - **<500KV modifications to, and accelerations of, reliability upgrades: Based on DFAX**
 - **New projects: Pending filing due 7/09 per settlement**

Cross-Border Cost Allocation

- **FERC directed PJM/MISO to develop a cross-border cost allocation methodology in 2004 as part of the PJM/MISO Seams Elimination Cost Adjustment (“SECA”) proceeding**
 - **Reliability:**
 - **Cross-border: DFAX analysis to determine each RTO’s flows on the constrained facility**
 - **Internal: Each RTO allocates costs according to its respective OATT**
 - **Economic:**
 - **Proposal to be filed with FERC in January 2009**

Next Steps

- To date, FERC has not directed any other ISO/RTO to develop a cross-border cost allocation methodology for either reliability or economic projects
- Now that cost allocation has been substantially finalized in their respective regions, NYISO and PJM have agreed to begin discussions regarding cross-border cost allocation following completion of the planning studies discussed earlier today.
- Upon completion of its internal stakeholder process and as projects are identified, ISO-NE will explore cross-border cost allocation issues.