

# PROPOSED PRICING MODEL FOR TRANSMISSION EXPANSION

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# Background

- Pricing model is based upon the System Planning Process developed for the NERTO
- Under this process, the NERTO Board has the final authority for the NERTO System Plan (NSP) including the determination of the pricing mechanism—except where specified in the Tariff
- Planning Advisory Committee (PAC) assists with development of the NERTO System Plan
  - ✓ *Primary means to ensure stakeholder input to Board*
  - ✓ *Any entity (including state agencies) may join PAC*
  - ✓ *Specific provision for PAC input regarding the criteria and cost allocation for economic upgrades*



# NSP Principles

- Provides for coordination with existing transmission systems and with appropriate interregional and local expansion plans
- Properly coordinates with market responses, including generation, merchant transmission and demand side responses

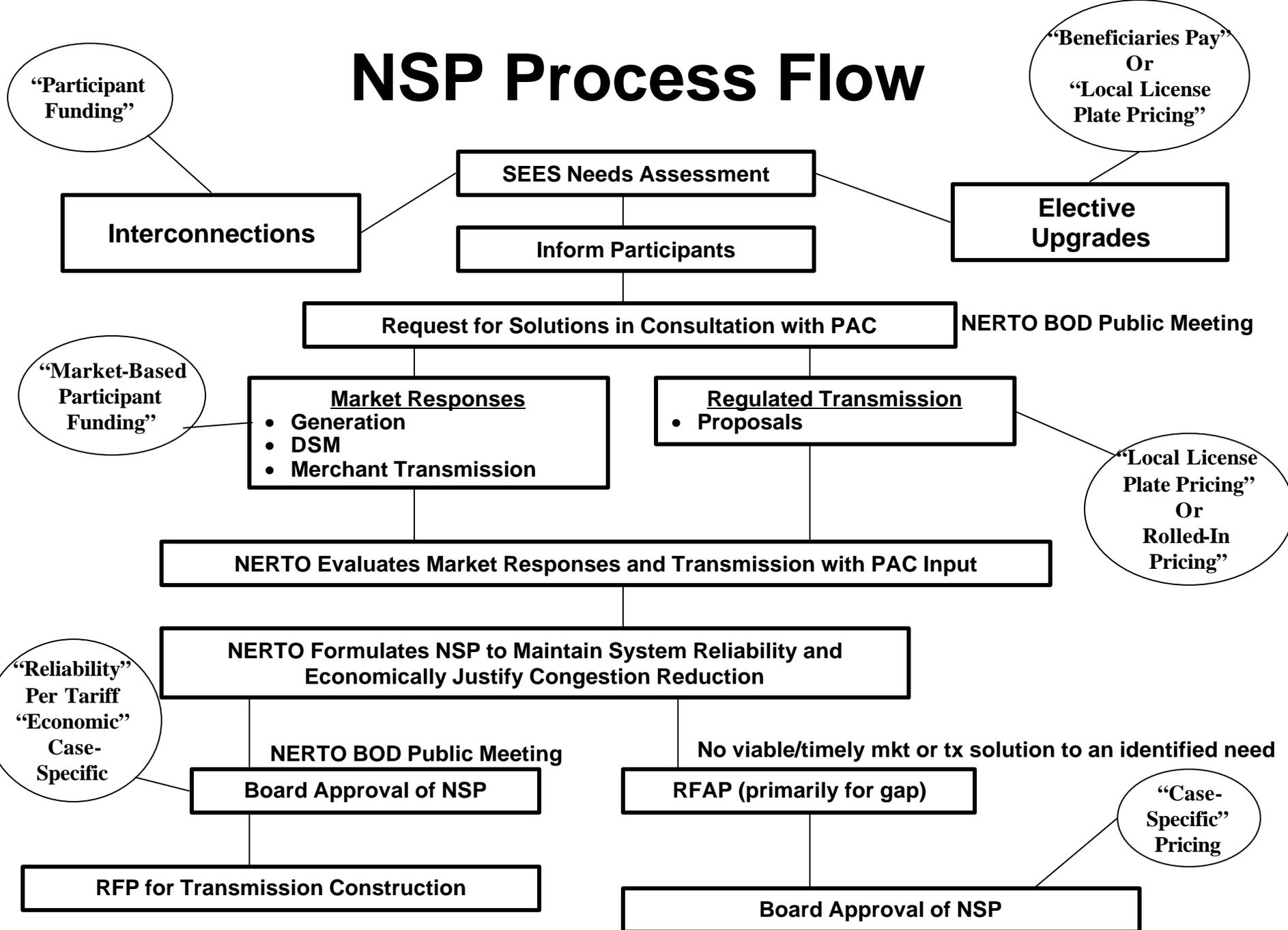


# Proposed Pricing Model

- **NSP accommodates all types of pricing identified by the Commission**
- **Type of pricing is determined by the situation**
- **Deference is given to “Participant funding” where parties can reach agreement**
- **Regulated transmission upgrades will generally require a different approach:**
  - ✓ *Typically “rolled-in” or “local license plate” pricing*
- **Backstop process/pricing method is needed to ensure reliability and market efficiency**
  - ✓ *Per Tariff for reliability or case-specific determination by ITP Board with PAC input for economic upgrades*



# NSP Process Flow



# Input to “Needs Assessment”

- **Interconnection Facilities:** Approved under the tariff to accommodate new generation and merchant transmission
  - ✓ *The cost for such facilities would be paid for by the developers under a “**participant funding**” model*
- **Elective Upgrades:** Includes upgrades proposed by a TO to meet local requirements or by a market participant for economic reasons
  - ✓ *The cost for such facilities would be paid for under “**local license plate pricing**” or by the “**beneficiary**”*



# System Enhancement and Expansion Studies (“SEES”)

- Comprehensive SEES includes:
  - ✓ Views of the Independent Market Advisor
  - ✓ PAC input
  - ✓ *Reliability needs as well as projected congestion levels under various conditions*
  - ✓ *Criteria for determining economic needs and for assessing the cost-effectiveness of solutions to be developed by ITP w/PAC input*
- “Request for Solutions” to include:
