Attachment I

1.0 EXECUTIVE SUMMARY

The purpose of this report is to provide Black & Veatch's independent observations and recommendations related to the following:

- The identification of an unbundled list of products or services provided by the NYISO that might be separately priced based on costs and benefits
- The use of a 2011 budget year and a five-year average from 2007 – 2011 as test periods to develop a cost of service study that determines cost functionalization, classification and allocation for each service or product identified
- The evaluation of the current split of costs between load and supply to determine if that split remains reasonable based on the cost of service study test
- The evaluation of the robustness of the current cost study based analysis of historical years costs
- The identification of appropriate billing determinants for unbundled products or services
- The development of proposed rate or rates for the recovery of NYISO costs currently recovered under RS-1
- Rate structures and cost recovery methodologies used by other RTO/ISO
- The final recommendation related to use of an unbundled rate schedule or continuation with the current RS-1 rate with or without modification of the cost split between load and generation.

After considerable analysis and scenario-testing, we found that while there were different results associated with each of a number of alternative allocation scenarios, the effective cost splits between load generation, supply, and non-physical fell between 75% / 19% / 6% and 60% / 34% / 6%. When excluding the non-physical market allocation, the effective load/supply split of these scenarios is 80% / 20% and 63% / 37%. In our opinion, and for reasons discussed in the report, each of the scenarios bounds the upper and lower limit of what is a reasonable cost allocation based on the principles of cost causation and benefits received. The midpoint of the two cost studies is 67% / 27% / 6%. When excluding the non-physical market transactions, the effective split between load and supply (using the midpoint of the two scenarios) is 72% / 28%.

Black and Veatch recommends that the RS-1 rate continue to be billed on a bundled basis, with a percentage split of costs among load, supply, and non-physical markets approximately equal to the midpoint between the results of the two cost studies. The current procedure of rebating all revenue collected from non-physical markets to physical injections and withdrawals on a monthly basis is appropriate for continued use. The ratio of the rebate between load and supply should be the ratio that results from this study. We further recommend that a true up provision be added to the rate that assures timely recovery of the actual budget dollars approved for each year including any approved adjustments to the budget resulting from extraordinary circumstances. We reach this conclusion as discussed in detail below based on the input of stakeholders and NYISO Staff; a review of RTO/ISO cost recovery mechanisms; an independent cost of service analysis for the 2011 budget test year and a five-year average test period; and other factors discussed in detail in the report. We believe the cost of service results are robust based on the historic annual costs for the NYISO.

Finally, as we discuss in this report, there is no single definitive cost of service study scenario that we have relied on for our conclusions. Generally, we have directly assigned costs wherever possible and then used two different methods for allocation of shared service costs to bound the outcomes of our cost of service work. This resulted in the two afore-mentioned scenarios. Ultimately, if bundled rates are to be continued, we recommend a change from the current 80/20 split to a split that is at or around the midpoint of 72/28. We find that the upper and lower bounds of the studies represent the limits of what would be reasonable, and therefore recommend a split near the midpoint as a reasonable settling point.

While Black & Veatch supports the continued use of a bundled rate for the recovery of Rate Schedule 1, we also have presented the unbundled rates that would be implemented, should the NYISO and the Market Participants choose to do so. The recommended unbundled rates are shown in Table 5-11, and represent the midpoint of the two cost studies.

Based on the results of the cost allocation study, we recommend that FERC expenses be allocated in the same ratio of load, supply, and non-physical. We reach this conclusion based on the fact that FERC expenses represent a corporate overhead expense that, had they been included in the budget used for our cost of service study, would have been shared in an approximately similar proportion to the results of the overall study.