



Federal Energy Regulatory Commission
Technical Conference on Connecticut Infrastructure

**Allocating the Cost of New Transmission
in New England**

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New Transmission Investment: Background

- In 2002, FERC directs New England to develop objective transmission allocation mechanism for projects with unclear beneficiaries
- July 2003: ISO/NEPOOL file default allocation mechanism
 - Result of year-long open stakeholder process
 - Reflected tightly-integrated nature of New England bulk power system
 - Broad stakeholder support
- December 2003: FERC approves filing, effective Jan. 2004
- December 2004: FERC reaffirms just and reasonable nature of default allocation mechanism; rejects outstanding requests for rehearing



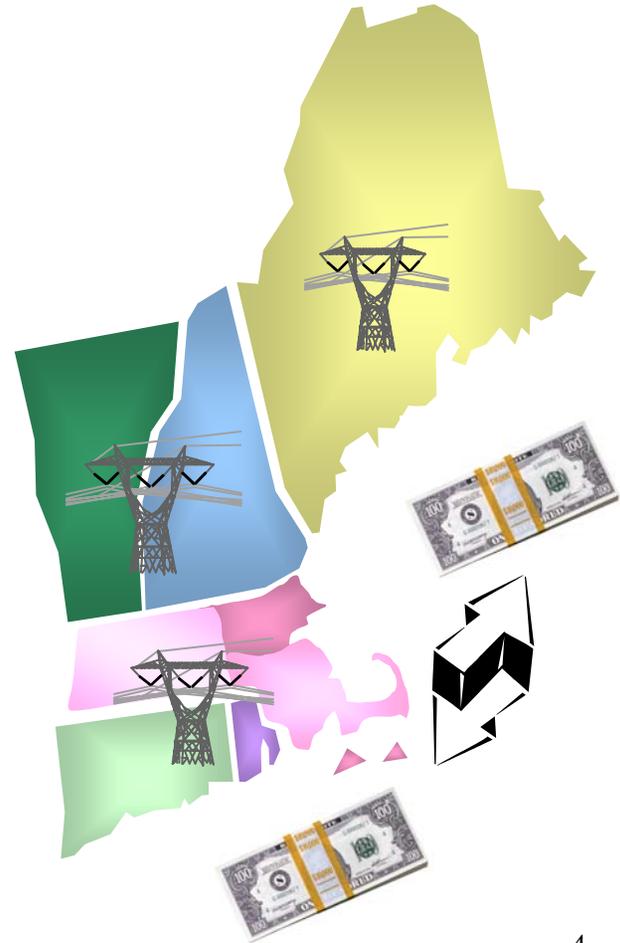
New Transmission Investment: Certainty and Fairness

- Certainty of cost allocation and recovery is essential
- Process ensures regional cost support for upgrades that provide region-wide benefits (reliability and/or economic)
- Consistent with the principles of cost causation; and
- Consistent with competitive markets and Locational Marginal Pricing



New Transmission Investment: New England Cost Allocation Process

- Regional planning process (“RTEP”) identifies transmission upgrades with regional benefits
- ISO reviews reliability of design proposed by Transmission Owner (“TO”)
- ISO reviews TO’s cost allocation application to determine amount of “Regionalized” Costs v. “Localized”
- Stakeholders provide advice on cost allocation





New Transmission Investment: Localized Costs

- Costs of upgrades not providing regional benefits are localized
 - Not eligible for regional cost support
 - Localized costs are the responsibility of the entity or entities creating the costs (i.e., the TO)
- ISO considers the reasonableness of design and construction method to determine regional or localized cost. ISO considers:
 - (i) Good Utility Practice
 - (ii) the engineering design and construction practices in the area
 - (iii) alternate feasible and practical transmission upgrades
 - (iv) the relative costs, operation, timing of implementation, efficiency and reliability of the proposed transmission upgrades



New Transmission Investment: Regional Cost Allocation Process



- ISO completes costs review
- TO places Upgrade in-service
- NEPOOL/TO file revenue requirement with FERC for inclusion in Regional rates
 - Annual filings may include rate increases for new upgrades and rate decreases from projects that are completed or modified



New Transmission Investment: Regional Cost Allocation Process, cont.

- 12 requests for cost socialization received from New England transmission companies
- Requests reflect over \$1 Billion of transmission investment
 - Excluding Southwest Connecticut Phase 2
- December 2004: ISO received cost application for Southwest Connecticut Phase I
 - Stakeholder review will commence in February
 - Process expected to take several months
 - Through May 2005



New Transmission Investment: Regional Transmission Rates

- Costs of new transmission facilities are shared on a pro rata basis based on electricity use
- The amount of electricity demand in an area determines its proportionate share of the upgrade costs
- If wholesale consumers reduce their use, relative to other consumers in New England, they pay proportionately less for transmission upgrades



New Transmission Investment: Distribution of Regional Rates

- Regional consumption is distributed among the six states as follows:

– Connecticut:	27%
– Maine:	8%
– Massachusetts	45%
– New Hampshire	9%
– Rhode Island	7%
– Vermont	4%

