

This draft shows proposed changes to the cost allocation provisions for the NYISO-PJM seam contained in the “Notice of Attachment H Transmission Owners Stakeholder Process for Order No. 1000 Interregional Cost Allocation Proposals” distributed to PJM stakeholders on June 10, 2013 and posted to [pjm.com](http://pjm.com). These changes have been agreed to by representatives of PJM, NYISO and ISO-NE and representatives of the PJM Transmission Owners, New York Transmission Owners and New England Transmission Owners. The proposed changes remain subject to approval by the PJM Transmission Owners.

## **DRAFT AMENDMENTS TO NYISO-PJM JOA RE INTERREGIONAL PLANNING COST ALLOCATION**

### **Existing Language:**

#### **35.10 Coordination of Transmission Planning Studies**

##### **35.10.1 Scope of Activities:**

Transmission planning activities will be coordinated in accordance with the Amended and Restated Northeastern ISO/RTO Planning Coordination Protocol (the “Protocol”), between and among PJM Interconnection, L.L.C., the New York Independent System Operator, Inc. and ISO

New England Inc., effective as of ~~[TO BE DETERMINED]~~ December 12, 2004 as amended on -

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### **Proposed Cost Allocation Language:**

#### **35.10.2 Allocation of Costs of Approved Interregional Transmission Projects**

The costs of Interregional Transmission Projects, as defined in the Protocol, evaluated under the Protocol and selected by PJM and NYISO in their regional transmission plans for purposes of cost allocation under their respective tariffs shall, when applicable, be allocated to the PJM region and the NYISO region in accordance with the cost allocation principles of FERC Order No. 1000, as follows:

(a) To be eligible for interregional cost allocation pursuant to this Section 35.10.2, an

Interregional Transmission Project must be selected in both the PJM and NYISO regional

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transmission plans for purposes of cost allocation pursuant to agreements and tariffs on file at FERC for each region, and must be planned for construction in both the PJM region and the NYISO region.

- (b) The share of the costs of an Interregional Transmission Project allocated to a region will be determined by the ratio of the present value of the estimated costs of such region’s displaced regional transmission project or projects to the total of the present values of the estimated costs of the displaced regional transmission projects in the regions that have selected the Interregional Transmission Project in their regional transmission plans.
- (c) The present values of the estimated costs of each region’s displaced regional transmission project shall be based on a common base date that will be the beginning of the calendar month of the cost allocation analysis for the subject Interregional Transmission Project (the “Base Date”).
- (d) In order to perform the analysis in Section 35.10.2 (b) above, the estimated cost of the displaced regional transmission projects shall specify the year’s dollars in which those estimates are provided.
- (e) The present value analysis for all displaced regional transmission projects shall use a common discount rate. PJM and NYISO, in consultation with their respective transmission owners, shall agree on the discount rate to be used for the present value analysis.

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- (f) PJM and NYISO, in consultation with the transmission owners in their respective regions, shall agree review and determine that the cost estimates of the displaced regional transmission projects have been determined in a comparable manner prior to applying this cost allocation.
- (g) No cost shall be allocated to a region that has not selected the Interregional Transmission Project in its regional transmission plan.
- (h) When a portion of an Interregional Transmission Project evaluated under the Protocol is ~~to be located within~~ included by a region (Region 1) in ~~which~~ its regional transmission plan but there is no regional need or displaced regional transmission project, ~~such in Region 1 and the neighboring~~ region ~~may at its sole discretion select~~ (Region 2) has a regional need or displaced regional project for the Interregional Transmission Project and selects the Interregional Transmission Project in its regional transmission plan, ~~provided, however, no portion~~ all of the costs of the Interregional Transmission Project shall be allocated to ~~such region~~ Region 2 in accordance with the methodology in this Section 35.10.2 and none of the costs shall be allocated to Region 1.
- (i) The ~~further allocation portion~~ of the costs allocated to a region pursuant to this Section 35.10.2 ~~among~~ shall be further allocated to the transmission customers within such region ~~shall be governed by pursuant to~~ the applicable provisions of the region's tariffs and if applicable, agreements on file with FERC.

