



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

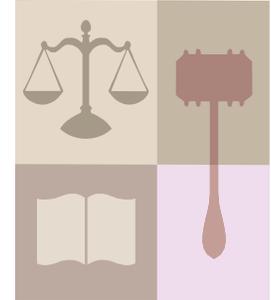
*Steve Whitley, Chief Operating Officer, ISO New England*

FERC Technical Conference

October 13, 2004



# New Transmission Investment: Background



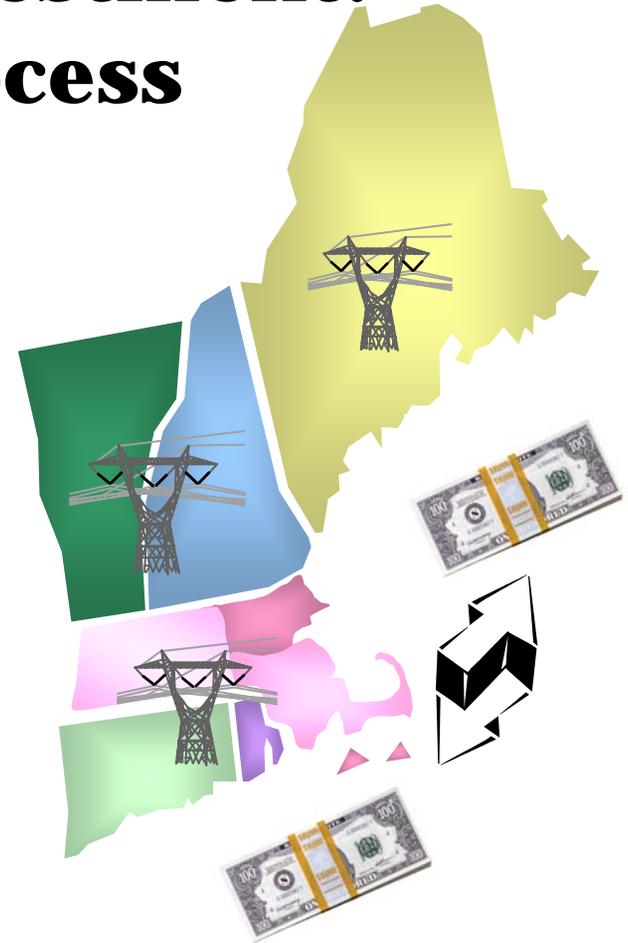
In 2002, FERC directs New England to develop objective transmission allocation mechanism for projects with unclear beneficiaries

- **December 2002:** FERC issues Interim Order to clarify that it will not “foreclose any cost allocation mechanism,” and recognizes ongoing stakeholder process
- **July 2003:** ISO/NEPOOL file default allocation mechanism
  - Result of year-long open stakeholder process
  - Agreed upon principles guided cost allocation rules
  - 80% support from NEPOOL participants
- **December 2003:** FERC approves filing, effective Jan. 2004



# New Transmission Investment: NE 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”
- NEPOOL provides advice on cost allocation





# New Transmission Investment: Localized Costs

- Costs of upgrades not providing regional benefits are localized and not eligible for regional cost support
  - These localized costs are the responsibility of the entity or entities creating the Costs (*i.e.*, the Transmission Owner)
- ISO considers the reasonableness of design and construction method to determine if 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 Allocation Process



- ISO completes costs review
- Transmission Owner places Upgrade in-service
- NEPOOL/TO file revenue requirement with FERC for inclusion in Regional Network

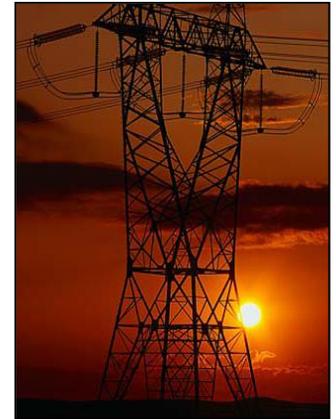
## Service (“RNS”) rates

- Annual filings may include rate increases for new upgrades and rate decreases from projects that are completed or modified



# New Transmission Investment: Regional Transmission Rates

- Formula rate establishes that 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

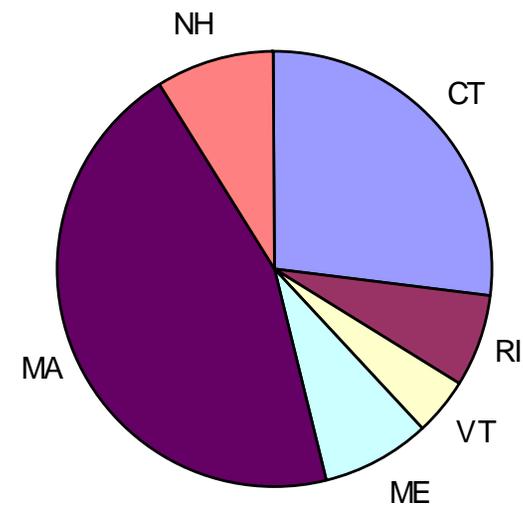




# New Transmission Investment: Distribution of Regional Rates

Regional consumption is distributed among the six states as follows:

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



# QUESTIONS???