  - ✓ *Market responses from all sources*
  - ✓ *Regulated transmission proposals from TOs*



# SEES: Evaluation of Solutions

- ITP evaluates proposed solutions with input from PAC
  - ✓ *Will proposals meet identified needs?*
- If market response (including merchant transmission) is sufficient to alleviate need for Transmission Upgrades, and achievable within required time period
  - ✓ *No additional Transmission Upgrades will be listed in the recommended Plan*
  - ✓ *Market Response will proceed*
  - ✓ *Cost will be paid under “**market-based participant funding**” approach*



# SEES: Evaluation of Solutions

- If market response (including merchant transmission) is deemed to be insufficient to alleviate the need for a Transmission Upgrade
  - ✓ *Transmission Upgrade must first be considered viable from both a financial and timeliness standpoint*
  - ✓ *Transmission Upgrade will be listed in the Plan*
- Upon ITP Board approval of the Plan:
  - ✓ *TO will build regulated Transmission Upgrade*
  - ✓ *Funding for reliability upgrade will be **per Tariff***
  - ✓ *Funding for economic upgrade will be determined by ITP Board with PAC input on a “**case-by-case basis**”*



# Allocation of Costs For Approved Reliability Upgrades

- Per agreement of parties
- If no agreement:
  - ✓ 345 kV and above which contribute to the parallel current carrying capability of the NERTO Transmission System
    - ♦ ***“Rolled in” to ITP-wide rate***
  - ✓ Below 345 kV: in accordance with existing practices
    - ♦ ***“Local License Plate” rate per TO’s zone***
  - ✓ Transformer costs split according to voltage level



# Request for Alternative Proposals

- If Board finds that:
  - ✓ an Economic or Reliability Transmission Upgrade is unacceptable from a financial or timeliness standpoint; or
  - ✓ if no Transmission Upgrade has been proposed
- Board may direct the ITP staff to issue a Request for Alternative Proposals (RFAP)
  - ✓ RFAP will be used primarily for interim or “gap” situations
  - ✓ RFAP will be open to all sources
  - ✓ Cost allocation will be on a “**case-by-case basis**”



# Role of States is Critical to Achieving Needed Expansion

- **States have jurisdiction over bundled retail rates**
- **States have jurisdiction over siting**
- **States have negotiated retail rate caps and freezes in many regions**
- **States should give deference to upgrades approved as part of an ITP Planning Process**
- **State/Federal approvals are needed to provide for recovery of TOs revenue**

requirements