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(j) The following example illustrates the cost allocation for such an Interregional Transmission Project:

- A cost allocation analysis of the costs of Interregional Transmission Project Z is to be performed during a given month establishing the beginning of that month as the Base Date.
- Region A has identified a reliability need in its region and has selected a transmission project (Project X) as the preferred solution in its regional plan. The estimated cost of Project X is: Cost (X), provided in a given year’s dollars. The number of years from the Base Date to the year associated with the cost estimate of Project (X) is:  $N(X)$ .
- Region B has identified a reliability need in its region and has selected a transmission project (Project Y) as the preferred solution in its Regional Plan. The estimated cost of Project Y is: Cost (Y), provided in a given year’s dollars. The number of years from the Base Date to the year associated with the cost estimate of Project (Y) is:  $N(Y)$ .
- Regions A and B, through the interregional planning process have determined that an Interregional Transmission Project (Project Z) will address the reliability needs in both regions more efficiently and cost-effectively than the separate regional projects. The estimated cost of Project Z is: Cost (Z). Regions A and B have each determined that Interregional Transmission Project Z is the preferred solution to their reliability needs and have adopted that Interregional Transmission Project in their respective regional plans in

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lieu of Projects X and Y, respectively. If Regions A and B have agreed to bear the costs of upgrades in other affected transmission planning regions, these costs will be considered part of Cost (Z).

- The discount rate used for all displaced regional transmission projects is: D
- Based on the foregoing assumptions, the following formulas will be used:
- Present Value of Cost (X) = PV Cost (X) = Cost (X) / (1+D)<sup>N(X)</sup>
- Present Value of Cost (Y) = PV Cost (Y) = Cost (Y) / (1+D)<sup>N(Y)</sup>
- Cost Allocation to Region A = Cost (Z) x PV Cost (X)/[PV Cost (X) + PV Cost (Y)]
- Cost Allocation to Region B = Cost (Z) x PV Cost (Y)/[PV Cost (X) + PV Cost (Y)]

Applying those formulas, if:

- Cost (X) = \$60 Million and N(X) = 8.25 years
- Cost (Y) = \$40 Million and N(Y) = 4.50 years
- Cost (Z) = \$80 Million
- D = 7.5% per year

Then:

- PV Cost (X) =  $60/(1+0.075)^{8.25} = 33.039$  Million
- PV Cost (Y) =  $40/(1+0.075)^{4.50} = 28.888$  Million
- Cost Allocation to Region A =  $\$80 \times 33.039/(33.039 + 28.888) = \$42.681$  Million
- Cost Allocation to Region B =  $\$80 \times 28.888/(33.039 + 28.888) = \$37.319$  Million

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### 35.10.3 Other Cost Allocation Arrangements

(a) Except as provided in this Section 35.10.3(b), the methodology in Section 35.10.2 is the exclusive means by which any costs of an Interregional Transmission Project may be allocated between or among PJM and NYISO.

(b) Subject to the filing rights described in Section 35.10.4 and any stakeholder processes required prior to the exercise of such filing rights, transmission owners, ~~and~~ transmission developers in PJM and the NYISO and the Parties may enter into a separate agreement to ~~fund or~~ allocate the cost of an Interregional Transmission Project, and other transmission projects identified pursuant to Section 6 of the Protocol in a manner other than as set forth in Section 35.10.2, provided that any such agreement is filed with and accepted by ~~the Commission~~ FERC in accordance with the filing rights set forth in Section 35.10.4, and such agreement shall apply only to the share of the costs of such Interregional Transmission Project or such other transmission projects allocated to the PJM region and the NYISO region.

### 35.10.4 Filing Rights with Respect to Approved Interregional Transmission Projects

Solely with respect to Interregional Transmission Projects evaluated under the Protocol and selected by PJM and NYISO in their regional transmission plans for purposes of cost allocation under their respective tariffs as set forth in Section 35.10.2, PJM and NYISO agree as follows:

(a) Nothing in Sections 35.10.2 through 35.10.6 of this Agreement or in the Protocol

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will convey, expand, limit or otherwise alter any rights of the Parties, transmission owners, transmission developers ~~or~~ other market participants, or other entities in PJM or NYISO to submit filings under Section 205 of the Federal Power Act regarding cost allocation or any other matter.

(b) As applicable, the Parties have been authorized by entities that have cost allocation rights for their respective regions, but are not Parties to this Agreement, to enter into and file the cost allocation provisions set forth in Sections 35.10.2 through 35.10.6 of this Agreement. Such cost allocation provisions shall not be modified without the mutual consent of the holders of Section 205 rights and the Long Island Power Authority and the New York Power Authority with respect to interregional cost allocation in the PJM region and the NYISO region.

(c) With respect to PJM:

(i) The provisions in Sections 35.10.2 through 35.10.6 have been approved by the PJM Transmission Owners acting through the Consolidated Transmission Owners Agreement (“CTOA”) pursuant to Section 9.1 of the PJM Open Access Transmission Tariff (“PJM Tariff”) and Article 7 of the CTOA, and any amendment to the provisions of Sections 35.10.2 through 35.10.6 or any other provision of this Agreement allocating the costs of Interregional Transmission Projects, shall require approval by the PJM Transmission Owners acting through the CTOA pursuant to Section 9.1 of the PJM Tariff and Article 7 of the CTOA and shall be filed pursuant Section 205 of the Federal Power Act in accordance with the PJM Tariff and Article 7 of the CTOA.

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(ii) Nothing in Sections 35.10.2 through 35.10.6 of this Agreement shall limit or alter the rights of the PJM Transmission Owners set forth in the PJM Tariff and CTOA to submit filings under Section 205 of the Federal Power Act.

### **35.10.5 Merchant Transmission and Individual Transmission Owner Projects**

Nothing in this Agreement shall preclude the development of Interregional Transmission Projects that are funded solely by merchant transmission developers or by individual transmission owners.

### **35.10.6 Consequences to Other Regions from Regional or Interregional Transmission Projects**

Except as provided herein in sections 35.10.2 and 35.10.3 of the NYISO-PJM Joint Operating Agreement, or where cost responsibility is expressly assumed by NYISO or PJM in other documents, agreements or tariffs on file with FERC, neither the ~~PJM region nor the~~ NYISO region nor the PJM region shall be responsible for compensating another region or each other for required upgrades or for any other consequences in another planning region associated with regional or interregional transmission facilities, including but not limited to, transmission projects identified pursuant to Section 6 of the Northeastern Planning Protocol and Interregional Transmission Projects identified pursuant to Section 7 of the Northeastern Planning Protocol.



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## **Proposed Section 9 to Amended and Restated Northeastern ISO/RTO Planning Coordination Protocol**

### **9. Cost Allocation**

With respect to Interregional Transmission Projects identified pursuant to Section 7 hereof and other transmission projects identified pursuant to Section 6 hereof involving NYISO and PJM, the cost allocation for such projects shall be in accordance with the Joint Operating Agreement (“JOA”) among and between NYISO and PJM. With respect to Interregional Transmission Projects identified pursuant to Section 7 hereof and other transmission projects identified pursuant to Section 6 hereof involving NYISO and ISO-NE, the cost allocation for such projects shall be in accordance with the respective tariffs of NYISO and ISO-NE.

The Parties acknowledge that the cost allocation for Interregional Transmission Projects identified pursuant to Section 7 hereof and other transmission projects identified pursuant to Section 6 hereof involving NYISO and PJM set forth in the JOA shall not be changed without the mutual consent of the holders of Federal Power Act (“FPA”) Section 205 filing rights with respect to interregional cost allocation in the PJM region and the NYISO region, including the Long Island Power Authority and the New York Power Authority, as further described in the JOA. The Parties further acknowledge that the cost allocation for Interregional Transmission Projects identified pursuant to Section 7 hereof and other transmission projects identified pursuant to Section 6 hereof involving the NYISO and ISO-NE set forth in their respective tariffs shall not be changed without the mutual consent of the holders of FPA Section 205 filing rights with respect to interregional cost allocation in the NYISO region, including the Long Island Power Authority and the New York Power Authority, and ISO-NE region as further described in such tariffs and other documents and agreements on file with FERC.

Nothing in this Protocol will convey, expand, limit or otherwise alter any rights of the Parties, transmission owners, transmission developers, market participants or other entities to submit filings under FPA Section 205 with regard to cost allocation or any other matter.